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Advancing strategy and organization research in concert: Towards an integrated model?

Rodolphe Durand
HEC-Paris, France

Over the past three decades, two streams of research have grown significantly, both of which aim at understanding the sources and consequences of organizations' superior abilities to meet or exceed expectations. On the one hand, institutional research has developed an ambitious theory of organizational behaviour based on the analysis of the conformity pressures that constrain decision-makers, helping explain various types of decisions leading to legitimacy advantages for organizations (DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Zucker, 1977). Depending on their industry standing (status, centrality, or affiliations), their control over resource suppliers, or their positioning relative to regulative and legal processes, firms adopt practices, structures and rules to increase their likelihood of survival (Deephouse, 1999; Deephouse and Suchman, 2008). They can also modify which logics they adopt in the face of changing environmental conditions, which may in turn confer legitimacy on pure players, entrants or hybrids (Battilana and Dorado, 2010; Thornton et al., 2012; Zietsma and Lawrence, 2010). On the other hand, strategy literature focuses on explaining why and how some firms achieve sustained over-performance, i.e. why and how their returns exceed their shareholders' expectations. Although some attempts at rapprochement between these two perspectives have emerged recently (Ahuja and Yayavaram, 2011; Baum and Dobbin, 2000; Greenwood et al, 2010; Ingram and Silverman, 2002), it seems that more progress and cross-fertilization exist between strategy research and the sociological approach to institutionalism. In this essay, I sketch out the conditions by which this might be possible, and what fruitful areas of investigation would then emerge for each stream. I propose a model of how they intersect that would account for many observable economic and social phenomena, and which I (tentatively) call the IOS (Institution, Organization and Strategy) model.

Time is ripe for denser cross-fertilization: Towards IOS?

The twofold recognition – that organizations are constrained by institutional forces and enact strategically their environment – opens the possibility of defining a model around a limited number of definitions and properties. The institutional approach to organizations and the strategy perspective both share common assumptions: about the locally bounded rationality of agents; they both hold to the premise that organizations are multipart entities that control heterogeneous resources via various lines of authority and command structures; and they both agree that the environments within which organizations operate are not given, but obey both legitimacy and competition rules that are not exclusive, and which can be influenced by the organizations. As a consequence of these common bases, it must be possible that large numbers of scholars within each sub-field (or who already span sub-fields) concur sufficiently to establish the Institution, Organization and Strategy model as a paradigm.

Efforts to reconcile strategy and institutional literature have just started, but are not as yet well balanced: for instance, Henisz and Zelner (2003) or Ahuja and Yayavaram (2011) swing the pendulum far too far over to the economic/strategic side. Their institution-based view of strategy considers markets as 'given' but as suffering some problems, and institutions attempt to patch these up. When these attempts fail, spaces are created in markets where firms can derive institutional rents. While this argument is undoubtedly an interesting attempt at combining perspectives, I suggest it draws too heavily on a view of strategy as rooted on rent-seeking behaviour, and on the 'economic content of what institutions do – the actual functions that they perform or are required to perform for the effective working of markets – and how they do it' (Ahuja and Yayavaram, 2011: 1633), completely ignoring the sociological perspective of institutions, markets and competition.

Despite the potential value of this approach, what I suggest is different: the IOS model would encapsulate the narrowly defined institution-based view of strategy by accounting for the sociological view of institutions. I argue that market, competition, profits and survival are not 'givens', but need to be explained as the more of less desired and/or expected consequences of prior organizational and institutional choices (e.g. Durand, 2006). Our analysis must account for this history. Firms and other organizations do not simply set out to manipulate market institutions and seek institutional rents. They fashion and embody institutions, are bounded and emancipated by institutions, work to maintain and erode institutions, perform institutional functions and convey institutional logics. Firms do not just garner rents emanating from market inappropriate institutional repairs – they can also be ideological vehicles that seek to institutionalize certain ideas of market allocation, fair competition, moral performance and welfare (Djelic and Durand, 2010; Guthrie and Durand, 2008), which may restrain or release their opportunism. So we need a less instrumental and more balanced rapprochement between institutional and strategy literatures: the two sections below give examples of how the IOS model may allow us to benefit from the insights of both streams of thinking.

Institutional theory: Strategy as a contributor

Past research on institutionalism has produced an impressive series of important works. For instance, we now understand better why organizations and firms decide to adopt specific practices (e.g. Davis and Greve, 1997; Lounsbury, 2001), or why and how firms group themselves (or are grouped by third parties) into coherent categories to establish industries and then differentiate themselves from each other within those sectors (Kennedy, 2008; Navis and Glynn, 2010). Institutions can be understood as the collective and depersonalized incarnations of both expectations and control structures which constrain organizations' behaviour and endow individuals with identity markers and logics to act (Dunn and Jones, 2010; Thornton et al., 2012). Institutional studies explain the emergence and decay of organizations' legitimacy, forms and practices within and across professional and economic fields. Institutional change follows from differences in how organizations are positioned (periphery vs core; bottom vs top of social ladders, etc) and how institutional logics diffuse across field members (based on similarity of types or of logics, conflict between logic holders and modes of resolution).

However, it seems that recent research streams suffer from two ailments that strategy research can help cure. First, current institutional research has departed from its original fundamental insights, which questioned the taken-for-grantedness of markets and of economic efficacy as driving organizations' success. Seminal works in neo-institutionalism have defined markets as public spaces or fields where roles and offices have been elaborated, externalized to collective bodies and transmitted to individuals through socialization (Zucker, 1977). In this perspective, performance is a ready-made account used as justification principle by decision-makers and organizations, and legitimacy a superior principle that pushes organization and firms to structure themselves independently of the technical adequacy and efficacy of their chosen solutions. Interorganizational comparisons serve as a basis for imitation, making organization structures look alike for effectiveness and ceremonial reasons (Zucker, 1977). These earlier institutionalists argued that strategies stem from rationalization and saw efficacy and efficiency as costly myths, i.e. a set of highly rationalized elements taken for granted that impose constraints on organizations' structure, use of resources and communication (Meyer and Rowan, 1977). Yet, current institutional research tends to forget that ceremonials and decoupling involve firms in costly allocation of resources, and tend to focus on rhetoric or discourses as modes of communication or conviction (Lawrence, 1999; Suddaby and Greenwood, 2005). They leave aside the direct and opportunity costs of acquisition, maintenance and deployment of resources, i.e. the bulk of material and tangible components that make the organization. Strategy research can be useful in terms of analysing why some services or resource uses are chosen over others (Penrose, 1959) in complement with certain discourses. So I advocate returning to sociological institutionalism's original insights and better integrating the strategic models of resource acquisition, valuation and use into the institutional research. A promising route could be to refine the approaches of institutional work and institutional logics (Lawrence and Suddaby, 2006; Thornton et al., 2012) by connecting them with strategic reasoning and decision-making rooted in organizational resources and capacities. In this perspective, institutional entrepreneurship and institutional rhetorics and discourses are moderators of the core relationships between institutionally informed strategic components (resources, procedures, decision-making, governance, etc.) and outcomes (practice adoption, engagements, positioning, ranks and grades, etc.). A first key question for the IOS model is therefore: *Why, how and when do institutional and strategy factors drive an organization in selecting the use of its resources? And what are the consequences of these outcomes for those institutional orders and logics that prevail within the field or industry?*

Second, identifying the quest for legitimacy and the diffusion of practices as the main drivers of organizational behaviour risks ignoring the question of the effectiveness of organizational actions. Indeed, conformity – as bolstering legitimacy – has been a central focus of institutional research (DiMaggio and Powell, 1983), and has generally been approached through metrics of similarity, with organizations following various sources of isomorphism to secure legitimacy by accomplishing identical actions to those of their peers. However, we argue the need to reopen the debate on institutional conformity by recognizing that there are variations in how organizations conform (e.g. Philippe and Durand, 2011) and in their strategic motivations for so doing (Durand and Jourdan, 2012). More precisely, we suggest studies do not compare and contrast enough between economic rationality and institutionalized rationality (Oliver, 1997). Institutional theory research too often lacks control variables that would capture agency interest and help distinguish between the institutional and economic determinants of firm conformity and behaviour (for an exception, see Kraatz and Zajac, 1996), as well as tending to focus on organizations or sectors for which competition is not purely economic – like the health, education and cultural sectors (theatre, opera houses, movie industry, cuisine, etc.) – which reinforces the tendency to ruling out economic explanations. Strategy research can offer insights into the reasons why organizations would seek to bring conformity and innovation together by both preserving a resource base that respects the established order, but also disrupting practices and traditions in their search for advantage. A second area of exploration for the IOS model concerns therefore the *systematic inclusion of both economic and institutional determinants of organizational conformity/deviance, and of their consequences*.

Strategy: Institutional theory as a contributor

While strategy research, too, has developed considerably over the last three decades, it still suffers from two shortcomings for which an institutional perspective might help compensate. First, strategy research started by studying the position of firms in market structures and has sought to determine and unpick the determinants of sustained above-average returns. A distinct view considering that intra-firm heterogeneity is a source of performance differentials and a motive for strategic action has complemented this first line of enquiry. Internationalization, mergers and acquisitions, alliances and divestures can be analysed from these two perspectives, position- and resource-based, and can be compared to other economic explanations based on market efficiency, transaction economics or agency costs. Strategy research today encompasses virtually all possible decisions undertaken by firms (or groups of firms) and taps into and borrows from many different explanatory schemes, including economic perspectives, decision science, sociology of the market and psychology.

Among the assumptions that bind strategy research, some are related to the very nature of performance, which is usually assessed according to finance or accounting perspectives. However, performance in itself can be seen as an institution, and as consisting of multiple dimensions, as research on the stakeholder view or recent studies on reputation or corporate social responsibility have shown. By maintaining a view of it as strictly defined by financial indicators, strategy research misses the opportunity to bring new mechanisms and alternative indicators to the study of performance. A corollary of the idea that performance is an institution in itself is that mechanisms that select out organizations and firms are not immutable, but can vary both with time and across regions (Djelic and Durand, 2010; Durand, 2006). For instance, the very definition of competition within the same industry may change over time and place (Baum and Dobbin, 2000; Dobbin, 1994) – external events can alter the theories of competitiveness formed and used by decision-makers, and contribute to reshape both the definition of performance indicators and how audiences interpret firms' strategies. Strategy studies taken in isolation do not address enough these important contemporary institutional phenomena, such as redefinition of the norms of competition, transnationalization of global issues or the emergence of new evaluative logics promoted by the weight of critical audiences (e.g. WTO or ecological summits, new accounting and reporting standards, more stringent rules for banks or insurance companies, greater mediation in markets). In such unstable contexts, firms must be understood not only as suppliers of solutions, but also as vehicles that embody the ideological visions of economic, social and political spheres (Meyer, 2010). Rationality of different kinds – not related to calculative capacities but to reasons to act (Oliver, 1997) – can explain renewed engagement, stubbornness, entrenchment in apparently under-optimal actions or the institutionalization of contentious practices (Briscoe and Safford, 2008). I plead therefore for a broadening of strategy within a more complete IOS model, one enriched by answers to the following questions: *What do performance and its measures mean really? How do firms strategically create markets and institutionalize metrics* *to measure their performance? Is a firm's scope of activities also determined by institutionalized criteria for performance? To what extent do ideological notions explain firms' actions and performance, both individually and collectively, both nationally and internationally?*

Second, as a discipline, strategy has long had difficulties dealing with macro-dynamics, and has assumed competition conditions to be rather stable and homogeneous. More precisely, strategy does not offer a clear theory of evolution of firms and competition beyond the idea that markets and capabilities are 'dynamic' – which tends merely to indicate that firms innovate and compete against each other, making equilibrium unreachable. The dynamic capability perspective is unconvincing in how it endogenizes evolutionary forces, presenting organizational capabilities with the magical power of adapting reactively or preemptively to environmental conditions (Durand, 2006; Vergne and Durand, 2011). The institutional perspective can give strategy research greater ability to account for the processes that make markets vary over time, and their consequences for firms. Institutional creation, combination, maintenance, work, conflict, resistance and decay are examples of processes that explain why and how certain paths endure at the market or field level (Lawrence and Suddaby, 2006; Marquis and Lounsbury, 2007). Scientification, marketization, ordering, celebration and democratization are transnational institutional forces that can influence how strategic worlds evolve (Djelic and Sahlin-Andersson, 2006). Thus, the key questions an IOS model needs to include are: *Why and how do firms position themselves and participate in institutional processes, and how do their choices influence the conditions for their competitiveness?* And, as well as explaining the sources of organizations' advantages, an IOS model could investigate how firms follow up on such advantages, beyond distributing or reinvesting superior rents: *How do firms make use of their advantages? Which institutional processes do they participate in, to what extent and why?*

Conclusion

Organizations need to position themselves not just in their competitive landscape or resource markets, but also relative to more or less flexible institutional logics and norms, which may depend on time and place, and which are the preconditions for strategy. As scholars, we cannot be content with the recent focus on micro-determinants of institutionalization and with the restriction of institutional analysis to situations that presuppose that markets are efficient – we must account for a broader picture that encompasses diverse determinations of legitimacy and of competitiveness. Our current knowledge is limited because these variations are considered independently of each other, and are neither included concurrently in our models nor tested empirically. Commonalities between the streams of institutional and strategy research fuel the hope of a greater convergence and integration under the form of a common paradigm – which may take the form of an Institution, Organization and Strategy model, or may find resolution in some other paradigm.

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Author biography

Rodolphe Durand is the GDF-Suez Professor of Strategy at HEC-Paris. His primary research interests concern the social and institutional sources of competitive advantage and organizational performance. His works have been published in journals including *American Journal of Sociology, Academy of Management Review* and *Strategic Management Journal.* Rodolphe has received several national and international awards including the R. Scott Award (American Sociological Association, 2005), the HEC Foundation Best Paper of the Year (2006 and 2009) and the European Academy of Management/Imagination Lab Award for Innovative Scholarship (2010). He initiated the Society and Organizations Research Centre at HEC (www.societyandorganizations.org). Rodolphe is also a prolific author of books, including *Organizational Evolution and Strategic Management* (Sage, 2006) and *The Pirate Organization* (Harvard Business Review Press, 2012, co-authored with J. P. Vergne). *Address:* HEC Paris, Society and Organizations Research Centre, 1 rue de la Liberation, 78351 Jouy-en-Josas, France. [email: durand@hec.fr]