

THEORIES OF ORGANIZATION

Core Course – PhD Program in Management

University of Lausanne – Faculty of Business and Economics

Spring 2024 – Some Wednesdays from 2pm to 5:30pm

and some Thursdays from 8:15am to 11:45am (please see below)

Room: please see room schedule doc (timetable excel doc)

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This is a course about the fundamental aspects of theories of organizations that can be (and are) applied to many sub-disciplines in management. The purpose of this course is to help understand and build theories.

Many of the theories of organizations invoked in management research come from economics and sociology. In this course we will therefore analyze in considerable detail the leading economic and sociological theories of organizations (in some parts of the course, we will also draw from and refer to the related literature on psychology). Economic theories of organization include transaction cost economics, property rights theory, team theory, resource and evolutionary approaches, and agency theory. Sociological theories of organizations include institutional theory, resource dependence theory, population ecology theory and the embeddedness/social network theory. In between both streams, we also find the behavioral theory of the firm, information processing theory and structural contingency theory. By analyzing alternative theoretical perspectives and debates among them, we will develop our understanding of the strengths and shortcomings of alternative theoretical frameworks for studying organizations.

Learning objectives: This course is a doctoral level seminar on the major theoretical approaches looking at organizations. The main objective of the course is to familiarize you with the basic assumptions, concepts and theories underlying the management field. Because this field is constantly evolving, be forewarned: the boundaries of the field are fuzzy, subjective, and open to interpretation. In addition, the topics and readings are only a subset of those with which doctoral students need to be familiar. The course is intended to provide you with an exposure to some of the major theoretical 'lenses' underpinning the field and some of the major issues to which they are applied. However, for your research proposal and own future education, you will need to read further. That is why we have provided a set of additional readings which we consider important contributions to each theoretical stream. Our objectives for the seminar are the following:

1. Each student develops a mental representation of the literature on organizations and shows an understanding of and appreciation for its key concepts and theories.
2. Each student is able to communicate the core theoretical ideas both verbally and in writing, and is able to develop new ideas and/or approaches that advance some portion of the theory/research on organizations.
3. Each student can analyze management/organizational problems through the lens of the different theories discussed in the course.

Approach and format: The sessions are interactive lectures in which we discuss the core ideas behind the different theoretical approaches covered by the course. The course is designed to be very interactive and thus participation is crucial. Each student contributes to the success of the class. Even one student who is not actively engaged or disruptive can undermine the collective potential of the class. Therefore, each one of you has to be prepared to work hard.

Sessions

In the sessions our role as professors is not so much the one of a lecturer but rather the one of a discussion leader. For each session there will be a reading list. We expect you to read ALL the required papers in the reading list very carefully. Getting to the point where you understand the basic idea is

not enough. You also need to evaluate the material, criticize it, and analyze how its contribution fits with other contributions in the literature. As you will see, several theories have been combined or contrasted. We expect each of you to be able to contribute important aspects and critical ideas when we discuss the different theories in class.

Some of the papers that we cover in the course rely on formal models. We understand that many of you do not have extensive training in mathematical modeling. So, we expect you to concentrate on understanding the main assumptions and mechanisms of the theories instead of going through each single step and detail of the mathematical models. However, in most cases understanding the papers requires that you process the formal arguments up to a certain degree. Therefore, it is essential that you exert some effort and do not give up when you encounter the first mathematical difficulties.

Summaries of individual articles

Students will choose which article/s to summarize for each session. You are expected present the summary in class for 5-10 minutes, followed by comments and discussion from the other students, as well as the professor. The summary should be 1 or 2 pages and reproduce the structure of a typical paper which contains the following sections:

Theory papers:

- 1- Research question (1 sentence ending in ?)
- 2- Managerial/organizational problem/s addressed
- 3- Main assumptions and layout of the theoretical framework
- 4- Central mechanisms of the theory
- 5- Testable hypotheses (1 sentence each)
- 6- Contribution: according to the author/s *and to you (please make sure to make the distinction)*
- 7- Limitations: clearly identifying the ones by the author/s and, more importantly, any additional ones *you might find,*
- 8- Avenues for future research, *especially your own ideas (and not just the author/s')*

Empirical papers:

- 1- Research question (1 sentence ending in ?)
- 2- Managerial/organizational problem/s addressed
- 3- Hypotheses and the theoretical arguments supporting each of them (1 sentence each)
- 4- Population choice and sample characteristics (1 sentence)
- 5- Methods (operationalization of key variables, data sources and statistical specification)
- 6- Results (i.e. whether hypotheses were supported or not, use abbreviations like H1 for Hypothesis 1)
- 7- Contribution: according to the author/s *and to you*
- 8- Limitations: clearly identifying the ones by the author/s *and, more importantly, any additional ones you might find,*
- 9- Avenues for future research, *especially your own ideas (and not just the author/s')*

From our experience, these summaries will greatly help you to build your “knowledge database” for future reference. *Please follow the format guidelines and upload your summaries on the course page on Moodle (<https://moodle.unil.ch/course/view.php?id=27318>) by 7pm on the evening before the*

session, in the section devoted to the session with the author/s' names and publication year as the document title. Summaries will be downloadable for everybody. Please bring also two printed paper summaries to the class (to be distributed to the professors).

Integrative reflection papers

To further improve the quality of your preparation for *each* theory/evidence sessions we will ask you to submit a 1 to 2 page reflection paper which should do two things:

1. Identify how the session papers relate (or not, and whether they should) to each other, i.e. whether and how they build on or contradict each other, whether and how they extend or not the existing understanding,....
2. Express your personal opinion on the readings: what do you find interesting, what is dissatisfying or missing (gaps).

We grade each of these reflection papers in the following way: if you provide a reflection paper of average or standard quality you get a 0 (this should be the normal case). If you hand in an excellent piece of work you get a + (plus). If your reflection paper does not satisfy our quality standards, we give you a – (minus). We let you know your grade for the reflection paper directly in the corresponding session. If you happen to get a minus in one of your papers, you need to compensate it with a plus in one of your other reflections papers. If you have more minuses than pluses at the end of the course, this will lower your final grade by 0.5.

We will also use these reflection papers to help guide the discussion. They are useful in informing us about the areas that are not fully understood and the areas that intrigue you. Please feel free in these reflection papers to raise issues that you would like to have discussed in class.

We know that you put in a lot of effort in preparing these reflection papers, and they may seem like a lot of work. But the analytical skills, communication skills and knowledge that you will acquire through this process will help you to remember the course content later on and will be useful for your doctoral studies and likely academic career. This reflection paper also contributes to a more lively, thoughtful and relevant class discussion.

We expect you to hand in your reflection papers **by 7pm the evening before the session**. The very first line of the paper should have your full name (left aligned) and the Session number (right aligned). Please email it to the faculty leader of each session (see each session below) *and* upload the reflection papers on the moodle page (<https://moodle.unil.ch/course/view.php?id=27318>).

Late or missing reflection papers will result in a minus.

Overall Evaluation of the Course

Individual contribution (50%): This consists of two components: individual participation in class and article summaries.

Individual participation

As outlined in detail above, we expect you to participate actively in every session. Comments should be inquisitive, thoughtful, and insightful. To make such comments, you will have to *prepare well* for

class and *listen carefully* to the discussion. You are encouraged to challenge ideas, not individuals. Classroom discussions should be fun, provocative and enlightening, but never insulting or hostile. It is perfectly fine to have strong opinions, but any form of personal attack is unacceptable.

Everyone is expected to have a thoughtful opinion, and if you don't volunteer your ideas, you will be called on to do so. Being silent is not an option.

Only emergencies should keep you away from class. Each class covers an important theory, so missing a class really is impairing your learning of this fundamental area.

Article summaries and research proposal presentations

There are two types of presentations: of article summaries and of your research proposal. We expect engaged and interesting presentations which satisfy the requirement of a doctoral level course. Obviously, the content of your presentation is the most important part. We want to see clear theoretical arguments, critical assessments, and creative ideas for further research in the area that you are covering in your presentation. However, content is not the only thing. We also expect you to deliver the presentation in an engaged and captivating manner. Bad and boring presentations are embarrassing for the presenters and a pain in the neck for the audience. Please try to avoid them by preparing well.

Final research proposal (50 %)

You need to write alone or in co-authorship with a classmate a 10-12 pages paper (12 point font, double-spaced) in which you lay out a research question based on a gap identified in your literature review, present the main hypotheses and related arguments and sketch the research design necessary to test them. The final version of the proposal is due 1 month (30 days) after the last session.

Reflection Papers

As detailed above, we will lower your grade by 0.5 if you end up with more minuses than pluses in the grading of your reflection papers. For most of you this will not be an issue. Final grades will be communicated by August 1, 2024.

Retake

A student can fail the seminar based either on participation or on the research proposal, or both. If the student failure is due to the research proposal, the retake will consist in redoing the research proposal and will be evaluated on the basis on the extent to which the feedback given is taken into account. If the student failure is due to the participation grade, the retake will consist in an oral session in which the faculty will ask several questions regarding specific sessions which will be indicated in advance to the student with at least a two-week notice. If the student failure is due to both reasons, the retake will consist in the two parts mentioned above. Each part will be worth 50 % of the grade.

The retake period is August 21-September 9, 2024. The retake deadline for the research proposal will be September 1. The retake session for the participation grade will be scheduled during the retake period, allowing for the two-week notice about the specific sessions covered during it.

Academic Fraud: Cheating and Plagiarism

Academic fraud includes cheating (in any test) and plagiarism (in any exercise).

Plagiarism. There is a fundamental norm in the academic profession: you cannot mention others' ideas or words you have read or heard about in different settings (including conferences) without properly acknowledging the source. So, when you use others' ideas, be sure to cite them. Otherwise, if found, it is grounds for dismissal from the course, disciplinary action and may result in being expelled from the program, severely tainting your reputation in the academic field.

Sessions

Session 1 (Thursday February 22): Introduction to the Course

Faculty leaders: XC and CZ

In this session we will introduce the course and discuss the format and our expectations regarding your contributions to the different parts of the course. In addition, we will also have a detailed discussion of the role of theory in science. There are a lot of misunderstandings about the purpose of theory and there are also wrong ideas of what constitutes a good theory. We find it very important to present our views and discuss this topic with you before we start discussing specific theories with you. There are no readings for this first session.

Session 2 (Thursday February 29): Transaction Cost Economics (TCE)

Faculty leader: CZ

Coase (1937) is essentially the starting point for the whole contract-based literature on the theory of the firm. Alchian and Demsetz (1972) criticize the authority-based view of the firm in TCE and offer an alternative theory with a focus on team production. Oliver Williamson has built transaction cost economics (TCE) on Coase's early insights. However, Williamson adds important new elements, in particular the notions of incomplete contracts and relationship-specific investments. Tadelis and Williamson (2014) summarize this large literature and explain the central mechanisms.

Required readings

- 1) Coase, Ronald. 1937. "The Nature of the Firm". *Economica*, 4: 386-405.
- 2) Alchian, Armen and Harold Demsetz. 1972, "Production, Information Costs, and Economic Organization", *American Economic Review*, 62: 777-795.
- 3) Tadelis, Steve and Oliver Williamson. 2012. "Transaction Cost Economics". Handbook of Organizational Economics, Eds. Robert Gibbons and John Roberts, Princeton University Press.

Further readings:

Klein, Benjamin, Robert Crawford and Armen Alchian. 1978. "Vertical Integration, Appropriable Rents, and the Competitive Contracting Process", *Journal of Law and Economics* 21(2), 297-326.

Williamson, Oliver. 1979. "Transaction Cost Economics: The Governance of Contractual Relations", *Journal of Law and Economics* 22(2), 233-261.

Williamson, Oliver, 1994. "Visible and invisible governance", *American Economic Review* 84(2), 323-326.

White, Steven. 2000. "Competition, capabilities, and the make, buy or ally decisions of Chinese state-owned firms," *Academy of Management Journal*, 43: 324-341.

Williamson, Oliver. 2005. "Transaction Cost Economics", *Handbook of New Institutional Economics*, Springer, Netherlands: 41-69.

Joskow, Paul. 2005. "Vertical Integration", *Handbook of New Institutional Economics*, Springer, Netherlands: 319-349.

Williamson, Oliver, 2009. "Transaction Cost Economics: The Natural Progression", Nobel Prize Lecture (http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/2009).

Garrette, Bernard, Castañer, Xavier and Pierre Dussauge. 2009. "Horizontal Alliances as an Alternative to Autonomous Production: Product Expansion Mode Choice in the Worldwide Aircraft Industry 1949-2000", *Strategic Management Journal*, 30(8): 885-894.

Williamson, Oliver. 2010. "Transaction Cost Economics: The Natural Progression", *American Economic Review* 100, 673-690.

Gibbons, Robert. 2010. "Transaction-Cost Economics: Past, Present, Future?", *Scandinavian Journal of Economics* 112, 263-288.

Castañer, X., Mulotte, L., Garrette, B., and P. Dussauge. 2014. "Governance Mode vs. Governance Fit? Performance Implications of Make-or-Ally Choices for Product Innovation in the Worldwide Aircraft Industry 1942-2000", *Strategic Management Journal*, **35**: 1386-1397.

Speckbacher G, Neumann K, Hoffmann WH. 2015. "Resource Relatedness and the Mode of Entry into New Businesses: Internal Resource Accumulation vs. Access by Collaborative Arrangement". *Strategic Management Journal* **36**(11): 1675-1687.

Session 3 (Thursday March 7): Property Rights Theory

Faculty leader: CZ

Hart (1995) provides a textbook version of the property rights theory. You will realize that the general framework of the property rights approach is very similar to the one of transactions cost economics. However, there are important differences. Please try to identify the differences between the theories and how this affects their implications for practice. Baker et al. (2002) move the static property rights theory into a repeated setup and show that this leads to interesting additional insights. Holmström (1999) discusses limitations of the property rights approach and provides an explanation for why assets are clustered in organizations. Acemoglu et al. (2010) make use of manufacturing data from the UK to directly test TCE and PRT against each other.

Required readings

- 1) Hart, Oliver. 1995. *Firms, Contracts, and Financial Structure*. Chapter 2, Oxford University Press, USA: 1-55.

- 2) Baker, George, Robert Gibbons and Kevin Murphy. 2002. "Relational Contracts and the Theory of the Firm", *Quarterly Journal of Economics*, 117(1), 39 – 84.
- 3) Holmström, Bengt. 1999. "The Firm as a Subeconomy", *Journal of Law, Economics, and Organization*, 15(1), 74-102.
- 4) Acemoglu, Daron, Philippe Aghion, Rachel Griffith and Fabrizio Zilibotti. 2010. "Vertical Integration and Technology: Theory and Evidence", *Journal of the European Economic Association*, 8, 989-1033.

Further readings

Klein, Peter. 2005. "The Make-or-Buy Decisions: Lessons from Empirical Studies", *Handbook of New Institutional Economics*, Springer, Netherlands: 435-465.

Demsetz, Harold. 1967. "Toward a Theory of Property Rights", *American Economic Review* 57(2), 347-359

Grossman, Sanford and Oliver Hart. 1986. "The Costs and Benefits of Ownership: A Theory of Vertical and Lateral Integration", *Journal of Political Economy* 94 (2), 691-719.

Hart, Oliver. 1989. "An Economist's Perspective on the Theory of the Firm", *Columbia Law Review* 89(7), 1757-1774.

Hart, Oliver and John Moore. 1990. "Property Rights and the Nature of the Firm", *Journal of Political Economy* 98, 1119-58.

Tirole, Jean. 1999, "Incomplete Contracts: Where Do We Stand?", *Econometrica* 67(4), 741-781.

Woodruff, Christopher. 2002. "Non-contractible Investment and Vertical Integration in the Mexican Footwear Industry", *International Journal of Industrial Organization* 20, 1197-1224.

Baker, George and Thomas Hubbard. 2004. "Contractibility and Asset Ownership: On-Board Computers and Governance in US Trucking", *Quarterly Journal of Economics* 119, 1443 – 1479.

Lafontaine, Francine and Margaret Slade. 2007. "Vertical Integration and Firm Boundaries: The Evidence", *Journal of Economic Literature* 45, 629-85.

Iyer, Rajkamal and Antoinette Schoar. 2012. The Importance of Hold-up in Contracting: Evidence from a Field Experiment, Working Paper MIT.

Iyer, Rajkamal and Antoinette Schoar. 2013. Ex Post (in)efficient Negotiation and Breakdown of Trade, Working Paper MIT.

Session 4 (Wed March 13): Resource dependence theory – how organizations cope with their dependence from other organizations

Faculty leader: XC

The readings of this session are in chronological order of publication and we recommend you read them in the same order. The first two are by one of the two creators of the theory, J. Pfeffer, who later on (1978) together with G. Salancik published the classic book in this stream. The third article is a replication and extension study of Pfeffer (1972b). We consider important you are exposed to replication studies, a type of study central to scientific enquiry and very much discussed currently – see the recent launch of the Academy of Management Discoveries. The fourth and fifth articles try to clarify some of the key concepts such as power and dependence in RDT coming from exchange theory – see Levine and White (1961), Emerson (1962) and Blau (1964) in additional readings – and provide more recent empirical tests some of the components of the theory, combined with others. The last article is a relatively recent review of this stream.

Required readings:

- 1) Pfeffer, J. (1972a). Size and composition of corporate boards of directors. *Administrative Science Quarterly*, 218-228.
- 2) Pfeffer, J. (1972b). Merger as a response to organizational interdependence. *Administrative Science Quarterly*, 382-394.
- 3) Finkelstein, S. (1997). Interindustry merger patterns and resource dependence: A replication and extension of Pfeffer (1972). *Strategic Management Journal*, 18: 787–810.
- 4) Casciaro, T. & Piskorski, M.J. (2005). Power imbalance, mutual dependence, and constraint absorption: A closer look at resource dependence theory. *Administrative Science Quarterly*, 50: 167-199.
- 5) Gulati, R. & Sytch, M. (2007). Dependence asymmetry and joint dependence in interorganizational relationships: Effects of embeddedness on exchange performance. *Administrative Science Quarterly*, 52: 32-69.

Additional readings

Levine, S., & P. E. White (1961). Exchange as a conceptual framework for the study of interorganizational relationships. *Administrative Science Quarterly*, 5: 538–601.

Emerson, R. M. (1962). Power-dependence relations. *American Sociological Review*, 27: 31–40.

Blau, P. M. (1964). Exchange and Power in Social Life. New York: Wiley.

Pfeffer, J., & P. Novak. (1976). Joint ventures and interorganizational interdependence. *Administrative Science Quarterly*, 21: 398–418.

Pfeffer, J., & G. R. Salancik (1978). The External Control of Organizations: A Resource Dependence Perspective. New York: Harper and Row.

(2003). The External Control of Organizations: A Resource Dependence Perspective, 2d ed. Stanford, CA: Stanford University Press.

Hillman, A., Withers, M.C. & Collins, B.J. (2009). Resource dependence theory: A review. Journal of Management, 35(6): 1404–1427.

Wry, T, Cobb J & H. Aldrich (2013). More than a metaphor: Assessing the historical legacy of resource dependence and its contemporary promise as a theory of environmental complexity. The Academy of Management Annals, 7:1, 441-488.

Session 5 (Wed March 20): Institutional theory – how organizations are affected by, respond to and create institutions/norms

Faculty leader: XC

The readings of this session are in chronological order of publication and we recommend you read them in the same order. The first two articles are theoretical and probably constitute the two classics which launch this stream. The third article is also a theoretical, like the fifth which is considered nowadays as a fundamental development of the theory. The fourth article is an empirical piece which tests some of the components of the theory, combined with others.

Required Readings:

- 1) Meyer, J. & Rowan, B. (1977). Institutional organizations: Formal structure as myth and ceremony. American Journal of Sociology, 83: 340-363.
- 2) DiMaggio, P. & Powell, W. (1983). Institutional isomorphism and collective rationality in organizational fields. American Sociological Review, 48: 147-160.
- 3) Oliver, C. (1991). Strategic responses to institutional processes. Academy of Management Review, 16: 145-179.
- 4) Palmer, D., Jennings, A., Devereaux, P. & Zhou, X. (1993). Late adoption of the multidivisional form by large U.S. corporations: Institutional, political, and economic accounts. Administrative Science Quarterly, 38: 100-131.
- 5) Suchman, M. (1995). Managing legitimacy: Strategic and institutional approaches. Academy of Management Review, 20: 571-610.

Additional readings:

Rowan, B. (1982). Organizational structure and the institutional environment: The case of public schools. Administrative Science Quarterly, 27 (2): 259-280.

Fligstein, N. (1985). The spread of the multidivisional form among large firms, 1919-1979. American Sociological Review, 50: 377-391.

Baum, J.A.C. & Oliver, C. (1991). Institutional linkages and organizational mortality. Administrative Science Quarterly, 36 (2): 187-219.

- Galaskiewicz, J. & Burt, R. (1991). Interorganization contagion in corporate philanthropy. *Administrative Science Quarterly*, 36 (1): 88-106.
- Leblebici, H., Salancik, G., Copay, & Ting (1991). Institutional change and transformation of interorganizational fields. *Administrative Science Quarterly*, 36: 333-63.
- Powell, W. & DiMaggio, P. (1991). The New Institutionalism in Organizational Analysis. Chicago: Chicago Press, Chpt. 1.
- Haunschild, P. (1993). Interorganizational imitation: The impact of interlocks on corporate acquisition activity. *Administrative Science Quarterly*, 38: 564-592.
- Haveman, H. (1993). Follow the leader: Mimetic isomorphism and entry into new markets. *Administrative Science Quarterly*, 38 (4): 593-628.
- Davis, G., Diekmann, K. & Tinsley, C. (1994). The decline and fall of the conglomerate firm in the 1980s: The de-institutionalization of an organizational form. *American Sociological Review*, 59: 547-570.
- Haunschild, P. (1994). How much is that company worth? Interorganizational relationships, uncertainty, and acquisition premiums. *Administrative Science Quarterly*, 39 (3): 391-412.
- Greenwood, R. & Hinings, C. (1996). Understanding radical organizational change: Bringing together the old and the new institutionalism. *Academy of Management Review*, 21: 1022-1054.
- Fligstein, E. (1996). Markets as politics: A political-cultural approach to market institutions. *American Sociological Review*, 61: 228-244.
- Kraatz, M. & Zajac, E. (1996). Exploring the limits of the new institutionalism: The causes and consequences of illegitimate organizational change. *American Sociological Review*, 61: 812-836.
- Barley, S. & Tolbert, P. (1997). Institutionalization and structuration: Studying the links between action and institution. *Organization Science*, 18, 1: 93-117.
- Haveman, H. & Rao, H. (1997). Structuring a theory of moral sentiments: Institutional and organizational coevolution in the early thrift industry. *American Journal of Sociology*, 102: 1606-1651.
- Hirsch, P. & Lounsbury, M. (1997). Ending the family quarrel: Toward a reconciliation of 'old' and 'new' institutionalisms. *American Behavioral Scientist*, 40(4): 406-418.
- Stinchcombe, A. (1997). On the virtues of the old institutionalism. *Annual Review of Sociology*, 23: 1-18.
- Westphal, J.D., Gulati, R. & Shortell, S.M. (1997). Customization or conformity? An institutional and network perspective on the content and consequences of TQM adoption. *Administrative Science Quarterly*, 42, 2: 366-394.
- Deephouse, D. (1999). To be different, or to be the same? It's a question (and theory) of strategic balance. *Strategic Management Journal*, 20: 147-166.

Zuckerman, E.W. (2000). Focusing the corporate product: Securities analysts and de-diversification. *Administrative Science Quarterly*, 45(3): 591-619.

Guler, I., Guillén, M.F. & Macpherson, J.M. (2002). Global competition, institutions, and the diffusion of organizational practices: The international spread of ISO 9000 quality certificates. *Administrative Science Quarterly*, 47, 2: 207-233.

Thornton, P.H. & Ocasio, W. (2008). Institutional Logics. In R. Greenwood, C. Oliver, R. Suddaby, and K. Sahlin, eds., *The Sage Handbook of Organizational Institutionalism*. Los Angeles, CA: Sage Publications, pp. 1-46.

Battilana, J., Leca, B. & Boxenbaum, E. (2009). How actors change institutions: Towards a theory of institutional entrepreneurship. *Academy of Management Annals*, 3: 65-107.

Suddaby, R., Elsbach, Greenwood, Meyer & Zilber, T. (2010). Organizations and their institutional environments – bringing meaning, values, and culture back in: Introduction to the special research forum. *Academy of Management Journal*, 53: 1234-1240.

Bitektine, A. & Haack, P. (2015). [The “macro” and the “micro” of legitimacy: Toward a multilevel theory of the legitimacy process](#). *Academy of Management Review*, 40 (1), 49-75.

Suddaby, R., Bitektine, A. & Haack, P. (2017). [Legitimacy](#). *Academy of Management Annals*, 11 (1), 451-478.

Harmon, D., Haack, P. & Roulet, T. (2019). [Microfoundations of institutions: A matter of structure versus agency or level of analysis?](#) *Academy of Management Review*, 44 (2), 464-467.

Session 6 (Wed March 27): Embeddedness and social network theory – how organizations are affected by the social links among them and how they can use them

Faculty leader: XC

We recommend you to read the articles in this session in the order proposed. The first article is a theory classic in sociology in general and OT in particular in that it introduces the embeddedness approach. Granovetter is associated with the so called relational embeddedness approach, whereas Burt is linked to the structural embeddedness approach. The second article is a complex example of inductive theory building in the topic, building from qualitative research, which also aims to encompass behavioral theory. The other two articles are empirical tests of the embeddedness approach which however also introduce some interesting behavioral/learning arguments.

Required readings:

- 1) Granovetter, M. (1985). Economic action and social structure: The problem of embeddedness. *American Journal of Sociology*, 91(3): 481-510.
- 2) Uzzi, B. (1997). Social structure and competition in interfirm networks: The paradox of embeddedness. *Administrative Science Quarterly*, 42: 35-67.

- 3) Rowley, T., D. Behrens, & D. Krackhardt (2000). Redundant governance structures: An analysis of structural and relational embeddedness in the steel and semiconductor industries. *Strategic Management Journal*, **21** (Special Issue): 369-386.
- 4) Phelps, C. (2010). A longitudinal analysis of the influence of alliance network structure and composition of firm exploratory innovation. *Academy of Management Journal*, **53**: 890-913.

Additional readings

Burt, R. (1982). Toward a Structural Theory of Action: Network Models of Social Structure, Perception, and Action. New York: Academic Press.

Coleman, J. (1988). Social capital in the creation of human capital. *American Journal of Sociology*, **94**: S95-S120

Burt, R. (1992). Structural Holes: The Social Structure of Competition. Cambridge, MA: Harvard U. Press.

Gulati, R. (1995). Social structure and alliance formation patterns: A longitudinal analysis. *Administrative Science Quarterly*, **40**: 619-652.

Zaheer, A., McEvily, B. & Perrone, V. (1998). Does trust matter? Exploring the effects of interorganizational and interpersonal trust on performance. *Organization Science*, **9**, 2: 141-159.

Gulati, R. (1999). Network location and learning: The influence of network resources and firm capabilities on alliance formation. *Strategic Management Journal*, **20**: 397-420.

Ahuja, G. (2000). Collaboration networks, structural holes, and innovation: A longitudinal study. *Administrative Science Quarterly*, **45**: 425-455.

Zaheer, A. & Soda, G. (2009). Network evolution: The origins of structural holes. *Administrative Science Quarterly*, **54**, 1-31.

Session 7 (Thursday April 11): Developing your research proposal

You are expected to present your research question and potential theoretical angle/s.

Session 8 (Wed April 17): Behavioral theory of the firm, information-processing and learning/evolutionary/attention/adaptation theories

Faculty leader: XC

I recommend you to read the articles in this session in the order proposed. The first article is an empirical test of the basic framework of the behavioral theory of the firm (BTOF) as formulated by March and Simon (1958) and Cyert and March (1963). The second article is a simulation-based theory paper by J. March, one of the creators of the BTOF, an article on different types of learning and their consequences which has garnered a lot of attention. The third article is an empirical test of combined learning and 'evolutionary' approaches on the evolution of organizational scope. The fourth article is a theory piece which extends some of the early BTOF tenets on decision-making combining it other theories, and focusing on attention. Again, this article is considered a central contribution to this stream and has gained substantial acclaim. The last article is an empirical piece which tests some hypotheses about organizational learning in the context of acquisitions.

Required readings

- 1) Bromiley, P. (1991). Testing a causal model of corporate risk-taking and performance. *Academy of Management Journal*, 34: 37-60.
- 2) March, J. (1991). Exploration and exploitation in organizational learning. *Organization Science*, 2: 71-87.
- 3) Chang, S.J. (1996). An evolutionary perspective on diversification and corporate restructuring: Entry, exit, and economic performance during 1981-89. *Strategic Management Journal*, 17: 587-612.
- 4) Ocasio, W. (1997). Towards an attention-based view of the firm. *Strategic Management Journal*, 18: 187-206.
- 5) Zollo, M. (2009). Superstitious learning with rare strategic decisions: Theory and evidence from corporate acquisitions. *Organization Science*, 20: 894-908.

Additional readings (including the classics):

Simon, H. (1947). *Administrative Behavior*. New York: Macmillan.

Simon, H. (1955). A behavioural model of rational choice. *Quarterly Journal of Economics*, 69: 99-118.

Simon, H. (1957). *Models of Man*. New York: Wiley.

March, J. & Simon, H. (1958). *Organizations*. New York: Wiley.

Cyert, R. & March, J. (1963). *A Behavioral Theory of the Firm*. Englewood Cliffs: Prentice-Hall.

Carter, E. (1971). The behavioral theory of the firm and top-level corporate decisions. *Administrative Science Quarterly*: 413-428.

Staw, B.M. (1981). The escalation of commitment: A review and analysis. *Academy of Management Review*, 6: 577-587.

- Herriott, S.R., Levinthal, D. & March, J.G. (1985). Learning from experience in organizations. *American Economic Review*, 75 (2): 298-303.
- Singh, J.V. (1986). Performance, slack and risk taking in organizational decision making. *Academy of Management Journal*, 29: 562-585.
- Levitt, B. & March, J.G. (1988). Organizational learning. In Scott, R. (Ed.). *Annual Review of Sociology*, JAI Press: 319-340.
- Simon, H. (1991). Bounded rationality and organizational learning. *Organization Science*, 2 (1): 125-134.
- Lant, T. (1992). Aspiration level adaptation: An empirical exploration. *Management Science*, 38: 623-644.
- Levinthal, D.A. & March, J.G. (1993). The myopia of learning. *Strategic Management Journal*, 14: 95-112.
- Gulati, R., and N. Nohria (1996). Is slack good or bad for innovation? *Academy of Management Journal*, 39, 5: 1245–1264.
- Greve, H. R. (1998). Performance, aspirations, and risky organizational change. *Administrative Science Quarterly*, 43(1): 58-86.
- Greve, H. R. (2002). Sticky aspirations: Organizational time perspective and competitiveness. *Organization Science*, 13(1): 1-17.
- Greve, H. (2003). *Organizational Learning from Performance Feedback: A Behavioral Perspective on Innovation and Change*. Cambridge: Cambridge University Press.
- Ketokivi, M., & Castañer, X. (2004). Strategic planning as an integrative device. *Administrative Science Quarterly*, 49: 337-365.
- Ocasio, W. & Joseph, J. (2005). An attention-based theory of strategy formulation: Linking micro- and macro-perspectives in strategy processes. *Advances in Strategic Management*, 22: 39-61.
- Argote, L., & Greve, H. R. (2007). A behavioral theory of the firm – 40 years and counting: Introduction and impact. *Organization Science*, 18: 377-349.
- Andriopoulos, C., & Lewis, M. W. (2009). Exploitation-exploration tensions and organizational ambidexterity: Managing paradoxes of innovation. *Organization Science*, 20(4): 696-717.
- De Clercq, D., Castañer, X. and Belausteguigoitia, I. (2011). Explaining initiative selling within organizations: Towards a more comprehensive motivational framework. *Journal of Management Studies*, 48: 1269-1290.
- Ocasio, W. (2011). Attention to attention. *Organization Science*, 22(5) 1286-1296.
- Shinkle, G. A. (2012). Organizational aspirations, reference points, and goals: Building on the past and aiming for the future. *Journal of Management*, 38: 415-455.

Joseph, J. & Ocasio, W. (2012). Architecture, attention, and adaptation in the multibusiness firm: General Electric from 1951 to 2001. *Strategic Management Journal*, 33: 633-660.

Session 9 (Wed April 24): Structural contingency theory and organizational design

Faculty leader: XC

I recommend you to read the articles in this session in the order proposed. The first article is a classic of (a) design theory by H. Simon, another creator of the BTOF and Nobel prize of economics for its work on bounded rationality. The second piece is empirical by L. Lawrence and J. Lorsch, two other authors of structural contingency theory, along with Burns and Stalker (1961), Chandler (1962) and Thompson (1967). The third piece is an empirical article on the central notion of fit or alignment in OT and strategy. The fourth article is also empirical and examines the temporal dynamics of the interplay between strategy and structure, one of the central contingent ideas introduced by Chandler (1962). The last article is an empirical piece which examines how some processual traits of strategic planning can lead to greater convergence on adherence to organizational goals, linking design to BTOF.

Required readings

- 1) Simon, H. A. (1962). The architecture of complexity. *Proceedings of the American Philosophical Society*, 106: 467-482.
- 2) Lawrence, P., & Lorsch, J. (1967). Differentiation and integration in complex organizations. *Administrative Science Quarterly*, 12: 1-30.
- 3) Drazin, R. & Van de Ven, A. (1985). Alternative forms of fit in contingency theory. *Administrative Science Quarterly*, 17: 313-27. (See zoom video with Andy and 2020 students on this article in the moodle)
- 4) Amburgey, T., & Dacin, T. (1994). As the left foot follows the right? The dynamics of strategy. *Academy of Management Journal*, 37 (6): 1427-1453.
- 5) Ketokivi, M. & Castañer, X. (2004). Strategic planning as an integrative device. *Administrative Science Quarterly*, 49: 337-365.

Additional readings (including the classics):

Burns, T. & Stalker, G. (1961). The Management of Innovation. London: Tavistock.

Chandler, A. D. (1962). Strategy and Structure: Chapters in the History of the American Industrial Enterprise. Cambridge, MA: MIT Press.

Thompson, J.D. (1967). Organizations in Action: Social Science Bases of Administration. New York: McGraw-Hill.

Perrow, C. (1967). A framework of the comparative analysis of organizations. *American Sociological Review*, 32: 194-208.

Child, J. (1972). Organization structure, environment and performance: The role of strategic choice. *Sociology*, 6.

Galbraith, J. R.

1971 Matrix organization designs. *Business Horizons*, 14: 29-40.

1974 Organization design: An information processing view. *Interfaces*, 4: 28-36.

1977 Organization Design. Reading, MA: Addison-Wesley.

Armour, H. & Teece, D. (1978). Organizational structure and economic performance: A test of the multidivisional hypothesis. *Bell Journal of Economics*, 9: 106-122.

Van de Ven, A. & Ferry (1980). Measuring and Assessing Organizations. NY: Wiley. (Out of print. Accessible [here](#).)

Pugh, A. (1981). The Aston Program of Research in Van de Ven and Joyce Ibid.

Miller, D. (1986). Configurations. *Strategic Management Journal*.

Miller, D. (1992). Environmental fit versus internal fit. *Organization Science*, 3, 2: 252-278.

Doty, D., Glick, W. & Huber, G. (1993). Fit, equifinality, and organizational effectiveness: A test of two configurational theories. *Academy of Management Journal*, 36, 6: 1196-1250.

Meyer, A., Tsui, A. & Hinings, B. (1993). Configurational approaches to organizational analysis. *AMJ*, 36, 6: 1175-1195.

Adler, P. (1995). Interdepartmental interdependence and coordination: The case of the design/manufacturing interface. *Organization Science*, 6: 147-167.

Milgrom, P. & Roberts, J. (1995). Complementarities and fit: Strategy, structure, and organizational change in manufacturing. *Journal of Accounting and Economics*, 19: 179-208

Argyres, N. (1996). Capabilities, technological diversification and divisionalization. *Strategic Management Journal*, 17 (5): 395-421.

Levinthal, D. & Warglien (1999). Landscape design: Designing for local action in complex worlds. *Organization Science*, 10, 3: 342-357.

Donaldson, L. (2001). The Contingency Theory of Organizations. Sage.

Siggelkow, N. (2002). Misperceiving interactions among complements and substitutes. *Management Science*, 48, 7: 900-916.

Siggelkow, N. & Levinthal, D. (2003). Temporarily divide to conquer: Centralized, decentralized, and reintegrated organizational approaches to exploration and adaptation. *Organization Science*, 14: 650-669.

Raisch, S., Birkinshaw, J, Probst, G. & Tushman, M. (2009). Organizational ambidexterity: Balancing exploitation and exploration for sustained performance. *Organization Science*, 20: 685-695.

Jansen, J., Tempelaar, M., van den Bosch, H. & Volberda, H. (2009). Structural differentiation and ambidexterity: The mediating role of integration mechanisms. *Organization Science*, 20: 797-811.

Eisenhardt, K., Furr, N. & Bingham, C. (2011). Microfoundations of performance: Balancing efficiency and flexibility in dynamic environments. *Organization Science*, 10.

Van de Ven, A., Leung, Bechara, J. & Sun (2012). Changing organizational designs and performance frontiers. *Organization Science*

Castañer, X. & Ketokivi, M. (2018). [Toward a theory of organizational integration](#). Organization Design, Advances in Strategic Management, vol. 40, 53-80.

Session 10 (Thursday May 2): Principal-Agent Theory (PAT)

Faculty leader: CZ

In this session the focus will be on what is principal-agency theory. Given that this literature is huge, we start with (parts of) an overview chapter by Gibbons and Roberts (2013). Baker et al. (1994) and Holmström and Milgrom (1991) are important papers that point out particular aspects of the theory (the former is about interactions between explicit and implicit incentives, the latter about incentives in complex environments). Bandiera et al. (2009) is an empirical paper focusing on how incentives shapes the effect of social connections between workers and managers on productivity in the workplace.

Required readings

- 1) Gibbons, Robert and John Roberts. 2013. "Economic Theories of Incentives in Organizations", *Handbook of Organizational Economics*, Princeton University Press.
- 2) Baker, George, Robert Gibbons and Kevin Murphy. 1994. "Subjective Performance Measures in Optimal Incentive Contracts", *Quarterly Journal of Economics*, 109(4), 1125-1156.
- 3) Holmstrom, Bengt and Paul Milgrom. 1991. "Multi-Task Principal-Agent Analyses: Linear Contracts, Asset Ownership and Job Design", *Journal of Law, Economics and Organization*, 7, 24-52.
- 4) Bandiera, O., Barankay, I., & Rasul, I. (2009). Social connections and incentives in the workplace: Evidence from personnel data. *Econometrica*, 77(4), 1047-1094.

Further readings

Jensen, Michael C. and William H. Meckling. 1976. "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure." *Journal of Financial Economics*, 3(4), 305-360.

Fama, Eugene F. and Michael Jensen. 1983. "Agency Problems and Residual Claims", *Journal of Law and Economics*, 26(2), 327-335.

Grossman, Sanford and Oliver Hart. 1983. "An Analysis of the Principal-Agent Problem", *Econometrica*, 51, 7-45.

- Bull, Clive. 1987. "The Existence of Self-Enforcing Implicit Contracts", *Quarterly Journal of Economics*, 102(1), 147-160.
- Gibbons, Robert. 1987. "Piece-Rate Incentive Schemes", *Journal of Labor Economics*, 5(4), 413-429.
- Baker, George. 1992. "Incentive Contracts and Performance Measurement", *Journal of Political Economy*, 100(3), 598-614.
- Lafontaine, Francine. 1992. "Agency Theory and Franchising: Some Empirical Results", *RAND Journal of Economics*, 23(2), 263-283.
- Milgrom, Paul and John Roberts. 1992. "Economics, Organization, and Management", Prentice Hall: Chapter 7: 206-247.
- Holmstrom, Bengt and Paul Milgrom. 1994. "The Firm as an Incentive System", *American Economic Review*, 84 (4).
- MacLeod, Bentley and James Malcomson. 1998. "Motivation and Markets", *American Economic Review*, 88(3), 388 – 411.
- Lazear, Edward. 2000. "Performance Pay and Productivity", *American Economic Review*, 90, 1346-61.
- Levin, Jonathan. 2002. "Multilateral Contracting and the Employment Relationship", *Quarterly Journal of Economics*, 117(3), 1075 – 1103.
- Levin, Jonathan. 2003. "Relational Incentive Contracts", *American Economic Review*, 93(3), 835 – 857.
- Shearer, Bruce. 2004. "Piece Rates, Fixed Wages and Incentives: Evidence from a Field Experiment." *Review of Economic Studies*, 71, 513-34.
- Gibbons, Robert. 2005. "Four Formal(izable) Theories of the Firm?" *Journal of Economic Behavior and Organization*, 58, 202-47.
- Bitler, Marianne, Tobias Moskowitz and Annette Vissing-Jørgensen. 2005. "Testing Agency Theory with Entrepreneur Effort and Wealth", *Journal of Finance*, 60(2), 539-576.
- Dohmen, Thomas, and Armin Falk. 2011. "Performance Pay and Multidimensional Sorting: Productivity, Preferences, and Gender", *American Economic Review*, 101(2): 556–90.
- Baker, George, Robert Gibbons and Kevin Murphy. 2011. "Relational Adaptation", Working Paper, MIT.
- Castañer, Xavier and Nikolaos Kavadis. 2013. "Does good governance prevent bad strategy? A study on corporate governance, financial diversification, and value creation by French corporations, 2000-2006", *Strategic Management Journal*, 34, 863-876.

Ascension – Holiday (May 9)

Session 11 (Thursday May 16): Authority

Faculty leader: CZ

Aghion and Tirole (1997) build on the mechanisms established in the property rights literature and apply them to the internal organization of the firm. This approach delivers a theory that distinguishes between formal and real authority. While Aghion and Tirole (1997) focus on decision authority (who has the right to decide what), Van den Steen (2010) concentrates on interpersonal authority (who can tell whom what to do). Fehr et al. (2013) is a laboratory experiment that directly tests aspects of Aghion and Tirole (1997). Interestingly, the behavior of real people is not always aligned with the theoretical predictions and it is insightful to discuss why this is the case.

Required readings

- 1) Aghion, Philippe and Jean Tirole. 1997. "Formal and Real Authority in Organizations", *Journal of Political Economy*, 105(1), 1-29.
- 2) Van den Steen, Eric. 2010. "Interpersonal Authority in a Theory of the Firm", *American Economic Review*, 100(1), 466–490.
- 3) Fehr, Ernst, Holger Herz, and Tom Wilkening. 2013. "The Lure of Authority: Motivation and Incentive Effects of Power", *American Economic Review*, 103(4): 1325-1359.

Further readings on Authority

Dessein, Wouter. 2002. "Authority and Communication in Organizations", *Review of Economic Studies*, 69(4), 811-838.

Alonso, Ricardo and Niko Matouschek. 2007. "Relational Delegation", *RAND Journal of Economics*. 38(4), 1070-1089.

Alonso, Ricardo, Wouter Dessein, and Niko Matouschek. 2008. "When Does Coordination Require Centralization?" *American Economic Review*, 98(1): 145-79.

Alonso, Ricardo and Niko Matouschek. 2008. "Optimal Delegation", *Review of Economic Studies*, 75(1), 259-293.

Van den Steen, Eric. 2009. "Authority versus Persuasion", *American Economic Review: Papers & Proceedings* 99(2), 448–453.

Van den Steen, Eric. 2010. "Disagreement and the Allocation of Control", *Journal of Law, Economics, and Organization* 26(2): 385-426.

Session 12 (Thursday May 23): Leadership and Managing Culture

Faculty leader: CZ

Zehnder et al. (2017) discuss how leadership research and organizational economics can (and should) inspire each other. The article relates many of the theories that we discussed in the part on the theory of the firm to the leadership context. Gibbons et al. (2021) and Frydlinger et al. (2019) discuss from somewhat different perspectives what it takes to build cooperative relationships within and across organizations. These approaches provide one way to start thinking about what it really means to build (and possibly adapt) an organizational culture.

Required readings

- 1) Zehnder, Christian, Holger Herz and Jean-Philippe Bonardi. 2017. "A productive clash of cultures: Injecting economics into leadership research", *Leadership Quarterly* 28(1): 65-85.
- 2) Gibbons, Robert, Manuel Grieder, Holger Herz and Christian Zehnder. 2021. "Building an Equilibrium: Rules versus Principles in Relational Contracts", *Organization Science*, <https://doi.org/10.1287/orsc.2021.1503>.
- 3) Frydlinger, David, Oliver Hart, and Kate Vitasek. 2019. "A new approach to contracts: How to build better long-term strategic partnerships." *Harvard Business Review*, 97: 116-126.

Further readings on Leadership

Hermalin, Benjamin. 1998. "Toward an Economic Theory of Leadership: Leading by Example." *American Economic Review*, 88, 1188-1206.

Weber, Roberto, Colin Camerer, Yuval Rottenstreich and Marc Knez. 2001. "The Illusion of Leadership: Misattribution of Cause in Coordination Games", *Organization Science*, 12(5), 582-598.

Brandts, Jordi, and David J. Cooper. 2006. "A Change Would Do You Good An Experimental Study on How to Overcome Coordination Failure in Organizations." *American Economic Review*, 96(3): 669-693.

Hermalin, Benjamin, Mana Komai and Mark Stegeman 2007. "Leadership and Information," *American Economic Review*, 97: 944–947.

Hermalin, Benjamin. 2013. "Leadership and Corporate Culture", *Handbook of Organizational Economics*, Princeton University Press.

Brunnermeier, Markus K, Patrick Bolton, and Laura Veldkamp. 2013. "Leadership, Coordination And Corporate Culture", *Review of Economic Studies*, 80(2): 512-537.

Antonakis, John, Giovanna d'Adda, Roberto Weber and Christian Zehnder. 2014. "Just Words? Just Speeches? – On the Economic Value of Charismatic Leadership", Working Paper.

Brandts, Jordi, David J. Cooper and Roberto A. Weber (2015). "Legitimacy, Communication and Leadership in the Turnaround Game", *Management Science*, 61.11: 2627-2645.

Further readings on Relationship Building and Organizational Culture

Kreps, David M. 1990. "Corporate culture and economic theory." *Perspectives on positive political economy*, 90: 109-110.

Chassang, Sylvain. 2010. "Building routines: Learning, cooperation, and the dynamics of incomplete relational contracts." *American Economic Review*, 100.1: 448-65.

Schein, Edgar H. 2010. *Organizational culture and leadership* (2nd edition). John Wiley & Sons.

Gibbons, Robert, and Rebecca Henderson. 2012. "Relational contracts and organizational capabilities." *Organization Science*, 23.5: 1350-1364.

Hermalin, Benjamin. 2013. "Leadership and Corporate Culture", *Handbook of Organizational Economics*, Princeton University Press.

Frydinger, David, and Oliver D. Hart. 2019. *Overcoming Contractual Incompleteness: The Role of Guiding Principles*. No. w26245. National Bureau of Economic Research.

Session 13 (Thursday May 30) – Proposal Presentations (5h approx.)

In this session each student will have the opportunity to present the main components of his or her research proposal followed by a plenary discussion with feedback.