



University of Navarra

THE CONTRIBUTION OF THE NEO INSTITUTIONAL
SCHOOL TO ORGANIZATIONAL THEORY:
PAVING THE WAY TO THE POLITICAL HYPOTHESIS

José L. Alvarez*

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* Professor of General Management, IESE

Research Division
IESE
University of Navarra
Av. Pearson, 21
08034 Barcelona - Spain

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Abstract

The paper discusses the main trends in the evolution of the institutional tradition in organization studies, from its classical version, led by Philip Selznick, to its more recent developments.

The paper argues that the foundational institutional school built upon a notion of organizations as polities, and sustains that the lack of work on this notion is hampering the current development not only of the institutional school, but of organizational theory in general.

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Introduction

There is no shortage of recent evaluations of the neo-institutional school and its contribution to the development of organizational theory. These evaluations are far from unanimous, however. They range from Selznick's (1996) nostalgia for the old institutionalism's social philosophy to Tolbert and Zucker's (1996) vindication of the more cognitive micro stream of the school. The latter is much less exploited than its macro track, which Scott (1995) finds still potentially fruitful, if only more historical and comparative studies were done. More appraisals from leading sociologists are forthcoming (Stinchcombe, 1997).

This proliferation of stock-taking is not a coincidence. It has to do not only with a lack of clear avenues of research and priorities in institutional approaches, but also with a parallel situation in the field of organizational theory as a whole: while the 1980s witnessed the growing acceptance of several schools or perspectives that have greatly influenced the field (population ecology, networks, and others), the nineties have not produced a single approach that has had as much impact as any of these.

The transformations taking place in contemporary organizations make the lack of new theories or schools and of clear research priorities still more poignant. In reaction to the constant and rapidly diffused leaps in technology, the opening of the rules governing competition, the emergence of a global arena for trade, and swift alterations in demographics and in employees' demands for quality of life, most organizations are leaving behind the basic bureaucratic mode of organizing.

Organizations are changing in fundamental ways, while the conceptual lenses have been neither replaced by new perspectives nor renewed for the last ten years. Only the networks approach is being intensely developed. Although it is being applied to a great variety of phenomena, from new organizational forms to the inter- and intra-corporate diffusion of knowledge, it remains more a methodology or an image of loosely structured relations than a substantive conceptual framework or theory.

The connections between the institutional tradition and the larger field of organizational studies, and the chances of a renewal, are the specific concern of this paper. I start by quickly noting the seemingly permanent "centrifugal" state of organizational theory; I then proceed to describe the main trends in the evolution of the institutional school from its beginnings to its neo descendant. I continue by evaluating the institutional school's

contribution to the field of organizations, particularly with respect to the rivalry between social and economic perspectives as a way of approaching organizations. I conclude by proposing new lines of institutional research and comment on their potential impact in the field of organizational studies as a whole.

Organizational Theory: A Centrifugal Field

Descriptive accounts of and normative propositions about life in organizations were already present in pre-industrial times—mostly referring to the government of states or cities, religious organizations and armies, medieval guilds and, in particular, the training and indoctrination processes that were critical in these institutions (Kieser, 1989). Classical examples run from Plato's *Republic*—a study of political organizations using a sort of hyper-functional and closed systems approach—to the writings of Machiavelli (Machiavelli's *Discourses* has one chapter with a delightfully straightforward contingency-theory type of title: "The need for adaptation to the environment"). Other classic works on the education of leaders were also highly revealing of the functioning of organizations, such as Gracián's *The Art of Worldly Wisdom* (an unexpected publishing success in the US in the early 1990s) and Castiglione's *The Book of the Courtier*.

However, from a historical perspective, organizations as "the pre-eminent institutional form of getting things done" (see this expression in Parsons (1956) and Zucker (1983)) are a rather recent phenomenon. As Lawrence (1987), among others, has stated, our formal and systematic knowledge about them is even younger. Taylor and Fayol published their works in the second decade of this century, still more in an "engineering" than in a "management" mode. The behavioral aspects of organizations emerged as a recognizable, distinct academic realm with the advent of the human relations school in the late 1930s. The macro perspective had to wait for a more definite settlement until Weber was translated into English in the 1940s. Lammers (1978) even situates the institutionalization of the sociology of organizations as late as the 1960s.

Successive surveys of the various domains that make up the field of organizational studies have highlighted the high creativity, growth and change that has characterized these often overlapping domains—these features being plausible symptoms of youth. Pfeffer (1982) described the domain of organizations as "more of a weed patch than a well-tended garden". So much so, that his longing, years later, for a unified paradigm (Pfeffer, 1993) ignited a heated debate with those fearing too much homogeneity in the field (Van Maanen 1995; Perrow, 199?). Perrow (1986) predicted that within a few years the study of organizations would be generally accepted at the core of all social science. Blau and Meyer (1987) considered the sociology of organizations to be in a state of "intellectual ferment". Scott (1987) stated: "It is currently, I believe, the most lively and vigorous area of study within sociology, and perhaps within all social sciences."

There is more than just intellectual vitality in the sociology of organizations. There is also such a proliferation of research strategies and paradigms that any analysis or comparison of the academic work done on organizations is enormously difficult, as several authors in succession have recognized (Silverman, 1970; Astley and Van de Ven, 1983; Clegg, Hardy and North, 1996). Both the explanandum and the explanans may vary (for instance, groups within organizations, single organizations, organizational fields, organizational populations), as may the method of research (for instance, qualitative, quantitative, comparative) and the orientation towards action of organizational actors

(whether they follow the “logic of consequences” of much economic thought or the “logic of appropriateness” of many sociological arguments). Some authors even talk of “fragmentation” of the field (Astley, 1985). In one of the last attempts to bring together the main topics and perspectives in the field, Clegg, Hardy and North (1996) not only acknowledge the multiplicity of contemporary assumptions, approaches and methods in organizational studies (some of them increasingly at variance with the traditionally dominant functionalism), but also reject the very possibility of a privileged viewpoint or canon for ordering this messy and highly populated terrain.

Another reason for these difficulties is the fact that organizations are being addressed by several different academic fields at once, including economics, social psychology, and the sociology of organizations, and by approaches not easily attached to any established academic discipline. Examples of these approaches include learning, decision-making theories and, years ago, the “administrative science” of Simon and colleagues, and others. With time, though, the main debate has become the one between the economic theory of the firm and sociological approaches. However, these two disciplines failed to engage in a dialogue and their arguments were passing each other by.

Besides being at the center of all these disciplinary tensions and the target of all these academic competitors, there is also the fact that organizational and business ideas influence management practices –by way of education, both formal and informal. These add “turbulence” and “centrifugality” to the field. Administrative knowledge has consequences, both expected and unexpected (Cohen and March, 1986), on managerial practices and organizations’ effectiveness, as well as on the quality of our lives and of our civilization (Mayo, 1933; Selznick, 1992). At the same time, organizational knowledge is subject to the pressures and influences, first, of those who produce and distribute it (Barley, Meyer and Gash, 1988; Clegg, 1990) and, second, of its final “clients”: those who need it and use it in designing and implementing action (Argyris and Schon, 1978; Clegg and Palmer, 1996; Alvarez, 1996, 1997).

Practitioners use several types of knowledge in their decisions and actions, often simultaneously (Schon, 1983). These types of knowledge range from assumptions about human behavior deriving from a variety of sources (not necessarily academic and not even necessarily of a business or economic nature (Alvarez and Merchán, 1992)), which often operate as deeply embedded habits, to informal social knowledge based on social capital, or formal administrative knowledge, such as the kind of personnel management techniques and policies taught at business schools. Frequently, each of these different categories of knowledge has its own specific channels of production, propagation, reception, and consumption, and so spreads and gains acceptance independently. Sometimes they get diffused and institutionalized together, producing loosely coupled “packages” filled with heterogeneous ingredients that sometimes coalesce in what could be called “movements”. The new entrepreneurship movement in the 1980s (Alvarez, 1996), the de-conglomeration wave (Davis, Diekmann and Tinsley, 1992), and the corporate merger trend (Brewster and Allan, 1996) are examples. Often, waves of popularization of business knowledge have a shorter time-span but a more intense diffusion, as in the case of fads and fashions (Abrahamson, 1996). Sometimes, these materials make up more general sets of concepts, amounting to “models” of management (Guillén, 1994).

In sum, the plural epistemological composition of knowledge for organizational action, and the highly socially constructed relationships between producers, diffusers, and consumers, have also been key to the conceptual heterogeneity and “centrifugality” of organizational studies.

The Development of the Institutional School

Certain accounts of the field of organizations, already classics in their own right, treated the neo-institutional school with special attention and positive consideration. Perrow (1986) qualified it as the most sociological of all schools of organizational theory. Scott (1987) considered it mainly responsible for the current acknowledgment of the sociology of organizations as one of the most important sociological fields, and praised its focus on the central issues of the discipline –the distribution and use of power, the causes and results of inequality, and the generation of commitments and meaning.

Whatever the hopes that the revival of the institutional school elicited, a great lack of definition in its basic contents remained a permanent feature. Scott (1988) said that after a “period of adolescence–rapid growth and high creativity”, it needed a stage of self-assessment and consolidation. Zucker (1988) and DiMaggio (1988) found it very difficult to establish a minimum common denominator for all the works that claimed to belong to the neo institutional school. Hall (1989) underlined the lack of any real genealogy –the lack of an institutional continuum, of all things!– between the neo institutional school and its claimed predecessor, the institutional school of Michels and Selznick. The very same complaint, using a similar ironic expression, has been voiced by Tolbert and Zucker (1996), as well as by Selznick (1996), regarding in particular the basic social philosophy of the neo institutionalists. In 1995, Scott still felt the need for a clarification of its many meanings and a consolidation of its versions.

The following pages explore, through an analysis of the evolution of the institutional school, the possible reasons for its lack of compact methodological and theoretical developments.

The origins of the institutional school in organizational theory can be traced back to one of Selznick’s first works (1943), where he assessed the impact that the eventful Hawthorne experiments –carried out by Elton Mayo and his colleagues from Harvard– were having on the frameworks then available for understanding organizations. These pioneers revealed the insufficiency of the formal structure of organizations, which refers to the “logic of cost and efficiency”, to account for the actual processes of coordination and control of the actions of human beings in organizations. They introduced the notion of the informal system of organizations, which refers to the “logic of sentiments” (Roethlisberger and Dickson, 1939). This perspective became known as the human relations school

As Selznick saw, the theoretical proposals of that school, the differences it revealed between the reality of the “informal” organization and the formal systems that Weber proposed in his ideal type of bureaucracy, were not enough to account for the main problem of organizations. Selznick (1943) called this the “tragedy of organizations”: the presence of dynamics inherent in and internal to organizations that impede action toward professed goals, pushing them toward a different set of emerging objectives. By this “displacement of goals” organizations, instead of being means established to accomplish the original aims, become ends in themselves.

Decades earlier, Robert Michels, in *Political Parties* (1915), had already noted and studied the displacement of goals in supposedly democratic political organizations. He found its roots in his famous “iron law of oligarchy”: the increasing pre-eminence of top officials’ interests over the interests of rank-and-file members. To Michels, a natural characteristic of organizations is the gap between their original goals and their practices, between long-term objectives and day-to-day practices, between –to use Argyris’ more contemporary

terminology (Argyris and Schon, 1978)– their “espoused theory” and their “theory-in-use”, between what is shown and said, on the one hand, and what it really is, on the other. This gap was the beachhead, expanded years later by the garbage-can theory and the neo-institutional school, for a decoupling of the formal dimension of organizations (rationality, the technical answers to the demands of what Thompson (1967) called the “task or operative environment”) from other organizational dimensions (symbolism, informal power structures, culture, etc.). Decoupling was also to become one of the tenets of some European streams of organizational theory (Brunsson, 1989).

Other causes for the displacement of goals lie in very essential organizational dynamics. Organizations seek equilibrium. To attain and conserve it, they tend towards growth and increasing organizational complexity. As Katz and Kahn (1966) put it, processes of negative entropy characterize organizations. As the early institutionalists saw, to obtain the energy for expansion, organizations need to open up to their environment. Because the environment supplies “energy” on condition that the organization accommodate to its ideological, social and operative requirements, organizations usually end up losing their distinctive founding goals and values. This process is usually accompanied by the takeover of power by those in the managerial strata most interested in the mere survival and growth of the organization, those more apt at routine operations, those readier to surrender original goals. In *TVA and the Grass Roots* (1949) Selznick provided the concept of “co-optation” –the process of absorbing new elements into the leadership of the policy-determining structure of an organization as a mean of averting threats to its stability or existence– to explain the mechanisms that produce the long-term displacement from original purpose, while making possible the short-term survival of the organization.

It is understandable, then, that Gouldner (1955) should have said that the original institutional school impressed on organizational theory a pessimistic notion of organizations. There is an ineluctable “organizational paradox” (Selznick, 1948): while organizations exist to facilitate the sustained, ordered and predictable arrangement of collective action for specific purposes, there is always friction, dilemmas and inertia, and the reluctance of the means is an inescapable fact of organizational life. It is through the unavoidable openness to the environment that the displacement of goals enters organizational life. Leadership was, for the “old” institutional authors like Selznick (1957), the function that had to balance pressures for adaptation to the environment, on the one hand, with truthfulness to foundational purposes, on the other. Unfortunately, after the first institutionalists invested leadership with this critical role, it almost disappeared from organizational theory (as did almost any concern with managerial action in an organizational context, as Barlett and Ghoshal (1993) have recently pointed out).

The characteristic features of the early days of the institutional school were: organizations’ openness to the environment; the consequent displacement of goals leading to scepticism of organized collective action; the critical role of leadership in the governance of organizations; and, among researchers, a historical outlook as the privileged method to understand the social adaptation and evolution of organizations (to paraphrase Selznick, their transition from organizations to institutions).

Years later, Talcott Parsons (1956) endorsed the open systems perspective of the institutional school by emphasizing the importance not only of the performance of what Katz and Kahn (1966) called the “genotypic” function of organizations –the accomplishment of the primary goal, usually the production of a good or service– but also of the role that the social environment plays as legitimizer for the object of organizational operations:

But not only does such an organization [a formal organization] have to operate in a social environment which imposes the conditions governing the processes of disposal and procurement, it is also a part of a wider social system, which is the source of the ‘meaning’, legitimation, or higher-level support which makes the implementation of the organization’s goal possible. Essentially, this means that just as a technical organization (at a sufficiently high level of the division of labor) is controlled and ‘serviced’ by a managerial organization, so, in turn, is the managerial organization controlled by the “institutional structure and agencies of the community” (Parsons, 1956).

Parsons maintained that to carry out an appropriate analysis of organizations it is necessary to understand two dimensions. Firstly, organizations as social systems whose aim is to accomplish a relatively specific goal or purpose “which contributes to a major function of a more comprehensive system, usually the society”. In other words, organizations are systems of cooperation which are to be assessed along the dimension of efficacy: the relative measure of the products the organization is able to provide or the services it performs –the “what” or primary goal– and the costs incurred in doing so (Barnard, 1938).

Secondly, organizations are also institutionalized subvalue systems that cannot contradict the more generalized values of the superordinate system –the society. As a subvalue system, an organization “above all defines and legitimates the organization’s goal and the mechanisms by which it is articulated with the rest of the society in which it operates”. More specifically, according to Parsons, these values refer to three “hows” of organizational activities: first, to the modes of procurement of the resources required to attain the specific organizational goal; second, to the procedures by which those resources are transformed in the operations; and third, to “the institutional patterns defining and regulating the limits of commitments to this organization as compared with others in which the same persons and other resource-controllers are involved, patterns that can be generalized on a basis tolerable to the society as a whole” (Parsons, 1956).

The third of these activities implies that to fully understand organizations it is necessary to attend not only to the dimension of “efficacy”, but also to the dimension of “efficiency” –again using Barnard’s terminology: “the maintenance of an equilibrium of organizational activities through the satisfaction of the motives of individuals sufficient to induce these activities”.

As Weber had realized at the very beginning of the existence of large organizations, the motivations linking individuals and groups to organizations have an ideological or value-orientation nature (Ricoeur, 1986) and constitute one of the main components of modern views of the world (Bendix, 1956; Hamilton and Biggart, 1985, 1988). These linkages are the key to actors’ actions concerning the maintenance or deterioration of organizations’ founding goals.

Parsons (1956) called the capacity to mobilize resources by satisfying these motivations “power”, and qualified it as the central phenomenon of organizations. Etzioni (1961), recognizing that this specific power, what he called “compliance”, is the fulcrum of organizational structure (specificity, size, complexity and effectiveness), made of it the main criterion for classifying and comparing organizations.

After Selznick’s *TVA and the Grass Roots* (1949) and his work on the Communist Party (1952), a number of authors produced works that used variables or explored concerns germane to the institutional school: Gouldner (1954); Messinger (1955); Lipset, Trow, and Coleman (1956); Dalton (1959); Crozier (1964); and others. Many of these works were single

case studies. In them, their authors stressed the importance of political and cultural notions in understanding “goal displacement” processes, and paid increasing attention to organizational actors –especially managers– and their social origins, behavior, functions, and values. A methodological paradox, which with time was to give way to one of the most important differences between the old and the new institutional schools, came out of these studies: while theoretically acknowledging the importance of the organization-environment link, most of these studies focused predominantly on the internal dynamics of particular organizations. A deeper understanding of the way organizations are connected with the environment was not provided. As we shall see, the theme of the connection between organizations and the environment will, in part, be one of the main foci of the neo-institutional school, since, as we have already mentioned, the more political dimensions of the connection will be left unattended.

Just as the emergence and impact of the first institutional school had its roots in actual organizational problems that arose in the bureaucracies of the first decades of the century, so too the withdrawal of the school to a less prominent academic position had its causes in economic developments. As Barlett and Ghoshal (1993) point out, the expansion of economic opportunities after the Second World War prompted organizations to devise new strategies and forms fitted for expanding markets. The result was much larger and more complex structures, such as the multidivisional form, which created enormous challenges for coordination, information-processing, decision-making and control. The influence of the works by Simon (1957), March and Simon (1958), Cyert and March (1963), and Thompson (1967) is thus hardly surprising. These authors’ main theoretical point was that the uncertainty of the environment and the amount of information it generates exceed the limited data-gathering and processing capacities of the decision-makers of centralized organizations. Their approach was properly called the “cognitive limits theory of organizations”. Another tag for this stream of research was Perrow’s (1986) neo-Weberian model, because the coordination of information and the flows of control were also one of the main Weberian concerns.

With economic growth, there came a parallel “administrative” optimism, as exemplified by the titles of journals launched at that time, such as *Administrative Science Quarterly* and *Management Science*. In spite of the limited cognitive capabilities of men, the formal system of organizations –their structure– constituted once again the main instrument of organizational design, of strategic implementation (Chandler, 1969), and of adaptation to the environment (Lawrence and Lorsch, 1967). A rational view of organizations was back, with the support of the prolonged positive economic trend that followed the Second World War.

A pattern began to emerge: each new wave of research tended to be linked with an economic crisis external to academia (Barley and Kunda, 1992). In this case, the major impact of the economic crises of the 1970s prompted a new organizational scepticism. Because of these crises, the claim that the practice of administration could be scientifically legitimated suffered a major blow. The neo-Weberian assumption that organizations were eminently rational and controllable devices was, again, under criticism. Ironically, once the economic situation worsened, the very emphasis on cognitive limits (March and Simon, 1958) and the political biases of decision-making (Cyert and March, 1963) accelerated the demise of the optimists’ neo-Weberian positions.

Stinchcombe (1965), in his landmark article on organizations and environment –published against the grain at a time when the neo-Weberian model was dominant– had kept the open-to-the-environment theme alive. This was to be the main focus of the neo-institutionalists.

The Neo-Institutional School

It was at this theoretical juncture, in the difficult economic context of the late 1970s, that Meyer and Rowan (1977) published one of the first important “new” institutionalist works. They pointed out that formal systems of coordination and control of information and activities are adopted only in part because of the predictability and accountability they are supposed to produce. More importantly, these systems may give social legitimacy to an organization that adopts them, in that they show that the organization conforms to the prevailing academic theories and hegemonic social ideologies and values that justify the behavior of organizations. As Parsons and Stinchcombe had argued years before, these social ideologies demand conformity to their categories from organizations as subordinated subvalue systems.

For the new institutionalism, control and hierarchies should not, then, be conceived of *only* as technical tools that are justified by their capacity to induce predictable behavior in organizations. They may also serve as signals of social conformity, as representations aimed at gaining the approval and support of the social environment for the organization. The early institutional school’s conception of organizations as being open to their environment returned in full. This time, the specific institutional emphasis was on formal structures, but not on their technical or task functions, which had already been explored by contingency theory, but rather on their symbolic role.

While Meyer and Rowan inaugurated the more “macro” track of the neo-institutional school, Zucker (1977) launched its “micro” stream. Taking as her premise the social construction of knowledge perspective developed by Berger and Luckman (1966), Zucker studied the mechanisms by which subjective conceptions about behavior in organizations, meanings individually felt, and the whole bundle of thoughts and feelings that the old institutionalists called values become taken for granted, that is, indisputable, persistent—in short, institutionalized.

Zucker’s proposal of bringing cognition into the neo-institutional school was the first defense of a renewed concern on the part of organizational theory for the topic of decision-making. This was after the cognitive turn that took place in the sixties and later in the field of psychology, and that for obvious chronological reasons was unavailable to Simon and colleagues when they did their pioneering research on decision-making. As Alvarez (1997) points out, Zucker’s initiative, among others, was at the beginning of the groundwork that led to business knowledge becoming a star topic in management in the mid-nineties, in both the theoretical and the applied domains.

However important the contributions by Meyer, Rowan and Zucker, it was the enormous impact of the classic 1983 paper by DiMaggio and Powell on the “Iron Cage Revisited” that made the “macro” track of the neo-institutional school dominant until today. In it, the authors formulated the type of questions that had often been absent from the inquiry into organizations, including the old institutional school. Instead of asking why organizations are so different from one another, why they are so peculiar that they even have distinctive characters or purposes (Selznick, 1957); instead of asking why they have individual cultures (Schein, 1985; and most literature for practitioners), DiMaggio and Powell puzzled over the question of why organizations look so homogeneous, so isomorphic. These authors took the research focus away from concrete and individual organizations –both as explanans and as explanandum– and centered it on transorganizational processes, such as the structuring of organizational fields. At this ecological level of analysis, the neo-institutional school paralleled the analysis being fleshed out at about the same time by the population school.

Powell and DiMaggio, relying heavily on Weberian concerns, addressed the processes of rationalization peculiar to organizations in the second half of the twentieth century. Rationalization means accommodation to legal rules and to socially prevailing views of how organizations should behave and what forms or structures and systems they should adopt. Powell and DiMaggio argued that dynamics of isomorphism, propelled by the need to deal with uncertainty and constraint, take place within the domain of organizational fields: sets of mutually interacting firms, in both operative and value domains. For Powell and DiMaggio, the professions and the state are the most important social actors carrying the institutionalization processes studied by Zucker in 1977. They are the holders of knowledge, ideologies and values; the disseminators of the taken-for-granted assumptions of how organizations should behave; and the social agents of convergence in structures and systems. For the institutionalists, these actors do not fit the decision-maker's model proposed by economic theories. To use March's expression (1993), they do not follow a "logic of consequences", but a "logic of appropriateness", based on their assumptions of what rules to apply, in what circumstances. These rules are incorporated as scripts or habits in the cognitive schema of decision-makers.

Powell and DiMaggio's piece contained *in nuce* most of what was different in the new institutionalism as compared to the old one: a focus not on single organizations as units of analysis, but on organizational fields; a concern with the diffusion of structures rather than with the displacement of goals; an emphasis on the specific mechanisms of isomorphism (what decades earlier was called co-optation). The use of social arguments to account for phenomena that were traditionally the domain of economics (e.g. organizational fields or sectors) revealed this school's thrust: a positioning against the hegemony of economic explanations of organizing –from markets to hierarchies.

Absent from this piece, and subsequently from most neo pieces, were other topics that had characterized the early institutional approach to organizations. Most importantly, Powell and DiMaggio's emphasis on the state and the professions (let it be recalled here that management is an occupation not a profession) diminished the interest in business leadership and management and their role in balancing the purpose of the organization with the necessary adaptation to the environment. As a consequence, also gone from the neo-institutionalism was any concern with the betterment of organizations as instruments for coordinated social action for specific purposes in modern societies and, of course, with the practicalities of management. With these absences, there was also the waning of an essentially political notion of organizations –present, though underdeveloped, in the early institutional work. This notion suggests that organizations are the unstable result of a continuous effort on the part of their leaders to balance the different claims of internal actors and external stakeholders on the social resources organizations contain. This political notion was enriched in the interim between old and neo-institutionalism by research in such diverse quarters as Cyert and March (1963), Pettigrew (1973), and Bower (1970).

After the landmark pieces by Powell, DiMaggio, Zucker, Rowan and Meyer, the quantity of literature claiming to belong to the neo-institutional school grew rapidly. In a first wave of research, most of the papers (1) published in the influential outlets (Tolbert and Zucker, 1983; Tolbert, 1985; Strang, 1987; Zucker, 1987; Meyer *et al.*, 1987; Powell, 1988; Dobbin *et al.*, 1988; Meyer *et al.*, 1988) studied the diffusion and adoption of homogeneous organizational structures (e.g., the existence of certain departments) and systems (e.g.,

(1) The articles referred to exemplify some of the arguments made in the next pages. They are intended to represent neither an exhaustive list of the papers published on the issues discussed nor a selection of them.

budgetary procedures) under environmental pressures. A large number of these studies used data from public organizations, usually schools and universities. The neo emphasis on the state as agent of rationalization, as well as the easier access to that kind of data, facilitated this solution. Other institutionalist developments in the realm of political science (March and Olsen, 1984, 1990), stressing the autonomous role of political and social organizations in political processes against certain excessively functionalist explanations, also reinforced the tendency to focus on public organizations, which was later to become one of the criticized aspects of the school.

The neo-institutional school's concern with diffusion was based on a strategy whose main theoretical tenet was that organizations do not act only on instrumental-rational motives, but also in order to comply with prevalent socially or institutional field-based norms of organizational behavior. This tenet could be proven if research could show that "central", powerful, legitimated and legitimating organizations induce or force "peripheral", less powerful, and legitimation-needing organizations to adopt a particular formal hierarchy or system, at least in part because of the power and legitimacy of the "central" organization and not merely because of the technical efficacy of the hierarchies or systems. The methodological tactic of the institutionalists was to focus on demonstrating the existence of these processes of diffusion of structures by establishing the formal similarity of both influencing and influenced, diffuser and receiver organizations. As a consequence, this first wave of neo work has a predominantly structural focus and a synchronic perspective.

In spite of this very conscious research strategy, the first criticisms of the neo-institutional school were mostly methodological. Blau and Meyer (1987) and Aldrich and Marsden (1988) observed that the forces assumed by the institutional model to operate on organizations had not been measured directly, nor had their effects been precisely ascertained, and controls for explanations had been less than fully adequate.

In part as a response to these methodological criticisms, a second wave of neo-institutional research developed more sophisticated treatments of the issue of diffusion (Denk, 1988 versus Baron *et al.*, 1988b; Fischer and Carroll, 1988) and brought more detailed work on neo-institutional variables, prominent among them being types of isomorphism (Levitt and Nass, 1989). The first of these types is coercive isomorphism, mostly exercised by the state and public organizations as enforcers of rules of organizational action (Dazin, 1997; and most of the previous neo literature). The second is the normative isomorphism, mostly spread by the professions in their definitions of standards and due practices (Galaskiewicz and Wasserman, 1989). Finally, and revealing of the neo-institutional assumptions regarding the way managerial decision-making takes place, there is mimetic isomorphism, which occurs when due to technological complexity and goal ambiguity, organizations imitate the behavior of other organizations perceived as successful (Haveman, 1993). Legitimacy, too, became a topic of special interest (Deephouse, 1996). The importance that imitation or followership of successful and profitable firms has in the literature on competitive strategy could have prompted interesting academic cross-fertilizations.

A third line of neo-institutional research explored its connection to other perspectives and schools. Tolbert (1985) and Tolbert and Zucker (1996) showed the many areas of convergence, even of overlap, with the resource-dependence theory. These authors argue that the main difference lies in the neo-institutional emphasis on cultural and cognitive variables, while the resource-dependence theory favors technical and straightforward political contingencies. The issue of legitimation, so obviously connected with population-ecology, even elicited some debate between members of the two schools (Zucker *versus* Carroll and Hannan, 1989). Levitt and Nass (1989) pointed to some theoretical links between the

garbage-can theory and the neo-institutional school, both strongly opposed to economic rational-choice models. Applying networks to the understanding of isomorphism is one of the most robust methodological possibilities of the neo school and, naturally, interorganizational networks were brought into neo-institutional research as the channels through which isomorphic processes circulate (Palmer, 1993). Interlocking directorates were also put forward as performing an analogous function (Harnschild, 1993). Finally, even the always difficult but theoretically key topic of the micro-macro links starts to be discussed from an institutional standpoint (Holm, 1995).

Research claiming to use neo-institutional variables multiplied, as did the issues covered by these pieces. Scott (1995) has reviewed them extensively. The next section will try to assess how worthwhile the effort has been.

Evaluating the Contribution of the Neo-Institutional School of Organizational Theory

In 1987, Scott characterized the neo-institutional school of organizational theory as being at the stage of adolescence: high growth without much maturity or coherence.

A decade later, that appraisal still seems valid. Tolbert and Zucker (1996) –besides rightly noting that the more cognitive or “micro” track of the school has been underdeveloped– have said: “There is very little consensus on the definition of key concepts, measures or methods within this theoretical tradition... institutional theory has developed no central set of standard variables, nor is it associated with a standard research methodology or even a set of methods.” This assessment very much resembles the one by Aldrich and Marsden (1988) quoted above, which suggests, given the time elapsed between the two assessments, a lack of definite methodological improvement of the school.

Even Scott (1995), who devotes an entire book to clarifying the great diversity of meanings of the term “institutional” and to ordering the many topics treated under the institutional umbrella, delivers an assessment quite similar to the one he passed in 1987.

However, the extant plurality of topics and methods that these authors find should not lead necessarily to a negative general appraisal of the school’s contribution to organizational theory. On the contrary, it can be said that, thanks to its munificence and plurality, the school has better attained most its neo objectives. Above all, at the macro level, it has strongly reinforced the argument of the social embeddedness of economic action (Granovetter, 1985). Social dynamics such as isomorphism, mimetism, legitimacy, symbolic action, diffusion, taken-for-grantedness, and other institutional variables and dynamics have been conceptually refined. And a number of empirical pieces have shown these variables really influencing organizational phenomena.

Thanks to the *aggiornamento* of the old institutional tradition in the sociology of organizations, the idea that economic and organizational life can be accounted for mostly by economic or technical variables, premised on atomistic, highly individualistic and calculative views of human agency, has less currency.

The effective contribution of the neo-institutional school to the debate on how to think about organizational phenomena, ranging from mostly technical and economic variables on the one hand to mostly social and cultural on the other, is no minor accomplishment, since this is a highly relevant debate in the social sciences. Just as modern

sociology, of mostly Weberian descent in its emphasis on culture and other variables such as status, was a reaction to the predominantly economic hypotheses of Marxism, the evolution of organizational theory may be seen as an attempt to counter economic understandings of organizations and management, a reaction against the economic theory of the firm. This beneficial performance has been especially timely. Due to the impact of transaction-cost economics and agency-theory in recent years, economic views of the firm were widely accepted, not only in academic quarters, but also as “espoused theory” among practitioners (Davies, Diekmann, and Tinsley, 1994). Along with the neo-institutional school, other sociological approaches such as Population Ecology (a correlate to strategic industry analysis that has many parallels to evolutionary economics) and Networks, etc. provided a wealth of conceptual constructs that are useful for explaining organized action for economic purposes.

Besides this role in interdisciplinary disputes, the single most important contribution of the neo-institutional school to the field of organizational theory has been the study of the specific mechanisms through which isomorphism occurs—mostly the specific issue of diffusion of structures. We know much more about the dynamics by which organizations resemble each other than before the 1983 landmark piece by Powell and DiMaggio. This particular conceptual mandate has been fulfilled rather well.

If these have been its main contributions, what specific criticisms can be addressed at the neo-institutional school, besides its already widely acknowledged lack of topical homogeneity and methodological consensus?

One criticism stems, paradoxically, from one of the school’s successes: its focus on the diffusion of formal organizational systems. This criticism points at the poignancy of the fact that if any approach within contemporary organizational theory should have been aware that “the most urgent question posed by the existence of organizations is not what kind of formal and structural regularities exist in them” (Crozier and Friedberg, 1980), it should have been the institutional perspective. However, most of its research has focused on the diffusion of structures and formal systems, and not on the attitudes, belief systems, ideologies, and opinions that actually prescribe and proscribe the behavior of organizational actors and decision-makers. As mentioned above, this was the result of a conscious research strategy aimed at showing that even the supposedly rational and technical organizational formal systems had social and cultural functions, and even mythical and ceremonial purposes. However, this strategy resulted (maybe as an unexpected consequence) in a fixation on those formal systems that by any institutional account of organizations are not organizations’ paramount dimension.

This “displacement of focus” –from the displacement of goals to the diffusion of structures– as an unexpected and somewhat perverse consequence of its research strategy has been compounded by the scarcity of studies using comparative, longitudinal and historical methods (Alvarez, 1991; Scott and Christensen, 1996; and Scott, 1996). This reveals that the neo-institutional school has not fully come to methodological terms yet with the fact that organizations are historically overdetermined phenomena, whose outcomes are the result of a variety of non-independent factors whose impact depends on the fact that they are redundant (Hackman, 1985). This often requires the kind of fine-grained research methods inherent in a style of historical and field research scholarship that has so often been absent in organizational writing. Poignantly, this was one of the features of the foundational institutional work.

It can therefore be said that the study of the specific mechanisms of diffusion as diachronic processes still needs much effort and requires more appropriate methodologies

–longitudinal or path-dependent. Key to this effort, and the first most important avenue of future research for the neo-institutional school, is the study of the social and organizational actors operating as carriers of ideas and agents of institutionalization. Given its importance, I shall dwell on this topic for some paragraphs. Although DiMaggio and Powell (1983) proposed that research on the role of organizational actors should be central to the development of the neo-institutional school, only a small amount of research has been done on how these actors are educated and how their normative systems are built. The focus was too much on organizations as *opus operatum*, and not on the *modus operandi* of organizational actors (see Bourdieu, 1977, for these expressions). Interesting exceptions to this trend can be found in Jacoby’s (1985) study of the bureaucratization of employment practices; in the Baron, Dobbin and Deveraux (1986, 1988a) series on the evolution of professionals in charge of personnel administration; in Galaskiewicz’s (1985) work on the perceptions and evaluations of the professionals in charge of corporate donations; in Westney’s (1987) research on the role of Japanese elites in the transfer of Western organizations to Japan; or in Boltansky’s (1982) study of French managers. Significantly, only a few of these works explicitly claim to belong to the neo-institutional school.

The lack of work on organizational actors by the neo-institutional school is made all the more striking by the fact that the need for and importance of such work has been recognized, either implicitly or explicitly, by scholars working in different traditions: from sociologists *cum* management gurus, such as Kanter (1977), exemplified in her *Men and Women of the Corporation*, to classic and more “formal” organizational theorists such as Crozier and Friedberg (1980), who stated: “Organizations are not natural beasts whose existence is a given of nature. They are ‘human constructs’ developed half-consciously, half unconsciously, by man to solve problems of collective action, and above all the most basic of these –cooperation for the production of some collective good by relatively autonomous social actors pursuing diverse and always, in a certain sense, conflicting interests.”

Cohen and March (1986) also explained why managers –the organizational actors par excellence– are distinctively important as a social group:

Managers *do* affect the ways in which organizations function. But as a result of the process by which managers are selected, motivated, and trained, variations in managers do not reliably produce variations in organizational outcomes. In such a conception, administrators are vital as a class but not as individuals. Administration is important, and the many things that administrators do are essential to keeping the organizations functioning; but if those vital things are only done when there is an unusually gifted individual at the top, the organization will not thrive. What makes an organization function well is the density of administrative competence, the kind of selection procedures that make all vice-presidents look alike from the point of view of their probable success, and the motivation that leads managers to push themselves to the limit.

And quite revealingly, academics working in the more applied tradition of industrial relations, such as Kochan, Katz and Mckersie (1986), also suggest this avenue of research: “A more powerful theory of managerial values, strategies, and behavior in industrial relations is needed.” Also, the important European group working on industrial relations at the University of Aix-en-Provence (Maurice, Sellier and Silvestre, 1986): “Before industrial relations can be studied, one must first study how the actors acquire the features of their identity that remain fairly stable over time and, further, how the collective action domain is shaped.”

This has also been echoed by Fligstein (1987) in his work on the rise of finance personnel to leadership positions. Finally, Barlett and Ghoshal (1993), in their plea for a managerial theory of the firm that acknowledges the active and influential role of managers, also recognize this need for attention to organizational actors.

Also, at a more micro or psycho-sociological level, some of the work being done on the generation of the professional identity of some organizational actors (Ibarra, 1996) persists in this line of research, which I consider one of the challenges so far unmet by the neo-institutional school.

Besides the lack of attention to organizational actors, which is compounded by the lack of historical studies, there is another, more fundamental weakness in the neo-institutional evolution that also plagues a good deal of contemporary organizational theory. This is captured by a recent characterization of the neo-institutional school by Tolbert and Zucker (1996): theoretical ambiguity and lack of distinctiveness.

There are three main causes for this characterization, which in my opinion is fundamentally correct. First, many of the arguments and empirical pieces of the neo-institutional school are very obvious, general and vague, merely stating the importance of social and cultural variables in economic and organizational processes. See Dazin (1997) for a recent example of neo-institutional research that still argues the very general and basic hypothesis of the importance of the social and institutional environment. It is, in fact, a sad reflection on the state of organizational studies that a whole school has been built up and thrives on the need to defend these obvious points. That the neo-institutional school has successfully contributed to that defense does not compensate for this obviousness. Second, the lack of cumulative development, of advancement, of integration of its variables, of major refinement of its main concepts, except, as mentioned, as regards the topic of isomorphism. Third, the scarcity of normative propositions that could be of help to practitioners, and of hypotheses that relate institutional constructs to variance in organizational performance. It is as if institutional variables are really relevant only in sectors that are per se highly institutional, such as the public sector, or highly cultural, such as the arts. Competitive dynamics in non-regulated industries have attracted only a small fraction of the school's research –which leaves the worrisome impression that in these industries straightforward economic variables apply. The internal dynamics of organizations, their daily operations, still remain mostly untouched by neo-institutional thinking.

However, this absence of progress, of references to organizational performance, or even to the old concern of displacement of goals, is not just a malaise shown exclusively by the neo-institutional approach. The whole field of organizational theory seems to be suffering from exhaustion. Since the beginning of the eighties no new approach has been forthcoming. Furthermore, none of the existing approaches (population ecology, neo-institutional, agency theory, etc.) offers a normative content that could relate to the practical dilemmas of practitioners, except, to some degree, for agency theory (Davies, Diekmann and Tinsley, 1994) –sadly enough, the most economic of the existing theoretical alternatives. The topic of knowledge, which has become increasingly important in the last few years and could have had a strong connection with the neo-institutional school, has not developed any such connection.

This situation should not come as a complete surprise. It could well be that we have reached a point in the development of organizational theory where most of the main variables or hypotheses needed to account for organizational behavior (economic, social, cultural, etc.) have already been put forward and conceptually developed, at least to a minimally

satisfactory degree. It may well be that the main tasks awaiting the early years of the second century of a society of organizations lie in two areas. First, in refining the variables and perspectives already available and, second, in creating a sort of taxonomy: locating the types of organizations or situations where the different variables and hypotheses apply best (for an example of this type of research, see Palmer, Devereaux Jennings and Zhou, 1993). The increasing plurality of actual organizational forms, derived from the demise of the bureaucratic model of organizations, will increase the demand for this classificatory research, which is less glamorous and remains poorly integrated theoretically, but which has more potential applications.

Is it still possible, then, for the institutional perspective to make a relevant contribution to organizational theory? Is it possible, even, for new and substantially different proposals in the field of organizational theory to emerge?

Commenting on a recent piece by “the” classic institutionalist, Selznick (1996), could be a good opportunity for a final look at the contribution of the neo-institutional school to organizational theory, as well as for an attempt to answer the two questions just posed.

Philip Selznick recently took stock of the evolution of institutionalism, from old to new, in organizational theory (1996). His main line of appraisal sustains, somewhat obliquely, that at bottom there is no great hiatus between the new and the old versions of the institutional school, and that the basic difference lies in what he perceives as the attempt by the neo scholars to somewhat artificially distance themselves from the old tradition (Powell and DiMaggio, 1991, found sharper differences between old and new institutionalism). For instance, Selznick complains that instead of using the more Parsonian “values” concept, his neo colleagues use constructs drawn from the more recent cognitive approach in psychology, such as scripts, schemata, and others. (I believe the neo-institutionalists are right in grounding the cognitive processes that underlie institutionalization in more empirically validated notions, as Zucker (1977) suggested at the very beginning of the neo perspective. In fact, much more should have been done in this micro or cognitive direction.)

There is another argument in Selznick’s piece, although less prominently displayed and less emotional in tone, that deserves special attention. He asserts that the basic thrust of the Institutional Theory should be a positioning against the culture of short-sightedness and the maximizing of capital, in favor of long-term corporate responsibility vis-a-vis all relevant stakeholders. Selznick seems to react against a wave of social practices that have enthusiastically taken some theories of economic organization perhaps too literally. These practices have found in such theories the legitimation for the breaking apart of firms into a myriad of deals or transactions, for the dilution of organizations’ social entity, for the “commodification” of the firm (Meyer, 1990), as pieces by Davis and Scott (1992) and Davis, Diekmann and Tinsley (1994) detail.

Selznick tries to defend the much maligned bureaucracy –large organizations– as a specific type of social organization for collective action which, he contends, we cannot dispense with; nor can we abandon all hopes for its reform. Powell and DiMaggio’s (1983) foundational piece of macro neo-institutionalism echoed this line of thought in its Weberian concern for the de-humanizing effects of modern economic activities –the “iron cage”. Unfortunately, the fact is that, as a whole, the neo-institutional school has not pursued this line of research. It is full of social processes but rather empty of people, even of “aggregated” organizational or social actors, as I insisted above. Revealingly, the lack of social philosophy in most neo-institutionalism is accompanied by a lack of anchoring in actual administrative problems. Selznick’s reminder should, then, be of use.

Building on the same argument, Selznick also points out the disappearance of politics from the neo-institutional school, and warn us of the negative consequences this may have. He refers to politics neither in the sense of managerial power for getting things done (Kotter, 1985; Pfeffer, 1992), nor in the sense used in much of the research of the socio-psychological realm (with abundant studies on ingratiating tactics, Machiavelian personalities, and so on), nor even as organizational interdepartmental politics, a perspective developed since Cyert and March (1963). Rather, he refers to politics in the sense of the “constitution” of organizations: the basic arrangements for ordering the distribution and exercise of power and the basic beliefs backing up that order, holding together the coordinated action of the different groups necessary to and interested in the continuity of an organization. In other words, it is how stakeholders come together, develop common objectives regarding both the purpose of the organization and its performance, and agree on its governance and continuity.

Selznick defends, in an argumentative vein that goes back to his TVA work, that refocusing the institutional work on the realities of power, authority, subordination and social responsibility is necessary if a fundamental part of the institutional heritage is to be preserved and built upon.

Bearing Selznick’s warnings in mind, I would like to start proposing what appears to be potentially the second grand avenue of research –the political constitution of organizations. This could carry into the future the time-honored institutional tradition in organization studies. My position is that this topic constitutes one of few remaining critical and underdeveloped topics in organizational theory. While the basic economic and social arguments regarding organizations have already been put forward and developed, work on the political hypothesis, in this “constitutional” sense, is still needed.

The absence of a political connection in the neo-institutional school is highly paradoxical, given that politics was an obvious concern of the first institutionalists, and that many of the processes and variables essential to any political dynamic –legitimacy, coercion, ideologies as sources of social norms, etc.– have been the very “stuff” of the neo-institutional school!

A combination of the following reasons may have caused this lack of development. In the first place, the neo assumption regarding micro behavior, based on a logic of appropriateness (March, 1993), led to agency having a lesser role in institutional work. At the same time, the dominant neo research focus on supra-individual units of analysis (for instance, organizational fields) reinforced this tendency to give agency only a minor role. Second, the lack of work on organizational actors as the entrepreneurs of institutional processes furthered this weakness. The neo-institutional school was thus poorly equipped to take a political look at many of the highly political topics it deals with. The following pages briefly summarize the main components of the political perspective throughout the development of organizational theory.

The Political Hypothesis of Organizations

The political hypothesis of organizations has had an unstable “career” in organizational theory, with periods of strong influence and others of neglect. It reemerges at regular intervals, with different emphases, but nonetheless recognizable in its basic features. This is a summary of those basic features, and a brief account of its fate and of how it has so far impacted the field of organizations.

By political hypothesis, I mean, first, that organizations are open and plural, multi-goal, non-unitary systems (against Barnard), even though they are designed to fulfil specific economic purposes. They depend for their functioning on the active management of the plurality of social groups –internal and external– with differentiated interests and differentiated claims on resources (against current economic theories of the firm which privilege shareholders’ interests). A political conceptualization of the firm also assumes the “natural” consequences of that plurality: the persuasiveness of the “displacement of goals” noted by the earliest institutionalists. Balancing the pressures of these social groups leads in time to the drift of the original, primary organizational purposes towards new, emergent purposes. Organizations, then, are essentially transitory regimes, if original goals are the paramount consideration (and the only hypothetical solution, the closing of organizations, has not been deemed a feasible strategy (Kanter, 1972)). The displacement of goals in modern organizations, a phenomenon peculiar to these social entities, bears a striking resemblance to what Machiavelli and fellow pioneer political scientists found in political entities such as Italian renaissance city-states: the *corruzione* of civic conviviality (Pocock, 1975).

Revealingly, the first non-economic conceptions of modern organizations were highly political. Weber himself gave legitimacy a pivotal place in explaining why organizations are “constitutionally” plural regimes: the motivation of the top of the organization, of the leadership, was not necessarily equal to that of the employees, who in bureaucracies have to have a rational orientation toward their tasks and the organization (Ricoeur, 1986). In fact, Weber attributed to the leadership the task of managing that diversity of organizational motivations. These motivations necessarily have two components: the first being an orientation to the task assigned by those in command. The second is an orientation towards the legitimacy of those issuing decisions concerning division of labor. That is to say, ideologies with a reference to power and subordination in organizations and, ineluctably, in society. The combination of these two orientations is what Etzioni (1961) called “compliance”. In sum, since Weber, one of the main features of a political notion of organizations has been the presence of social ideologies of power and subordination, without which the organization would not hold together.

A second characteristic, derived mainly from Michels, is that the domain in which the most important political dynamics emerge and evolve is the leadership or organizational elites layer. Not only because it is in these strata that power resides, but also because this is where the most critical links with the environment are established, and where most of what Selznick called co-optation occurs.

This interest in the top of the organization as the fulcrum, the *pièce-de-résistance* where the relevant political pressures converge, was abandoned by the human relations school, and even by Barnard. He essentially viewed executives as motivators towards a unified social entity, and as enforcers of a supposedly non-problematic unity that was contrary to everything that a political view implies, such as plurality of interests.

After the foundational period of organizational theory, the institutional approach disappeared from the limelight, giving way first to the human relations school and afterwards to the “cognitive approach”. The same withdrawal –obviously not unrelated– affected the political hypothesis. Neither the more socio-philosophical type of work of Michels and early institutionalists nor the comparative, self-conscious middle-theorism of Etzioni ended up creating long-lived traditions of research.

The cognitive approach to organizations arose from the need to provide alternatives to the dominant neo-classical economic views of agency. This research, cut off from early

traditions in organizational theory, played in the same terrain that was held by economic theories. It focused on decision-making, trying to add degrees of realism to the non-natural decision-maker constructed by economic assumptions, but accepting that decision-maker as a starting point and working at the same abstract, formal level as economics. Those additions included the sober acknowledgment of the limited capabilities for information processing. This was Simon's main contribution. When this line of work got deeper into decision-making, it had to come to terms with the fact that organizational positions tend to bias the decisions of their incumbents. These biases come, first, from conscious posturing aimed at furthering personal, departmental or other interests. Second, and more interestingly, biases may appear non-deliberately, that is, even with the best possible motivation towards the organization. To understand actors' dispositions, decisions and, ultimately, actions, the structure of the organization, both formal and informal, had to be factored in. This was Cyert and March's contribution (1963). This was furthered by Cohen and March's garbage-can model, which definitively shattered all attempts to build up "disciplined", single-goal, non-political organizations.

Not only, then, did politics appear in the first conceptualizations of organizations, which were more openly institutional and therefore political, but also, unexpectedly, in micro approaches, such as decision-making. A third characteristic of a political hypothesis of organizations could then be posed: politics are inevitable, both at the macro, social levels, leading to the displacement of goals, and also at the more micro, internal levels. This second content was to become hegemonic in subsequent years.

After Cyert and March called attention to interdepartmental politics, the topic of power and organizational politics attracted scholars such as Crozier (1964), Pettigrew (1973), Bacharach and Lawler (1980), Pfeffer and Salancik (1978), and others. Most of these contributions built on the topic of departmental sources of power, while stakeholders were mostly unattended. The politics of the constitution of organizations, the power that makes possible organized collective economic action and holds it together through time (the constitution of organizations should, then, be a continuous endeavor), and the dynamics of governance –the topics that concerned Weber and the early institutionalists– were not addressed in force from a sociological viewpoint.

Theoretical voids, like political ones, provoke *horror vacui* and invite occupancy. In this case, the governance of organizations, unattended by non-economic organizational theory, was "occupied" by theories such as transaction costs and agency theory. These had their own theoretical and ideological assumptions. For instance, most research on CEOs and boards are premised on the absolute sovereignty of shareholders. The surge of economic sociology is but an attempt to counter that influence. The neo-institutional school is another try in the same direction. As argued above, at this it did its best, although it kept leaving unattended what I call the constitution of organizations and their governance.

This paper is obviously based on the intuition that an institutionally-based political theory of organizations is overdue. Rubenstein and Kochan (1996) have recently explained the reasons why a stakeholder theory of the firm is needed. Since this theory is one of the forms that can embody a political theory of the firm, those reasons deserve mention. First, the general ideological displacement to the right –legitimated, as far as organizations are concerned, by the agency theory of the firm– has gone too much to the extreme for too long. A correction is in order, in which shareholders should not be the most privileged constituents. The second reason is based on realism: in an economy and in organizations where knowledge plays an increasingly greater role, control becomes proportionately more difficult. Political rights in the organization should be awarded to knowledge-holders if involvement is expected

from them. Therefore, political understandings of organizations are welcome to frame these empowering practices. And third, in the case of high-performing companies, employees also demand a compensation package, including political rights and stakes, that goes beyond traditional financial schemes.

Besides these reasons cited by Rubistein and Kochan, other developments may demand a political turn in organizational theory. One is the very fact that the economic and strictly sociological hypotheses have already been rather exploited. Since organizations are such multifarious phenomena, a new hypothesis based on political constructs may always refer to a part of actual organizational realities, may always make some sense and enjoy the attraction of “newness”. A second reason is the growing claims (Stern and Barley, 1996; Selznick, 1996) for an organizational theory that pays more attention to wider societal issues. Third, and perhaps controversial, is that after one century of complex organizations, the challenges of dividing labor, coordinating, motivating and rewarding, and so on, are, if not fully solved, at least well enough understood not to expect completely new and revolutionary solutions. Incremental administrative knowledge will probably be enough to address the challenges faced by practitioners. The *exposé* of much management knowledge as fads and fashions in recent years (Alvarez, 1996, 1997), the widespread skepticism towards them, and the return of pragmatism (Eccles and Nohria, 1992; Nohria and Berkley, 1994) are signs that the expected increment in knowledge and refinement of practices will be enough to solve the practicalities of management. This will leave room for actual fundamental challenges in organizational governance to be addressed by organizational scholars.

This will not be an easy task. Difficulties abound. The first is that most of the research done so far on stakeholders is strikingly unrelated to organizational theory (Donaldson and Preston, 1995; Dunbar and Ahlstrom, 1995). A second difficulty comes from the fact that, until recently, research on top management teams or on CEOs has been too beholden to the shareholder dominance tenet, too much anchored in economic traditions, and has followed –too much to my taste– the belief in the “managerialist” hypothesis, namely that managers, left to their own devices, will pursue egotistical interests. Also, most of the research on CEOs, or even on Boards, seems to assume that given certain demographic or background characteristics of firms’ leaders, specific policies will follow quasi automatically. Good, recent academic stories showing the interplay between top management teams, CEOs, shareholders, and other stakeholders, and the way the outcomes of these interactions have affected organizations’ purposes and policies, are still lacking. Third is the fact that when those who have expressed the need for a political understanding of organizations (Fligstein, 1985; 1987) have tried to put forward their alternative arguments, these have been too state-centered (Fligstein and Brantley, 1992; Fligstein and Freeland, 1995; Fligstein and Mara-Drita, 1996). Finally, we still do not have any good theories of managerial action that include political dimensions, as Barlett and Ghoshal (1993) have noted, and attempts at producing such theories are still too vague (see the one in Davies, Schoorman and Donald, 1997). Nor do we have a theory linking managerial action and organizational structuration, as Powell and Tolbert (1997) have quite recently realized. Of course, an institutionally-based political theory of organization is not the only way to go in developing organizational theory as we enter the second century of a society of organizations. However, a political turn in organizational theory that tries to overcome the difficulties just mentioned, based on some of the concerns and variables of the institutional tradition, deserves attention.

Conclusion

In this paper, I have expounded the main threads of the evolution of the institutional approach and its contribution to the field of organizations. The old institutional school opened the early conceptualizations of organizations up to the environment. In doing so, it exposed and conceptualized the pervasive “displacement of goals”, a distinctively organizational political dynamic. This, in turn, was related to the role of leadership as responsible for the efficacy and values of the organization –that is, its institutionalization. These two arguments brought realism and sociological sophistication to the conceptualization of organizations vis-a-vis the closed and voluntaristic view of Barnard.

While the second main argument of the old institutional school –the political constitution of organizations– was unfortunately not pursued, the neo school worked along the lines of the first contribution of the foundational approach: an open notion of organizations, where the relationships with the environment were central in explaining dynamics of isomorphism. In this, the neo-institutional school has been successful. For all its methodological inadequacies, topical vagueness and lack of distinctiveness, it accumulated a wealth of studies and refined a number of variables. These furthered both the social embeddedness of economic action hypotheses, and a notion of decision-making where technical rationality takes a secondary role.

It has been suggested that a potentially productive line of research for the neo-institutional school would be to focus on organizational actors as the movers of the isomorphic process. So far this has been studied rather abstractly. Historical and longitudinal methods should accompany this effort. At a more micro level, the development of the identities of these social groups could also be a welcome contribution to the understanding of institutional processes.

Finally, I have argued the need for a renaissance of the concern for the constitution of organizations, which was present in the old institutional tradition but unfortunately was not pursued by the neo-institutional school. I believe this is one of the most potentially fruitful and fundamental developments still waiting to be addressed by organizational theory at the beginning of the second century of a society of organizations.

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