Organization: Overview

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Abstract

Organizations have been studied from many disciplinary perspectives and at many levels of analysis. This article focuses on organizations as distinct units, covering the twentieth-century evolution of the study of organizations and briefly summarizing the major theoretical approaches. We emphasize the shift from a focus on organizations as bounded units to organizing as a process and conclude with contemporary challenges for organization theory.

Organizations

Organizations are a defining feature of modern societies. Modern societies are distinguished from traditional ones in part by the numbers and variety of organizations in existence, and their utilization to support collective action in every sector. Organizations are both contexts for the actions of individuals and groups, and collective actors in their own right. Some, such as corporations, are given legal recognition and constituted so as to own and dispose off the property, enter into binding contracts, and mobilize effort in the pursuit of specified goals. Organizations can be formatted to increase the reliability of behavior, but in doing so, they often become rigid and constraining. They also are able to provide greater accountability, maintaining records of how things are done and by whom, but in doing so, may become overly procedural and legalistic. Today's organizations, operating in a highly rationalized and dynamic environment, face different challenges than early organizations confronting a more traditional and stable context. Conceptions of organizations, theoretical perspectives, and favored levels of analysis undergo change, in part because organizations and organizing processes themselves have changed.

Organizations have been studied from many disciplinary perspectives and at many levels of analysis. Psychologists, sociologists, political scientists, and economists have all made central contributions to the understanding of organizations. Psychologists typically study individuals, dyads, and groups within an organizational context to uncover distinctive features of organizational behavior, such as how the design of jobs or pay systems influences individual motivation, or how groups of managers make decisions. Political scientists have extended the study of decision making to the design of organizations and the pathologies of bureaucracy. Sociologists examine both the structures of individual organizations, their relations with other organizations, and aggregate features of organizational populations and fields. Economists study how markets influence the shape of organizations – where they place their boundaries, how they are owned and governed – and how firms interact in industries. Thus, organizational scholars span a range of units of analysis, from individuals and groups, to departments and divisions, to organizations and industries, to networks and fields, and even to the level of the nation-state and the global system itself. In each case, the vocabulary and theoretical toolkit varies according to the level, as do the questions considered 'interesting.'

This article focuses on organizations as distinct units (i.e., on 'organization theory') but it also acknowledges that there are alternative perspectives and trade-offs involved in choosing one focus rather than another. It first describes how dominant theoretical views of organizations evolved over the twentieth century. It then analyzes the distinguishing features of organization from a substantivist and a relational perspective. Next it discusses different views on the origins of organizations and how different levels of analysis channel different approaches to their object of study. Finally, it concludes with a discussion of new directions in the study of organizations.

Evolving Perspectives on Organizations

Three definitional perspectives on organizations, each embracing a number of schools, have been pervasive during the twentieth century in organizational studies, and each has been animated by its own dominant metaphor for organizations (Scott and Davis, 2007). The 'rational system' model of organizations was the dominant perspective from early in this century to the 1930s. Organizations are viewed as rationally designed instruments for the attainment of specific goals. A mechanical model provides the guiding image and emphasis is placed on those features that differentiate organizations from other social groups, such as communities or families. Exemplars include the 'scientific management' approach of F.W. Taylor, Weber's theory of bureaucracy (1968), and Simon's model of (boundedly) rational decision-making hierarchies (March and Simon, 1958). The twin attributes of goal specificity and formalization – the deliberate design of roles and social structures – are privileged.

The 'natural system' model of organizations emerged during the 1930s and became dominant in the scholarly community in the 1940s and 1950s. Organizations were viewed as social groups whose participants are joined by common purpose and informal ties, but whose primary goal is the survival of the system. Rational, formal attributes were de-emphasized as attention was focused on interpersonal ties and leadership. An

organic image supplanted that of the well-oiled machine; not distinguishing elements, but rather those common to all social groups were emphasized.

During the 1960s, general systems theory swept over the field of organization studies giving rise to the 'open system' model of organization. This model emphasized the extent to which organizations were dependent on and penetrated by facets and forces in the wider environment. By contrast, previous models were exposed as giving insufficient attention to actors and forces external to system boundaries. But as open system models surged into the arena, they quickly were coupled with, first, rational, and then natural system concerns (Scott and Davis, 2007). Thus, rational-open theorists like Thompson (1967) and Lawrence and Lorsch (1967) sought to explain how organizations could attempt to behave rationally while also open to their environments; March and Simon (1958) considered how decision rules can be adjusted to accommodate greater amounts of uncertainty; and Williamson (1975) theorized that organizations arise and develop more complex governance systems to deal with increasing amounts of uncertainly and complexity. Contingency theory, decision-making theory, and transaction cost theory represent attempts to combine rational and open systems conceptions.

These developments dominated well into the 1970s, but they then were joined by a resurgence of natural system theorists attempting to incorporate and take into account open system insights. Principal approaches included *sociotechnical systems* theory, emphasizing the need to design technologies to take into account human and social factors, and *resource-dependence* theory, as developed by Pfeffer and Salancik (1978), which stressed the ways in which economic (resource-based) dependencies generated power problems that, in turn, were addressed by political solutions. In general, organizations confronted by increasing levels of interdependence respond by creating more encompassing coordinative and governance systems. *Population ecology* models (Hannan and Freeman, 1989) examine the ways in which similar types of organizations compete for scarce resources within the same environmental niche. And *institutional theorists* (Meyer and Rowan, 1977; DiMaggio and Powell, 1983) consider the effects of wider cultural rules and normative structures on the emergence and *legitimation* of organizations.

Thus, conceptions of organizations have been influenced by the theoretical stance of scholars, as debates revolved around two axes: (1) the extent to which organizations are means – disposable, deliberately designed instruments for goal attainment – or value-impregnated, ends in themselves and (2) whether organizations are self-sufficient, relatively insulated forms or substantially constituted, influenced, and penetrated by the wider environment.

Why Do Organizations Exist, and What Distinguishes Them?

Max Weber, who provided a theoretical foundation for much subsequent work, was among the first social theorists to recognize and attempt to characterize the features that distinguished organizations from other social groupings. First,

a 'legitimate order' is a social relation oriented to a normative framework or set of maxims viewed as obligatory (Weber, 1922/1968: pp. 26–53). Social relations vary in the extent to which they are open or closed, that is, limiting access to outsiders. 'Organizations' (Verband) are social relationships that are closed, with enforced boundaries between the inside and outside. 'Enterprises' (Betreib) are organizations that have developed a system of continuous purposive activity directed to specified goals; and a 'formal organization' (Betriebsverband) is an enterprise based on associative relations resting on rationally motivated adjustments of interests rather than on communal ties, which are based on kinship or the subjective feelings of the parties. The two latter definitions have been employed widely by subsequent scholars.

Chester Barnard, perhaps the most influential early American organizational theorist, was a telephone executive who drew on his own practical managerial experiences to develop his conception of the distinctive properties of organizations. Barnard (1938) emphasized the physical, biological, and psychological limitations of individual actors, limitations that greatly constrain their ability to make intelligent choices. Cooperative systems arise to enable individuals to collectively pursue a given purpose, the purpose acting to both support and constrain individual choice and decision making. Such systems are 'effective' to the extent that they achieve their purpose; they are 'efficient' if they satisfy the motives of individual participants. To be viable, systems must induce participants to make contributions; thus, only efficient systems can survive. Organizations represent a distinctive type of cooperative system: a 'formal organization' is 'that kind of cooperation among men that is conscious, deliberate, purposeful' (p. 4), although all organizations incorporate both formal and informal systems.

Weber's intellectual descendants include a host of sociological scholars, from Parsons to Etzioni, Blau, and Albrow. All of these theorists follow Weber in emphasizing goal specificity and formalization as distinguishing features of organizations and in recognizing the importance of power and hierarchy both in defining goals and controlling access and specifying the terms of participation. Barnard's followers encompass a diverse collection of researchers, including political scientists Simon and March, economists Arrow and Williamson, and sociologists Selznick and Perrow. Devotees from political science and economics embrace Barnard's view of organizations as arising from the limitations of individuals – physical, but more important, cognitive constraints – organizational structures and processes acting to both inform and channel their decision making. These same theorists also stress the rationality of individuals, insisting that their participation and willingness to make contributions is contingent on the continuing receipt of appropriate inducements. A modified version of Barnard's approach, developed by Cyert and March (1963), views organizations as coalitions of interests, with diverse parties vying for dominance. Sociologists, by contrast, focus on Barnard's recognition of the motivating power of purpose and the ways in which organizational structures and procedures themselves become infused with value, so that, as both instruments and ends in themselves, survival of the organization becomes an overriding goal for participants (Selznick, 1949). Organizations are observed to dispense with

specific objectives when their pursuit undermines organizational viability.

Relational Views of Organizations

Although Weber and his followers have viewed organizations as substantive entities, emphasizing boundaries and goals, other theorists have taken a more relational perspective focused on 'organizing' rather than 'organization.' Karl Weick was a major early proponent of a more relational conception of organizations:

> We observe either an ongoing process that appears "frozen" and steady because it is glimpsed only briefly, or we observe that the process is continuously changing if we watch for a longer span of time. The point is that the crucial events to be explained are processes, their structuring, modification, and dissolving. (Weick, 1969: p. 16)

This stance has been embraced and elaborated by theorists such as Giddens (1984), who proposed that 'structure' be reconceptualized as 'structuration' – the continual production and reproduction of resources and rules or schemas – as well as by interpretive and postmodernist theorists who emphasize the social construction of reality and the reflexive and contextualized nature of knowledge. Among organizational scholars, Silverman (1970) employed an interpretive framework to argue that the dominant systems-based view of organizations needed to be replaced by an action-based account. He asserted that action analysis is particularly well suited to addressing neglected issues, such as the origins of organizations and organizational change. In a more programmatic statement, Burrell and Morgan (1979) distinguished between theoretical approaches stressing stability and order versus those emphasizing radical change. Their work stimulated efforts to advance interpretive and radical structuralist paradigms. Among theorists developing a more interpretive or cultural approach to organizations, a number emphasize the value of appropriating and adapting the tools developed by literary and humanistic scholars and suggest that society and its component units can be viewed and analyzed as 'texts' – that is, as a structure or grammar of rules and communication acts. Some propose the use of 'dramaturgic' approaches, focusing on the expressive dimension of social relations and the role of rituals and ceremonies in expressing commitments and dealing with social uncertainties. Others assert the value of 'narrative' analysis, which views organizations as ongoing conversations among interacting individuals involved in formulating and reformulating intentions, interpretations, and accounts to themselves and each other (Czarniawska, 1997).

Other relational scholars have emphasized not interpretive construction but rather network connections. *Network theorists* emphasize the value of viewing organizations as shifting networks of social relations embedded in fields of wider relational systems. Location or position in the network may be of greater significance in shaping an organization's behavior than its internal attributes. Both the organization's capacities and constraints on its action are determined by the ever-changing configuration of ties (and the lack thereof) among an organization and counteractors.

Network scholars have examined both networks within organizations and networks across organizations. Interorganizational networks can be created through a variety of connections: alliances; buyer–supplier relations; personnel flows; shared directors on the board; and even mere physical proximity, which can create informal connections (e.g., in Silicon Valley, where engineers from different companies and universities famously swap stories and ideas at shared watering holes). Network theorists have evolved an armory of methods and measures to examine the structure of social relations, and their insights have been absorbed into other areas of organizational scholarship For instance, institutional scholars have examined how the structure of social networks can channel the diffusion of innovations, often leading to field-level conformity in practices and structures. Other scholars have generated distinct insights on networks in themselves. Burt (1992) provided extensive theory and evidence showing that actors holding a position rich in structural holes (standing at the nexus of otherwise-unconnected clusters) often are presented with opportunities to act as a broker, innovator, or entrepreneur, bringing together ideas, people, and resources that otherwise might not have been connected. Podolny (2005) noted that networks are not just 'pipes' for channeling information and resources but also 'prisms' that reflect one's status: who you know matters, but who you are seen with sometimes matters even more.

The relational perspective has found allies in surprising places. Economists recognize that one of the most important features of an organization is its status as an independent legal entity. It is capable of entering into binding contracts in its own name, separate from those involving its individual participants. Parallel to the relational view of organizations in psychology and sociology, economists developed a view of the organization as a 'nexus of contracts': the firm as a 'focus for a complex process in which the conflicting objectives of individuals (some of whom may 'represent' other organizations) are brought into equilibrium within a framework of contractual relations' (Jensen and Meckling, 1976: p. 311). The stability of the equilibrium reached is a function of many factors, including changes in legal systems and contracting norms as well as the composition of and changing interests of participants.

Relational approaches celebrate process over structure – that is, becoming over being (cf Emirbayer, 1997). What is being processed varies greatly. In some versions, it is symbols and words; in others, relationships or contracts; in still others, assets. But in relational approaches, if structures exist it is because they continually are being created and recreated, and if the world has meaning, it is because actors are constructing and reconstructing intentions and accounts and, thereby, their own and others' identities.

Emergence of Organizations

Organizations are viewed as a construction of the modernist world, but there is much debate as to whether they represent accompaniments to and products of *industrialization* or, more

generally, vehicles of *rationalization*. From Adam Smith to Clark Kerr and Alfred Chandler, economists have viewed organizations as handmaidens to industrialization. The subdivision of tasks enables specialization and mechanization, but it usually is accompanied by agglomeration – the gathering of workers together in a common location – and requires coordination to integrate discrete tasks, typically through a command and control structure. A more recent but compatible conception advanced by *institutional economists* (Williamson, 1975), views organizations as operating to reduce transaction costs occasioned by the cognitive constraints (bounded rationality) of individual actors and the need to regulate opportunism among exchange partners. In either case, organizations are viewed as emerging to enhance efficiency: to reduce costs, whether of production or transactions.

Many of the most prevalent features of organizations – rules, formalized roles, dedicated machines, and established work routines – are intended to contribute to the reliability of performance. As often noted, however, these same mechanisms often prevent the organization from changing quickly enough to keep pace with environmental demands (Hannan and Freeman, 1989).

Sociological institutionalists argue that organizations should be viewed as a cultural construction: A product of increasing rationalization as generalized means-ends rules are promulgated and become valued independent of their contributions to heightened effectiveness and efficiency. The proliferation of organizations, and their infusion into virtually every arena of contemporary society, is viewed as resulting not only from their contribution to the coordination of differentiated, specialized tasks but also to their capacity to symbolize rational (rule-based, means-ends) procedures (Meyer and Rowan, 1977). The formal structure of organization, hierarchical controls, and the compilation of records all contribute to ensuring the accountability of organization performance and thereby enhance their legitimacy. These same structures, however, also are associated with red tape and ritualistic practices.

Viewed historically, organizations represent new types of social forms in that they are collective or corporate actors, accorded rights, capacities, and resources that are independent of those of any of its individual participants. Coleman (1974) employed changes in the law as important indicators of the growing independence and powers of organizations as they developed during the early modern epoch. Institutionalists such as Meyer, Dobbin, and Shenhav viewed the same process as being fueled primarily by the growth of a scientific ethos emerging during the Enlightenment that created abstract and general categories to classify and enumerate first the biological and physical universe and subsequently the social world. Local knowledge and culture, over time, succumbed to a new inductive epistemology viewed as universal. In the realm of purposive social organization, engineers and managers envisioned and then gradually helped to bring about the development of a single type of social entity (the 'organization') and a generic set of skills ('managerial') required for their maintenance. It is a vision that has been embraced and, hence, reinforced by the emergence of an academic discipline and profession devoted to the pursuit of organizational studies.

Levels of Analysis

The concept of organization is employed at various levels of analysis. More micro approaches treat organizations as distinctive types of social contexts that, in turn, affect the behavior and attitudes of their participants, whether considered as individuals or as groups or teams. Thus, the first level concentrates on organizational behavior. Viewed as social contexts, organizations generally are thought to be 'strong situations': Much effort and various techniques and devices are employed in an attempt to influence participant behavior. Positions typically are predefined, roles are prescribed, rules are formulated, authority relations are specified, information is routed selectively, specialized tools and equipment are provided, training is offered, incentives are created and sanctions are employed, and beliefs and values are inculcated. As Pfeffer (1997: p. 100) observed: "control is at once the essential problem of management and organization and the implicit focus of much of organization studies." Theorists differ in the relative priority they assign to different modes of control, whether economic, social, or cultural; but organizations are apt to combine many varieties of incentives and constraints in such a manner as to maximize the likelihood of compliance.

Moving up one level from a focus on organizational behavior, many analysts focus on the structural and other features of the organization qua organization. Here the organizational arrangements – extent of formalization, bureaucratization, centralization, mechanization, professionalization – instead of serving primarily as hallmarks of the setting become attributes of the corporate actor to be described and explained. Extensive comparative research has been conducted attempting to account for the widely varying features of organizational structure. Among the causal factors examined are the characteristics of the task and institutional (including cultural and political) environments, the demography of participants, and the life cycle of the organization.

When a particular organization is singled out and its context is described as it relates to this focal unit, an organization set level is being employed. This level was developed in association with the early stages of the open systems perspective and facilitates the examination of the particular information and resource flows and types of relations affecting the organization of interest. It is instructive to replace general descriptions of environmental variables, such as complexity and uncertainty, with specific information on who is providing what information and resources under what terms to the focal organization. This level of analysis has been particularly supportive of analysts employing *resource dependence*, *transaction cost*, and *strategic management approaches* (Pfeffer and Salancik, 1978; Thompson, 1967; Williamson, 1975).

The organizational population level is defined to identity and encompass all instances of a geographically bounded aggregation of all organizations of the same type. This level roughly parallels that of an *industry*, except that attention is limited to organizations of the same general type. The concern here is not the individual organization but rather the *organizational form*: variously defined as similar structures, a common blueprint or archetype, or distinctive constitutive information. Researchers working at this level examine the conditions under which new ways of organizing and new types of routines arise

and coalesce to constitute a recognizable, accepted form for the pursuit of specified goals. Analysts of populations examine the conditions under which populations of organizations emerge, grow, decline, and fail (Hannan and Freeman, 1989).

At the macro end of the scale, theorists have identified the organizational field as an important level linking individual organizations and organizational systems to wider, societal structures and processes. Organizational fields are defined as 'those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services and products' (DiMaggio and Powell, 1983: p. 143). Fields are made up of multiple populations of organizations and their respective organization sets. Organizational fields vary greatly in terms of the extent of their organization and the degree of their structuration; and the emergence, development, and decline of organizational fields has become an important new focus of study.

Changing Theories; Changing Organizations

It would be odd indeed if there were no relation between our changing definitions and conceptions of organizations and changes in the phenomena itself. Over the past few centuries, organizations have evolved from relatively embedded and dependent components of traditional society to more independent systems that attempted to insulate themselves from the surrounding society, to systems that are much more open, more flexible, and more penetrated by their context. Since the beginning of the industrial period, organizations have developed from highly centralized to more decentralized structures; and they have tended to move from more tightly to more loosely coupled systems. Rather than having their component units be fixed jobs and departments, they increasingly are made up of more diffusely defined skill categories whose participants are grouped into changing configurations of teams and project groups. Also, jobs formerly linked densely in *internal labor markets* providing clear career lines to employees now more often are held by temporary workers or independent contractors whose mobility routes cross organizational boundaries. Rather than attempting to incorporate all functions within the same hierarchical ownership structure, organizations increasingly find ways to contract work out to relationally linked independent firms or to develop alliances with a shifting set of independent partners. New developments in information processing allow the collaboration of geographic remote partners and various combinations of off-site, part-time, and loosely linked participants. Ownership is no longer viewed as necessary – and in some situations is seen to undermine – control of essential resources and services.

Two master trends have shaped new understandings of organizations. First, globalization – the increasing interconnections in information, culture, and trade among the different countries of the world – make it clear that 'organizations' and our understanding of them are somewhat like breakfast. Although the first meal of the day might be labeled 'breakfast' everywhere, the actual content and size of that meal, and what is considered appropriate and sensible, varies wildly. In the United States, breakfast might consist of dry cereal and milk; in Switzerland, yogurt and muesli, in the United Kingdom, eggs, baked beans, and sausage; in Korea, kimchee, soup, and rice; in France, a croissant; in Argentina, steak. Appropriate beverages range from milk to tea to coffee to hard liquor. Similarly, organizations may share a designation, but surprisingly little else. Documenting diversity around the world has been a growth industry in the study of organizations.

Second, information and communication technologies – computers, telephony, and particularly the advent of the Internet – drastically have changed the feasible forms of organization around the world by vastly reducing the costs of coordination. The transaction cost profiles of different forms of collective action have changed radically, such that it now is possible to accomplish through dispersed horizontal groups feats that would have required formal hierarchies in prior times. Linux is now the world's most pervasive operating system, used on literally billions of electronic devices, and Wikipedia is the world's most widely used encyclopedia (and an indispensible tool for students everywhere); both were created via open-source communities consisting of tens of thousands of individuals who have never met – a format that fits our definitions of 'organization' only problematically. 'Organizing' has surpassed 'organization' in field after field (Scott and Davis, 2007).

We thus are left with a paradox: On the one hand, we seem to live in a society of organizations in which nearly every aspect of our lives occurs in and through formal organizations, including birth and other vital events, education, politics, economic mobility, and even family life itself, as more of what we do on a daily basis, from cooking food to changing the oil to tutoring our children can be contracted out to suppliers (cf Perrow, 1991). On the other hand, societies around the world have become so rationalized that the order formerly created within organizations increasingly is embedded in society itself (Meyer, 1983). The largest corporations increasingly are evanescent, relying on networks of contractors and fictional legal devices around the world to design, produce, and distribute their products. The functions of organization increasingly are available off the shelf to entrepreneurs who snap them together and take them apart like interlocking plastic toys that increasingly resemble the 'nexus of contracts' described by economists (Davis, 2009). The twenty-first century already has shown that organizing will continue to demand new strategies for understanding.

> *See also:* Bureaucracy and Bureaucratization; Bureaucracy, Sociology of; Bureaucratization and Bureaucracy, History of; Hierarchies and Markets; Narrative Approaches to Organizations; Organizational Behavior, Psychology of; Organizational Climate; Organizational Culture, Anthropology of; Organizational Decision Making; Organizational Ecology; Organizations and the Law; Organizations, Sociology of; Rational Choice and Organization Theory; Social Networks; Weber, Max (1864–1920).

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