

2. Order Creation from an Institutional Perspective: Market, Bureaucracy, and Community

"The main function of organization is to create order from disorder."

– Robert Cooper 1986

The main purpose of organization is the creation of order from disorder.³¹ Nevertheless, order and organization are two different things. The perspectives on what order is and how it is created and sustained vary greatly within the scholarly community. Möslin (2000: 140) sees a continuum between *classical approaches*³² and *strategy-oriented approaches*³³. In between, there is, first, the *organizational behavior perspective*, which puts the individual and its relations to others into the primary focus. Second, there is the *organizational economics perspective*, which focuses on markets and firms as alternative institutional forms. Third, there is the *organizational architecture perspective*, which takes a system theoretic stance and theorizes coordination and differentiation as being interdependent.³⁴ The dualism of markets and organizations that the organizational economics perspective sees is very strong and the basis for numerous thoughts in management and organizational theory. However, already since the nineteen eighties organization theory moves away from this dichotomy and rather points towards community as an alternative³⁵. Mostly, community is said to work only embedded within bureaucratic forms of organizing.³⁶ However, the community notion as its own form gains ever more importance with the continuous rise of novel information and communication technologies.³⁷ Bureaucracy, market, and community are, thus, to be seen as the main institutional forms in the scholarly discussion to date.³⁸ They open a spectrum of possibilities, which distributed organizing can be designed from.

31 Cooper 1986

32 See the theories of scientific management (e.g., Taylor 1911), administration (e.g., Fayol 1917), or bureaucracy (e.g., Weber 1921). For a comprehensive overview on organization theory, see e.g. Möslin 2000.

33 Möslin 2000

34 Chapter II.3.2 on complexity will take a closer look when discussing the move from systemic to transactional order.

35 Ouchi 1980; Ciborra 1993; Adler 2001; Lakhani et al. 2012

36 See e.g. Kieser 1994

37 Adler 2001; Möslin 2000; Picot and Maier 1994

38 Adler 2001; Ouchi 1980

In the following, for each institutional form the major theoretical positions will be compiled. Figure 9 provides an overview of the three institutional forms market (2.1.), bureaucracy (2.2.), and community (2.3.). For each institutional form, the order creation mechanism will be discussed: transactional order, geared towards fine-grained interactions; and systemic order, geared towards the overall ability of an institutional form to sustain order. In addition, a specific threat for each organizational form is derived. Finally, this institutional perspective is discussed and alternative directions to understanding order creation are introduced (2.4.).

	Transactional Order	Systemic Order	Threat
Market			
Each agent pursues own goals	Price	Self-regulation	Cannot sustain order
Bureaucracy			
Top-down goals are imposed on agent	Authority	Planning & Control	Cannot adapt rapidly
Community			
Goals are negotiated between agents	Trust	Discourse	Cannot produce efficiently

Figure 9: Attributes of institutional forms³⁹

2.1 Market: Price and the Invisible Hand

The main characteristic of a market is that all players can pursue their own goals. The market logic in its pure form is mainly based on the price mechanism to create transactional order⁴⁰. Systemic order is maintained by the self-regulatory nature of the invisible hand.⁴¹ Agents on these markets pursue short-term contractual relationships. Markets, thus, try to organize a set of agents pursuing their own goals by foremost providing price information for goods or services. The price itself is a quantitative abstraction on the qualitative characteristics of products and services. At best, high price yields high

³⁹ Adapted and extended from Boisot and Cox 1999

⁴⁰ Adler 2001

⁴¹ Smith 1776