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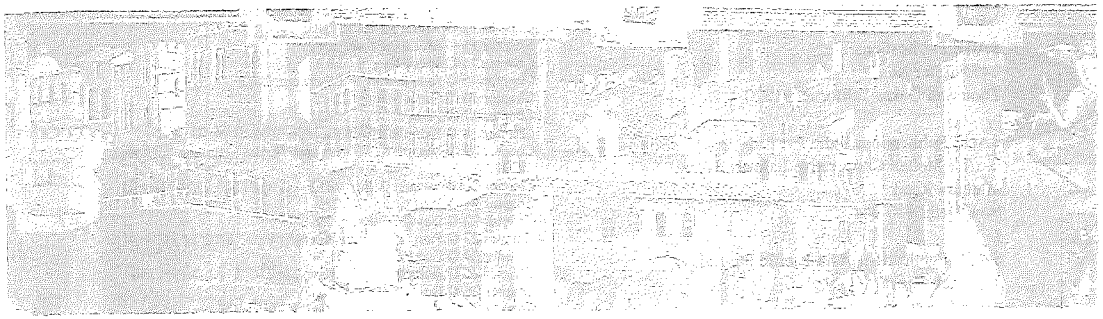

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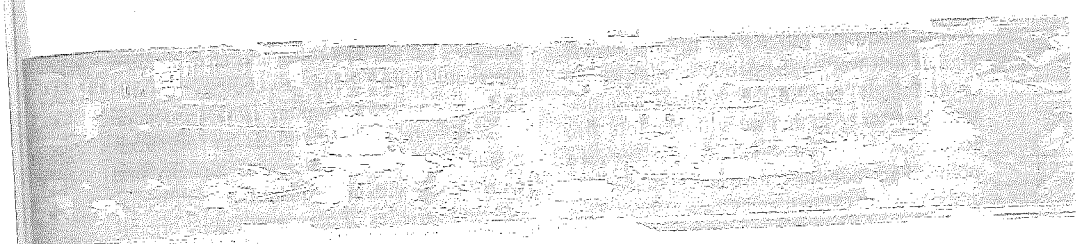
PART 3

Organization Theory and Public Administration

edited by Tom Christensen



The systematic development of organization theory has traditionally been associated with studies of private organizations, particularly business firms. Studies of public administration, on the other hand, for a long time had no explicit basis in organization theory, even though some pioneering work was done (Scott and Davis, 2006). These studies show clearly that there is a close connection between the practice of public administration and the development of organization theory; in other words, aspects of organization theory have been deployed in the running of public administrations, which in turn has yielded new theoretical insights. Over the past few decades an organization theory more specifically geared to studies of public administration has developed (Christensen et al., 2007; Scott, 2007). This is not a homogeneous field but embraces a number of different theories expounded both separately and in combination. Moreover, it has grown much more complex over time. Having started out with rather simple ideas about 'economic man', 'administrative man' and 'social or cultural man', it has evolved into a complicated pattern of institutional theories in which the original ideas have been further developed and combined in various ways with new ideas.

The introduction to this section provides a brief overview of four main types of public administration organization theory, covered by the four chapters, and reflects on some of the broader questions associated with this field of study. After discussing the different driving forces behind decision-making behaviour – whether individual or organizational/institutional – in public administration, a brief historical outline of the development of the organization theory of public administration is given. The comparative aspect of this type of organization theory is discussed, looking into the dynamic relationship between organization theory perspectives and structural and cultural features of various groups of countries. Finally, and related to the third point, the development of organization theory under New Public Management (NPM) and post-NPM is briefly discussed.

HOW TO DEFINE THE ORGANIZATION THEORY OF PUBLIC ADMINISTRATION?

In a wide and complex body of literature it is not easy to isolate the organization theory of public administration from other kinds of organization theory. One approach is to ask what we want to explain: that is, what are the *dependent variables*? The simplest answer is that we are interested in public decision-making behaviour: that is, the authoritative allocation of responsibility and resources between actors and levels in the political–administrative system. This answer signals that we see the public administration as an integral part of the political–administrative system and that we will therefore also focus on the dynamic relationship between political and administrative actors in a democratic context (March and Olsen, 1989). This is an important distinction from theories that have primarily evolved in the context of private organizations.

A focus on decision-making behaviour may involve studies that aim to produce a theory of political–administrative systems and study their internal life. Such investigations might look at how administrative policies change the internal structure of the civil service – changing such things as the formal structure, recruitment policies and the rights and participation of employees (Egeberg, 1994). Conversely, one might be interested in how different kinds of internal organization result in certain types of public policies, aimed at influencing the environment. A further, rather seldom explored option is to use political science-oriented organization theory and related studies to analyse the societal effects and impact of these decisions and policies. One reason why such studies are rather rare is that they overlap with other research traditions in the fields of sociology, economics, psychology and anthropology.

A further focus might be to analyse the driving forces behind decision making in public organizations using the main perspectives of organization theory: in other words, to ask which *independent variables* can be used to explain features of decision-making processes and their effects. It is possible to divide these explanatory variables into four categories of theories or perspectives – hence, the four chapters in this section. The first chapter, by Morten Egeberg, reviews the tradition of theories and research connected to the seminal work of people like Gulick, March and Simon. This tradition primarily focuses on the importance of formal, normative organizational structures for decision making and on the formal organization of units and roles and also includes elements from social psychology (March and Simon, 1958; Simon, 1945). Decision makers, whether individuals or organizational units, have problems of capacity and with coping with large quantities of information and varieties of premises. Public organizations, therefore, have to be designed or organized in ways that modify these problems. Actors have to select certain decision-making premises and reach 'satisfactory' decisions based on 'bounded rationality'. A decision-making structure of this kind channels attitudes and attention in certain directions, thereby also creating special roles and patterns of contact. One challenge of creating a public administration built on a combination of different principles of specialization is that of coordinating units and roles and balancing their varied decision-making behaviour (Gulick, 1937).

Within this 'formal structure matters' mode of thinking, there are a number of different strands, two of which we will mention here. We use Dahl and Lindblom's (1953) concepts of political–administrative control and 'rational calculation' to define them. The hierarchical version holds that the leaders of a public administration are homogeneous and have tight control over decision-making processes, and that their organizational or means–end thinking is relatively unambiguous: that is, they know what to do and exercise strong control over the means to do it (March and Olsen, 1976). Another version assumes a heterogeneous leadership and actors and different kinds of means–end thinking, resulting in negotiations and compromises. This is what March and Olsen (1983) labelled 'Realpolitik' and Allison (1971) called 'governmental or bureaucratic politics'.

The second perspective on what influences decision-making behaviour, covered by Jack Knott and Thomas Hammond's chapter (chapter 11) in this part, is what can broadly be labelled formal theories. This type of theory is generally based on the premise of rational individual or group actors seeking to advance their own interests through utility-maximizing behaviour. Strictly speaking, this theory is not confined to organization theory, but it has developed in certain ways that allow it to be partly included here. Some formalized models in this theoretical tradition try to explain decisions by rational actors who have more complex decision-making strategies, based partly on institutional factors and formal constraints. Theorists who come under this label are, for example, interested in how formal rules and procedures inside political–administrative bodies shape rational decision-making behaviour, how markets and hierarchies can be blended and how the environment can be made negotiable to modify insecurity (Coase, 1937; Hammond, 1990; Williamson, 1975).

A third branch of organization theory, covered mainly in Jean-Claude Thoenig's chapter, is the cultural–institutional perspective, which is closely associated with Selznick's work (1949, 1957). According to this perspective, public organizations gradually develop into institutions, infusing and adding values to the formal framework. This process of institutionalization and adaptation gradually produces certain informal norms and values that go further in explaining decision-making behaviour than formal norms. Public administrative bodies develop different and unique cultures, characters or 'souls' through this process. This theory combines different types of institutional theories (Peters, 2011): theories of historical institutionalism (Steinmo et al., 1992), which emphasize historical roots and path dependency, sociological theories of institutionalism, like those represented by Selznick, and theories of normative institutionalism, like March and Olsen's (1989) theory of appropriateness, where public institutions are seen in a broader normative democratic context as integrating, shaping and developing actors on a collective basis.

The fourth type of organization theory, presented primarily in Karen Hult's chapter (chapter 12) but also in Thoenig's (chapter 10), revolves around the belief that the environment drives decision-making behaviour. Public administration and its actors can, of course, influence their environment as well, but here the focus is on the environment influencing the public administration. This type of theory can be divided into two parts. One is primarily concerned with the 'technical environment', as discussed by Hult, and how the internal organization of the public administration – its structure, function, roles and resource allocation – is dependent on relevant actors in the environment and their demands and organization. Typical theories here are contingency theories and resource-dependency theories (Lawrence and Lorsch, 1967; Pfeffer and Salancik, 1978). The other main type focuses on the 'institutional environment', as also discussed by Thoenig, and stresses that a complex olitical–administrative system creates a demand for some simple 'rules of thumb' (Meyer and Rowan, 1977; Powell and DiMaggio, 1991). These are defined on a macro level through the creation of myths: that is, ideas based on some kind of social-constructivist tradition. It is assumed that certain organizational models, budget or planning systems, types of knowledge, etc., are 'appropriate' for public administrations (March, 1994). A structure of dominance is created for these ideas, often supported by public authority centres or professional groups 'certifying' them, and public organizations have to adapt to them, at least on the surface. Brunsson (1989) emphasizes that the two types of environment and their demands

have to be in balance, often in different ways in different organizations, something that strengthens the legitimacy of the public administration. Public leaders have to act, take decisions and deliver services, but they can also gain from 'double-talk': that is, also talking as if they intend to act, even if they have no intention of doing so and no idea of what to do if they run into problems of implementation.

The distinctions between the different types of organization theory implied by the structure of Part 3 of course offer no clear-cut categorization of the different theories, but that is not the purpose here. Theories may combine elements of bounded rationality, culture and myths, like the broad institutional theory of March and Olsen (1989, 1995); they may mix elements of structure and culture with internal and environmental factors, like Selznick (1957) does; or else myth theories may be combined with structural elements, as Brunsson (1989) does. The institutional theories of Pierson (2004) and Thelen (Mahoney and Thelen, 2009) that have been increasingly influencial in the last decade are also examples of blending formal and institutional theories.

Another distinction between the theories outlined here is the level on which they focus. The theory of bounded rationality, for instance, often focuses on the micro level and on individual decision makers, while the formal framework in which these actors operate is the organizational or sub-organizational level. Social choice theories have some of the same focus, while cultural theories combine theoretical ideas at the organizational or meso level with elements from the task environment. Environmental theories of a technical nature share the focus on task environment with central cultural theories, while myth theories often focus on phenomena at a macro or organizational field level but relate these to effects and implications on an organizational level.

The theories presented also vary in how they believe public administrative units become established and change. Bounded rationality and social choice theories both perceive such processes as the result of the intentions of certain actors, such as political and administrative leaders, and as such the result of design and strategy. However, they differ concerning the importance of self-interest and the formal structure that shapes intentions and actions. Cultural theories see change processes as the gradual and incremental evolution of public units, while the theories of both the technical and institutional environment have typical elements of determinism: that is to say public administrations have to adjust to their environment and do not have much leeway. It is also worth pointing out that cultural theories, at least of the Selznick type, mainly emphasize uniqueness, variety and divergence in public administration, while myth theories and certain other environmental theories, like population ecology, often stress isomorphism and convergence, i.e. public administrative units are becoming more similar (Scott and Davis, 2006).

THE DEVELOPMENT OF THEORIES AND THE VARIETY OF TRADITIONS

It is always difficult to describe the development of theory, in this case organization theory for the study of public administration, because theories very seldom appear in neat categories in specific periods. Instead they overlap, sometimes run parallel, disappear, are revived in new versions and so on. Therefore, typologies will always need to bend reality to some extent and post-rationalize. In our case it is also a problem that a strand of theory may develop in one period as a more general theory but be more specifically related to studies of public administration at a later stage.With all this in mind, this section offers a chronology of the four types of theory mentioned.

Early studies of public administration, or political–administrative systems in general, were often oriented towards the judicial–constitutional framework: in other words, to the more formal aspects of such systems (Peters, 2011). However, it was not until Gulick (1937) advanced his theory, based on Weber and Fayol, about the effects of principles of specialization and coordination in public administration, that public administration was associated with any particular organization theory. The breakthrough, in the form of the theory of bounded rationality, came in 1945, with Simon's *Administrative Behavior*, but was also developed by March and Simon (1958) and Cyert and March (1963). What was distinctive about this development was that it combined organization or decision-making theory with political science or political theory. According to March (1997), this tradition was later lost or partly disappeared in the United States, but it has survived in parts of Europe, particularly in Scandinavia (Christensen and Lægreid, 1998).

Scott (2007) sees the roots of institutional theory in the economics of the late nineteenth and early twentieth centuries, in Germany and the United States, and concludes that this theoretical tradition, which questions the simplistic assumptions of a model of economic man by adding the social context of economic processes, had more in common with later sociological and anthropological theories of institutions than with the new institutional economics. With the emergence of the theory of new institutionalism in economics in the late 1930s, many of the traditional institutional factors were disregarded. The empirical focus was also primarily the firm and the market. When formal theories started to be applied to studies of public institutions from the 1970s onwards, seeing them as governance or rules systems, this implied both a theoretical and an empirical extension of new institutionalism in economics and related theories. They did not, however, discard the main premises of the theory regarding the factors driving actors or similarities between the public and private sectors. Studies of public administration using this approach began during the 1990s (Peters, 2011).

Selznick (1949, 1957) developed his cultural–institutional theory in organizational sociology parallel to the main works on bounded rationality. His work was historically rooted in the theoretical developments of the 1920s and 1930s and specifically connected to the Human Relations School and Barnard's (1938) work but also to contemporary theoretical developments, like Parson's (Scott and Davis, 2006). He embraced the tradition of looking at formal organizations as social systems with complex goals and social needs besides instrumental goals and of stressing the importance of informal norms and integrative features. His work was revived in the 1980s and 1990s, both in organizational sociology and in political science theory, by people like Scott (2007; Scott et al., 2000) and March and Olsen (1989).

Even though influential theorists, like Goffman, and Berger and Luckman, published interesting work in the social–constructivist tradition in the 1960s, it was not until 1977 that Meyer and Rowan (1977), in a pioneering article, formulated a systematic myth theory in organization theory. During the 1980s and 1990s this strand of theory, often labelled the 'new institutionalism', was developed further by many scholars (Powell and DiMaggio, 1991; Scott, 2007) and became more specifically connected to studies of public administration (Brunsson, 1989).

Another, more challenging and perhaps speculative way of looking at the development of the organization theory of public administration is to relate it to the characteristics of the political–administrative structure and cultural traditions in different countries. This can only be done by grouping the political–administrative systems in different countries into some broad categories and indicating possible connections. At the one extreme, the political–administrative system in the United States is characterized by extreme structural and cultural fragmentation and complexity, by a small public sector, by

a cultural tradition that caters more to the private sector, efficiency and individual rationality and by greater hostility and mistrust towards politicians and civil servants than elsewhere (Christensen and Peters, 1999). This seems to be reflected in the very complex body of organization theory for public administration generated in the United States, which ignores grand theories of the state and tends instead to emphasize theories like formal theories, which portray strategic actors operating in their own interests in a fragmented system with few integrative features. The emergence of myth theory in the United States can also be seen as a reflection of the fragmented nature of the system: that is, there is a need for symbols capable of integrating the system. The development of organization theory in the United States is, of course, not without collective features, which we find both in theories on organizational rationality and in cultural–institutional theory, but these features are relatively weaker than in, say, the Anglo-Saxon countries that are generally considered to belong to the same type of tradition.

At the other extreme are the features of the political–administrative systems in Scandinavia. These are countries that are much more homogeneous structurally and culturally, attend much more to collective norms and values and less to individual rationality and efficiency, and place greater emphasis on integrating societal groups in public decision making, even though some of these features are slowly beginning to change. These characteristics seem to be reflected in the historically strong position of theories on organizational rationality and cultural–institutional theories. A specifically Scandinavian version of institutional theory has emerged over the past two decades that is characterized by a blend of culture and myth theory (Forsell, 2001). Some Continental European countries have much in common with Scandinavia concerning the structure and culture of the political–administrative system, with strong and centralized states and an emphasis on collectivity. This is also reflected in the way their theory of the public administration has developed. As Thoenig points out in his chapter (chapter 10), France was rather early in developing a cultural–integrative tradition in organization theory (Crozier, 1964). Unlike the United States, neither Scandinavia nor Continental Europe have a particularly strong tradition of formal theorists working in the field of public administration.

INCREASED COMPLEXITY IN THEORIES AND PUBLIC ADMINISTRATION?

Organization theories of public administration seem in some ways to have grown more complex, both concerning the number of theories developed, the internal differentiation of each theory and the growing number of combinations of different theories. This may reflect the increasing complexity of political–administrative systems and decision-making processes. Civil service systems are more specialized than before, both horizontally and vertically. New and hybrid structures have developed both inside the public apparatus and in its links with the private and societal sectors (Christensen et al. 2007). Traditional political–administrative cultures have been partly transformed and new norms and values have appeared, blending or melding with the old ones. Public decision-making processes currently involve actors with more ambiguous mandates, involve more and different types of actors and there are more connections over time between levels and institutions. Moreover, decisions are more often appealed or changed in the implementation phase, either because of changing conditions or because actors would like to change the content of policies. All this may lead to a more differentiated set of theories that one can combine to understand the workings of public administration.

Another, rather different way of looking at the development of both the theory and practice of public administration is to take New Public Management as a point of departure. NPM has spread all over the world, albeit more in the form of ideas than in practice in some countries, but it is still widely influential. Boston et al. (1996) stress in their book about NPM in New Zealand that there is a close connection between the theories of reform and the actual implementation of reform measures: that is to say the reforms are theory-driven to a large extent. The theories behind NPM in New Zealand and other Anglo-American countries are primarily different versions of formal theories. They stress simplicity much more than complexity, concerning theoretical preconditions, the structure of the political–administrative system, role differentiation between politicians and administrative leaders and the unambiguous chain of command and they attach importance to clear goals and means, efficiency and rationality. An interesting question is whether the simplification of theory also leads to the simplification of practice in the political–administrative system or whether it actually generates more complexity (Christensen and Lægreid, 2001). During the last decade, the trail-blazing NPM countries have experienced post-NPM features with increasing centralization and coordination, modifying and supplementing NPM (Christensen and Lægreid, 2007). This has revived both structural theories based in bounded rationality, but also seen (for example) network-oriented theories emerging.

The example of NPM and post-NPM illustrates how organization theory can lead more directly to certain ways of organizing the public administration. What the coming chapters should ideally do is to cover how the different theories have been applied in studies of political–administrative systems more generally, and public administration specifically. It is beyond our reach to give a comprehensive overview of such studies, so the different chapters instead give representative examples of empirical studies within each theoretical tradition.

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9

How Bureaucratic Structure Matters: An Organizational Perspective

Morten Egeberg

This chapter analyses the relationship between bureaucratic structure and actual decision behaviour within government. Thus, the chapter does not deal with the role of the executive in the political system, but focuses on how the organizational structure of a government bureaucracy might intervene in the policy process and, eventually, shape its outputs. The relationship is crucial. The extent to which organizations or institutions impact on individual actors' interests and preferences attracts enduring scholarly interest and debate. At the same time, the topic is of great concern to practitioners who want to know how organizational design and redesign could affect agenda setting, coordination, choices and implementation in their ministries or government agencies. Nevertheless, a previous review of relevant literature revealed that our theme has clearly not attained the scholarly attention it deserves (Egeberg, 1999). It appears much easier to find studies on bureaucratic structures, on how such structures have emerged and on administrative behaviour itself than on the *relationship* between structure and actual decisions (cf., for instance, Derlien, 1992; Farazmand, 1994, 1997; Hesse, 1995; Page, 1995; Bekke et al., 1996; Nelson, 1996; Peters and Wright, 1996; Ferlie et al., 2005; Kettl, 2006).

This chapter's theoretical approach draws heavily on 'bounded rationality' (March and Simon, 1958; Simon, 1965). There are strict limits to the mind's cognitive and computational capacities. Not everything can be attended to simultaneously. Individuals act in an extremely information-rich environment but before information can be used by an individual it must proceed through the bottleneck of attention, meaning that rather few facets of a multi-faceted matter are considered in decision making (Simon, 1985: 302). Thus, since policy makers base their choices on highly simplified models of the world, it becomes crucial to understand the operative selection mechanisms and filters. An organizational perspective highlights the

role of a decision maker's *organizational* context in this respect by paying attention to an organization's structure, demography and locus (cf. below).

Theorists seem to agree that organizations and institutions might affect individual actors' strategies. They disagree, however, on how interests and goals themselves are shaped and reshaped. While rational choice institutionalists consider preference formation as exogenous to their models, other institutionalists argue that interests are endogenously forged (March and Olsen, 1996; Peters, 1999). From an organizational perspective, organizations and institutions are capable of endowing individual actors with goals and interests, provided that certain organizational features are in place. What decision makers know and believe is also partly determined by their organizational position (Simon, 1999: 113). Since preference and identity formation are vital aspects of political life, the study of politics and administration cannot rely extensively on approaches that do not accommodate these phenomena into their models.

The next section will present what can be seen as the key variables of an organizational perspective. Although the empirical part of this chapter focuses on the impact of bureaucratic (organizational) *structure*, it is useful to present the other key variables as well, since this provides us with a more solid background for interpreting the observations referred to.

ORGANIZATIONAL KEY VARIABLES

Organizational structure

An organizational structure is a normative structure composed of rules and roles specifying, more or less clearly, who is expected to do what, and how (Scott, 1981). Thus, the structure broadly defines the interests and goals to be pursued, and the considerations and alternatives that should be treated as relevant. The 'relevance criteria' embedded in role expectations guide search processes, and bias information exposure. Thus, normative structures forge information networks for the development of agendas, alternatives and learning. Since a decision maker is unable to attend to everything simultaneously, and to consider all possible alternatives and their consequences (cf. 'bounded rationality'), it seems to be a perfect match between demands for simplification, on the one hand, and the selection and filter that organizations provide, on the other (Simon, 1965; Augier and March, 2001). The structure can therefore never be neutral; it always represents a mobilization of bias in preparation for action (Schattschneider, 1975: 30).

What reasons then do we have to expect that people will comply with organizational norms when they enter an organization? First, they may feel a moral obligation to comply. Modern cultures, emphasizing impersonal relationships and 'rationalized' codes of conduct in organizational life, assist individuals at separating their private interests from those emerging from their capacity as employees or representatives. Second, they may find compliance to serve their self-interest. Organizations are incentive systems that inform members at lower levels of their potential career prospects, thus inducing them to adapt autonomously to role expectations and codes of conduct. And managers may apply rewards and punishments to achieve obedience. Finally, social control and 'peer review' by colleagues are supposed to minimize deviant behaviour. Thus, these mechanisms do not imply that organizational members give up their private interests when they enter an organization. However, personal policy preferences are, due to compensation, put aside and are thus supposed to be of minor importance in explaining *organizational* behaviour. Even if the mechanisms fail, it could be argued that participants would be unable to define and operationalize their genuine private interests in any meaningful and coherent way. One obvious exception to this could, however, be decision processes that impact more directly on their career prospects: for example, reorganization processes.

I now turn to various dimensions of organizational structure. The *size*, the sheer number of roles that are to be filled, may indicate an organization's capacity to initiate policies, develop alternatives, or to implement final decisions. *Horizontal specialization* expresses how different issues and policy areas, for example transport and environmental protection, are supposed to be linked together or decoupled from each other. Those areas that are encompassed by the same organizational unit are more likely to be coordinated than those belonging to different units (Gulick, 1937). However, in a hierarchy, separation of issues at lower levels only means that coordination responsibility is moved to higher echelons. According to Gulick (1937), there are four fundamental ways in which tasks may be distributed horizontally among units: namely, in relation to *territory*, *purpose (sector)*, *function (process)* or *clientele served*. If, for example, an organization is internally specialized according to the geographical area served, it is expected to induce spatial perspectives and encourage policymakers to pay attention primarily to particular territorial concerns and 'intra-local' policy coherence. In this case, the structure reflects the territorial composition of the system and focuses attention along territorial lines of cleavage. Organizations based on *purpose*, on the other hand, are supposed to foster sectoral horizons among decision makers and policy standardization across territorial units. Functionally arranged bureaucracies are specialized according to affairs such as legal, technical, economic, planning, and so on.

In order to ascertain the basic specialization principle of an organization, one should look at the highest level of the organization. *Vertical specialization* deals with the intended division of labour across hierarchical levels within or between organizations. The structure may express whether *coordination* is supposed to be *hierarchical* or *collegial*. 'Collegiality' usually means that decisions must be reached through arguing, bargaining or voting rather than through command. Most government organizations are basically hierarchical. However, collegial bodies in the form of committees, task forces, project groups, etc., increasingly seem to complement hierarchical structures. Thus, since organizational units are in this way woven together more densely than before, horizontally as well as vertically, a kind of network administration emerges (Kickert, 1997; Bogason and Toonen, 1998; Rhodes, 2000). Committees usually engage people only on a part-time basis, though (*secondary affiliation*). Most participants remain primarily attached to another organization. Still, committee members may be affected to some extent by being exposed to new agendas, alternatives and actors. We would expect the impact to be less profound, however, than in organizations to which persons have a *primary affiliation*. Finally, an organizational structure may be more *ambiguous* or *loosely coupled* than other structures, thus facilitating innovative behaviour, flexible responses and extensive policy dynamics (Landau, 1969; March and Olsen, 1976; Hood, 1999). Enduring tensions and unresolvable conflicts may also be dealt with more intelligently through ambiguous designs (Olsen, 1997).

Organizational demography

According to Pfeffer (1982: 277), demography refers to the personnel composition, in terms of attributes such as age, gender, ethnicity, nationality, education and length of service within the social entity under study. Such factors are supposed to impact decision behaviour, although the strength of potential effects must depend on characteristics of the organizational structure: for example, how 'demanding' and explicit it is (Meier and Nigro, 1976; Lægreid and Olsen, 1984). In general, except for education, background factors do not seem to have a strong effect on decision behaviour (Suvarierol, 2008;

Christensen and Lægreid, 2009). Even more, a wide variety of socialization experiences are not relevant to policy disputes and thus are unlikely to reveal a representational linkage (Selden, 1997: 65). One may say that the demographic perspective emphasizes the effects that flows of personnel (career patterns) might have on their decision behaviour. Whereas the effects of organizational structure are thought to occur without any socialization of personnel, the impacts of demographic factors are closely related to *socialization*. Socialization usually means that values, norms and role expectations have become internalized in individuals. New recruits arrive 'pre-packed' with images and attitudes acquired over the years in particular social, geographical and educational settings. With increasing length of service in an organization, they may, however, become resocialized. Socialized organizational members *identify themselves strongly* with a particular organization, and are supposed to advocate its interests 'automatically' in the sense that these interests are 'taken for granted'. Arguably, the extent to which an organization must rely on external control mechanisms (incentives and sanctions) depends on the extent to which decision makers have become socialized within that same organization.

Considered as individual attributes, only length of service can, in a strict sense, qualify as a real *organizational* factor among the demographic variables mentioned. However, this becomes different if we instead deal with *proportions* of a given organizational population that come from, for example, different regions or professions. Clusters, or 'enclaves', seem to make it more likely that particular group interests might be pursued (Selden, 1997).

Organizational locus

The physical dimension of organizational life has not been emphasized in the literature (Goodsell, 1977; Pfeffer, 1982: 260–71). However, most organizations are located in particular places and buildings. First, location and physical space segregate personal lives and their associated role conceptions and identities from organizational roles and identities and may also help to separate various organizational roles from each other where actors have multiple organizational affiliations. Second, physical distance seems to be negatively related to degree of contact and coordination within ministries (Egeberg, 1994). The reason is probably that the contacts most sensitive to physical distance, i.e. unplanned encounters between decision makers, disappear when activities are spread among different ministry buildings. Similarly, the autonomy of government agencies does not seem to depend on whether they are located in the political centre (capital) or not: this is because agencies in the centre also are located at a distance that in practice excludes (unplanned) encounters with ministry personnel (Egeberg and Trondal, 2011a).

METHODOLOGICAL NOTE

The empirical studies used here mainly include research on central government bureaucracies at the national level and how their structures affect *substantive* policy making. However, reference is also made to studies of international administration. 'Substantive policy making' is the kind of policy making most officials are supposed to engage in most of the time. On the other hand, policy making dealing with aspects of the administrative apparatus itself – its structure, personnel composition, physical structure and location – is called 'administrative policy making', but is not considered in this chapter. Neither is how bureaucratic structure might affect citizens' trust in government and the overall legitimacy of the political system dealt with (Olsen, 2005).

Which criteria have been used for selecting the relevant empirical studies? First, to merit inclusion a study must focus explicitly on the relationship between organizational structure and the actual decision behaviour of officials. Second, the study's data sources and the method applied for analysing the data should be clearly stated by the author(s). Third, the observed relationships should be meaningful and understandable theoretically: that is, they should be possible to subsume under one theoretical dimension or another. Government reports on reform evaluation generally fail to meet these criteria. So does some work of social scientists. We could be more conscious of the extent to which statements of an empirical nature are really based on systematic research, or are more loosely founded, or are merely meant to be assumptions. In order to substantiate postulates empirically, scholars often refer to the works of other researchers without separating clearly between research that is 'really' empirical in its character, on the one hand, and works that are primarily of a theoretical or 'impressionistic' nature, on the other.

Research on the relationship between organizational structure and actual decision behaviour seems to have taken place *against the mainstream* of contemporary scholarly work in the field. Volumes and single articles aimed at reviewing the state of the art of public administration research have little to say about the relationship focused on in this chapter (cf. for instance, Derlien, 1992; Farazmand, 1994, 1997; Hesse, 1995; Page, 1995; Bekke et al., 1996; Nelson, 1996; Peters and Wright, 1996; Ferlie et al., 2005; Kettl, 2006). Hood and Dunsire (1981) concluded their 'bureaumetrics approach' book by saying that investigating this relationship was the important *next* step. Fourteen years later, their compatriots Martin J. Smith et al. (1995: 50), in their review of research on British central government, ascertained that many scholars appear content to describe the structural changes and problems with implementation rather than dealing with how these changes affect the internal politics of the departments and the policy process. Thomas Hammond (1990) argues that one reason for this lack of systematic empirical research on the relationship between bureaucratic structure and actual decision behaviour may be found in Herbert Simon's criticism of the so-called classical school of administrative theory. Thus, the widespread belief that Simon had definitely won the duel in the 1940s may have contributed to the lack of studies on the formal structure and its implications (cf. also Augier and March, 2001). Still, European scholars may have been more focused on structure–behaviour relationships than their American colleagues, who have concentrated more on how individual attributes are linked to organizational performance (Peters, 2011). It should be mentioned, however, that two recent books reporting from large-scale projects on government agencies in several countries focus heavily on structure–behaviour relationships (Lægreid and Verhoest, 2010; Verhoest et al., 2010).

EMPIRICAL EVIDENCE

The impact of horizontal specialization

In theory, structural designs are expected to 'route' information exchange, coordination processes and conflict resolution. Thus, how we draw organizational boundaries should determine which problems and solutions policy makers become aware of, and at which level in a hierarchy various concerns are considered simultaneously, or are allowed to be sheltered from other interests. But do organizational boundaries really matter? Let us first take a look at aspects of *horizontal* specialization.

Studies reveal that contact patterns and exchange of information largely reflect the organizational structure of the administrative apparatus. The flow of information diminishes across organizational boundaries (Lægreid and Olsen, 1984; Larsson, 1986;

Gerding and Sevenhuijsen, 1987; Petterson, 1989). Extensive use of e-mail from the 1990s does not seem to have changed this close relationship between structure and behaviour (Christensen and Lægreid, 2009). Scharpf (1977), in his study of the German Federal Ministry of Transport, found that 'objective' needs for coordination across divisions were recognized by the ministerial bureaucracy itself and reflected in the patterns of information exchange and participation between lower-level organizational units. Further empirical analyses showed, however, that the existing division structure caused serious information deficits and conflicts over substantive policy as well as over jurisdictions. Data indicated that perceived deficits in information supply were four times as likely to occur in interactions across divisions than within divisions; that conflicts over policy substance were more than twice as frequent in inter-divisional interaction; and that conflicts over jurisdiction had a 50 per cent higher probability of occurring in interactions between divisions than within divisions (1977: 62). Scharpf concluded that organizational boundaries may not prevent interaction, but they seem to create semi-permeable walls which impede the flow of information (on the demand side as well as on the supply side) and which reduce the capacity for conflict resolution in the case of substantive and jurisdictional conflict.

The drawing of organizational boundaries *between* as well as within ministries tends to bias the allocation of attention and the formation of preferences and identities (Allison, 1971; Rhodes and Dunleavy, 1995). Broad interministerial interaction is typical for officials affiliated with units like the prime minister's office or the ministry of finance (Campbell and Szablowski, 1979). In general, officials' contacts across organizational units have a strong, positive relationship with their participation in working groups and task forces (Stigen, 1991), and with their ranks (Lægreid and Olsen, 1984; Jablin, 1987).

Strictly speaking, the synchronous research designs of most of the studies dealt with so far make it rather problematic to infer anything about a cause–effect relationship between structure and policy. Fortunately, however, we also find studies in which behaviour has been observed *subsequent to* a reorganization. If behavioural changes can be traced under this circumstance, it is more likely that a cause–effect relationship really exists.

Splitting divisions in a hierarchy means in theory to move processes of coordination and conflict resolution upward in the organization, thus making it more likely that higher-level leadership gets involved. Mergers, on the other hand, are supposed to push such processes downward, thus relieving higher levels of some of their workload (but as a result less insight will be available at the top in this particular issue area). Results from a study of ministerial reorganizations give some support to these expectations. Egeberg (1994) observed that officials affiliated with divisions that had been split experienced less conflict, whereas those in merged divisions tended to experience more conflict. In the first case, conflicts did not disappear they became 'externalized' (they moved upward), whereas in the second case, conflicts were 'internalized' (pushed downward). A study of bureaucratic mergers by Hult (1987) supports these findings. She also discovered that departmental mergers had an impact on the relations with client groups. As more concerns and interests had to be taken care of by the merged unit, external networks became more differentiated, and established 'iron triangles' were challenged and diluted.

In order to illuminate the behavioural consequences of various principles of specialization, European Union (EU) institutions provide an exciting laboratory, and particularly so pertaining to whether a body is structured according to territory or according to a non-territorial principle of specialization, such as sector or function. On the one hand, an inherited intergovernmental order is clearly reflected in the way the Council of Ministers and the European Council is arranged.

The bodies of ministers and heads of government at the top neatly mirror the territorial composition of the system, each member state being represented by an executive politician who also has a national ministry as his or her primary affiliation. Studies show, accordingly, that decision makers mainly upload national preferences, and that patterns of cooperation and conflict tend to follow territorial (national) lines (Hayes-Renshaw and Wallace, 2006). This behavioural pattern is even more striking in the European Council, in which the territorial principle of specialization constitutes the sole principle (Tallberg and Johansson, 2008). On the other hand, the European Commission, the EU's main executive body, is basically structured according to sector and function from the bottom to the top. Thus, executive politicians at the top (commissioners) are in charge of particular sectoral or functional departments (directorates general), and they have the Commission as their primary organizational affiliation. Putting (often) former national ministers into the job as commissioner might then be seen as a critical test of the extent to which organizational structure is able to (re-)shape politico-administrative behaviour in a world most commonly perceived as basically intergovernmental. Studies do indeed indicate that commissioners behave significantly different from ministers in the Council: sectoral and supranational concerns seem to be considerably more emphasized, although national concerns are not absent (Egeberg, 2006; Wonka, 2008). At the administrative level, a departmental structure based on sector or function rather than geography tends to evoke primarily sectoral or functional identities among officials, a pattern also found in international administrations in general (Trondal et al., 2010).

Central governments may be represented at the regional level by sectorally specialized units reflecting the ministry structure, or by integrated government offices (like 'prefects'), reflecting instead the territorial composition of the system. By setting up Government Offices for the Regions (GORs) in the UK, reformers aimed at improving the coordination between the regional offices of Whitehall departments and meeting the demand for a single point of contact, thus counteracting the compartmentalized (sectoral) traditions of the civil service. Research shows that GORs in fact led to greater coordination in the regions and became important mechanisms for developing 'holistic governance' (Mawson and Spencer, 1997; Rhodes, 2000).

The impact of vertical specialization

The *internal* vertical specialization of ministries does matter. Officials' positions are positively correlated with contact with the political leadership, emphasis put on political signals, as well as with their horizontal interactions (Aberbach et al., 1981; Christensen, 1991; Aberbach and Rockman, 2000; Christensen and Lægreid, 2009). Senior officials identify themselves with larger parts of central government than those at lower echelons, who tend to perceive themselves more as section or division representatives (Christensen and Lægreid, 2009). This pattern is not without significance: those with few horizontal contacts and who identify themselves primarily with lower-level units are supposed to consider only a narrow range of problems, solutions and consequences, while those who consider themselves as parts of more overarching entities and have extensive lateral relations are likely to address broader agendas, competing demands and system-wide concerns.

Central government bureaucracies can also be specialized vertically into separate institutions at the national level, for example a ministerial (cabinet-level) department and a central (subordinated) agency (*external* vertical specialization). So-called 'agencification', i.e. entities becoming organized at arm's length from ministerial departments, has been an increasing phenomenon in many

countries (Kickert and Beck Jørgensen, 1995; Christensen and Lægreid, 2006). Where such vertical specialization exists, studies indicate that many of the same tasks are performed at both administrative levels; for example, the subordinated agencies engage in policy making by setting goals, preparing budgets, legislation and guidelines, recruiting senior officials and shaping administrative structures (Christensen, 1982; Jacobsson, 1984; Greer, 1994). Policy choices are, however, not unaffected by the organizational context in which they are made. Officials in central agencies, in contrast to their colleagues in cabinet-level departments, exercise discretion comparatively insulated from ongoing political processes at the cabinet level (Wood and Waterman, 1991; Greer, 1994; Christensen and Lægreid, 2001; Egeberg and Trondal, 2009; Bach, 2010; Painter et al., 2010; Verhoest et al., 2010). They have relatively little contact with the political leadership of the ministry, with other ministerial departments than their 'own', and with parliament. When they exercise discretion, they attach most importance to professional and expert considerations, and somewhat less importance to user and client interests. To assign weight to signals from the political leadership of the ministry is their third priority. However, their relative autonomy from the ministerial department implies that they have fewer opportunities to influence decision makers at that level. In ministerial departments, on the other hand, top priority is given to signals from the minister and, also, to expert concerns. Considerably less attention is paid to signals from user and client groups (Christensen, 1982; Beck Jørgensen, 1991; Egeberg and Trondal, 2009).

In general, then, vertical specialization seems to diminish the potential for political steering and control. Studies indicate that this loss of political direction can be partly compensated for by creating an organizational unit in the ministerial department that *duplicates* parts of the work being done in the agency (Jacobsson, 1984; Egeberg and Trondal, 2009; Verhoest et al., 2010). More drastic, integrating an agency into the ministry, or transforming an agency into a ministerial department ('vertical *de*specialization'), has been shown to enhance the political control over policy (Hult, 1987; Desveaux, 1995). Studies indicate that an agency's size (administrative capacity) may be positively related to its autonomy (Lægreid et al., 2008; Verhoest et al., 2010).

Subordinated and 'independent' agencies sometimes involve collegial structures. Such executive and advisory boards may have representatives from interest groups (clients, users, affected parties, public employees), representatives from political parties and independent experts. Executive boards at the top of agencies seem to balance and reconcile several interests and concerns simultaneously. They are arenas not only for political steering from above but also for the articulation of affected group interests and expert appraisals. The existence of such a board blurs political signals throughout the administrative apparatus, thus providing more agency autonomy (Egeberg, 1994; Painter et al., 2010; Verhoest et al., 2010). A study of a reorganization of the state/central health administration in Kansas that included the removal of the agency's own executive board shows that the agency lost its protection from political processes, previously ensured by the board (Maynard-Moody et al., 1986).

Christensen and Lægreid (2006) have, quite reasonably, questioned the robustness of findings as regards the effects of agencification. What happens if issues become highly politicized; Couldn't that mean that hierarchical control replaces agency autonomy? Studies have in fact documented that political salience tends to enhance ministerial influence over agency behaviour (Pollitt et al., 2004; Christensen and Yesilkagit, 2006; Egeberg and Trondal, 2009; Painter et al., 2010; Verhoest et al., 2010; Egeberg and Trondal, 2011b). However, although political salience and ministerial control over agencies are positively related, this does not seem to annul the original relationship between agencification (vertical specialization) and agency autonomy (Egeberg and Trondal, 2009). (On the consequences of agencification for economy, efficiency and effectiveness, see James and van Thiel, 2011.)

In the era of the so-called 'New Public Management' the external vertical specialization process has been pushed further through creating numerous commercial corporatized agencies (Wright, 1994). Thus, in order to increase efficiency and competitiveness several public services have been organized 'outside' government. One main lesson that can be drawn across countries seems to be that devolution entails a decrease in political steering capacity and authority, and that less attention is given to political considerations in 'decoupled' enterprises (Boston et al., 1996; Pollitt and Bouckaert, 2000; Christensen and Lægreid, 2001; Zuna, 2001). However, as is the case for administrative agencies, the ability to steer public companies politically depends heavily on the extent to which organizational resources are available at the ministerial level (Christensen and Lægreid, 2001).

CONCLUSION

How the executive branch of government is organized is only one factor to be considered in order to explain and understand public policy outputs. The purpose of this chapter has not been to assess the relative importance of different explanations, but rather to identify theoretical components that assign weight to bureaucratic structure, and to systematize empirical findings that shed light on how administrative structure might intervene in the substantive policy processes of central government. Until now, most students of public administration seem to have focused on behaviour and attitudes without relating them explicitly to organizational structure. They also have concentrated on structural descriptions, and on processes preceding organizational changes. From a scholarly as well as from a practical viewpoint, it is, however, more important to learn about the behavioural and policy consequences of various designs. Dimensions of organizational structure, like size, primary or secondary structure, horizontal and vertical specialization and 'collegialization', are all sufficiently definable theoretically as well as operationally, and are all, at the same time, sufficiently abstract to allow empirical observations to be transferred and aggregated across different contexts.

The dependent variable, substantive policy making, needs greater development. 'Procedural considerations', like importance attached to political loyalty or professional autonomy in this kind of policy making, make sense. The same may be said about substantive concerns derived from the principles of specialization, and about information exchange, actual coordination and conflict resolution that can be linked to different ways of structuring hierarchies. It is possible that the traditional categorization of the policy process into different stages, like formation and implementation, should be revisited. Since the implementation process often departs from already established policy programmes, or a law or regulation, it follows that less leeway is left for the bureaucratic structure to make a substantial difference in this phase than during policy formation. Concerning study designs, synchronous studies of the relationship between organizational structure and policy making within one context should be increasingly supplemented by observations made across time, and also across space.

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10

Institutional Theories and Public Institutions: New Agendas and Appropriateness

Jean-Claude Thoenig

INSTITUTION THEORY AND NEW AGENDAS

Since the 1970s public administration institutions as a research domain have increasingly opened up to contributions from other social sciences such as history, political science and sociology of organizations. The domain has become less normative and more empirical, institutions being considered as dependent variables as well as autonomous actors.

New schools of thought have emerged in academic circles. Institutional theory is a label that oversimplifies the fact that such schools are not exactly alike: they do not share the same agenda. The present chapter presents four of such streams: historical institutionalism, sociological institutionalism, new institutionalism, and local order or actor institutionalism. Each develops a more or less specific set of theoretical as well as empirically grounded interpretations. Each also covers major facets of what institutionalization processes are. Political and administrative machineries experience path dependencies. They are embedded in societal environments. They function like specific social systems. They produce social norms and cognitive references. Therefore interactions between societal change and administrative reform become key issues.

HISTORICAL INSTITUTIONALISM

Historical institutionalism as a theoretical stream emerged in the early 1980s (Hall, 1986) and was labeled as such later (Steinmo, et al., 1992). This perspective defines public administration as part of political life and questions the postulate that the state machinery functions as an undifferentiated whole and as a passive agent. Why are resources and power allocated unequally by the public sector? The essence of politics is competition for scarce resources between groups and issues. It looks much more like a complex

set of differentiated institutions, as underlined by neo-Marxist (Katzenstein, 1978; Evans et al., 1985), neo-corporatist (Anderson, 1979) and organizational theorists (Dupuy and Thoenig, 1985). The UK Treasury, for instance, is fragmented into several policy communities, each gathering public servants and private associations who share convergent views or are involved in common problem handling (Heclo and Wildavsky, 1974).

Historical institutionalism considers that outcomes of public policies do not just reflect the preferences or interests of the strongest social forces. They are also channeled by existing and past arrangements. Policy choices made in the past shape choices made today. Political and administrative organizations, conventions, and procedures regulating the relationships between economic actors and the state are therefore path-dependent. Radical and voluntary changes in public administration are to a large extent a hopeless endeavor in such contexts. Existing institutions structure the design and the content of the decisions themselves.

Institutional contexts differ from one country to another, for instance in the real power of the judiciary: this models divergent preferences and interpretations of action by the labor movement organizations (Hattam, 1993). Comparative international approaches, combining in-depth study and longitudinal research, provide a rich set of counter-intuitive observations. They also bring political conflict and social dissent back in, studying a variety of settings in which collective action implies interactions between the public sector and society at large. Some public agencies have more influence than others. They also use loosely coupled procedures that may contradict or conflict. Other institutions such as trade unions, or economic associations of employers or farmers, may also generate public order and political legitimacy (Rose and Davies, 1994). Historical and comparative lenses observe that public institutions influence administrative and socio-political players in two major ways. They offer some degree of predictability about the issues discussed. And they also define models of behaviors and sets of protocols that are rather stereotyped and ready for immediate use. In other terms, public agencies provide moral and cognitive frameworks that allow their own members, as well as third parties, to make sense of events and to act in specific circumstances. They supply information. They shape the identity, the image of self and the preferences of administrative and political elites.

The implications of such findings are hardly irrelevant. Institutional designs do not reflect intentionality. Criteria used at the time when public policies and organizations were initially designed rapidly vanish. Political stakes and coalition games take over and determine outcomes. A model of punctuated equilibrium posits that public institutions simply respond to changes in the external power balance within society (Krasner, 1984).

Whereas older forms of institutionalism postulated that institutions shape policies and politics, historical or longitudinal approaches underline the fact that politics and policies shape institutions. Public institutions are taken for granted and provide the infrastructure for collective action. Acquiring the status of social conventions, they are never questioned. As social constructs, they resist any incremental change or any reform made by any single actor (Graftstein, 1992).

Although the logic of path dependence and persistence are central to historical institutionalism, developments in this approach have tended to include change more effectively. Historical institutionalism did include a means for large-scale change – the concept of 'punctuated equilibrium.' For example, the work of Streeck and Thelen (2005) demonstrates how more gradual changes can alter institutions while maintaining many of the fundamental aspects of those institutions.

SOCIOLOGICAL INSTITUTIONALISM

Selznick's study of the Tennessee Valley Authority was a pioneering step in sociological institutionalism perspectives (Selznick, 1948, 1949).

Public agencies as organizations are considered as institutional actors in as far as their field units appropriate and promote values and interests that are embedded in the local communities in which they operate, and not just as machines implementing goals and values defined by a principal.

A first lesson is that incongruities may exist between the declared ends and those that the agency actually achieves or seeks to achieve. It pursues self-support and self-maintenance goals, as well as productive ends. It turns into a polymorphous system whose struggle to survive induces it to neglect or to distort its goals. Public bureaucracies possess a life of their own and even become active entrepreneurs. People who participate do not act solely in accordance with their assigned roles. Therefore public management is not limited to the art of designing formalized structures, but also considers the way participants are influenced, transformed and completed by informal structures. What happens at the bottom of the hierarchy, in grassroots-level units, matters a lot, in some cases even more than what happens at the top. A public bureaucracy must cope with the constraints and pressures applied by the outside local context in which it operates.

A second lesson is that institutionalization involves processes through which the members of an agency acquire values that go beyond the technical requirements of organizational tasks. No organization is completely free of values: 'to institutionalize is to infuse with value beyond the technical requirements of the task at hand' (Selznick, 1957: 17). It is induced by selective recruiting of personnel, by establishing strong ties or alliances with outside groups through processes such as implicit alliances, sharing common values or cooptation of local partners. Thick institutionalization is achieved when some rules or procedures are sanctified, when some units or members of the public agency become semi-autonomous centers of power and develop their own vested interests, when administrative rituals, symbols and ideologies exist. Public institutions develop in a gradual manner. They become valued by their members and by outside vested interests for the special place they hold in society.

The real birth or revival of sociological institutionalism occurred in fact about 40 years later (Meyer and Scott, 1983). It endorses some hypotheses already suggested by Selznick. Organizations must cope with the constraints and pressures applied by contexts in which they operate. Nevertheless, it also suggests alternative approaches.

While Selznick emphasized processes such as group conflict and cooptation of external constituencies, the new generation of sociologists downplay their importance. They emphasize the importance of constraints such as conformity and legitimacy imperatives. They also locate irrationality in the formal structure itself, not only in informal interactions such as influence patterns.

While Selznick favored a meso-level perspective and studied a single public agency, the Stanford school is more macro-oriented and hyper-deterministic: ideologies and values that are dominant at a societal level or global level induce institutional uniformity at the meso and at the local level. Wide cohorts of single organizations – defined as organizational fields – are studied to test how they are shaped by external values. The field is examined as a whole, as an activity making rules, and defines an institutional context within which each single organization plots its courses of action: sets of public art museums (DiMaggio, 1991), private and public elementary schools, healthcare programs (Scott and Meyer, 1994).

Compared to historical institutionalism, the sociological perspective defines institutional broadly. Beside formal rules and procedures, it includes symbols, moral models and cognitive schemes. Institutions provide frames of meaning which guide human action and therefore are similar to cultural systems. Institutionalization is a cognitive process that models the sense people give to events or acts. Institutionalized myths are central to explanation. Formal structures should be

understood as composed of myths and ceremonies (Meyer and Rowan, 1977), influencing the conduct of public administrators not only by influencing what they have to do but also by shaping the imagination of the actors about alternatives and solutions. Society or culture as a whole determines the acts and non-acts, the structures and the values of the public sector.

Many organizations, whether public or private, adopt formal structures, procedures and symbols that appear identical. Diffusion processes are characterized by institutional isomorphic change (DiMaggio and Powell, 1983). Mechanisms such as coercive isomorphism (change results from pressures exerted by political influence or by outside organizations considered as legitimate), mimetic isomorphism (uncertainty and ambiguity about goals or technology increases the adoption of imitation conducts) and normative isomorphism (the influence of individuals belonging to the same profession or having followed the same educational processes) accelerate similarities. Designing institutions that are radically different from the existing ones becomes an illusion in a world that constrains autonomy of choice and limits action-oriented imagination.

Public organizations, therefore, prefer not to be innovative because conformity reinforces their political legitimacy or improves the social image of their members. Values recognized by their environment drive transformation more than instrumental rationalities increasing efficiency or effectiveness. In the long term, more diversity or competition between alternative organizational models is possible (Kondra and Hinings, 1998).

To explain radical organizational transformation, the concept of archetype is used, referring to a configuration of structures and systems of organizing with a common orientation or underlying interpretative scheme. Evolutionary change occurs slowly and gradually, as a fine-tuning process within the parameters of an existing archetype (Greenwood and Hinings, 1996). Organizational change may also happen swiftly and affect all the parts of the organization simultaneously. It is associated with interactions between exogenous dynamics – or institutional contexts – and endogenous interests, values and power dependencies. Pressures for change are precipitated under two conditions. Inside, group dissatisfaction with accommodation of interests within the existing template for organizing are coupled with values. Outside public agencies, exogenous dynamics exist, pushing for an alternative template. Deinstitutionalization processes occur (Oliver, 1992), in which practices erode or face discontinuity or rejection over time.

NEW INSTITUTIONALISM

New institutionalism as an explicit school of thought finds its origins in a paper published by two political scientists (March and Olsen, 1984).

Government is in the business of forming its environment, not adapting to it. Public administration is driven by societal visions and political projects. Therefore, organizations that handle public affairs should be 'conceptualized as institutions rather than as instruments' (Brunsson and Olsen, 1997: 20). They generate and implement prescriptions that define how the game is played. Who is a legitimate participant? What are the acceptable agendas? Which sanctions should be applied in case of deviations? Which processes would be able to induce actual changes? The way people think, interpret facts, act and cope with conflicts are influenced and simplified by public administration. Do public administration reforms match societal needs? And do they also help and enhance democratic participation?

New institutionalism considers dangerous the very idea that it is possible to reform and control public organizations top down and with a technocratic style. Social science research has to make explicit the less than convincing axioms or hypotheses underlying and legitimizing reforms. New Public Management approaches, for instance, are based on widely accepted postulates inspired by neo-liberal economics – rational choice, agency theory – and that are supposedly generally relevant. Contextualism is a perspective stipulating that politics is a component of society – the mere product of factors such as social classes, culture or demography. Reductionism postulates that political phenomena are mere consequences of individual behaviors: the functioning of a public agency is explainable by the behavior model of the single bureaucrat. Economic utilitarianism implies that conducts of individuals are basically driven by their own selfish interest. Functionalist approaches adopt Darwinian views: historical evolution selects the organizational forms that fit the environmental requirements and kills those that do not. An instrumental perspective claims that the core role political life fulfills is to allocate scarce resources and that it is therefore legitimate to rationalize the criteria of choice governments and budgets use.

The founders of new institutionalism suggest alternative ideas or hypotheses to such perspectives. They question how far organized action can be planned as the product of design or authoritarian will, and to what degree some public order is achievable in pluralistic societies. Public institutions may experience a large degree of autonomy and follow logics of their own, independent of outside influences or requirements. The historical process happens to select organizational forms that are not always efficient. Symbols, myths and rituals have more impact upon political and administrative events than immediate, narrow and selfish economic or power interests.

In other terms, the logic of consequentiality is an illusion. Action in organizations is not to any great extent instrumentally oriented, and only bounded rationality is available. Public administrators make decisions according to some criterion of satisficing. They make tradeoffs between the content of the problem they address and the level of uncertainty they face in real time.

In order to understand how policy making really is processed and handled inside organizations, new institutionalism provides an analytic grid. Empirical observation should consider three fundamental dimensions or aspects: the goals the various units pursue; the way information, opportunities and support are mobilized for action taking; and the choice of decision processes at work. It should identify how far, in a given action set, four main mechanisms may exist: conflict avoidance behaviors; uncertainty reduction processes; problem solving as solutions seeking and finding initiators; and organizational learning dynamics through former experience and rules of attention allocation.

In fact, public organizations function like political arenas. Power issues and power games model their functioning and their policies. Collective goals do not necessarily exist that would provide common references subsuming individual goals or particularistic preferences. Therefore, institutional devices are needed in order to channel opportunistic behaviors and ensure some collective stability.

Two basic socialization mechanisms make behaviors more predictable, provided that they channel the potential risk factor human behaviors represent. One mechanism is induced by organizational routines and by the presence of pre-existing institutions. As underlined by organizational sciences, actors select their conducts according to a logic of appropriateness or conformism (March and Olsen, 1989). The implication is that routines or legacies from the past are powerful sources of integration, and create risk-adverse conditions for collective action. A second mechanism is generated by cognitive patterns and values that are diffused along institutionalization processes. Action mobilizes cultural elements used as frameworks by the various stakeholders. Actors fulfill identities by following rules that they imagine as appropriate to the situation they face and are involved in.

New institutionalism suggests a theory of learning in ambiguous environments. It predicts and explains how and why in a specific

action context individuals and organizations try to reach some degree of understanding of the context they face (March and Olsen, 1975). It analyzes why each of them allocates attention, or not, to a particular subject at a given time, and studies how information is collected and exploited (March and Olsen, 1976).

This platform gave birth in 1988 to a research consortium involving American and Scandinavian scholars. More than 30 field studies were conducted on public sector organizations, especially in Sweden and Norway (Christensen and Lægreid, 1998b). Reforms of various kinds were observed, such as introducing corporate strategic planning in the relationships between the national government and state agencies, running a public rail company in a decentralized way and with a strong market orientation, or introducing a three-year budgeting methodology into national government administration and setting up active and participative county councils (Brunsson and Olsen, 1997). Social scientists retained interest in phenomena such as national administrative reform policy (Christensen and Lægreid, 1998a), complex public building projects (Sahlin-Andersson, 1998), decentralization policies in municipalities (Czarniawska and Jørges, 1998), constitutive reforms of the European Union (Blichner and Sangolt, 1998), municipal accounting reforms (Bergeværn et al., 1998) or central government officials (Egeberg and Sætren, 1999).

In this view, public management is the consequence of human activities, not the result of applied techniques. Contrary to what most New Public Management supporters advocate, leaders are not in full control, organizations are not passive, and policy choices are not consensual. Actual administrative reforms, whether successful or not, are characterized by a low degree of simplicity and clarity. Normativity, which should bring order into chaotic reality, is somewhat lacking. No one-sidedness allows a single set of values to be accepted as legitimate. Many promises are made about the future. Nevertheless, the instant production of results is irrelevant. Public administration organizations cannot be controlled and changed through pure thought based on a so-called abstract rationality. It is easy to initiate administrative reforms, but few are completed (Brunsson and Olsen, 1993). Reformers are prisoners of walls that are to a large extent mental.

Reforms generate more reforms and induce fewer changes and become routinized. Organizational forgetfulness allows acceleration of reforms and helps people accept them. Top-down reforms should be avoided because their relationship with change outcomes is problematic. They paradoxically contribute to stability and prevent change from occurring.

While actual organizational changes are not generated by planned or comprehensive reform, observation suggests that they are abundant. Public administrations as such are not innovation-adverse, but may follow a sequence of transformations reflecting outside factors such as labor market dynamics or inside initiatives informally taken by low-ranking units. Major changes take place without much prior thought and discussion. It is also easier to generate them when reforms are undertaken in non-controversial areas. Hotly debated issues are not subjected to any great change.

Normative institutionalism suggests two main prescriptions for public administration changes to occur. There should be a match between rules, identities and situations: successful reforms are culturally sensitive. And local contexts matter, because they are diverse: importing so-called good practices, mere imitation, is questionable in terms of effectiveness and in terms of legitimacy.

INSTITUTIONS AS CO-CONSTRUCTED LOCAL ORDERS

Are institutional theories able to provide a general theory? So-called critical theories, for instance, use approaches inspired by sociological and historical institutionalisms as substitutes for neo-Marxist interpretations of globalization, as if global or macro factors at work at societal levels would determine any kind of meso or local evolution, including in public administration. Skepticism also abounds about the capacity of new institutionalism to give a grounded analysis of the actual functions and latent roles public bureaucracies fulfill in modern societies and polities.

Revisiting the institutional character of public administration, some alternative schools of thought, in particular in Europe, mix organizational theory inputs with more action-oriented lenses inspired by research practices applied to policy making.

For instance, a research program called actor-centered institutionalism was developed in Germany in the 1970s and 1980s by a sociologist of an organization who had studied policy implementation processes, and who was joined by a political scientist interested in game theory (Mayntz and Scharpf, 1995). In their opinion, institutional factors are not as such direct causes of public practices and norms. They provide negotiation arenas and interaction resources between corporative actors, whether public or private. Various action and actor constellations exist in real life to handle collective issues, as numerous studies on the European Union and Germany underline (Mayntz et al., 1988), demonstrating that more importance should be given to collective action and political bargaining contexts at meso levels.

French scholars addressed the question of how far local orders really matter, not only at an international or at a national level but also at the level of specific organizations or local components. Are institutions as global paradigms able to impose recurrently a similar set of values and action processes across societies? Sociologists and political scientists were influenced by policy analysis inquiry as developed on both sides of the Atlantic. The idea that public institutions may have a thickness of their own inside societies and polities became common sense quite early. Such is the case with the school of *sociologie des organisations*. It considers institutional phenomena as both independent and dependent variables, as resources, constraints or stakes for the actors involved. Bureaucratic change processes are used as heuristic entry points.

While it is true that bureaucracies are modeled by societal factors such as the education system, national culture patterns or social stratification (Crozier, 1963), that a few corps of public servants trained in exclusive schools such as the ENA and the Ecole Polytechnique control the public agenda of a whole country (Suleiman, 1978) or that they shape in a monopolistic way major policies they also implement themselves (Thoenig, 1987), empirical research suggests that, below the surface, the functioning of public bureaucracies may differ quite markedly. Local orders exist which create heterogeneities in space. In a nation-state such as France, whose founding values incorporate the ideals of unity and equality, and where enforcement is centralized in an authoritarian manner, public institutions are not alike and their bureaucracies function in a centrifugal manner, inducing highly differentiated outcomes across the territory and society.

Local orders matter in administration. Mutual socialization occurs, such a process of cooptation having already been explored by Selznick in his study of the Tennessee Valley Authority (TVA). State prefects think and act like advocates of the interests of their respective geographic and social jurisdiction. Mayors behave as brokers between the state and their constituents. Local agencies of the national ministries are strongly embedded in subnational communities. They get legitimacy from their environment, especially from local elected politicians. It becomes a resource they use to increase their autonomy in relationship with their headquarters in Paris. Informal and stable relation patterns link state agencies to specific environments such as local political and economic leaders (Crozier and Thoenig, 1976).

Public governance all across France is structured and handled by a political and

administrative system that is very different from the hierarchical model and which ignores formal division of power between national and local authorities. The machinery of the central state looks like a fragmented organizational fabric: its various subparts cooperate less than each of them cooperates with local environment leaders (Hayward and Wright, 2002). Such cross-regulation practices develop between partners who otherwise perceive each other as antagonistic. They give birth and legitimacy to implicit rules of exchange and to stable interest coalitions with tacit arrangements set during the implementation of national policies. Rigid rules decided in Paris are balanced by flexible arrangements negotiated locally. A secondary norm of implementation, which varies according to time and space and which is perceived as legitimate, prevails over formal conformism and of equality of treatment. State agencies generate exceptions and derogations become local norms. Local polities and politics are shaped in two ways. Bureaucratic ways of doing things more broadly model the cognitions and the expectations of social groups.

Public institutions are just one partner among many who intervene in public affairs. This clearly is the case for regulative policies applied by the state machinery to freight transportation (Dupuy and Thoenig, 1979) or to agricultural affairs (Jobert and Müller, 1988). Each policy domain has a specific system of organized action and functions according to its own logic. Even when some ministry in Paris or some regional public body may play a hegemonic role, its acts and non-acts remain dependent on the presence of other public agencies, firms or voluntary associations. Policy outcomes are highly dependent on initiatives taken by firms or on attention allocated by groups of citizens. At least four different types of functioning seem to coexist in the French public sphere at large: inward-oriented bureaucracies; environment-sensitive institutions; outward-driven organizations; and inter-organizational systems (Thoenig, 1996).

Public administrations also experiences dramatic changes. Central state agencies no longer play a dominant role, governing national as well as local public affairs through the allocation of subsidies and the elaboration of technical rules. A different political and administrative system emerging since the decentralization launched in the early 1980s resulted in massive transfers from the central state to regional and local authorities (Thoenig, 2005). New private, associative or public players, such as the European Commission, get a role in policy making. Public issues coincide less and less with the way subnational territories are subdivided and administrative jurisdictions defined. Collective problems are horizontal and provide uncertain solutions. Cross-regulation gives poor results when the challenge is to identify the nature of collective problems and to set public agendas. State agencies adopt another political integration approach: constitutive policies. New institutional frameworks coordinate the views and mindsets of multiple partners, make them speak a common language and share a common perception about what to do, how, when and for whom. Facing a polity that is fragmented, active and non-consensual, a weakened state uses tools such as institutionalization and institutional design.

Interdependent phenomena are interpreted as results of strategic behaviors of actors operating in power settings. Social regulation – how different actors establish normative arrangements and make their respective logics of action compatible – is key to empirical analysis.

While new institutionalism perspectives favor a vision of democratic order in which responsibility is a consequence of the institution of the individual, citizens are free, equal and discipline-oriented agents, and governance is enlightened and rule-constrained (Olsen, 1998), their continental colleagues are more pessimistic. They adopt a rather cynical or Machiavellian vision of politics. Public institutions are political devices. The essence of politics is power, and individuals behave in an opportunistic way.

Public institutions are action-oriented systems. As specific social arrangements, they are fragile constructs because they are the non-intended outcomes of permanent collective tinkering. Discontinuities in time characterize the essence of public administration and of societal order. The state is more collective and pluralistic: public institutions have no monopoly on public problems and their government. Public affairs are co-constructed.

Public organizations should also be considered as local social orders, as meso or intermediary social configurations, which are neither passive nor intentional, but are constantly reconstructed in terms of social norms and of membership. For instance, the emergence of international standards used as benchmarks for the production of goods is argued to be a form of control as important as hierarchies and markets. People and organizations all over the world seem to follow the same standards (Brunsson and Jacobsson, 2000). For instance, public institutions operating in higher education and research and facing the challenge of international rankings may hardly ignore these standards. A common global order is emerging. Not joining it – not fitting the criteria of academic quality set up by evaluators – is suicidal. Such a global process toward homogeneity is nevertheless far from being obvious or irreversible. Single universities have other options at their disposal to make it in the competition, many of them producing themselves or endogenously local criteria to define academic quality (Paradeise et al., 2009).

CONCLUSION

Institutional theories streams have become leading and widely shared references in public administration (Frederickson, 1999). Because they consider public institutions through three different lenses – as pillars of political order, as outcomes of societal values, and as self-constructed social systems – they offer exciting arenas for academic debates as well as also providing pragmatic or architectonic principles.

The agenda is far from having reached maturity. Major issues still have to be verified and debated. Some empirical phenomena are still open to further research. This is clearly the case, for instance, for international organizations (Schemeil, 2011) and for supranational polities (March and Olsen, 1998; Olsen, 2010). Methodological progress is still required: for instance, a less allusive set of evidence to trace relationships between cognitions and actions, or an in-depth understanding of the collateral effects generated by administrative reforms. Reconciling performance requirements with political support by public opinion, making production of regulations and norms compatible with democratic pluralism, remain in unstable and fragmented worlds' perspectives that institutional theories have still to consider.

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11

Formal Theory and Public Administration

Jack H. Knott and Thomas H. Hammond

Formal theory involves the use of mathematics to develop theories of individuals, groups, organizations and public institutions, and this chapter reviews the application of formal theory to public administration. Formalization can help us in a variety of ways to develop, explore and test theories of public administration (Hammond, 1996). First, formalization forces us to be as explicit as possible about the basic assumptions of our theories. Second, with our initial assumptions made explicit and expressed in some kind of symbolic notation, the rules of mathematics, such as calculus, geometry or probability theory, can then be used to deduce the implications of the assumptions. Third, formalization of a theory can help improve the quality of empirical tests since our formal theory gives us a clearer idea of precisely what should be tested and how to test it. Fourth, the greater capacity for formal theories to be empirically falsified, due to their greater explicitness, makes theoretical improvement more possible. Finally, for studies of especially complex problems only a formal representation, especially via computer simulation, may be able to capture some of the complexity and yet still allow the theory's implications to be rigorously explored, and thereby made amenable to empirical test.

Over the past three decades, applications of formal theory to public administration have proliferated, and it is impossible to review all the contributions. Hence, in this chapter we can only touch on a few of the contributions that formal theory has made. For example, scholars have used it to explain the existence of public agencies, which may be formed to address inefficiencies in voluntary market exchanges. Formal theory demonstrates that public agencies do not necessarily solve these market failures, and that individually rational choices by agency employees do not necessarily produce rational policies for the agency as a whole. Clarifying the nature of these individual versus agency tensions helps explain the dysfunctional group dynamics identified in earlier sociological and psychological studies of organizational behavior. The emphasis in formal theory on individual preferences and institutional structures has improved

our understanding of how agency structure affects agency policy. Additionally, formal theory helps explain why it is difficult to simultaneously pursue such desirable administrative values as accountability, efficiency and decentralization. Moreover, formal theory has contributed to our knowledge of how legislators and executives can gain some control over agencies via the use of administrative procedures and other controls. But formal theory also shows us how agencies can take advantage of asymmetric information and multiple principals to gain autonomy from their would-be overseers.

Formal theory is also well-suited to explain the changes in contemporary social, economic, and political life. Government is increasingly delivered through complex networked relationships and formal and informal contracts. Formal models can help us examine these complex information acquisition, monitoring and compliance imperatives of contemporary governance institutions.

WHY DO PUBLIC AGENCIES EXIST?

Economists were the original developers of formal, mathematical theories in the social sciences, and in neo-classical economics the baseline model of social interactions has long been the competitive market. Hence, a key question asked by economists was this: Why aren't *all* choices made through market exchanges? Several answers have been provided.

Transaction costs

One early answer was provided by Coase (1937), who wanted to explain why economic agents sometimes organize themselves into hierarchically structured firms. His explanation is that under certain conditions hierarchy is more efficient than voluntary market exchange. The reason stems from the costs associated with production processes requiring multiple transactions among independent suppliers, owners, labor and experts. Economic agents must bear the costs of gathering and evaluating information on their production processes, and must pay the costs of negotiating a contract for each market transaction. Self-interested rational agents will want to minimize these costs. Coase's insight was that when market transactions entail these kinds of costs, central authority can more efficiently coordinate production processes. This authority substituted for the myriad of negotiated contracts in the market.

Coase's work provided an important intellectual foundation for subsequent economic analyses of market failures. It also stimulated economists to examine whether government and public agencies could cope with these failures (Wolf, 1975).

Market failures and public goods

Several different aspects of production and exchange can lead to inefficient outcomes. One kind of inefficient outcome stems from transaction costs. If each street in a city were privately owned, travelers would need to pay a toll at each intersection. One solution to this problem is for the government to own the streets. Such centralized authority would eliminate the transaction costs involved in traveling across town.

A second kind of market failure occurs when transactions impose external effects on third parties. Producers and consumers generally do not take such 'negative externalities' into account when engaging in market exchanges. In judging the overall efficiency of market exchanges, the benefits of market exchanges are reduced by the costs imposed on third parties. In effect, then, since the costs to the producers and consumers are less than the overall costs, this means that the goods involved are overproduced.

A third kind of market failure involves the underprovision of public goods. A defense establishment provides everyone in a country,

not just the taxpayers, with national security. Other public goods include clean air, clean water and public broadcasting. Citizens have an incentive not to pay for such a good since they can consume it even if they do not pay for it. Since those producing the public goods are not fully compensated for their production, the goods are underproduced. As a result, governments are often asked to provide these public goods.

A fourth kind of market failure occurs when consumption of a common resource affects others who use the resource. This social dilemma, known as the 'tragedy of the commons', derives from the example given by Hardin (1968) of a village with a common green for grazing cattle. Each herdsman has an incentive to graze as many cattle as possible, but over time the grass on the green is ruined, hurting all the herdsmen. To avoid this kind of dilemma, governments often establish public agencies to regulate use of the commons (Ostrom, 1999).

A fifth kind of market failure occurs when one firm monopolizes an industry. In such a situation, the monopolist can engage in predatory pricing or other practices to prevent competitors from entering the market. Because the monopolist can raise prices to increase profits, this reduces the amount of the good that would otherwise be consumed, thereby causing market inefficiency. Government regulation of monopoly production offers the possibility of avoiding underproduction and overpricing of the good.

Finally, information asymmetries in transactions can also lead to market failure (Greenwald and Stiglitz, 1986). Because consumers often have limited information when making a purchase, they will not know whether the price charged for a product reflects the product's true value to them. Hence, sellers can take advantage of the consumers' ignorance by overcharging for the quality of the product sold. This problem occurs in the purchase of expert services, such as medical care, but can occur even in simpler markets as well, such as the market for used cars (Akerlof, 1970). Governments often regulate these kinds of transactions through occupational licensing, certification and product quality standards.

In sum, the formal literature describes conditions under which markets fail to operate efficiently. While failures do not necessarily explain the existence of public agencies, citizens often ask governments to create public agencies to perform the necessary tasks. Whether public agencies can perform these tasks more efficiently than private firms is a question that will be discussed next.

INTERNAL ADMINISTRATION

What does formal theory have to say about supervision, control, coordination, motivation, organizational structure and communication in private firms and public agencies? We will consider three problems: team production, principal–agent theory and organizational structure.

Team production

Alchian and Demsetz (1972) argue that contractual arrangements within a firm may be more efficient than those occurring just within the market. When employees work together as a team, they can produce more than when they work separately. This gain from cooperation gives them an incentive to coordinate their activities. A central task of public and private management, therefore, is to help organizations achieve the benefits of team production (Knott, 1993).

One resulting problem, though, is how to allocate any surplus produced by team production (Miller, 1992). Team production often involves tasks that are interdependent, which means that assessing the marginal contribution of each team member is difficult. If information about individual contributions is unavailable, the allocation of the surplus cannot be based on these contributions. Instead, some other allocation rule must be used. The resulting rules for surplus allocation, such as equal sharing or seniority, often produce inefficiency because each member then has an incentive to 'free ride' on others' work.

To produce efficient outcomes the individuals may thus have to act in ways that are contrary to their short-term individual self-interest. Game theory helps us think about this problem. A game is a social interaction in which at least two players have at least two options for choice, and in which the players' choices of one action or another produce benefits or costs for the players (Miller, 1992: 21). The Prisoner's Dilemma (PD) game in particular is at the heart of the problem of team production. The dominant strategy in a PD game is for each team member not to cooperate with coworkers. The resulting outcome, know as a *Nash equilibrium*, comprises a set of choices in which no player can make himself better off by choosing some other option.

However, in a PD this Nash equilibrium is *Pareto suboptimal*: an alternative outcome is possible in which one or more players is better off and no one is worse off. But the two players can only avoid a Pareto suboptimal outcome if they are able to coordinate their choices, and it is often thought that the creation of hierarchy will help solve social dilemmas like the PD: managers should impose an incentive system and monitor the resulting behavior so as to induce individuals to coordinate their activities in ways that produce group efficiency. This function for management is consistent with early work on organizational behavior (Barnard, 1938); so it is to the study of incentive systems that we now turn our attention.

Principal–agent theory

The relation between superiors and subordinates in team production can be generalized to include principals who contract for services and agents who carry out the services (Bendor, 1988). The primary tasks for the principal are, first, to identify agents who are most likely to have the skills to achieve the principal's goals; second, to induce agents to sign a contract with incentives such that the agents find it in their self-interest to pursue the principal's goals; and third, to monitor the agents' behavior in carrying out the contract. Each task involves asymmetric information and conflicts of interest among the contracting parties (Moe, 1984: 754), both of which give the contracting parties incentives to hide their information and actions from each other (Arrow, 1974).

The concepts of 'adverse selection' and 'moral hazard' aid the understanding of hidden action and hidden information. Adverse selection is a major concern in hiring. Since the employer cannot directly observe the skills, values and work habits of applicants, she must rely on indicators such as education or letters of reference. Of necessity, these indicators reflect others' estimates of how the applicant will perform on the job and are frequently unreliable. If the indicators overstate the applicant's value to the organization, the employer may unwittingly hire less qualified applicants.

Moral hazard occurs after an applicant is hired. An employer who cannot costlessly monitor the employee's job performance may have to use indirect, and often unreliable, measures of performance. Employees thus have an incentive to perform well on these proxy measures rather than on the actual goals of the organization; this is what Merton (1940) called 'goal displacement'. Employees also have an incentive to shirk whenever their behavior is not fully observable.

Thus, the social dilemmas that provide the rationale for hierarchy also plague the operation of the hierarchy once it is created. Moreover, incentive systems that induce employees to behave in ways that maximize team efficiency may lead to lower payments to the managers, and for this reason the managers may not implement efficiency-enhancing incentive systems (Miller and Hammond, 1994). In other words,

hierarchies appear to suffer from the same conflict between individual self-interest and organizational efficiency that occurs in markets plagued by externalities and the underproduction of public goods (Holmstrom, 1982; Miller, 1992).

A key problem in any hierarchy involves the strategic misrepresentation of information by both principals and agents. In effect, actors often find themselves in a game where revealing the truth about their beliefs and preferences may give others an advantage. There are at least two different kinds of models which have been developed to explain the strategic use of information.

Signaling models focus on the transfer of information between the agents and the principal prior to any action by the principal. In signaling models the principal can modify her beliefs about the effect of a policy, based on the information received from the agents, and then take action accordingly. But the agents are assumed to not necessarily reveal to the principal their true beliefs and preferences or to convey information in an honest and complete fashion. One important implication is that principals will receive better information if the agents have heterogeneous preferences (Gilligan and Krehbiel, 1989). This result supports the public administration literature on redundancy in which principals having multiple heterogeneous agents can gain more reliable information (Bendor, 1985; Heimann, 1997; Landau, 1969).

Models of delegation (Bendor and Meirowitz, 2004; Bendor et al., 2001) also inform the creation and functioning of hierarchies. For example, Epstein and O'Halloran (1999) analyze the behavior of a boss who first receives a report from a subordinate and, then, based on the information in the report, chooses whether to delegate authority for implementation to another agent. Their model provides insight into conflict between executive staff and a line agency. The more the staff shares preferences with the boss, the less likely is the boss to delegate authority to the line agency. The authors also find that if the line and staff in an agency have similar preferences but are distant from the boss, the staff will transmit less information to the boss. The reason is that the more information the staff gives the boss, the less the boss will delegate to the line. If the line and staff are close, the staff prefers more rather than less delegation. Hence, the staff will not transmit as much information.

Information provision and authority delegation often occur in repeated sequences over time. For example, if the subordinate cheats by shirking, the boss might retaliate by more tightly controlling the subordinate's behavior in the next period. Or if the boss cheats by grabbing credit, the subordinate might retaliate by shirking in the next period. These actions might be individually rational for each player but produce Pareto suboptimal outcomes.

Axelrod (1984) has shown that a Tit-for-Tat (TFT) strategy in these repeated games can lead to a cooperative outcome in the long term if the future is important to both players. In a TFT strategy, both the boss and the subordinate would cooperate (delegate, work) in the first period. In further periods, the subordinate would cooperate if the boss delegated and would shirk if the boss controlled. The boss would delegate only if the subordinate worked, and control if the subordinate shirked. Axelrod shows that cooperation is possible in repeated games of this kind, though it is not guaranteed.

Implications for public management

The fact that public agencies are established to deal with market failures, but are themselves subject to many of the social dilemmas that characterize market competition, highlights the challenge facing public officials. Several leadership strategies may help to establish cooperative solutions to the agencies' own social dilemmas.

While managers and employees may each be tempted to engage in self-interested behavior, if one side does behave in a trustworthy, committed, and cooperative way, it makes it easier for the other side to behave in that way as well (Miller, 1992). For example, a credible commitment by management to a cooperative solution signals to employees that they may act efficiently and communicate truthfully without negative repercussions. Recall that Barnard (1938) emphasized the 'moral example' that managers should give to employees, and experiments with TFT strategies in repeated Prisoner's Dilemma games (Axelrod, 1984) further show the potential for cooperation from this kind of behavior.

The popular management literature emphasizes the importance of the motivations of employees and the internalization of norms of cooperation among the members of the team (Bertelli and Lynn, 2003; Brehm and Gates, 1997). Team-building exercises, shared company myths, organizational missions and professional norms may help internalize cooperative behavior by managers and employees. For public agencies, professional core values (Knott and Miller, 1987) can play an especially important role by creating beliefs and expectations about proper behavior (Brehm and Gates, 1993).

Organizational structure

Governments periodically restructure their executive departments. These changes often group formerly separate agencies together or separate formerly integrated departments into smaller agencies (Arnold, 1998; Gulick, 1937; Knott and Miller, 1987). Do these organizational changes in a hierarchy affect the policies chosen by the agencies?

Formal theory is concerned with how individual preferences interact with institutional rules to produce policy choices, and Hammond (1986: 159–61) shows how organizing an agency by geography can produce different policy choices than organizing by function; two different structures populated by individuals with the same preferences can thus produce two different policy choices. Indeed, it may be impossible to design a hierarchy that does not affect policy choices (Hammond and Thomas, 1989).

This logic of preference aggregation in different organizational structures applies to other processes within an organization. At the most general level, hierarchy groups activities, information and people into categories that are then subdivided into subcategories and sub-subcategories (Hammond, 1993). Different groupings may classify information differently, and thus decision makers may learn different things from the aggregated information presented to them. How information is categorized and grouped may thus affect what the agency learns from its environment.

Incompatible design criteria

The public administration literature identifies several different values which organizations may be designed to achieve. For example, Kaufman (1956) focuses on neutral competence, representativeness and executive leadership. Hammond and Miller (1985) demonstrate how a paradox identified by Sen (1970) can illuminate conflicts among various kinds of organizational values. Sen's theorem calls our attention to four desirable organizational principles, but his theorem also shows that while designs can be found which satisfy three of the principles, no organizational design can be guaranteed to satisfy all four.

For example, decentralized organizations may produce Pareto suboptimal decisions (because different division heads do not find it in their interest to cooperate with each other), or exhibit preference cycles (because an agency cannot settle on a final choice but continuously revisits previously rejected options).

Other organizational designs may avoid inefficiency and preference cycles but at the cost of imposing restrictions on the views and beliefs of employees. For example, Herbert Kaufman (1960) showed how recruitment and socialization processes and administrative procedures in the Forest Service created common norms, beliefs and behaviors. Such uniformity of belief has some advantages in a stable environment, but may

leave the agency unable to adapt to a changing environment.

Yet another kind of organizational design – the imposition of centralized management – avoids Pareto suboptimality, preference cycles and the uniformity of belief, but the literature on organizational theory and management (Miller, 1992) also emphasizes the hazards of dictatorial management.

The lesson of Sen's theorem is that organizational design consists of choosing which three organizational pathologies one will avoid and which fourth pathology will simply be endured.

EXTERNAL RELATIONS

One of the unique features of public administration is the number and variety of institutions which influence the policy-making process. A government agency head must interact with legislative committees, the chief executive, cabinet departments, the courts, interest groups, contractors, regional offices and state and local governments (Wilson, 1989). Since these institutions possess legal authority or political influence over the agency's activities, dealing with the external environment is a critical dimension of public administration and public management (Bozeman and Straussman, 1990). A number of formal approaches to this critical aspect of public administration have been developed.

Relations with the legislature and the chief executive

An important debate in public administration focuses on whether government agencies exercise independent influence over policy. One scholarly tradition argues that bureaucracy dominates policy making through expertise, secret information and control over implementation (Behn, 1991; Doig and Hargrove, 1987; Lewis, 1980; see also Caro, 1975). A contrary literature suggests that the legislature is able to dominate the bureaucracy (Banks and Weingast, 1992; Lupia and McCubbins, 1994; McCubbins and Schwartz, 1984; McCubbins, Noll and Weingast, 1987; Weingast and Moran, 1983; though, see Moe, 1987). Huber and Shipan (2002) have further enriched this literature by exploring when, why, and how politicians choose to delegate policy decision making to agencies through the crafting of statutes.

Legislators can be seen as principals who have public managers as their agents, and this perspective has generated insights into legislative–agency relationships. Consider the influence of the bureaucracy over public budgeting. Niskanen (1971, 1975) argued that public managers have a monopoly over information on the supply side of the budget, which he defined as the amount of spending required to carry out agency programs. He also argued that public managers know the demand side of the budget, which he defined as the preferences of legislators for spending on government programs. Public managers, he suggested, are able to use this information to propose budget options in the budget process. The legislature finds itself in a weak position to evaluate these options because it has little information about the 'true supply' requirements of the budget; hence, the legislature is forced to simply accept or reject (but not modify) public agency budget proposals. The public managers' monopoly over budget information gives them agenda control in the budget process. For an empirical example, see Romer and Rosenthal (1978).

However, since legislators have authority to pass statutes and otherwise oversee the agencies, legislators possess several means for structuring these relations, which can help prevent the agency from exercising agenda control. For example, legislators can require the reporting of information that reveals agency supply and so they can monitor agency behavior in ways not foreseen by the Niskanen models. These revised models (Bendor et al., 1987; Miller and Moe, 1983) tell a very different story of who controls the budgetary process.

The different means by which legislators can structure these legislative–agency relationships have received considerable attention. Two broad classes of tools have been identified as useful in controlling public agencies (though, see Hill and Brazier, 1991).

First, *ex ante controls* are imposed prior to program design to influence policy choice and implementation. Some of these controls involve hearings, information gathering and 'burden of proof' requirements, and other controls involve administrative procedures that 'stack the deck' in agency decision making by giving some groups the legal right to be involved in selecting and reviewing agency actions (Fiorina, 1982; McCubbins, 1985; McCubbins et al., 1987, 1989).

Second, *ex post controls* are imposed on an agency after the agency has actually implemented a program. The controls are centered on budget and statutory actions to reward or punish agencies for positive or negative performance (Calvert et al., 1987; McCubbins and Schwartz, 1984; Weingast and Moran, 1983).

A related area of research focuses on the politics of agency design, institutional structure, and the appointment of agency leaders. Lewis (2004) looks at the question of Congressional strategies to insulate the agency from future political influences and the impact on the subsequent bureaucratic policy outputs of the agency. He concludes that Congress takes into account preference divergence of the President and the risk of future meddling in agency design. Over time, insulated agencies produce policies better aligned with Congress that are more durable.

Formal theories have also focused on questions of bureaucratic expertise and civil servant competence. Stephenson (2007) posits that the acquisition of expertise by the bureaucracy is maximized when a particular agency is faced with uncertainty about the preferred course of action. Gailmard and Patty (2007) develop a formal model that demonstrates that both effective personnel practices and opportunities to exercise discretion are critical to ensuring bureaucratic capacity. Bertelli (2012) introduces the concept of strategic capacity building. He argues that agencies shape the policy agenda by acquiring expertise in particular areas of interest. Strategic capacity building has important implications for public management in which a diverse set of organizations within and beyond the confines of the traditional state serve public functions.

Multiple principals: political equilibria and agency autonomy

Principal–agent theory, however, has generally overlooked the impact of multiple principals on the autonomy of public managers. As it turns out, though, the fact that multiple institutions may oversee an agency has substantial implications for agency autonomy.

Consider some 'decisive coalition', which consists of the actors (for example, the members of the legislative body and any independent chief executive) who collectively have the authority to overturn agency policies and impose their own. A policy is in equilibrium if there exists no decisive coalition which can replace the current policy with a new one. Define the 'core' as the set of equilibrium policies. Two factors determine the size of the core. The first factor is the number of veto points in the policy-making system (Tsebelis, 1995); a veto point is some institution with the authority to reject a proposal to change policy. An increase in the number of veto points can increase the size of the set of equilibrium policies. The second factor determining the size of the core is the extent of preference heterogeneity among the veto points. If the members of the institutional veto points hold similar preferences, then preference heterogeneity is small, and a small core is the result. In contrast, if preference heterogeneity among the veto points is large, then a large core results. Illustrations of political equilibria in a policy-making

system are shown in Calvert et al. (1989), Ferejohn and Shipan (1990), Hammond and Knott (1996), Hammond and Miller (1987), Knott and Hammond (2000) and Krehbiel (1998).

Note that as long as the agency considers only policies that are in the core, the agency can change from policy to policy without fear that any new choice will be upset by some decisive coalition. It follows that the larger the core, the greater the autonomy for the agency: the agency can consider a larger number of policies which are safe from upset by a decisive coalition. However, political equilibrium analysis suggests that for the public manager there may be tradeoffs between autonomy, policy satisfaction and involvement in intense conflicts over policy (Knott and Hammond, 1999).

Political equilibrium analysis also has implications for strategies that public managers might use to achieve their ideal policy. One strategy is persuasion. If a public manager can persuade other actors to change what they consider to be ideal policies, the shape of the core may change enough so that the manager's ideal policy is now within the core; this means she can safely adopt it. Redefining the nature of the policy problem (via 'agenda setting' or 'issue framing' rhetorical techniques) may also change the dimensions of the core, thus altering its shape. Consequently, understanding the shape of the core and the relative strengths of the actors' policy preferences are critical aspects of how a manager should handle the agency's political environment (Knott and Hammond, 1999).

Whitford (2005) demonstrates how attempts by multiple principals to steer bureaucratic activity can damage the agency by causing delays in policy making due to the endless negotiations among the political actors. Krause (1999) shows how the preferences of political principals and the behaviors of bureaucratic agents interact to produce outcomes ranging from bureaucratic manipulation to political domination.

Interest groups

The contributions of formal theory to an understanding of the role of interest groups in public administration stem from Olson (1965); see also Moe (1988). Olson argued that the dispersion of interests across the country gives any one interest little incentive to lobby the government, but he also developed a theory to explain how some groups overcome this collective action problem. If the number of entities affected by a government policy is small and if their impact is large enough, they will be motivated to work together to change government policy.

Olson's theory helps explain special interest policies like cheap bulk mail rates, milk price supports and sugar subsidies (Knott and Miller, 1987). Moreover, associations of citizens concerned about a policy will not be able to gain enough members because of the free-rider problem. However, if these associations provide 'selective benefits' to potential members, such as life insurance, magazines or travel packages, citizens may contribute their money due to the value of these selective benefits.

COSTS AND CRITICISMS OF FORMAL THEORY

The development of formal theories of public administration, like any other research strategy, has some costs (Hammond, 1996). What are some of these costs?

First, because the development of formal theories is often difficult, their scope of application is usually narrower than that of informal theories. Unfortunately, there seems to be a tradeoff between clarity and rigor, on the one hand, and sensitivity to richness, context and nuance, on the other.

Second, formal theorizing requires that particular technical skills be developed, involving various kinds of mathematics or computer languages. The time and effort required to learn these techniques is time that cannot be spent on other research activities.

Third, due to formal theory's technical languages, the audience for its results is sometimes small. Nonetheless, it is possible for formal theorists to do more than they have to date to make their results accessible to a broader audience.

Fourth, it is sometimes argued that formal theories have little connection to real-world politics. However, lack of interest in the real world is not an inevitable trait of formal theorists. Indeed, most formal theorists would agree that formal theorizing cannot take place in an empirical vacuum, since they would otherwise have little idea as to what institutions or processes are worth modeling in the first place.

Fifth, it is sometimes argued that formal theories 'oversimplify reality'. While this is a complex philosophical issue, we would emphasize that every useful theory *must* simplify reality. A theory that is as complex as reality has no scientific value; such a theory could not be tested because testable hypotheses could not be derived from it. So to be useful for scientific purposes, any theory must leave things out. The best test of whether something allegedly important has been left out may be an empirical one: How well does the 'overly simple' theory predict key aspects of the real world, or otherwise account for actual events? If a simple theory works well empirically, then important things may not have been left out after all.

Of course, just because a theory is formalized, however, does not mean it is a good theory. It can be a poor theory in many ways. Ultimately, the test of a good theory, however formulated, is whether it stimulates insight and understanding, and has empirical support.

CONCLUSION

Formal theorizing will never completely replace informal theorizing, nor should it: to the extent that formal theories originate in various kinds of informal theories, reducing the production of informal theories would ultimately reduce the quality and relevance of the formal theories as well. Thus, we would argue that formal and informal theorizing about important problems in public administration, along with empirical testing, rely on each other and improve each other. Neglecting any one of them would only serve to impoverish all of them.

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12

Environmental Perspectives on Public Institutions

Karen M. Hult

If organization theory generally is 'a kind of Switzerland of ideas' (March, 1999: 43), conceptions of organizational and institutional environments in public affairs are similarly diverse: multi-dimensional, multi-level, and dynamic.[1] This chapter traces some of this richness, directing attention to views of environmental dynamics drawn from theories of contingency, resource dependence, institutionalism, and more integrated perspectives. Of interest is the applicability of such ideas to *public* organizations, policies and decision making, especially in the more volatile settings of the past 40 years.

AN ANALYTICAL OVERVIEW

Exploring the relations between 'environments' and 'public institutions' raises numerous issues. Among those relevant here are the definitions of the two primary concepts, the levels of analysis at which they are examined and the assumptions made about environmental–organizational/institutional relationships and about change.

Definitions

Like organization theorists, many public affairs scholars have moved beyond examining general attributes of environments to probing more specific environmental connections with organizations. Among the environmental dimensions scholars examine are environmental velocity (e.g., McCarthy et al., 2010) as well as munificence, complexity, and dynamism (Andrews et al., 2011; Castrogiovanni, 2002). Others explore ideas as key environmental influences (e.g., Ferraro et al., 2005).

Meanwhile, differentiating between 'task' and 'institutional' environments is common. The former, introduced by Dill (1958), sees environments as sources of 'resources and task-related information' (Scott, 2008b: x; cf. Pollitt, 2006); such a conception encompasses other actors (collective and individual) that affect the focal organization

(Thompson, 1967: 28). Highlighting the task environment typically directs attention to conditions of external uncertainty, complexity, and dependence. Institutional environments have 'rules and requirements to which individual organizations must conform if they are to receive support and legitimacy ...' (Scott and Meyer, 1983: 140). Applied to public organizations, institutional environment can refer to 'policies and regulatory frameworks of higher levels of government ... that influence organizational legitimacy' (Boyne and Meier, 2009: 800). Yet, distinguishing between the two 'courts the danger of understating the extent to which technical/market arrangements are themselves defined and constituted by institutional processes' (Scott, 2008a: 442).

If treatment of the 'environment' is more explicit, specific, and varied, the same cannot be said with assurance about 'institution'. It routinely is used in numerous, sometimes inconsistent ways – referring to any formal organization, a particular type of organization (Selznick, 1949), 'governance or rules systems' (in Scott, 2008b: 32) or 'formal structures and informal rules and procedures that structure conduct' (Thelen and Steinmo, 1992: 2).[2] Here, discussion views institutions as 'multi-faceted, durable social structures' that may resist change but give 'meaning to social life' (Scott, 2008b: 48).

Despite such analytical distinctions, many maintain that boundaries within and among organizations, institutions, and environments are more permeable. Crozier (2010: 517) writes, 'boundary questions arise as the system and the environment enter into more fluid interactions where jurisdictions and domain can become blurred' (cf. Power, 2007: 8).

The final concept to be clarified is 'public'. Again, variations in usage emerge. Perhaps most common is emphasizing formal governmental status. Alternatively, others contend that 'all organizations are public', and explore the degree of 'publicness' (Bozeman, 1987, 2007). Below, both the 'core legal' (or sector) and the 'dimensional' conceptions of publicness are included (Stark, 2011). Empirical support exists for both views (Bozeman and Moulton, 2011; Rainey, 2009), although whether the distinctions affect performance remains to be systematically examined (Meier and O'Toole, 2011). Even more important, partnerships, contracting, and other arrangements linking governmental, for-profit, and non-profit actors underscore the empirical and the normative significance of the two vantage points (e.g., Feldman, 2005; Garrow, 2011).

Views of the impact of sector may depend on the analysts' field. Organization theorists tend to see 'public sector agencies more as playing the role of catalyst and trigger to institutionalization in other organizations rather than as objects of institutional pressures' (Frumkin and Galaskiewicz, 2004: 284). In contrast, public affairs scholars probably are more likely to highlight such influences as constraints on government agencies, as discussion in the United States about a shift to a 'state of agents' suggests (Heinrich et al., 2010).

Levels of analysis

Researchers have examined environments across levels of analysis, ranging from the 'ecological' (Scott and Davis, 2007: 18, 115–20), organizational field, and population to the organizational, sub-organizational, and individual levels. Government organizations typically are the 'targets' for potential environmental influences, but other possible foci include teams, interorganizational networks, change processes, and policy outcomes.

Thus, the 'highly turbulent' policy sphere of Norwegian immigration policy involves '"wicked issues" that straddle boundaries between different sectors and policy areas as well as between different administrative levels in a multilevel system that ranges from local governments to supranational bodies' (Christensen and Laegreid, 2008: 175). Similar descriptions capture policy arenas from homeland security to protection of the physical environment to banking and beyond.

Assumptions

Lastly, two key assumptions are critical. First is whether organizations *adapt* or are *selected* by the environment. Adaptive views are more common, although theories differ over the nature of the 'fit' they anticipate between environmental influence and organizational response; perspectives with consonance/congruence assumptions expect closer matches than do those that assume 'equifinality'.[3] Approaches stressing adaptation typically focus at the organizational or organizational set levels of analysis, while those emphasizing selection often work at the population level.

Second, and relatedly, theories differ in their 'locus of causality' (Pfeffer, 1997: 5); concern pivots around the 'drivers' of organizational change and activities. Many perspectives that emphasize adaptation tend to pay considerable attention to influences such as managerial skill and strategy or to internal age and race distributions, concerns stressed far less by those assuming stronger selection pressures. Indeed, Suddaby and his colleagues (2010: 1235) express concern about a 'tendency to assume the reality of organizations and to invert their causal relationship with their institutional or social environment'. In contrast, Perrow (2002: 8) worries that organizations are 'typically treated as dependent variables,' even though they can 'give effect to and amplify,' other societal influences and 'create power on their own'. Increasingly, however, analysts stress endogeneity, treating institutional and organizational influences as reciprocal and intertwined instead of unidirectional (e.g., Andrews, 2008; Crozier, 2010; Koppenjan and Klijn, 2004; Moynihan, 2008). Hallett and Ventresca (2006: 213) sketch an 'inhabited institutions approach', focusing on 'local and extra-local embeddedness' and meanings (cf. Binder, 2007). Moreover, many view environments as 'enacted' by those within organizations, institutions, or organizational fields.[4]

ORGANIZATION THEORY AND ENVIRONMENTAL RELATIONS

Despite some claims to the contrary (e.g., Kelman, 2007), public affairs scholars and practitioners frequently look to organization theory for guidance and insight. Yet, as helpful as those efforts can be, caution in application is warranted. Since Dwight Waldo (1961, 1978) compared organization theorists to the hapless blind folk grasping at an elephant, the field has grown ever more diverse.[5] More important, the tendency of organizational studies scholars to overlook public sector organizations raises questions about organization theory's applicability to Public Affairs (PA).

Contingency theories

Studies of diverse organizational arenas produce findings that appear well captured by *contingency* perspectives (Durant, 1998; Pfeffer, 1997):[6] that is, structuring, strategic choice, performance, and other activities and outcomes vary with the environments in which organizational units, networks, or other entities are embedded or that they help enact.

Contingency theorizing has a long history in organization studies, tracing back to Burns and Stalker (1961), Lawrence and Lorsch (1967), and Woodward (1965). Flowing from the insight that organizations are 'open systems' (Katz and Kahn, 1966), contingency theorists explore the effects of various aspects of environments on organizations. Usually, elements in the task environment (such as the levels of uncertainty, complexity or volatility) receive attention (e.g., Boyne and Meier, 2009; Pandey and Wright, 2006). Typically, too, attention focuses on the organization set,

and the unit of analysis is the organization or its subunits.

Two influential research programs that probe public organizational performance are grounded in contingency perspectives. First, Lynn, Heinrich, and Hill (2001) have introduced 'a logic of governance', which they and others have examined employing varying orienting theories (e.g., Ingraham and Lynn, 2004). This logic views policy outcomes (O) as being functions of environmental, client/constituent, task-based, structural, and managerial factors. Second, Meier and O'Toole (e.g., 2008, 2011) have theorized a model of public management. Here, the environment appears both as a vector (X) of environmental forces (tapping resources and constraints) and in managerial efforts to exploit the environment (M_3) and to buffer the organization from external shocks (M_4); organizational structure (S) and internal management (M_1) activities are also included. The model of policy performance in its simplest form is:

$$O_t = B_1 (S + M_1)\, O_{t-1} + B_2 (X/S)\, (M_3/M_4)$$

Applications of these two approaches have been numerous, varied, and partial (see, e.g., Ingraham and Lynn, 2004; O'Toole and Meier, 2011). The logic of governance has mostly been explored in the social service policy arena. The public management model has been subjected to numerous tests, many but by no means all using an impressive longitudinal data set of Texas public school districts. The finding that 'management matters' appears to be robust, even amidst other environmental and structural influences and numerous non-linear relationships (see, e.g., O'Toole and Meier, 2011: Chapter 1).

Structural contingencies

A common variant is *structural* contingency theory, proposing that organizational structuring adapts to fit, among other influences, environmental demands and conditions (Donaldson, 2001). When studying decision making in governmental organizations, Hult and Walcott (1990) suggest that certain kinds of structures emerge and stabilize to cope with (perceived) goal and technical uncertainty, controversy or consensus/certainty in particular decision settings. Testing these expectations (Hult and Walcott, 2004; Walcott and Hult, 1995) by examining decision processes in the White House Office in the Hoover through the Carter presidencies, yielded general patterns of 'congruence'.

In contrast, Boyne and Meier (2009) argue that structural inertia theory, not contingency theory, better predicts organizational performance. They explored the impact of structural choice when organizations respond to environmental turbulence, comparing organizations that maintained existing arrangements with those that 'twisted' to a different structure, finding that 'more hierarchical stable organizations were better able to cope with environmental turbulence' (2009: 803). At least in the shorter run, structural stability is an important buffer against potentially disruptive environmental dynamics.

Scholars focusing on 'high reliability organizations' (such as air traffic control systems and space shuttles) contend that structuring and decision processes vary with environmental demand. Under conditions of 'low and moderate demand … when the task structure is complex and well known', authority is centralized and hierarchical, with a clear division of labor. As demand rises, '[c]ollegial authority patterns overlay bureaucratic ones' (LaPorte and Consolini, 1998: 849). Even though such organizations may be appropriate responses to complex environments, they also may need to be 'preoccup[ied] with failure' (Weick, 2009: 164).

Strategic contingencies

A second type of contingency reasoning examines environmental effects on *strategy*. Meier and O'Toole contend that managers seek to both protect organizational activities, programs, and personnel from environmental disruptions and exploit the environment to better attain organizational goals. Focusing on regulatory velocity[7] (of likely interest to public affairs scholars), McCarthy et al. (2010) point to numerous implications for strategic decision making as such velocity varies across policy spheres (e.g., health/safety, financial), nation-states, and time.

Performance contingencies

A third strand of contingency theorizing focuses on environmental impact on *performance*. This work stresses activities of organizations embedded in often policy-specific contexts (John and Cole, 2000). Based on the reports of officials in US state government health and human services agencies, Moynihan and Pandey (2005) found that environmental factors (e.g., support of elected officials, public opinion) were positively related to improved performance. Research also draws attention to the contributions of structural buffers to performance in uncertain environments. Stazyk and Goerdel (2010) report that despite low political support and high goal ambiguity, performance can be sustained with hierarchical structuring in organizations. Garrow (2011) adds that managerial strategies helped nonprofits gain more governmental grant support even in evidently hostile environments.

Meier and O'Toole stress that in pursuing improved performance, neither organizations nor managers are at the 'mercy of the environment' (2009: 12). Nonetheless the nature of the environment can scarcely be overlooked. 'Managerial networking' (a dimension of M_3) is more effective in 'nonnetworked settings' than in denser, highly networked ones (2009: 12). Fernandez and Rainey (2006) turn to explicit prescription, making several suggestions grounded in scholarship for generating change even in evidently unforgiving environments.

Contingency theorizing: tentative conclusions

Additional probing of contingency perspectives may permit not only more careful empirical mapping of organizational and institutional terrains but also further systematic testing of theoretical boundaries. Monty Lynn (2005) argues for a 'unified buffering model' to enrich investigations of organizational and network responses to uncertainty. Clearly, such an approach has costs. One objection is that contingency-based perspectives are overly complicated, and problems like overdetermination, multicollinearity, and inclusion of irrelevant variables need to be addressed. Yet, if one sees parsimony as a 'judgment, or even assumption, about the nature of the world' (King et al., 1994: 30) instead of a standard for evaluating theories, one can maintain that contingency perspectives are helpful in capturing the dynamic complexity of 'real world' phenomena.

Resource dependence

Among the most crucial features of organizational (and network and other) environments are 'resources' (e.g., information, statutory mandates). Katila et al. (2008) contend that interest in resource dependence ideas has grown, mirroring more general concern about the tension between actors or the need for more resources (cf. Ozcan and Eisenhardt, 2009).

Resource dependence theorists often work at the organizational set level of analysis, exploring a specific organization's relations with actors in its (typically task) environment and examining resource exchanges and levels and types of interdependencies. Malatesta and Smith (2011) used a resource dependence framework to study US Environmental Protection Agency (EPA) contracting with its suppliers, proposing that 'organizations choose contract designs that will reduce uncertainty related to securing critical resources' (2011: 608). As joint dependence between the EPA and a supplier increased, the agency entered into more flexible, cost-plus contracts. Moreover, the lack of alternative suppliers (increased government dependence) was more important for contract design than high levels of financial dependence (greater contractor dependence)

between the two parties (cf. Casciaro and Piskorski, 2005: 192).

Such adaptive capacity – although varying over time and space – makes the resource dependence view helpful for identifying organizational strategies to adjust to their environments. It appears, if only implicitly, in discussions of strategic decision making (Pfeffer, 1981), public management (Heymann, 1987), 'policy partnering' (Lovrich, 2000), and 'network management' (Koppenjan and Klijn, 2004).

Some explore resource dependence at higher levels of analysis. Although application of such models mostly has appeared in studies of parliamentary systems, examinations of dynamics within separation of powers, presidential systems (e.g., Gerring and Thacker, 2008; Lewis, 2008) can be reconstructed along such lines.

In general, the accounts of individual, organizational, and network dynamics that resource-dependence models generate provide useful retrospectives of particular events, implementation outcomes, and network evolution. Yet, despite relatively high 'face validity', many resource-based narratives risk being little more than *post hoc* reconstructions yielding few generalizations, and the notion of 'resource' often is ill defined. Thus, Casciaro and Piskorski (2005: 167) call resource dependence theory 'more of an appealing metaphor than a foundation for testable empirical research'. Moreover, as the diversity of resources and the complexity of environments mount, the approach grows cumbersome and hard to apply. Nonetheless, it does direct attention to the relations and dimensions of dependence, interdependence, and power among actors at multiple levels of analysis.[8]

Institutional theories

Since the 1980s, scholars relying on the approaches just discussed have devoted greater emphasis to 'institutional' concerns. Although their uses and foci vary, many have broadened their conceptions of the environment and pay systematic attention to the social, cultural, and political aspects – not just the economic features – of environments. The variants of 'new institutionalism' remain, often following disciplinary lines (cf. Campbell, 2004: 11; Scott, 2008b: 45).

Indeed, as institutionalism increased its hold on many organizational scholars, some have expressed caution: 'Organizations increasingly tend to be seen as reified social structures that exert agency and pressure on their institutional environments' (Suddaby et al., 2010: 1235). Instead, Suddaby and his colleagues contend, the possibility should be considered that organizations are less 'purposive' than sometimes assumed.

Most forms of institutionalism highlight *legitimacy*. Although traditional resource-dependence models might include legitimacy as another resource, from the vantage point of institutional approaches it is 'a condition reflecting perceived consonance with relevant rules and laws, normative support, or alignment with cultural-cognitive frameworks' (Scott, 2008b: 59–60). Competing actors may advance differing 'legitimating accounts', such as Creed et al.'s (2002) examination of political support of and opposition to policies against workplace discrimination based on sexuality.

'Institutional environments'?

Variation persists in treatments of 'institutional environments'. Still, most acknowledge the significance of rules (formal and informal) and norms in discussions of institutions (e.g., Hatch, 2011). Some also cast the institutional environment as 'full of multiple, contradictory cultural accounts' (Creed et al., 2002: 477). Since 'most powerful forces' in such environments are hierarchies and markets (Hatch, 2011: 59), PA scholars have spent considerable time probing their make-up and effects.

Yet many avoid the phrase 'institutional environment' altogether, referring instead to institutional 'settings' or 'conditions', or simply to 'institutions'. This may reflect the ambiguous and multifaceted nature of the concepts 'institution' and 'environment'. Yet the seeming avoidance also may highlight a feature of the analytical status of institutions and institutional influences. In 'actor-centered institutionalism', institutions are critical to explaining which actors participate in policy making, in what ways, and pursuing which goals and values (Scharpf, 1997). Meanwhile, actors socially construct these institutions; actors' policy decisions and ideological orientations both shape and reflect institutions. Creed et al. (2002: 494) go further, proposing that 'interpretation and instantiation of cultural accounts is intertwined with social identities in a dualistic process of social construction'. A 'significant new direction for institutional research' views organizations 'as constructs that interpret and elaborate institutional pressures', where organizations and institutional environments are 'reciprocal co-constructors' (Suddaby et al., 2010: 1239).

Institutional components

One way to distinguish among institutional theories is the aspect of institutions that each highlights. Scott's (2008b: 50–59) framework distinguishes among regulative, normative, and cultural-cognitive 'pillars'. These pillars may overlap, and most institutional studies acknowledge the existence of all three. Nonetheless, particular works stress different mixes. Those based in 'rational choice institutionalism' (Haftel and Thompson, 2006) typically focus on regulative pillars, examining a variety of rules, incentives, and sanctions.[9] Work grounded in 'sociological' (or 'normative') institutionalism (Powell and DiMaggio, 1991) devotes more attention to normative and cultural-cognitive elements.

As insightful as examination of regulative pillars may be, the two others offer 'a more expansive view' of institutional environments, viewing them 'not just as a strategic context but as a set of shared understandings that affect the way problems are perceived and solutions are sought' (Thelen, 1999: 371). Power (2007: 8) treats institutional environments as sources for 'scripts, routines ideas, and forms of management knowledge' that organizations employ to bolster and sustain legitimacy in managing uncertainty, emphasizing mimetic isomorphism. Similarly, government officials' perceptions of peers' views of the contributions of electronic governance significantly influenced the timing and extent of local e-government innovations in US municipalities (Jun and Weare, 2010).

Scholars explore the influences of multiple aspects of institutions. Desai spotlights an application of the normative pillar: institutional entrepreneurs' attempts to 'preserve or repair [a] field's legitimacy by using public relations efforts' (Desai, 2011: 263). Hardy and Maguire (2010: 1383) examined the UN conference leading to the Stockholm Convention on Persistent Organic Pollutants, tracing how cultural-cognitive mechanisms of 'discursive space and narrative' helped generate field-level change: new global regulations for dangerous chemicals that exempted DDT.

Meanwhile, Frumkin and Galaskiewicz (2004) point to possible differences among sectors in the operation of institutional factors. Based on data from the 1991 National Organizations Study, they conclude that 'governmental organizations are ... more vulnerable' to all three pillars than for profit or non-profit organizations (2004: 283). This reflects differences in organizational ability to accurately measure performance and exercise predictable control over resources, conditions under which 'institutional pressures thrive' (Frumkin and Galaskiewicz, 2004: 288).

Institutional environments: tentative conclusions

It is difficult to overestimate the contributions of institutional influences to understanding policy processes and organizational and network dynamics. Scott praises institutionalists' increased attention to the roles of ideas and mechanisms, the non-local and local influences on organizations, and

contexts that change over time and space (2008b: 212–14). Among the mechanisms serving as drivers of institutional dynamics are decoupling,[10] intraorganizational politics (Pache and Santos, 2010), and rhetorical framing). Zald et al. (2005: 257) contend that social movements influence organizations by affecting the 'framing and understanding of legitimate claims for social change', persuading organizational authorities to change practices, and pushing to 'change laws and establish government agencies to enforce or facilitate organizational change' (cf. Campbell, 2005).

Integrated perspectives

Many scholars examine the interplay of environmental and other factors within and across levels of analysis. Snook and Connor (2005) traced the interaction of numerous influences linking 'signal events' and tragic outcomes in cases ranging from space flight to health care to military operations. Looking at more mundane but consequential banking systems in Germany and Italy, Deeg (2005) probed exogenous pressures on commercial banks from European capital markets to change corporate governance structures, earlier efforts by German banks to stay competitive, and varying bank strategies. Similar integrative efforts have been applied in numerous health and human services settings (e.g., Boin et al., 2010; Garrow, 2011; McBeath and Meezan, 2010; Yang and Pandey, 2007).

The Lynn, Heinrich, and Hill (2001) 'logic of governance' and the Meier–O'Toole (2011) model of public management offer explicitly broad views of the likely interplay of environmental influences with numerous other factors. Andrews et al. (2011) point to the utility of combining contingency and structural hole theories in enriching explanations of external managerial networking, and Koppenjan and Klijn cast problem-solving as a multi-causal, multi-level 'policy game in a network context' (2004: 121; cf. Laegreid et al., 2008). Others have undertaken efforts to explore – theoretically, empirically, and across sectors – the interaction among social movements, institutional processes, and organizations (e.g., Davis et al., 2005).

CONCLUSION

Exploring even a modest portion of the scholarship on environments and public institutions yields a mosaic of diverse theoretical and empirical work. It also suggests topics deserving additional attention. Even if generalizations can be expected to be limited temporally and spatially, it seems reasonable to target areas where patterns might be found, such as the influences (and constructions) of policies or program contexts on public organizations, populations, and networks. Also worth considering is Bevir's (2010: 258) concerns about the 'modernist' flaws of rational choice and sociological institutionalisms: the former neglecting 'local cultures', the latter overlooking 'local reasoning'. Self-conscious construction of environments replete with complex, reciprocal relations that shape and reflect rules, cognitions and norms highlights the constraints on and the opportunities for public actions.

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NOTES

1 Ferlie, Lynn, and Pollitt (2005: 3) question whether public management will 'disintegrate into a plethora of non-communicating subfields'.

2 Scott (2008b) reviews the range of uses of 'institution' and 'institutionalization'.

3 Drawn from biology, equifinality assumes the possibility of many adaptations to the same influence, and similar adaptations may produce variable outcomes (Katz and Kahn, 1966).

4 An 'enacted environment' involves the 'continuous trading and juxtaposing of meaning and interpretations' of organizations and institutions (Gabriel et al., 2000: 299; cf. Bryer, 2007). Others refer to 'constructions' of environments (e.g., Suddaby et al., 2010).

5 Organization theorists differ over whether this is cause for alarm. Pfeffer criticizes what he sees as the relatively low level of 'paradigm development' in 'organization science' (1993), while others celebrate such heterogeneity (e.g., Cannella and Paetzold, 1994). The debate continues; see, e.g., Glick et al. (2007). Meanwhile, Kelman laments PA's lack of 'scholarly firepower' and training in organization theory (2007: 226).

6 Another orientation to contingency theorizing views the 'policy domain' being examined as indicating the appropriate version of institutionalism to apply analytically (Reich, 2000). On the importance of controlling for policy area, see O'Toole and Meier, 2011.

7 Regulatory velocity is the 'rate and direction of change in the regulations and laws [sic] that directly affect' the organizations or fields being considered (McCarthy et al., 2010: 611).

8 On the continued importance of focusing on power relations, see, e.g., Perrow, 2008.

9 Increasingly, however, analysts in this stream pay attention to norms and culture and to contextualized preferences (Mahoney and Thelen, 2010; Thelen, 1999: 376).

10 Decoupling is 'the creation of gaps between formal policies and actual practices' to produce or limit change (Tilcsik, 2010: 1474; cf. George et al., 2006).

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