INSTITUTIONAL THEORY AND STRATEGIC MANAGEMENT

by

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I Basic Principles

The arguments put forward in most books on strategic management are typically based on two core assumptions. The first is that the world of the manager – the external and internal environment of organisations – is an objective reality capable of examination and analysis. The second, and related assumption, is that managers themselves behave in an essentially rational analytic way to make sense of that world. Institutional Theory is based on an alternative set of assumptions that centre on the concept of *social construction* – i.e. that the external and internal world of organisations is that which is subjectively understood or perceived by people in those organisations. That is, managers – beyond being influenced by social norms and expectations – perceive the world in a particular way and then behave accordingly. In consequence, they help create a world in line with their perceptions.

The basic principles of Institutional Theory are now summarised, and the remainder of the chapter shows how these relate to key issues in strategic management.

1. Organisations are not autonomous agents seeking to maximise economic opportunities but are set within a social web of norms and expectations that constrain and shape managerial choice. These social rules – or logics – provide overarching frameworks for interpreting social situations and prescribe appropriate collective purposes and behaviours. A manager's choice of strategies is, thus, not an unfettered act but a selection constrained by social prescriptions.

2. Social prescriptions are transmitted to organisations through such agencies as the state, professional institutes, consultants, analysts, the media, and other carriers of ideas and beliefs about appropriate managerial conduct.

3. By conforming to social prescriptions, organisations secure approval, support and public endorsement, thus increasing their "legitimacy".

4. Social prescriptions may become "taken-for-granted", i.e. institutionalised, and thus very difficult to change or resist.

5. Conformity to social prescriptions rather than attendance to the "task environment" (e.g. markets) may adversely affect efficiency and other economic measures of performance, but may improve long term chances of survival. When an organization is confronted with multiple, potentially conflicting, logics that prescribe different courses of action, it faces institutional complexity – a situation that can generate tension, conflict and organizational instability.

6. Because similar organisations experience similar social expectations and pressures of conformity, they tend to adopt similar strategies and managerial arrangements. This is the process of "isomorphism".

II The Case Study

2.1 The Situation

Quill, Dipstick and Gold (QDG) is one of the larger accountancy firms in the world after the 'Big 4' (PricewaterhouseCoopers: KPMG: Ernst & Young: Deloitte Touche Tomatsu). Established in the last century, its origins were in auditing, but it now offers many professional services including tax and financial advice, corporate recovery, management consultancy, and information systems.

Edward Gray, the senior partner of the UK practice of QDG is having dinner with a number of his fellow partners in one of the private dining rooms of the firm's central London offices. Last week Edward attended a meeting of the QDG International Board where the topic was the increasing global development of accountancy firms. He has called this meeting to seek the views of three influential senior partners in the UK as to how he should respond to questions posed at last week's meeting.

Around the table are two long established partners from the audit practice, Paul Madeley and Alan Clarke. Both joined the firm from university, one from Oxford and the other from Cambridge, both became partners in their early 30's, and each has over 20 years experience as partners. They both have clients whose billings with QDG run into many millions of pounds. They are powerful men in the firm, not least because of the client business they control, but also because of their reputation in the wider accountancy profession, where they are both seen as leading authorities. Each has also represented the profession on government committees of inquiry. Also at the meeting is Michael Jones who is relatively new to QDG and, unlike the others, is not an accountant. He heads up the UK consultancy arm of QDG, having been recruited from a senior position in a specialist strategy consultancy firm.

Edward Gray explained the background to the meeting. At the International Board the preceding week the international chairman of QDG had argued strongly that the firm was at risk of being left behind in the global development of accountancy firms. Up until the last decade or so, most accountancy firms had been content to organise themselves along national lines. There were the big national practices such as the USA, the UK, Germany, France and so on; and there were the smaller countries. The larger practices, in particular, had a great deal of local autonomy and had developed their own services to a considerable extent according to local need. International co-operation did take place but it was largely down to the personal contacts of partners across the world. The Big 4 firms, in contrast, were much more integrated and claimed the ability to provide 'seamless service' globally.

In the last few years a number of significant changes had taken place, one of the biggest being the increasing number of large, truly international clients demanding transnational business services.

2.2 The Conversation

Edward Gray summarised the situation:

"The view being put forward last week was that unless we recognise the need to move towards a more global form of business, QDG could lose out on potential business in a big way and lose its position as one of the leading accountancy firms in the world. The fact is that our competitors are moving this way, so we have to. The implication is that we can't carry on doing things the way we have in the past. Last week's meeting came to this view pretty much unanimously. The discussion was then about how QDG might do this. That is the issue I would like us to discuss this evening."

Paul Madeley was sympathetic. He also pointed out that many of their clients were not only becoming transnational but were also looking at expanding their businesses into fast growing but previously underdeveloped economies such as China and India.

"There is no doubt at all of the huge need for the sort of services we can offer. There are increasing signs that governments there will insist on standards of practice that their own infrastructure cannot meet. But they have real difficulties: for example, in China, market, regulatory and legal infrastructures are still under development – making the need for the sort of accounting and advisory services we can provide high. We should also remember that our own clients will expect a consistent level of service from us as they move into these countries. It is, however, a major challenge. There are major problems, not least, the number of people that will be required which is enormous. Where will we find experienced partners and senior personnel prepared to work in these countries?" Moreover, there will be real challenges aligning the work of some of our colleagues in small countries. And if we have to acquire local firms, how will we ensure the same degree of accounting quality and standards?

Alan Clarke also raised a note of caution:

"I agree. Our professional standards simply have to be met; we have to be very careful that things are done properly. I have heard the suggestion that we 'crash train' people. This just will not do. It is not

possible to churn out accountants overnight; and standards would most certainly be compromised if we did try to do so. Presumably none of us would be happy to see the firm driven by a market opportunity at the expense of our standards. There is also another issue we should not forget. Our business is based on personal relationships and trust; this must not be compromised in the name of 'global integration'."

This was an argument that Michael Jones had heard before. He recognised that QDG's reputation in the field of accountancy and financial advice was of a very high order and should not be jeopardised. He was also persuaded that personal relationships with clients often at a very senior level were indeed important to QDG. However he suggested that the problem they faced was more challenging than had so far been expressed:

"You must forgive me if I do not have the same experience as some of you around this table. I approach this as something of an outsider. But it does seem to me that, whilst the imperative for global development is undeniable, there is a further challenge. All our competitors will be driving in the same direction. They will all be going global; they will all be pitching for business with the same sorts of potential clients; they will all be offering the same sort of services and promising the same high standard of service. They will all build their business by trying to cultivate the same sort of personal relationships at the same sort of level in these businesses and with governments as they have in the West. They will be exporting Western accountancy, building their firms around audit, accountancy and information services. Where is the difference? I suggest that to achieve any sort of advantage over competition we need to start thinking how we might do things differently from others. That suggests to me that we need to think beyond the obvious. I can see the way a typical discussion might go. We need to merge – another of the larger firms below the Big 4 perhaps – and then we need to pool resources to provide the same sort of services as the others will be doing. But that is the way everyone will be thinking. Can I suggest we might think about a different strategy? For example we might want to think about the constraints of a partnership. Why not move to a two-tier partnership, where smaller countries are non-equity partners. That would allow us to make decisions more quickly, allow us to enforce standards, and enable us to give formal authority to senior partners looking after our major international clients.

Alan Clark had expected this line of argument from Michael Jones:

"I really do think we have to be careful about our responses to all this. We are not talking here about an opportunity to make money. A number of colleagues from other firms – and from the legal profession – met with government representatives a month or so ago. They, like us, see the main concern as the development of an infrastructure to handle fundamental changes to the economies of previously 'closed' countries. This is about the development of proper systems in such countries. It is also something we need to co-operate with others on, not least to make sure that there are compatible standards in accounting. I might also add it is important to ensure such standards from the point of view of our own clients. They will be operating there and will expect the same quality of service they receive elsewhere in the world. I do not see how any of this can be helped by changing the partnership structure. It is an arrangement that has served us well for almost a hundred years. In any case, even if we wished to, it is no easy matter: the partners are owners of the firm – why would they wish to change that? Furthermore, partners have invested huge amounts of intellectual capital and time in becoming a partner, 12 or 15 years for most of them. Can I ask, Edward, what was being proposed last week?"

Edward Gray explained that the feeling the previous week was that the international partnership was overly dependent on national firms at the expense of international co-ordination; overly concerned with discipline-based organisation around audit, taxation and so on at the expense of co-ordination across discipline boundaries; and over reliant on the personal relationships and contacts between partners, often based on years of working together, as distinct from finding ways of working with individuals and teams of the highest calibre from anywhere in the world. He went on:

"In short, the goal was to develop a more internationally co-ordinated firm, with less emphasis on national boundaries, more inter-disciplinarity, an effective client management system, and a recognition that we need to be rather less reliant on who knows whom and rather more able to draw on the very best of our people when we need them. To do all that, we need to have a more concentrated authority structure. The view was that some partners need to have more authority than others; that we cannot remain with this 'one-partner one-vote' system."

Michael Jones: "You seem to be saying Edward, that what is needed is a more 'managed' firm. By client management system I assume you mean we have to market ourselves effectively. I agree with that and, as you know, I have long argued that it makes sense to do so across boundaries.

"It seems to me," argued Paul Madeley, "That there is a risk here of jumping to an answer before we really discuss the problem. Structures can be fads. We may not have the right sort of structure, but jumping from what we have to a two-tier partnership may equally not be right. For example, I could equally argue that we have an unparalleled network of personal relationships throughout the world, which we have been building and nurturing for decades. This is the basis of the trust we have with our clients. What we have to do is strengthen this and we might well be able to use modern technology and modern communications."

"Can I also repeat my previous comments," said Alan Clarke. "The problem with these sorts of ideas is that, almost by definition, they weaken the nature of the partnership. What then is the role of the partner? If we are not very careful we end up with the situation where professional managers are managing the very people who own the firm. There is a real risk that we end up with diminished standards."

Edward Gray acknowledged there were difficulties. "We all recognise the problems of change, not least in a firm like ours. However there comes a time when the forces for change are so powerful that we may have to accept that incremental change is just not possible any longer; or at least, if it is, it may lead to our demise. This was the major concern raised in the discussion last week."

At this point the meeting was interrupted. Edward Gray's personal assistant arrived carrying a telephone. He suggested that, bearing in mind the theme of the meeting, his boss might wish to take the call. Edward Gray listened with an expression rather more of resignation than surprise. It was a call from his counterpart in another country. Two major developments had happened in the last week. First, QDP had just lost one of its major clients because the client was unhappy with the weak service provided by QDP in the Far East. Second, shareholders of a company that QDP had audited were suing the firm for allegedly failing to uncover financial improprieties.

2.3 Issues

In considering the issues arising from the case, it is worth asking to what extent the partners, in their discussion, seem to be conforming to "orthodox" strategy principles such as the search for competitive advantage, the identification of profitable market opportunities, and the identification of and building on distictive competencies. Or to what extent are the following issues, considered in section 4 (Links to Strategy) of this chapter, better explained by an understanding of institutional theory?

- What is the definition of success for an accountancy firm and what is the appropriate course of action? Is it adhering to the *market logic*, and emphasizing financial performance and market share? Or is it more to do with conforming to the *logic of the accountancy profession*, and focusing on their "standing" in their professional community? Or is it both?

- Do partnerships have particular competencies? How similar are these to those in other firms?

- Is the idea of competitive advantage and competitive strategy appropriate to an accountancy firm?

- Why is entry to countries such as China so important to QDG? Is this because of external pressures, because of their own reputation and standing, because clients expect it, or because other firms are doing it?

- How might QDG reconcile the potential conflict between maintaining standards and moving quickly? If QDG does move ahead with a more global form of business, what type of organizational structure would be most appropriate?

- What are the problems of strategic change that might exist in a firm like QDG?

III Key Contributions

3.1 Origins of Institutional Theory

Strategic management theory has been dominated by perspectives in which organisational strategies and structures are deemed effective if deliberately aligned to the requirements and challenges of the *task* environment (i.e. the sources of inputs – supplies, labour and so on – and markets). The role of top management in these perspectives is conceptualised as understanding and ensuring that alignment. Institutional Theory, in contrast, provides a very different perspective. The starting point for contemporary institutional research was the 1977 publication of Meyer and Rowan's *Institutionalised organizations: Formal structure as myth and ceremony*. This paper had a significant impact upon the world of academia, but little apparent impact upon the world of practice. Meyer and Rowan's work, however, ran counter to this view of managers as essentially seizing market opportunities and outwitting potential competitive threats.

Meyer and Rowan argued two things. First, organizations are confronted with pressures emanating from arenas other than the task environment. Specifically, organizations use strategies, structures and practices that are socially *expected* of them. For example, accounting firms organise themselves as professional partnerships and are active in socially anticipated ways: they support university education, comment studiously and seriously upon government tax policies, and project accounting as a rigorous science with strong ethical underpinnings. Using such structures and practices elicits social approval (i.e. confers *legitimacy* upon the organisation) and increases the likelihood that external constituents will assist the organisation (e.g. by conferring grants and resources, favourably appraising them publicly, and so on). Meyer and Rowan defined these pressures of social expectation as arising from the "institutional environment". In the case of accounting, the institutional environment would incorporate professional institutions, agencies of the state, important interest groups and the media.

In one sense, Meyer and Rowan could be seen as merely drawing attention to a set of pressures through which managers have to navigate. Yet, Meyer and Rowan go further and suggest that these institutional pressures often come to be taken-for-granted, i.e. managers do not 'choose' whether to conform, they simply 'do' – because alternatives are not recognised. Hence, accounting firms are organised as partnerships, perform certain services (large firms always provide assurance services), support certain community activities, and behave in accordance with prescriptions of how 'professionals' behave. They do so because that is how accounting firms are expected to behave. In the same way, it would be almost unthinkable for a business school <u>not</u> to offer an MBA degree and <u>not</u> to teach accounting, strategy and marketing.

Social expectations may, in some cases, run counter to the pursuit of efficiency. That is, an organisation might be *less* efficient as a consequence of meeting institutional expectations. Giving financial support to universities or "worthwhile" public causes, or simply spending time serving on community or government committees, increases costs and potentially reduces efficiency. Meyer and Rowan's key point is that all organizations are embedded within an institutional, as well as a task, environment and that the model of managers as autonomous actors is simply not validated by empirical observation. On the contrary, managers are constrained by socially derived norms and expectations that contain assumptions about their organisational world and of appropriate conduct.

Some industries are more tightly constrained by social expectations of appropriate organizational conduct. For example, in many societies physicians are expected not to pursue blindly efficiency and profit: there is an expectation of patient care. Similarly, law and accounting firms are expected to temper commercial pursuits with consideration for the public good. In other industries, such as restaurants or the transport industry, economic factors appear paramount. Nevertheless, institutionalists point out that: (a) all organizations exist within a context of institutional rules – there is no such thing as a 'real objective market': all markets are socially constructed (see below); (b) all organizations are set within a context of social expectations, which constrain 'acceptable' actions; and (c) all managers are socialized into seeing the world in certain ways, thus constraining their understanding of opportunities.

Meyer and Rowan's second point is that the possible contradiction between institutionalised expectations and organisational efficiency sometimes leads organizations to engage in the 'decoupling' of formal structures from actual work practices. That is, organizations adopt structures and practices that are aligned with institutional prescriptions but which are deliberately distanced from how work is actually performed. Conformity is thus "ceremonial" rather than substantive. For example, accounting

work is portrayed as a rigorous science, concealing the essential subjectivity that actually occurs; senior executives may debate the strategy of their organisation energetically in meetings without translating such rhetoric into action; and fads of management will be subscribed to as they come and go.

There is another important difference between Meyer and Rowan's focus and most other perspectives on strategic management. Strategy writers emphasize that organizations need to search for competitive advantage through the building on and exploiting of *unique* competencies. Meyer and Rowan, on the other hand, are intrigued by the *similarity* of organisational practices across organizations. Their focus is upon how social pressures that occur at the level of an industry, (or organisational field,[1] as the institutionalists prefer) apply equally, or roughly so, to all organizations within that industry/field and thus "cause" organizations to converge upon similar strategies and structures. Instead of the rational-actor model, in which the manager dispassionately analyses the external world and makes competitive choices, Meyer and Rowan's world is comprised of actors who, wittingly or otherwise, acquiesce collectively to the expectations of the institutional setting. This homogenisation of organisational practices is known as *institutional isomorphism*, the process by which organizations facing similar pressures come to resemble one another in the pursuit of social legitimacy.

Meyer and Rowan's thesis draws heavily upon the social constructionist account of reality (Berger and Luckman, 1967; Zucker, 1977: 1987). Collective beliefs are seen as emerging from processes of repeated interactions between organizations. Organizations develop categorisations (or typifications) of their exchanges, which achieve the status of objectification and thus constitute social reality. Organizations behave in accordance with this socially constructed reality because to do so reduces ambiguity and uncertainty. Reciprocally shared understandings of appropriate practice permit ordered exchanges. Over time, however, these shared understandings, or collective beliefs, become reinforced by regulatory processes involving state agencies and professional bodies, which normatively and/or coercively press conformity upon constituent communities. Regulatory processes both disseminate and reproduce the coded prescriptions of social reality. Deviations from such prescriptions cause discomfort and trigger attempts to justify (i.e. legitimise) specific departures from the social norm. As Zuckerman (1999) points out, organizational actions/activities that deviate too far from social expectations or the boundaries of what constitute 'acceptable' behaviour, lead to penalties and the loss of external support – which can threaten organizational survival over the longer term.

The notion that communities of organizations develop collective beliefs concerning both the dynamics of industry (or field) circumstances and the appropriate strategic responses for competing successfully within them, is not unique to institutional thinking. Huff (1982) and Spender (1989) were early reporters of these phenomena; and Porac et al (1989) and Abrahamson and Fombrun (1994) have discussed how organisational actors in the same industry develop similar understandings of the dynamics of their competitive circumstances and evolve shared views of basic strategies ("recipes" in Spender's terms) for coping.

3.2 Elaborations

Meyer and Rowan's work sparked considerable theoretical and empirical activity. Two works in particular were to exercise considerable influence: Tolbert and Zucker (1983) and DiMaggio and Powell (1983).

Tolbert and Zucker

Tolbert and Zucker examined the spread of personnel reforms in local government in the United States from 1880 to 1935. Their work uncovered possible stages in the *process* of institutionalisation not only in the public sector, but in the market sector (a process subsequently elaborated in Tolbert and Zucker, 1996). According to Tolbert and Zucker, there is a pre-institutionalisation stage characterised by experimentation as organizations seek to align themselves to their task environment in such a way as to gain a competitive advantage. As the success of particular experiments (e.g. new strategies, new products, new technologies or new structures) becomes known, other organizations copy them. The motivation for doing so is to become more competitive. To this point, Tolbert and

[1] Institutionalists use the term "field" because it is broader than "industry". Industry usually covers a set or population of organizations producing similar products or services (e.g. accounting firms, or car manufacturers). The "field", however, would look not just at the producers, but at key suppliers, customers and, critically, at 'intermediaries' such as analysts and regulatory agencies (e.g. associations and governments).

Zucker are consistent with strategic choice theory. But, as more and more organizations adopt the same practices, mimicry occurs not because the new practices are calculated to give economic advantage, but because the practice has attained the status of being the 'appropriate' or 'right' way to do something. Adoption has become not the outcome of calculated rational intent, but the product of social beliefs and expectations. Importantly, organizations adopting the new practice in this semi-institutionalised stage are *knowingly* adopting the innovation. Other studies have found similar mimetic effects. For example, Westphal, Gulati and Shortell (1997) tracked the adoption of TQM practices across 2,700 US hospitals and showed that *early* adopters customised TQM practices for efficiency purposes, whereas later adopters tended to adopt the practices more for reasons of social legitimacy.

Full institutionalisation occurs (at least according to Tolbert and Zucker) only when a practice becomes taken-for-granted. That is, the practice (strategy, structure or whatever) becomes regarded as *the* way of doing things. The practice is uncritically accepted and adopted – such that alternatives have become literally unthinkable. In Meyer and Rowan's terms, 'institutionalisation' has occurred because practices take on "a rulelike status" (1977). For example, the way in which we talk about the functions of business – 'marketing', 'production', 'research and development' – is taken for granted. In Western businesses the concept of profit is taken for granted; and, as seen in the case, it is very likely assumed that it should be similarly taken for granted elsewhere.

Tolbert and Zucker's contribution is particularly important because it fundamentally challenges the notion of unrestricted human agency in strategic decision-making. That is, in the full-institutional stage managers behave as they do *unwittingly*, with strategic "choice" shaped and determined by taken-for-granted solutions. And even in the semi-institutional stage, in which managers take action knowingly, they are constrained by expectations of appropriate conduct. Strategic choice, to the institutionalist, is less a calculated act, than a normatively constrained and often habitual effect.

The key point is that managers are not 'free' decision makers. They *do* exercise choice, but not unfettered choice. Social pressures circumscribe available choices. Strategic choice is shaped by recipes and historically legitimated practices – which inform the sector generally and individual organizations in particular. These socially coded prescriptions may be more salient in some decision areas than others and in some industries rather than others. Moreover, these prescriptions may differ over the long term (e.g., see Zajac and Westphal's (2004) analysis of the use of stock repurchase plans in the 1980s and the 1990s). But strategic choice is directed by institutional prescriptions.

DiMaggio and Powell

DiMaggio and Powell (1983) identified three mechanisms by which institutional isomorphism can occur: coercive, mimetic and normative. *Coercive mechanisms* occur as a result of actions by agencies such as the state or regulatory bodies, upon whom collectivities of organizations are dependent. Jennings and Zandbergen (1995), for example, argue that following growing awareness of ecological crises and the introduction of more stringent regulations and enforcement policies, US firms across a variety of industries were pressured to adopt environmental management practices.

Normative mechanisms stem primarily from professionalization. DiMaggio and Powell (1983) drew attention to the processes by which occupational groups socialise members through career-long training, monitoring of behaviour and disciplinary action, and acts of ceremonial celebration. The professions -- such as accounting, law, and medicine -- figure as exemplary sites of such processes. Professional firms and professionals behave in similar ways because of the essentially normative pressures promulgated by the profession and its institutional infrastructure of constitutive agencies, practices, norms, and associations. Thus, accounting firms do what they do, and organise themselves as they do, because the professional community determines that they will do so.

Mimetic mechanisms occur primarily in circumstances of ambiguity and uncertainty – e.g. over goals, technologies, means-ends relationships, and so on. Under such conditions, managers copy organizations perceived to be more successful and more legitimate. Barreto and Baden-Fuller (2006), for example, show how Portuguese bank branching decisions were influenced by mimetic pressures to imitate 'legitimacy-based groups' – such that banks even expanded into unattractive locations at the expense of profitability. Another illustrative example is the spread of mega-mergers affecting each of the largest accounting firms.

DiMaggio and Powell's tripartite classification has sparked considerable empirical inquiry. But there are two other, albeit secondary, themes within their seminal contribution. First, they clarify the agencies that operate within the institutional context: the state, the professions and exemplary organizations that act as role models. By drawing attention to these agencies, DiMaggio and Powell sharpened the difference between the task and institutional contexts and clarified how the two might be studied. As a consequence, later scholars have explicitly examined how state agencies and professional institutes are instrumental in monitoring and reinforcing institutional definitions of appropriate conduct.

The second sub-theme in DiMaggio and Powell's paper is the notion of *structuration*, which refers to the process whereby institutionalised structures not only shape action and behaviour, but also are themselves recreated and reproduced by those actions and behaviours. Accounting firms are thus affected by the practices of the professional institute and the expectations of clients and other accountants. In this way, the structure of the field shapes behaviour (action). But, the very act of conforming serves to amplify those structures. Action thus drives structure, modifying its form. Accounting firms join in the actions of the professional institute, thus elaborating and supporting its role. Interaction amongst members of the field becomes more formalised. Relationships, roles and responsibilities become more sharply defined and thus more bound within the field's network. Hence, although the structure of the field shapes behaviour, that behaviour in turn clarifies the structure, reinforcing its constraining presence.

DiMaggio and Powell thus emphasise the dynamic and recursive nature of reproduction. Institutional structures both *arise from* social interaction, serve to *constrain* those interactions, and are *reproduced by* those interactions. Institutionalists do not insist that all actors and organizations are equally or completely subjected to institutional expectations. Responses can, and do, vary. Nevertheless, in its early formations, institutional theory became associated with the idea of inertia and stability. Institutionalised practices, almost by definition, were seen as enduring. Change was treated as unusual. By uncovering the 'taken-for-granted' rules of conduct, institutional theorists emphasised the stability and resistance to change of much strategic behaviour.

Other work

In the more than three decades following Meyer and Rowan's 1977 classic paper, much empirical and theoretical work has appeared under the rubric of institutional theory. We comment on some of this in the next section but fuller reviews are provided elsewhere (e.g. Greenwood et al., 2008; Scott, 2014). To date, most studies have been content to show the occurrence of institutional effects rather than their consequences. It is, however, worth commenting on two studies that have examined the link between institutional alignment and organisational performance – which is a relatively neglected part of institutional theory.

Baum and Oliver (1991) studied whether child care service organizations had better survival chances if they had links to agencies with high social legitimacy. The argument is that organizations can obtain social support by 'reflected legitimacy': for example, a child care agency licensed by the state, run in association with a church or as a not-for-profit, would have greater legitimacy. Baum and Oliver found that institutional linkages of this form "play a very significant role in reducing the likelihood of organisational mortality" (p.213). In a different study, Oliver (1997) examined construction companies to establish if organizations with good relationships with institutional and/or task agencies were more successful (in terms of profits and control of construction costs). She found that institutional relationships were correlated with performance but much less so than task relationships – especially under conditions of tight market circumstances. However, profitability was significantly positively affected by the strength of institutional relationships under conditions of regulatory stringency.

One of the central contributions of institutional research has been its focus upon the importance of *durable* social processes that shape how managers understand and respond to their worlds. Faced with pressures for social approval, they conform to institutionalized (i.e. taken-for-granted) expectations of appropriate conduct. As a consequence, organizations begin to resemble each other: only a limited array of organizational designs and templates are used, similar strategies are used, and similar practices are adopted. So where does novelty come from? If organizations are 'caught' within a web of social expectations, how does change occur? It is to these questions that institutional research has turned. One line of research is examining which organizations are more likely to deviate from existing practices: these organizations are referred to as 'institutional entrepreneurs'. Institutional entrepreneurs are often

those on the margins of existing organizational fields and industry: they are motivated to introduce novelty because they are less privileged by existing routines; and they are more able to introduce change because they are less embedded within institutional networks and thus more alert to possible alternatives (Leblebici et al, 1991). Or institutional entrepreneurship might be accounted for by the more or less deliberate deviation (or experimentation with) established ways of doing things (Johnson, Smith and Codling, 2000; Seo and Creed, 2002).

Another source of institutional change is central players within an industry or field. These organizations may become motivated to introduce change because they outgrow the scope of institutional constraints. Greenwood and Suddaby (2006), for example, show how the very largest accounting firms moved into consulting services and redefined themselves as 'business advisors' in part because their scale of operations took them beyond the regulatory processes of the accounting profession. Finally, change may be introduced from outside an organizational field. Thornton (2002) shows how mergers and acquisitions in the book publishing industry led to the demise of traditional, 'craft' forms of organizing, as large conglomerates introduced practices forged in other industries.

Complementing these studies of institutional entrepreneurs (with their focus on who they are), a second line of research examines *how* new ideas and practices become established as the new way of doing things. Here, the focus is upon how relatively untested ideas become 'theorized' as widely appropriate and thus legitimated. Not all new ideas are successfully theorized: many are 'fads' or 'fashions' and have a short life span. But some ideas do become successfully established and institutionalists are uncovering how this happens (Rao, Durand and Morin, 2003). Research on institutional logics and complexity, for instance, have shed light on how small deviations in practices that might accumulate from the 'doing' of work can radiate to the organizational field. Smets, Morris and Greenwood (2012) demonstrate how lawyers engaged in cross-border contracts incrementally adapted their professional behaviour – which led, first, to changes at the organizational level, and then to the profession as a whole. When professionals confront competing institutional demands such as those arising from professional and market logics, deep-rooted tensions and contradictions tend to surface (Greenwood et al., 2011; Kraatz & Block, 2008). In coping with situations of institutional complexity, professionals – and, indeed, organizations in general – have been found to adopt strategies and structures that innovatively combine elements from multiple logics (Battilana & Dorado, 2010; Pache & Santos, 2013). Such innovations can subsequently trigger broader institutional change.

A complementary line of institutional work that has important implications for the study of strategy is the examination of differences in the institutions of different countries. Much of this work arises from within political science and political economy and focuses upon how countries such as Japan, Germany and France have rather different institutions to those in, for example, the UK and the US. This line of research (exemplified by Hall & Soskice, 2001; Thelen, 2004) examines how differences in national institutions affects the structures of industries and the business strategies that tend to develop. Countries build upon their distinctive institutional arrangements to secure competitive advantages worldwide. National differences in institutional structures also affect how ideas and models about management do or do not diffuse across national boundaries. Some institutionalists show how international organizations, such as the WTO, IMF and even accreditation agencies, enable the flow and diffusion of ideas globally, with the implication that organizations are converging upon similar practices and forms. Others, however, insist that idiosyncratic national institutions act as filters so that globally diffusing ideas are differentially received or translated to make them fit local institutions (e.g. Djelic, 1998). One important implication is that international firms may face difficulties in resolving the tension between pressures for global homogenization *and* pressures to maintain local distinctiveness.

IV Links to Strategy

How, then, do the concepts of Institutional Theory help us understand issues to do with Strategy and Strategic Management? In this section this question is discussed and the case study on QDG is used to illustrate the discussion.

It is worth starting by re-emphasising the importance of taken-for-granted assumptions and practices, and the concept of social construction. Much of the discussion in the case is about the need for excellence of service defined in terms of professional standards. This is taken for granted and is indeed the raison d'être of accountancy firms. The way in which the firms operate, in turn, reinforces this

stance. The established professional institutions lay down the norms and exert regulatory pressures to conform; there are university courses which educate people in the application of those norms and provide a supply of labour; and there are professional examinations which test the suitability of individuals to practice. There has developed an organisational field within which the parties involved (universities, financial directors, partners in firms and so on) take all this as given and behave according to those norms. Moreover the clients of accountancy firms behave in ways which conform to and consolidate the system. It is, perhaps, no coincidence that many of the financial directors of large corporations, are, themselves, chartered accountants who have worked or been partners in those firms. And we see from the case that the intention is now to export those norms, practices and standards to other areas of the world. This is all on the unquestioned assumption that those norms, standards and practices have a "rightness" in themselves.

4.1 Context: The External Environment

The traditional emphasis in the strategy literature has been on the task environment – as explained in section 3.1 above. Institutionalists, on the other hand, have emphasised the institutional environment of socio-cultural norms and expectations. These social rules relate to how professional services are provided, and by whom and how. For example, an audit is required by law; similarly, businesses require advice on navigating taxation law. There are also other regulatory agencies. These include professional bodies that lay down standards and require conformity to particular practices; for example the training and examination required to become a chartered accountant and the terms and conditions imposed on those who seek to practice within that profession. The institutional world for accountants is, then, an example of one which is highly regulated.

The case is also a good example of how the environment can be considered both in terms of "real", objective opportunities but also as institutionally defined opportunities. Objectively, entry to countries such as China is important to QDG. They have to serve their global clients wherever those clients go. Competitive (task) pressures are making accountancy firms nervous about losing clients because they cannot offer them the kind of service and breadth of geographical coverage that clients demand. But the case also raises strong institutional pressures for entering China. Accountancy firms are expected to play their part in 'exporting' Western economic institutions. The larger accountancy firms would find it uncomfortable to resist the expectations of the professional associations, their accounting colleagues and government agencies. Moreover, refusal to 'go' would receive adverse publicity. So, there are good institutional reasons for their movement into these arenas. There is also the perceived need for the regulation of firms operating in such markets and the consequent real or assumed demand for services such as accountancy. The assumption in QDG is that the same sort of services are needed as are provided in the West by the same sort of firms. Very likely governments in economies such as China also believe that such services will provide the sort of institutionalised legitimacy of capitalism that they may or may not wish to convey: indeed if these economies want to do business with the West then they may have to conform to the institutionalised expectations of Western economies and governments regarding appropriate forms of accounting. It is of course quite likely that QDG and the other accountancy firms are actively promoting this concept, not out of self interest so much, but because they genuinely believe it to be necessary.

Objectively, of course, it may be prudent to question whether the sorts of rules, regulations and standards of the West in economic terms are necessarily appropriate to China (Raynard, Lounsbury and Greenwood, 2013). However, the important thing to stress here is that from an institutional point of view it should not be expected that such objective questioning would arise. Implicit in such questioning is that there is an objectively "right" way of doing things and that this is laid down by the accountancy standards of the Western world.

There is another way in which institutional theorists conceive of the nature of the environment, and which applies to a firm such as QDG. Institutionalists see the environment as consisting of a web of transactions within a network of participating organizations all of whom have a common understanding of the form those transactions should take. This is the idea of the organisational field. It is taken for granted that accountancy firms work with banks and law firms, for example. Indeed they refer business from one to the other. It is taken for granted that business corporations need auditors and that auditors carry out work in particular ways.

Alan Clarke, in particular, in the case study, reflects this. He sees QDG as a professional service firm interacting with other such firms; and, in many respects, acting as an agent of regulatory bodies such as

the government to ensure that proper services are provided. In this sense the environment becomes bounded by the organisational field and the nature of the transactions in it. There are of course dangers here: there could be entrants who do not accept the orthodoxy of this; who seek to behave in different ways. For example AMEX provides accountancy services in the US; and their entry was not expected by the established firms when it happened.

It is important to stress, then, that whilst the strategic management literature tends to emphasise markets and competition, institutionalists emphasise institutional environments and the conformity to taken for granted norms and practices within those environments which endow organizations – in this case QDG – with legitimacy and standing. The main concern of Clark and Madeley, in particular, is with such legitimacy within their organisational field. To some extent all organizations are faced with these conflicting environments. In QDG the institutional environment is particularly important; but they are also faced with the market environment that they are finding increasingly intrusive. In other organizations the market environment might be especially significant; but there will still be institutional pressures to conform and behave in a legitimate fashion. So for example a manufacturing firm faced with significant market pressures, also has to conform to the institutional environment represented by the accountancy profession, but also by that of the banks, financial institutions, government, society and so on.

4.2 Competencies and Competitive Strategy

Much of the literature on strategic management emphasises the idea of competitive advantage as underpinned by resources or competencies unique to an organisation. Institutional theorists, however, tend to emphasise the similarity between organizations and the pressures that lead them to adopt similar strategies, structures, and practices. Accountancy firms are similar; banks are similar, universities are similar and so on. The extent to which this is so will, of course, vary. Some organizations are much more "institutionalised" than others. How, then, in this context do we conceive of competencies?

First, there is an over-arching caveat: that the very idea of competencies has become institutionalised. Managers in organizations, reinforced by academics, may talk as though competencies are real and bestow competitive advantage when in fact there may be little evidence of this. In accountancy firms to take an example, it may be very difficult indeed to pin down competencies which really do achieve differentiation. For example, all accountancy firms claim to offer advantages to their clients through industry specialisation; and all are beginning to claim "seamless global services". But these are not distinctive differences. All firms are making the same claim. This does not mean that the partners in an accountancy firm (or any other firm) will not talk about competencies as though they are real, especially as the language of competition starts to prevail. Talk of competencies can, then, be seen as symbolic rhetoric bestowing social approval (legitimacy) upon those using it. However, as Meyer and Rowan argue, the rhetoric may be decoupled from what actually goes on.

There is, however, an institutional view that argues that competencies lie within the very institutionalised nature of organizations. Competencies are likely, in this sense, to exist within the taken for granted practices and structures of organizations. For example, it might be argued that some organizations are better able to legitimate themselves within their organisational field than others. They may, for example, have established a better reputation for whatever reason; they may have some figurehead who is especially recognised within the field; or they may have developed ways of working, which are regarded especially highly within that field. There are indications in the case, at least from Alan Clark, that QDG is trying to position itself as influential in government circles. This could, conceivably, be extended such that representatives of the firm sit on commissions of government bodies which are especially influential. Indeed, in the accountancy profession, representation on government and professional bodies is especially welcomed, as is sponsorship of charities and other "good works". There is, of course, a problem here. It could be that the organisation becomes over reliant on activities that confer such legitimacy, which they may regard as competencies, but which over time become counter productive. It could be that QDG is facing this problem. It has prided itself on being a highly esteemed accountancy firm following rigorous professional codes of practice. What if the nature of accountancy changes in the face of global development? Might that mean that the inherited legitimacies/competencies of QDG come to work against them?

4.3 Competing

Inherent in the notion of strategic management is the exercise of managerial choice over competitive strategy and the bases of competition. Institutional theorists argue differently. They suggest that the

rules of competing are similar within organisational fields. For example, in professional service firms such as accountancy and law, solicitation of business from clients and advertising was not allowed until quite recently. Indeed in the past, and perhaps even now, many within the professions would prefer not to see themselves as a business in a competitive sense at all; rather they would see themselves as offering a service of a high professional standard – a view clearly echoed by Alan Clark in the case example. *Similarity*, then, is more marked than difference: accountancy firms offer similar services, seek to enhance those services in similar ways, build relationships with clients in particular ways, and so on. Competitive behaviour is constrained to conventions of acceptable professional conduct in the marketplace. Not conforming to these norms would be frowned upon even if competitive advantage might be achieved; hence the unease when Michael Jones raised the explicit notion of striving for competitive advantage through differentiation.

This is not to say that those involved in such firms might not employ the rhetoric of competition; and perhaps many increasingly do so. They might talk as though choice can be made about real differences which bestow real advantages. However the tendency is to conform to the norms rather than seek real advantages. The institutionalist's emphasis on mimicry seems more appropriate as a descriptor of what happens than the more usual portrayals of managers as autonomous "captains" of their enterprise. Far from seeking to be different, organizations seek to be similar to others. This is especially the case where organizations face uncertainty and ambiguity - arguably as the accountancy profession does with regard to Eastern Europe. So, the partners in QDG feel 'obliged' to enter China, partly to service their clients (and avoid losing them) and partly to meet professional expectations. They also feel the need to become more integrated globally, again because of pressure from clients but also because other firms are doing so. These developments pose challenges to traditional conceptions of how a partnership format should be operated. The pressures of the market place and of the institutional context can thus coincide (over China for example) or conflict (over the partnership format). The institutionalist might predict that in such circumstances QDG will indeed develop globally, but is likely to try to preserve the symbolic form of the partnership structure and relative independence of partners despite strategic and structural imperatives not to do so.

Institutional theorists also emphasise the faddish nature of much strategic behaviour. In the 1980s the emphasis, for example, was on competing on the basis of finding and expanding into 'suitable' markets. This was the result of a marketing orthodoxy of the time and, more specifically, Porter's work on competitive forces at work in markets. In the 1990s the emphasis swung towards the importance of core competencies, unique to the organisation upon which competitive advantage could be built. In the 1980s everyone was sure of the wisdom of the former; in the 1990s they became convinced of the wisdom of the latter. Since at any one time, everyone seems to have been convinced of the wisdom of the one or the other, there was a general uniformity about the very bases and questions being asked about competitive strategy. Again echoing institutional theorists' emphasis on conformity for the purposes of garnering legitimacy and social approval.

It should, of course, be observed that the very rules of competing differ by institutional context. For example, in the US there is a much stronger emphasis on litigation than in many other parts of the world; in the Middle East and parts of Africa, what would be regarded in the West as bribery is common; co-operative behaviour rather than competition is emphasised a good deal more in the public sector; it would, therefore, be wrong to suggest that competition as discussed conventionally in the strategy literature is necessarily the norm.

4.4 Corporate Strategy

For private sector organizations there are "coercive rules" laying down that corporations are there for the purposes of meeting shareholder expectations. In fact, arguably, whilst there is ceremonial and rhetorical conformity to this, the evidence is that managers do not behave in this way. To take one example: managers in the US and UK will often argue that the evident short termism of organizations is driven by investors' focus on short-term performance and results. Actually there is at least as much evidence that short termism results from organizations using (institutionalised) measures of performance which are short term or historic in nature, and encouraging managers to take a short term view. Return on sales or return on capital employed, are typical measures used. Neither encourage a long term shareholder benefit view of investment decisions.

The notion of institutionalisation at the corporate level has other dimensions. For example, the role of the corporate board is institutionalised and prescribed in law, as is the role of executive and non-

executive directors. However the form of boards is not determined solely in terms of regulation. There are strong normative pressures of conformity here, e.g. in the networks of boards of directors in which one executive holds a non-executive position in another company. Arguably this is all about ensuring conformity of behaviour between such organizations. Certainly, there is considerable evidence that interlocking directorates are a key mechanism by which mimetic behaviour occurs (Davis, 1991; Marquis, 2003).

It is also worth noting that the role of corporate executives, at the highest level in organizations, is explicitly about achieving legitimisation. Having 'respected' figures on a board provides the organisation with legitimacy – which is particularly important for charities. Such senior executives spend a good deal of time ensuring that their organizations are legitimate in the public eye, with government, and in the press.

A further aspect of corporate strategy has to do with 'parenting'. An important question is the extent to which the corporate parent actually understands and empathises with its business units. One of the implications here is the extent to which a corporate parent can operate *across* institutional boundaries. Arguably this might be one of the reasons why holding companies have problems. A holding company may have businesses as diverse as heavy goods manufacturing and retailing or financial services. These are very different sorts of organizations, arguably of different institutional forms (Kostova and Roth, 2002). Questions have to be asked as to whether a corporate parent can relate to these different sorts of businesses. Corporations with a disparate mix of businesses do not perform well in terms of their share price. Arguably this is because financial analysts and investors operating within their own conventions and assumptions cannot make sense of them (Zuckerman, 1999). It is worth noting here that economists would make the same observation about the difficulties faced by holding companies.

Mimicry is certainly evident at the corporate level. The 1970s was an era of diversification. The 1980s was an era of de-layering and cost cutting and the 1990s was an era of divestitures, 'de-mergers' and break-up as large corporates sought to get back to their "core businesses". Any one of these corporate moves may make sense; but the institutionalist would make the point that all corporations seem to do the same things at the same time. Haveman (1993) traced how organizations in the US savings and loans industry (equivalent to building societies in the UK) followed similar and successful organizations into new markets. The choice of new markets was affected by the number of successful firms already in those markets: firms entered those markets already occupied. That is, Haveman identified the occurrence of isomorphism within that industry via the mechanism of mimetic behaviour. Haunschild and Miner (1997) also observed mimetic behaviour in the investment banking industry, specifically in terms of how corporations chose investment bankers to advise on an acquisition. She found that under conditions of ambiguity and uncertainty mimicry was particularly salient.

So the prediction with regard to QDG is that they will, indeed, develop into a more integrated global partnership. However the explanation is just as much to do with mimicry as it is to do with debate in the boardroom. QDG will follow the behaviour of the Big 4 firms, which are already more integrated, and which, as industry leaders, are 'exemplars'.

4.5 Strategy Processes and Strategic Decision Making

Orthodox approaches in mainstream strategy texts typically suggest or infer that strategic decisions are made and that strategies come about through processes of rational analytic thinking, typically by top managers. Here, in our case, we have top managers – senior partners in QDG – deliberating on strategy. As the case demonstrates, it is important to remember the institutional context and the importance of taken for granted assumptions, beliefs and practices. Except for Michael Jones, the partners have decades of experience in the accountancy profession – in which norms and beliefs are embedded through the ritualised "indoctrination" of new recruits into the firm, through years of training to ensure compliance with expected behaviour; *to* the position of partnership itself as the appropriate form of governance structure recognized within their organizational field. Strategy deliberations are not, and cannot, be removed from this context within which there are such embedded taken for granted ways of seeing and doing things. This is aptly illustrated by the QDG case. It is likely that strategies will be developed which are compatible with the assumptions of Alan Clark and Paul Madeley – and less so with those of Michael Jones, who comes from a different institutional environment with different assumptions and ways of looking at the situation. It is also unlikely that decisions will be taken on the basis of Michael's advocated approach to building competitive advantage, or any basis which fundamentally question the structure of the partnership and the way the

firm works.

Of course, since these dominant assumptions and norms are to be found in accountancy firms generally, then similar strategies will also be developed by other firms; hence the isomorphism that institutionalists have observed. Indeed researchers have identified "industry recipes" (Spender, 1989; Porac, Thomas and Baden-Fuller, 1989.) that are in effect, institutionalised strategies which cross organisations within organisational fields. These are not just broad strategies that are commonly followed; they are quite detailed, quite specific strategic behaviours common across organisations within the field – so it is within accountancy.

Moreover the way in which strategic decisions would be made might well be very common across such organisations. Indeed this is noted more widely than the accountancy profession. For example, strategic planning could be regarded as an institutionalised process in that strategic planning processes tend to be common across organisations. Researchers have also noted other common strategic practices such as strategy workshops or 'away days', which tend to have common formats and purposes (Hodgkinson, Whittington, Johnson and Schwarz, 2006) using common strategy tools and techniques.

So institutional theorists would suggest that strategy processes and strategic decision-making are not so much rational analytic processes, as institutionalised processes in which common approaches are adopted, common assumptions are made and common practices followed. It could be argued that the strategy tools and techniques advocated by strategy writers and consultants are employed *ex-post* to rationalise and legitimise the relatively institutionalised strategies managers follow.

4.6 Change

Earlier we noted that fully institutionalised behaviours are literally taken-for-granted and operate with 'rulelike status'. And there is no doubt that such institutionalised practices exist. But, not all organizations comply with normative expectations, either fully or in part. This has led to an interest in understanding the extent to which, and how, organizations deviate from prevailing norms. There are several explanations from an institutional perspective.

One argument is that change is inevitable. The discussion above on strategy processes and decision making makes the point that change tends to happen within the bounds of what is taken for granted; it therefore tends to occur incrementally. Faced with pressures for change managers typically minimise the extent to which they are faced with ambiguity and uncertainty by looking for that which is familiar. However, here lies an explanation of more fundamental change too. Over time it is likely, perhaps inevitable, that such incremental change may not address the necessities of the task, not least, the market environment. This can give rise to the sort of strategic drift where an organization's strategy gradually, if imperceptibly, moves away from forces at work in its task environment. This may not be detectable for long periods of time; after all, the organisation may still be successful since it is doing what it knows how to do well. Eventually, however, its performance will suffer in some way. It may eventually die of course; or it may go through some major transformational change. So much is intimated by Edward Gray in the case study. He is suggesting that there comes a time when such transformational change may be inevitable. He may, however, find it more difficult to convince his colleagues that the time has yet come; or to get major change until that time.

Oliver (1992) has also argued that contrary to early statements of the enduring character of institutional rules, their power may dissipate over time if they are not actively reproduced and reinforced. This suggests that change can be understood in terms of the interplay, even contest, between prevailing institutional norms, reinforced by ritual and practice and the incursion of competing norms, ideas and expectations. There are also clues as to how such competing norms may develop.

Greenwood and Hinings (1996), for example, show how and why exogenous shifts in the task and/or institutional environment may trigger changes within organizations. They analyse how the incidence of radical change varies *across* institutional sectors, in particular the extent to which they are more or less insulated from ideas and practices in other sectors. Over time organizations may become more "permeable"; for example, many of the accountancy firms are becoming less focused on auditing and more multi-disciplined; they are also placing less emphasis on the primacy of partners themselves and more on conventional management with some of the partners playing more of a managerial role.

Arguably as this occurs they become more open to influences from outside the profession and therefore more likely to change. This may be increased as outsiders are brought into the organisation, as for example, has happened with Michael Jones in the QDG case.

Change is not always exogenously driven even if that has been the focus of much institutional work. Seo and Creed (2002) theorize how 'contradictions' within organizational fields can lead to change. For example, an organization within a field may be exposed to strong normative and mimetic pressures to behave in one way, yet increasingly become aware of market opportunities that those behaviours deny. Consequently, the organization experiences the contradiction between legitimacy (attained through conformity) and efficiency (attained through deviation). Greenwood and Suddaby (2006) show how such contradictions affected the (then) Big Five accounting firms. They also show that, as the Big Five grew into transnational firms, they *internalized* training processes and effectively outgrew the normative and regulatory processes of the accounting profession, making them more open to change.

The incidence of radical change can vary *within* sectors because of variation in the *intra*organizational dynamics of particular organizations. Thus accounting firms vary in the relative development of tax and management consulting as structurally recognised practice areas and thus have different emphases upon the importance of ideas that appeal to these occupational communities. The greater the range of occupations and experiences inside a firm, the more likely that new ideas will emerge and prompt change. The same could be said of firms interacting with other organizations that have different sets of norms, understandings, and priorities. As Smets et al. (2012) demonstrate, the interaction of lawyers from Germany and the UK in the preparation of contracts for international clients, led the two communities of professionals to become aware of different ways of doing things – especially regarding their relationships with clients. Change, in this sense arises from bumping up against practices that challenge taken-for-granted assumptions. Thus, while firms containing diverse professional groups will generate debate because of multiple interpretations, firms that are homogeneous will likely interpret and implement ideas in very similar ways.

Change may, in other words, take place because of conflict between institutional norms within organizations. This seems to be what is happening in QDG, at least to some extent. Michael Jones is approaching the problem from one set of institutional norms and his colleagues from another. Arguably Edward Gray is beginning to see the world rather more in Michael Jones's terms than his colleagues. This again emphasises the importance of "outsiders" or people on the margins of organizations who benefit less from prevailing norms. Change is to do with the ability of an organisation to break outside prevailing institutional boundaries. New chief executives are sometimes appointed specifically for this purpose. It is argued that the role of the main board is to identify just when an organisation needs such an injection of new ideas. Institutionalists have observed, however, that when an organisation recognises the need for change, it often imports recipes from elsewhere, rather than building custom-made solutions.

A further explanation for change is to do with the "bending of the rules." Most of the time people in organizations conform to the "rules of the game" (Johnson, Smith and Codling, 2000) – yet, on occasion, they may consciously or unconsciously bend, manipulate or defy the norms. Or it may be that someone, perhaps one of the outsiders mentioned above, consciously seeks to use or exploit the accepted rules of the game to further his or her own ends. An example in a partnership might be that someone like Michael Jones may seek to build up allies by trying to introduce new partners from commercial type organizations.

Institutionalists also point to the way in which management consultants and directors carry change within and across populations of organizations. They transfer practice from one organisation to another but imperfectly so. They are, in this respect, a basis of imperfect mimicry. As a consequence, minor changes may be continually occurring within an institutional field: overall convergence around a given model might be the general trend, but imperfect mimicry can act as a dynamics of incremental variation.

Overall, institutionalists lay emphasis on the extent to which change is dependent on conformity to, or challenge of, institutional norms. Hence, in contrast to most strategy theory, they place less emphasis on the idea that change comes about because of the intellectual persuasion that might be exerted through some formal process. Indeed they might argue that such processes are themselves rituals within institutions.

4.7 Control/Structure

The wisdom in strategic management is that "structure follows strategy". In other words organizations set their strategy and then determine the appropriate structure to implement the strategy. However, as we see within QDG, structure is often a manifestation of institutional norms. A partnership is not a partnership because of the strategy it is following. It is the structural form accepted in that professional arena as the way things are done.

Similarly the idea that organisational controls are formed in order to measure important aspects of strategy is wisdom in the strategy literature. But institutionalists argue that controls and measures are often manifestations of institutional norms. For example it is quite likely that in QDG control systems emphasise the same sort of measures as other accountancy firms. Traditionally such firms have placed considerable emphasis, for example, on what is known as "billable hours" – the amount of time individuals spend on fee earning work for clients. This measure is not emphasised because of the strategy of the organisation; it is emphasised because an accepted sign of success is the fee earning capacity of individuals and, arguably, because part of the ritual preparation for partnership is that more junior members of the organisation need to be "kept busy". The same point may be made about other types of organisation. A popular measure of control in considering performance in private sector organizations is return on capital employed; yet it is difficult to justify this objectively as a sound means of assessing the strategic health of a business since better returns must result from low value assets (for example depreciated plant) than from investment in more costly new assets. Such measures have, however, become institutionalised measures of control.

Again mimicry and isomorphism occurs with regard to structures and control. There are many examples. The seminal study by Chandler (1962) showed how structural forms such as divisionalization, once developed, became common across communities of firms. Palmer, Jennings and Zhou (1993) have demonstrated the role of interlocking directorates in spreading the adoption of this organisational form. Other structural practices that have been found to spread across organizations without necessarily being connected to strategy, include the use of Total Quality Management (TQM) (see Westphal, Gulati and Shortell, 1997) matrix structures and accounting procedures. The whole field of HR systems is also highly institutionalised and regulated through professional institutions that lay down quite precise norms leading to conformity in such practices.

4.8 Hybrid Organizations

Recently, institutionalists have given considerable attention to a particular type of structure – the 'hybrid'. The purpose is to understand how organizations structurally cope with pluralistic environments, i.e., with institutional complexity. The dilemma facing managers is to respond appropriately to different institutional demands (Battilana & Lee, forthcoming; Kraatz & Block, 2008; Pache & Santos, 2010). Studies have shown that organizations often adopt a variety of hybrid responses, such as the blending of organizational identities, structurally compartmentalizing advocates of different logics into separate departments, or creating hybrid teams or units (for a review, see Greenwood et al., 2011). When the prescriptive demands of different logics are conflicting or 'incoherent', organizations can adopt strategies and structures that purposefully keep the elements and/or representatives of the logics separate. As Ferlie, Fitzgerald, Wood, and Hawkings (2005: 129) observed in their study of UK healthcare organizations, one strategy for contending with incompatible logics is structural compartmentalization – wherein "cellular, self-sealing, institutionalized" professional units, each constitute a distinct community shaped by, and responsive to, its particular field-level referents. Through structural compartmentalization, organizations visibly exhibit responsiveness to the disparate demands of multiple audiences – without necessarily prioritizing one set of demands over another. Conversely, when the prescriptive demands of different logics are relatively compatible, organizations can strategically leverage potential synergies by bringing together elements and/or representatives of the different logics (Besharov and Smith, forthcoming; Goodrick & Reay, 2011). Battilana and Dorado (2010), for example, found that a new microfinance organization in Bolivia was able to successfully combine the logics of 'banking' and 'development' in unprecedented and synergistic ways – in essence, allowing it to simultaneously achieve both financial *and* social goals. It did so by developing a new hybrid form that was grounded in a shared sense of identity and mission that evolved out of a 'tabula rasa' hiring process – which favored individuals with no prior work experience and those who were not steeped in one particular logic.

V. Conclusion

The institutional perspective is fundamentally different to that more usually found in strategy research and theory. By emphasizing how taken-for-granted ways of thinking and behaving ('logics) shape how senior managers interpret and 'construct' their world and its challenges; and how the these same processes define 'legitimate' collective purposes and organizational arrangements, the institutionalist perspective challenges the quasi-rational strategic thinker central to much strategic management theorizing.

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