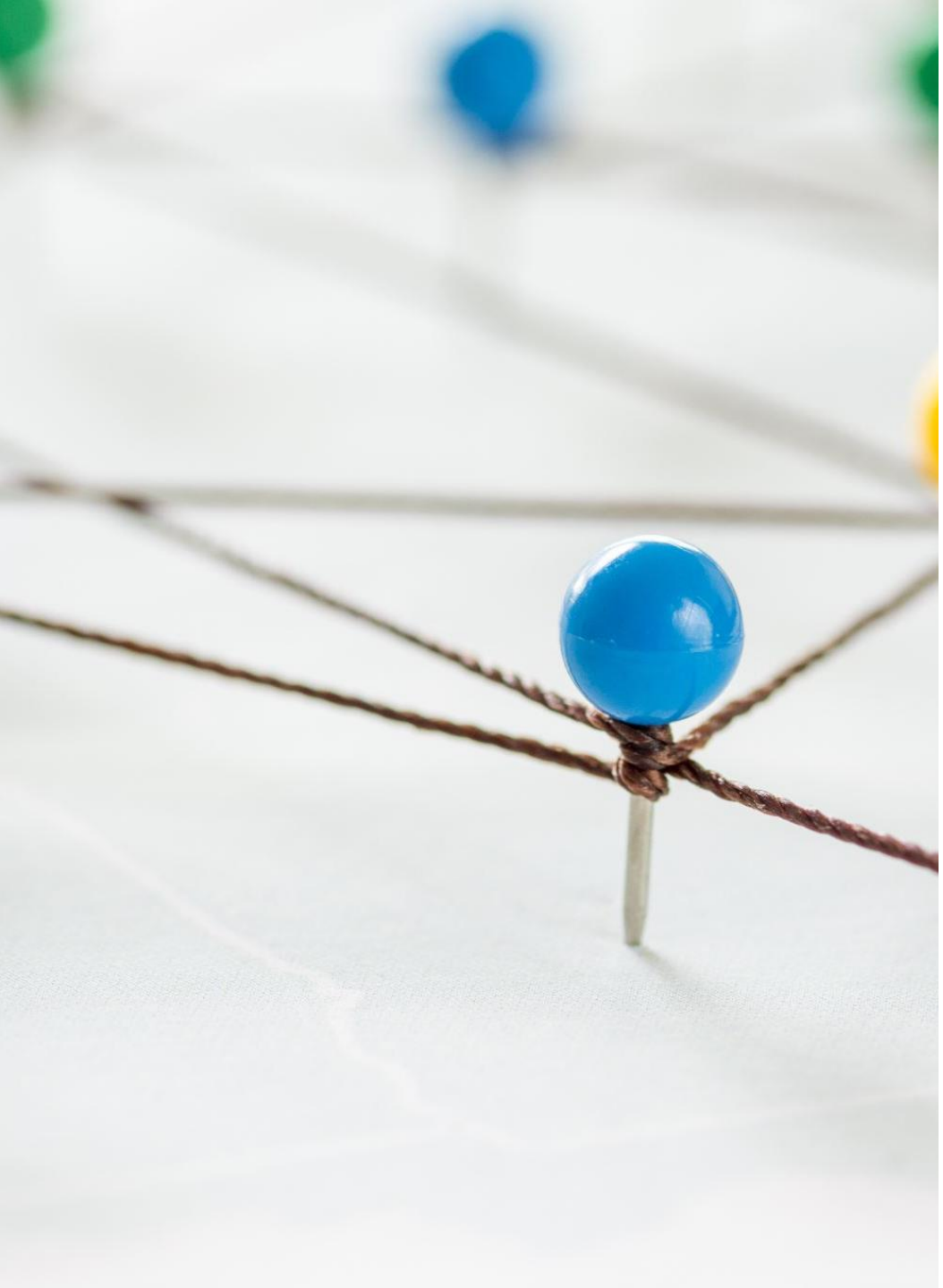


Organizational Theory

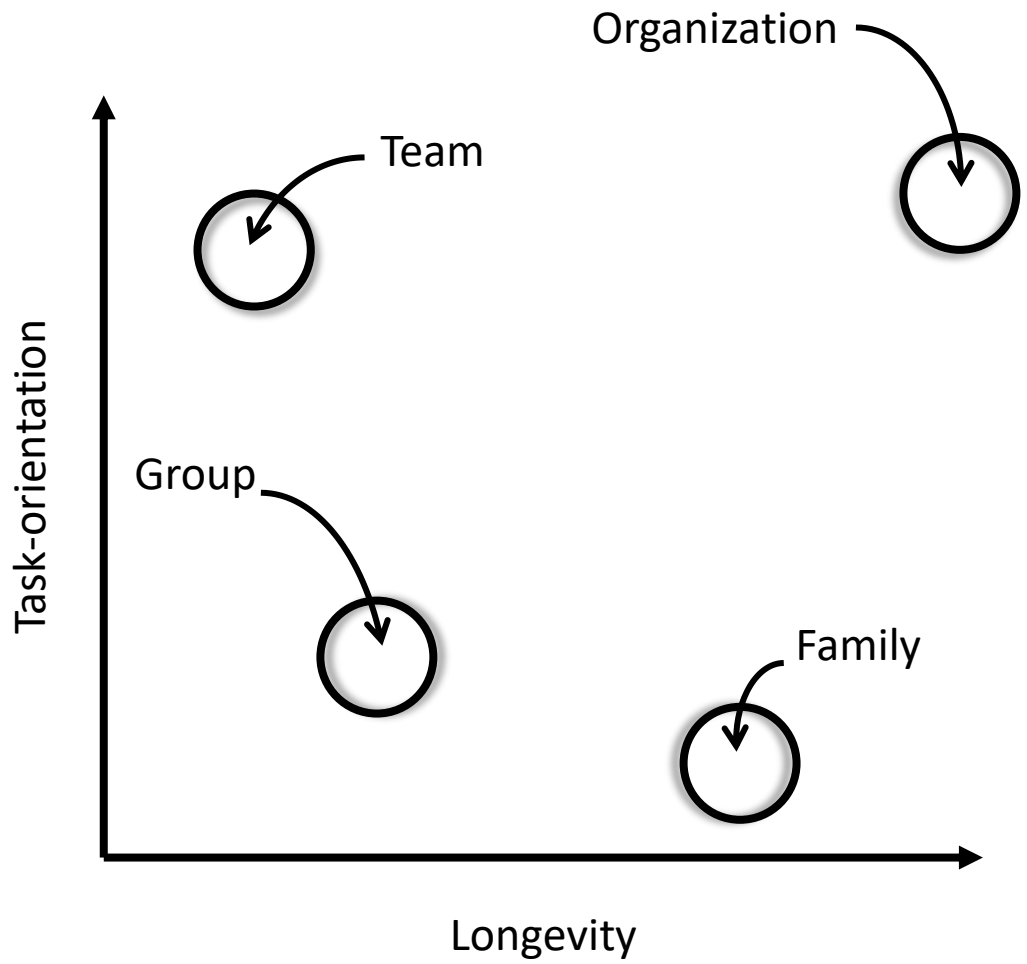
SOC 121D: People Analytics (6/23/2020)

Austin van Loon

What is organizational theory?

- Interdisciplinary (Sociology, Economics, Political Science, History, Legal Theory)
- Attempts to explain the nature, change, success, and death of organizations
- (At least) as old as Sociology
- A very dramatic and fun-to-follow discipline (feuds galore!)

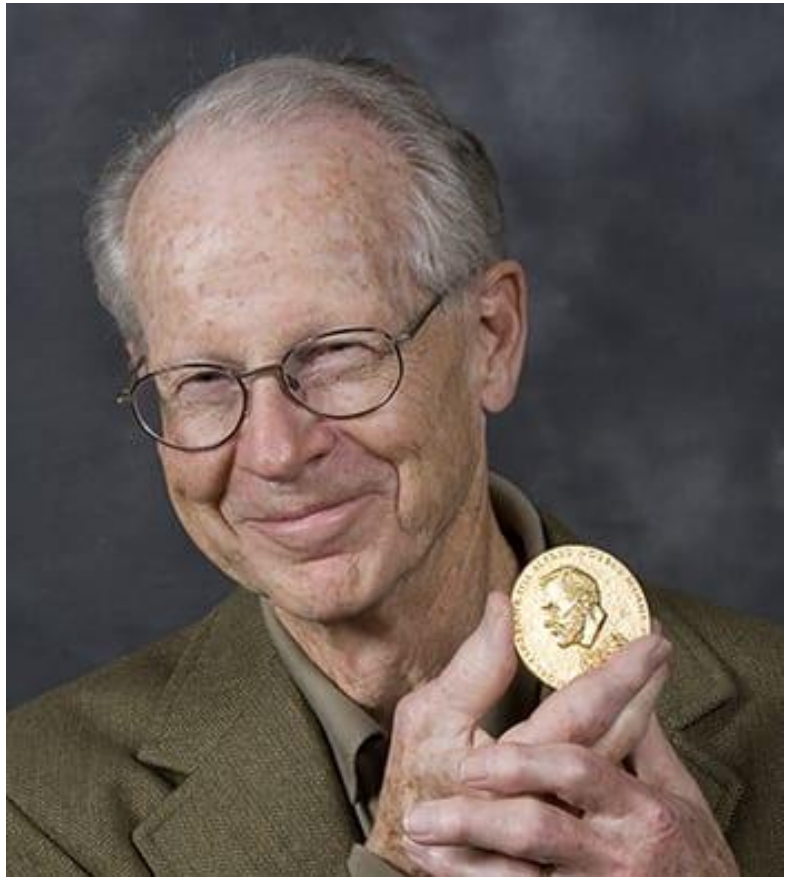
What is an organization?

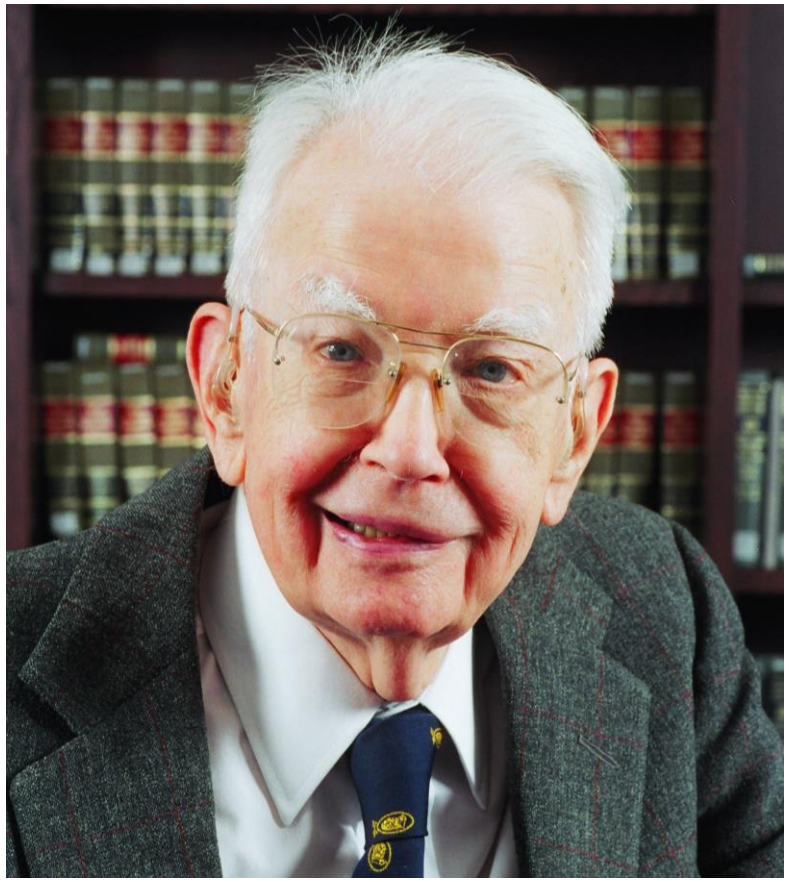


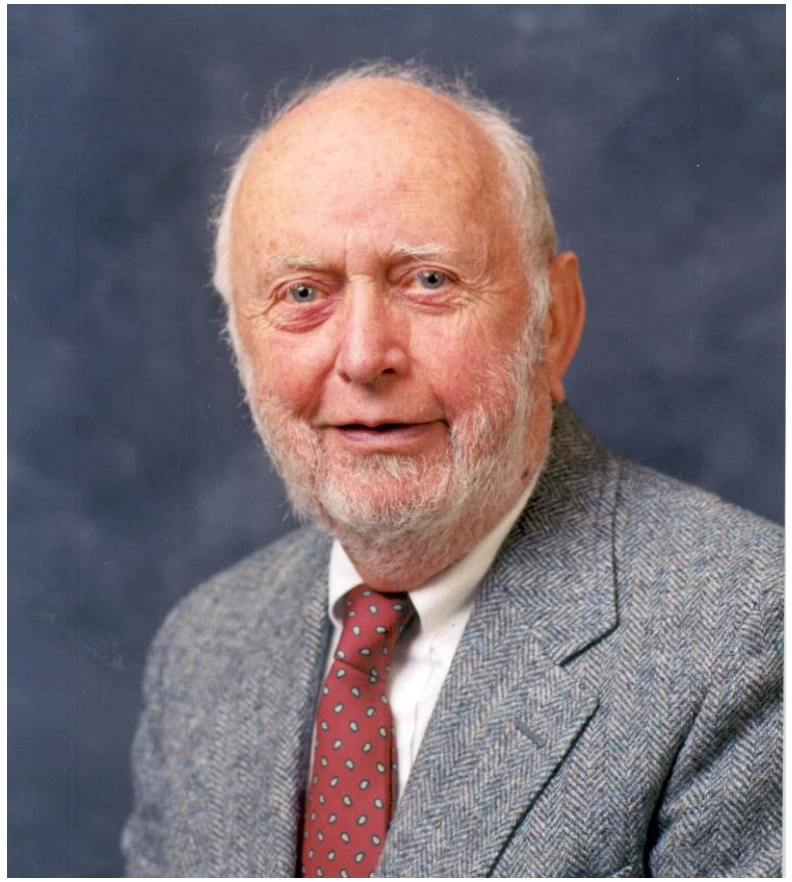
Some important perspectives

- Weber's Theory of Bureaucracy
- Taylor's Scientific Management
- Transaction cost economics (Coase, Williamson, North)
- Institutionalism (Selznick, Dalton)
- Contingency theory (Woodward, Perrow)
- The Carnegie School (Cyert, March, Simon)
- Population Ecology (Hannan, Freeman, Barnett)
- Neoinstitutionalism (Powell, Zucker, Meyer)

Transaction Cost Economics







Two Types of Economic Transactions

Supply Chain

Three important factors

1. Bounded rationality – we try to be rational, but we inevitably fail
2. Opportunism – "self-interest-seeking with guile"
3. Asset specificity – the value of a product depends on the consumer

Bounded Rationality?	Opportunism?	Asset Specificity?	Solution
NO	YES	YES	Planning (M)
YES	**NO**	YES	Promise (M)
YES	YES	**NO**	Competition (M)
YES	YES	YES	Governance (H)

Transaction cost trade-offs

Market transactions

- Ink cost
- Haggling costs
- Enforcement costs

Hierarchy transactions

- Less motivation
- Management costs (overhead)

Supply Chain

Supply Chain

Supply Chain

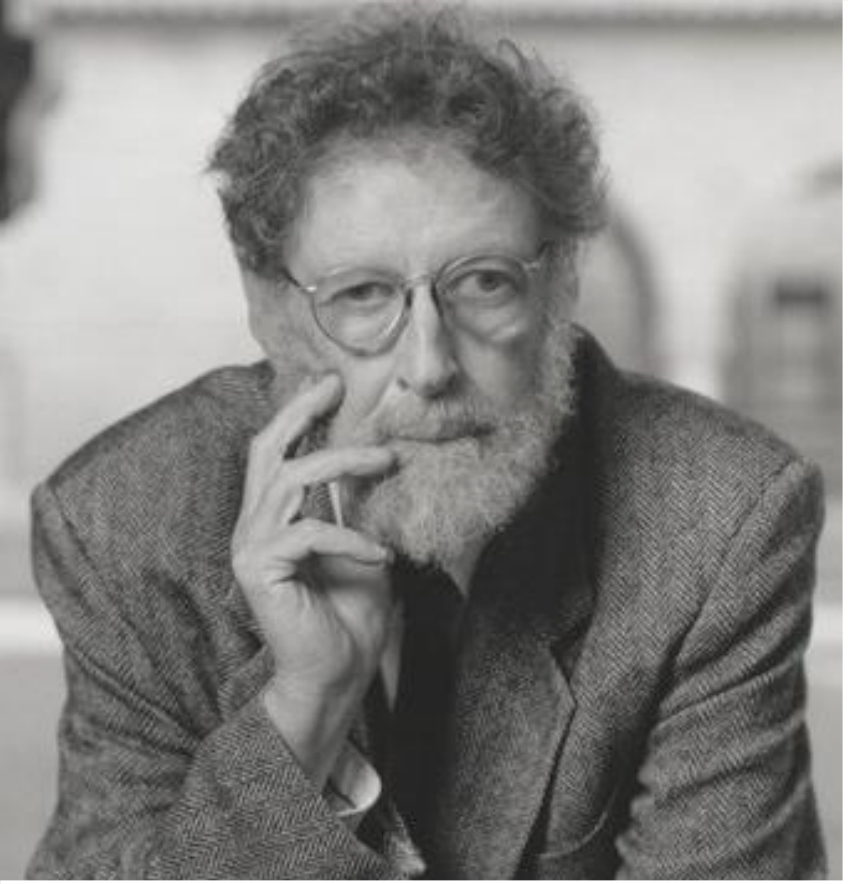
Supply Chain

The transaction costs can change!

- Changes in technology
- Changes in management practices
- Changes in people (norms, culture, attitudes)

A critique from Mark Granovetter

- Offers a perspective in which individuals and their transactions are “embedded” in social networks and relationships
- Individuals in TCE’s market transactions are “under-socialized”
  - People behave morally in markets
  - Contracts are rarely enforced; business folks avoid if possible
- Individuals in TCE’s hierarchy transactions are “over-socialized”
  - Folks in firms still seek status, power, and self-interest
  - “Force and fraud” is best achieved in a team



Neo-institutionalism

A hypothetical story

“When I was eighteen years old, I wanted to help clean up the beaches in my local area. I founded a volunteer-lead 501(c)(3) (i.e., a nonprofit) dedicated to cleaning up beaches in Northern California called CleanBeach. As Founder and CEO of CleanBeach, I recruited a CFO, a CTO, and other volunteer members. In 2022 alone, CleanBeach helped dispose of over 8,000 pounds of garbage that would have otherwise plagued the beautiful beaches of Northern California.”

Another hypothetical story

“When I was eighteen years old, I wanted to help clean up the beaches in my local area. I got some friends and other like-minded individuals together to help me complete this goal. In 2022 alone, we disposed of over 8,000 pounds of garbage that would have otherwise plagued the beautiful beaches of Northern California.”

A Different View on Organizations

- People engaged in coordinated activity
- BUT ALSO, a set of stories (or “myths”) used to describe that behavior
- Peoples’ own personal story becomes intertwined with the organizational story (“I am a software engineer at Google”)
- However, that story has consequences and takes on a life of its own
  - There are rules to the story you tell
  - Certain stories are better received than others
  - You might need to change your behavior to keep the story going
- Occasionally, someone might challenge whether your story is true

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Pros and Cons of Incorporating Institutionalized Org Elements

Pros

- Elements might make the organization more efficient (but hard to know)
- Increases legitimacy of the organization (e.g., accounts of decisions)

Cons

- Creates expectations and/or requirements (e.g., legal)
- Expectations might not be in alignment with efficient work

Pros and Cons of Incorporating Institutionalized Org Elements

Pros

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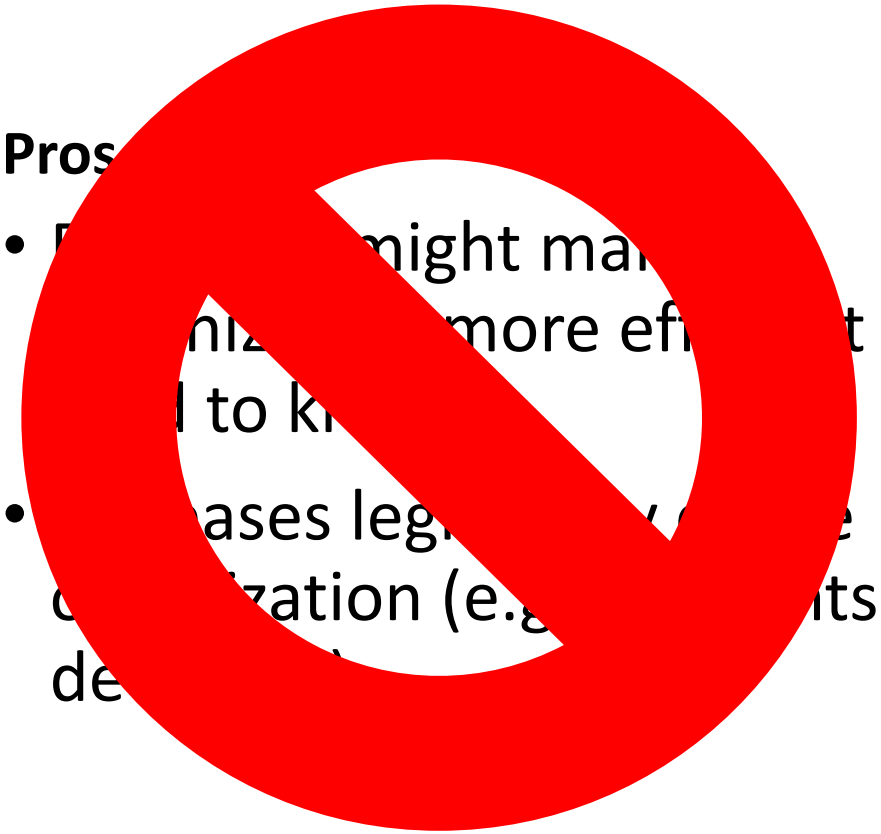

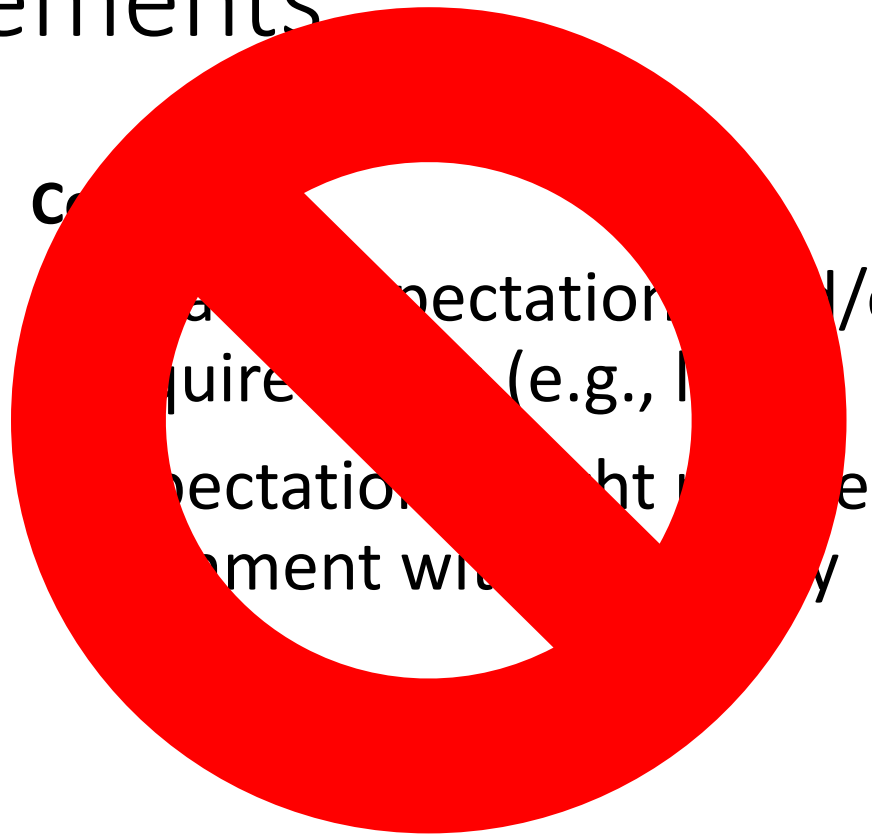

Pros and Cons of Incorporating Institutionalized Org Elements

Pros

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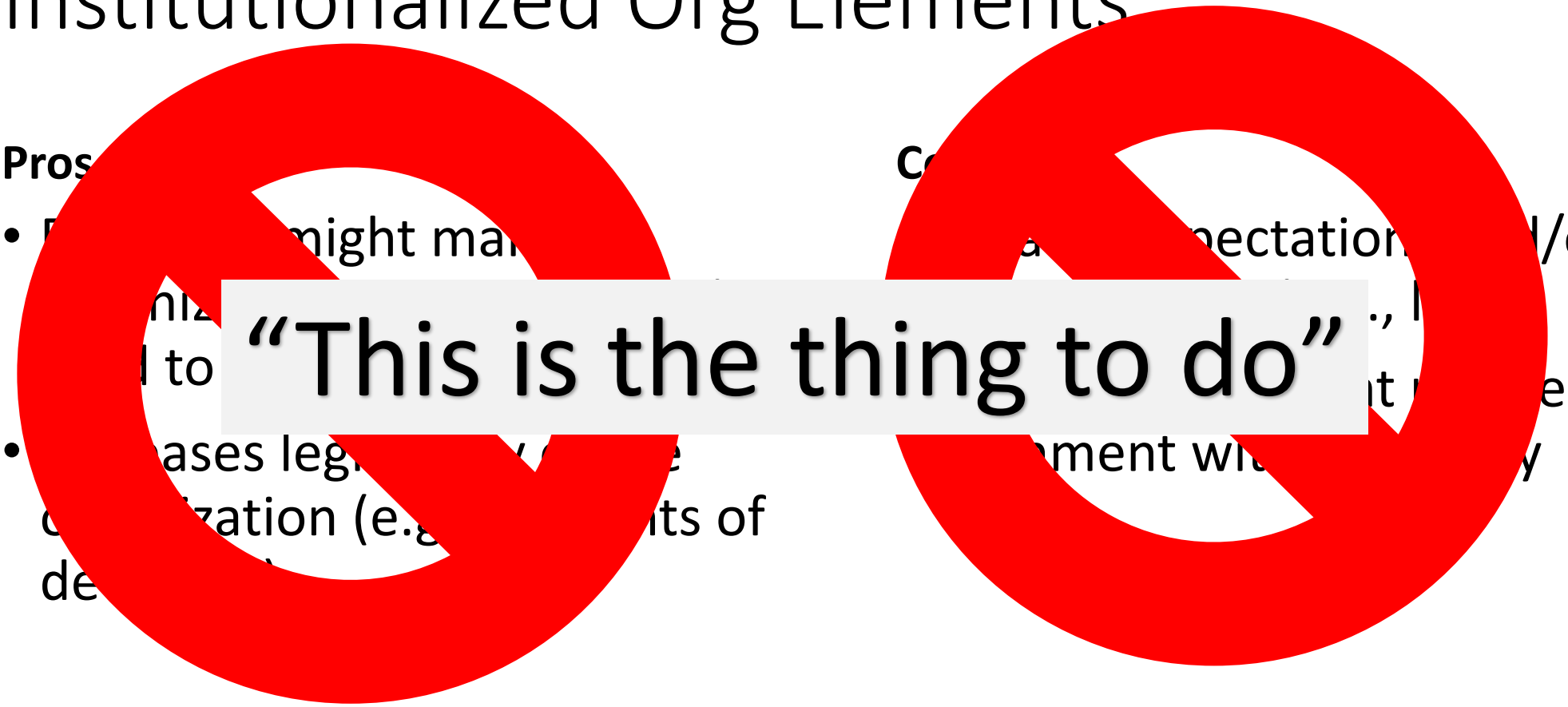
“This is the thing to do”



Decoupling

- Occasionally, the legitimate (abstract) stories of organizational behavior don’t fit well with the (concrete) behavior that organizations need to do to survive
- What’s an organization to do? Have their cake and eat it, too!
- Employ a “logic of confidence” (avoidance, overlooking, and good faith)
- Minimize auditing

Isomorphism

- A field is “those organizations that, in the aggregate, constitute a recognized area of institutional life...”
- Coercive – Force and persuasion
  - Source: interorganizational dependencies
  - Network: who depends on whom?
- Mimetic – Uncertainty begets imitation
  - Source: peer organizations
  - Network: who knows what about whom?
- Normative – Professional norms
  - Source: employees with training and networks
  - Network: which employees went to school and/or know each other?

Some issues

- Proven difficult to operationalize many of the concepts (e.g., legitimacy)
- The micro-foundations are poorly specified/explored
- Difficult to explain change

shorturl.at/stAJK