

Why do firms reinforce or challenge institutional orders ?

Rodolphe Durand

HEC School of Management, Paris
1 rue de la Liberation
78 351 Jouy en Josas- 32523-eT27F
France

durand@hec.fr

and

Berangere Szostak-Tapon
Université Lyon 2 - COPISORG/COACTIS
ISH, 14-16, av. Berthelot, 69363 Lyon Cedex 07
France

Abstract:

In this paper, we argue that firms perform an instrumental role in epitomizing and reshuffling the theories of actions available in their field through their strategic choices. We investigate what are the antecedents of two broad categories of strategic choices: choices that reinforce the existing institutional order (order-reinforcing changes or ORC) and choices that weaken it (order weakening changes or OWC).

Research studies on organizational choices in presence of conflicting theories of action share a number of characteristics. First, they assume a stability in the prevailing institutional order. Logics and codes are given, and organizations base their acts on idiosyncratic advantages (e.g. status) and assessment of the costs and benefits induced by conforming vs. infringing the code (Phillips and

Zuckerman, 1999; Polos, Hannan, and Carroll, 2002). These studies assume that codes determine expected behavior and thereof legitimate and acceptable changes, and that violating the order results in a drop in social valuation and in damaging intra-organizational cascading effects (Hannan, Carroll, and Polos, 2003). Second, in most studies, conflicting logics make the choice to be an ‘either/or’ decision for firms. Adoption of a new practice rooted on an emergent logic (Lounsbury, 2001), new theorization of the field that revolutionizes traditional culture (Rao, Monin, Durand, 2005) are examples of opposing logic-pairs, separated by a symbolic and social boundary of variable strength (Lamont and Monar, 2002). Alternative choices are adoption at differentiated paces to avoid social and economic discount (Zuckerman, 1999), and bricolage and borrowing of sub-elements from the both categories (Rao et al. 2005). Although these inter-organizational imitation processes are well understood (Haunschild and Miner, 1997), there is a need for more research on what factors beyond social position drive firms to endorse one type of institutional logic when there exist more than two legitimate theories of action in an industry.

We find three attractive features in addressing these questions. First, firms decide to position themselves vis-à-vis the current theories of action, and extol their belonging through their mission statements and formulated business philosophies. However, these public announcements are tied to past statements, actions, and practices. The more firms conform to established order (i.e. decide to adopt the dominant theory via ORC), the more likely the institutional order will be preserved. Reciprocally, uncovering the factors that explain why firms dissent and choose under-represented theories of action help understand the underlying mechanisms at the organizational level by which institutional orders are modified. Second, in a world with more than two opposing theories, selecting under-represented theories is not equal to activism or rebellion. In case of oppositional logic-pairs, the selection of the insurgent logic leads to a mechanical loss of influence of the dominant logic. Whereas in those cases, status ordering accounts for the choice of dominant vs. insurgent logics, it

appears that when three logics coexist status influence must be complemented with additional factors. We assume these factors are related to organizational strategic positioning and routines. In particular, an organization's specialization in terms of both clientele (focusing on one industry) and practices can be reasonably influential on why firms select or not a dominant theory (Hannan and Freeman, 1989). Finally, in presence of three theories of action, there is empirical interest in constructing indicators of logic prevalence and selection choices made by firms. In particular, we develop our analysis around two different strategic choices: order-reinforcing choices and order-weakening choices.

We explore these issues in a study of French industrial design agency over 13 years (616 observations), period during which three different theories of action were available. Altogether our results provide interesting elements to understand the transformation process of institutional orders. Design agencies tended to conduct ORC (i.e. to refer to the more field-represented theories of action in their philosophies) when their client's portfolio comprised of new clients from different industries since a change in client variety triggers ORC. However, highly recognized and awarded agencies as well as agencies that focus on a broad range of practices tended not to engage in order reinforcing changes. Furthermore, results show that highly recognized and awarded agencies engaged more likely into OWC. Eventually, but contrary to our expectations, design agencies with many professional ties also promoted institutional order reshuffling via a greater probability to introduce OWC. Aware of the limitations of this study due to idiosyncratic and national characteristics, these peculiarities only reinforce the need to extend our study to other fields and industries, and to analyze how other organizational and institutional factors encourage conformist or disrespectful choices.