

INSTITUTIONSLIST FOCUS IN BUSINESS MANAGEMENT ITS INFLUENCE IN THE ANALYSIS OF GOVERNANCE¹

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INTRODUCTION

We agree to consider Strategic Management as a methodology assimilation of the high management of organizations, and we want to center the interest of this work, in the institutional dimension as nuclear factor for the understanding of the enterprise, which has been developed in contrast to the ideas of the economics neoclassicist theory.²

This theory dominates the focus of the analysis of the socioeconomics phenomena that starts off from some suppositions that go beyond the pure economics theory, because they are of philosophical order, as the individualistic conception of the socioeconomics reality³.

In their economics conception the idea of the possibility of an optimum balance dominates, (between offer and demand), achieved thanks to the market mechanism, conceived according to the asseveration of the invisible hand, and in which from the impulses of those decision subject,

1 Enterprises Electronic Government (direction), e-governance (eGovernance)

2 The term used in this current is economic analysis, and is reference frame is the specific one for micro economy.

3The analysis unit never is the system, but the individual considered as the socioeconomic system atom; also reality can be represented in quantitative models, similar to those used in physics because it is considered that it is governed by nearly mechanical laws, and that there are no problems in obtaining information

that try to maximize their benefits (comparing optimum with quantified maximum), one arrives, without more coordination mechanisms or planning, to that optimum state of the group.

The Economics theoreticians continue considering, in general, as irrelevant, the advances achieved in the management and enterprise sciences (management)⁴. But these last ones are also quite skeptical, facing what they consider very abstract theories and far from the concrete reality, as they do not see the possibility of obtaining practical application to run, in a better way, an enterprise or a business. Thus even the separation between both types of focus, has been institutionalized, reaching a very different academic curricula structure: economics sciences or enterprise management and administration sciences.

In any case, such mutual skepticism (and ignorance) should be critically reexamined, as it is possible that they are simply based on misunderstandings. One of them is the supposedly exclusivity and uniformity of the classic position. In fact, Adam Smith, David Ricardo, or Thomas Malthus' ideas, are very different from those that defend the current theoretical economics . Facing the presumed unicity of the orthodox thought (neo-classic) there are divergent currents: the Austrian school, Marxism, the Post-Keynesian, the behaviorist or the institucionalistic. Due to this one should not mistake the dominant theory (the one usually explained in the classrooms) with the other theories still effective in this field of knowledge. Such exclusivity presumptions, formulate more dogmatic fundamentalisms than a scientific attitude.

Within a varied horizon of focuses, the different tendencies that have been denominated as institucionalistic try to enlarge the analysis field, incorporating other factors that allow a more appropriate vision of the analyzed phenomena. This enlargement of the theoretical horizon is carried out, mainly, in reference to the surroundings ⁵ and the market relationships which they generate.

That overcoming of the traditional vision, is centered in the statement that the economics theory should also concern the company.

⁴ Management we want to translate it (in Spanish) as Administración, a more ample concept than Dirección. Although both terms are usually synchronized, when identifying the upper management of the organizations.

⁵ We assert the complex and turbulent surroundings as due to the present situation, without despising the opportunities and threats which the globalization of markets provides.

In the traditional economics theory, it was not even treated, the organizations were not studied as a social institution, but as mere support to the production function (or a combination of cost minimizing factors). Now, this school picks up the terms institution and institutionalization that have been defined in very diverse ways, by the different research currents that exist inside it..

MAIN

CONTRIBUTIONS

One of the first and more influential versions of the organizations institutional theory, is due to Selznick ⁶ (1957) and his disciples. This author considers the organization structure, as an adaptive mechanism, configured according to the participants' characteristics and commitments, as well as to the influences and restrictions of the surroundings..

Selznick differs between:

- a) The organizations designed as technically and perishable instruments. These are considered as instrumental, so that when they fulfill their purpose, or when others that can develop it more efficiency, appear, they will disappear.
- b) The organizations that have been institutionalized. This author emphasizes in institutionalization as an adding value process, that is to say, to give intrinsic wealth to a structure or process that, before institutionalization, only had an instrumental utility. Creating value, institutionalization promotes the stability and permanency of the organization, that is to say, the persistence of the structure through time. He points out that to organizations conceived as institutions, cannot be allowed to disappear. In this way Selznick looks for, in institutionalization, the organization immortality and protection against competition from other organizations.

On the other hand he also highlighted the importance of history, and in this sense considers institutionalization as a process that develops through time, as the organization faces restrictions and external pressures from its surroundings, as well as to changes in its personnel's composition, their interests and their informal relationships.

⁶ It is necessary to comment beforehand that Coase's work, was later collected and reported by Williamson (1975 and 1985)

In Scott's (1987) opinion, Selznick's work put the bases on those which to base the institutionalism theory and in this way, highlight the important role that managers have in the definition and transmission of the institutional values, and in developing organizational cultures.

Other more recent versions of the institutional theory are directly related with the work developed in the sociology knowledge field. Within this focus we highlight Berger and Luckmann's (1966) contributions, which serve as a base to those of Zucker (1977) and Meyer and Rowan (1977), who apply their ideas to the analysis of organizational forms.

a) Berger and Luckmann (1966) argue that social reality is a human construction that is created through social interaction. And they define institutionalization as the process through which actions are repeated through time and they are assigned similar meanings. They also point out that institutionalization implies three phases: externalization, objectivism and internalization, each one having social world essential casuistry.

- Society is a human product.

- Society is an objective reality.

- Man is a social product.

b) Zucker (1977) conceptualizes the institutionalization, as the process by means of which, individual actors transmit what is defined socially as real and, at the same time, at any point of the process, the meaning of an act can be defined as a part more or less, given as understood, of this social reality. Institutionalized acts, therefore, should be perceived as objective and external.

c) Meyer and Rowan (1977) indicate that institutionalization bears chronology through which social processes, obligations or realities end up adopting an authority status, in social thought and actions.

All these definitions share the idea of institutionalization as a social process, that makes individuals accept a shared definition of social reality; a conception the validity of which is, independent of their own visions or the actor's actions but, it is understood that it defines the form in which things are, and the way in which they will be done, in a certain organization.

Another model that has sought to explain the organizational structures from an institutional point of view, is that of DiMaggio and Powell (1983). These authors point out institutional

isomorphism, as the dominant reason by which organizations adopt the forms that they have. They base their analysis on the hypothesis that organizations exist within fields, together with other similar organizations. In accordance with this perspective, organizations are more and more homogeneous within a certain field ⁷, due to three reasons:

- 1) The existence of coercive forces from the surrounding environment that impose on the organizations standardization criteria (e.g. government regulations, cultural expectations, etc.).
- 2) As the organizations face uncertainty, they adopt an imitation or mimicry process, looking for answers in other organizations of their field, that have already faced similar problems.
- 3) Normative pressures imposed by work force professionalism, and management class (professional formation, association or professional associations within the organizational fields) which lead to a situation in which the management personnel differs very little from one organization to another.

This, the institutionalism perspective considers the organizational design, as a process conditioned by internal and external factors that lead to the fact, that organizations of a certain field, through time, resemble each other.

Under this perspective it is necessary to verify Mintzberg's (1990) statements as to economics organization thoughts⁸. And that in opposition to the relevance of resources and capacities as a base for the present day strategy formulation. This author includes in ten schools the ways to formulate a strategy in the company (vid. figure 1).

Figure 1: Schools of strategic thought

SCHOOLS OF THOUGHT	PROCESS VISION
Design	Conceptual
Planning	Formal
Positioning	Analytic
Cognitive	Mental
Managerial	Visionary

⁷Plus isomorphic ones.

⁸One must draw the attention that, previously, Shrivastava's classification (1987) in twenty-three research programs in the field of enterprises' strategic management.

Learning	Emergent
Policy	Power
Cultura	Ideological
Surroundings	Positive
Configurative	Episodic

This variety of schools is susceptible of being divided into two big groups (Fernández, 1987). In the first one, those that share a rational position are included, with an economics base, of normative and formalized character ⁹. In them strategy associates with the entrepreneur, who is able to analyze in a rational way the surroundings, (basically the economics one) and the company's resources to determine the strategies through the objectives and mission of the company. Within this focus one can consider the schools of strategic design, strategic planning, analysis of the competitive forces and business portfolio.

The second block shares a focus centered in the processes of decision makers, as from the power structure and the organizational routines. The managerial focus is included here, the social systems model, the school of the learning, the political and cultural school, and the position of strategy as an answer to the media and to certain events. Now, we will comment these positions in a more detailed way.

The School of Design (Selznick, 1957; Andrews, 1971), belonging to the first group, it conceives strategy as a conscious and deliberate product, designed by high management. To it one owes a series of basic concepts such as weaknesses and strengths of the company, threats and opportunities of the surroundings (DAFO), distinctive competitions. Strategic design presents strategic management centered on:

- The formulation of strategy as a marriage between the company's external analysis, (threats and opportunities) and the internal ones, (strengths and weaknesses), keeping in mind the company's mission and objectives.

⁹ It gives a place to Economic Neo Institutionalism (Organizational Economics), where the formal object is the institutional dimension and has strong doses of rationality limited by the individual.

- Putting into practice the strategy, in which the organization acts as a dependent variable.

NEW ECONOMICS INSTITUTIONALISM

The tradition begun by Coase and Selznick, and reinforced by Williamson, has been spread and configured as a current of economics thought which is denominated new institutional economics. Within this current works of historical research are inserted as in North's works, of juridical and economics studies (Posner), of economists worried by the organization (Alchian and Demsetz, Nelson and Winter or Grossman and Hart), but also studies of more abstract orientation as it happens in Schotter's theory of games.

This position, on one hand, inherits some of the neoclassical economics categories and matters, and of the first institutionalism (Thorstein Veblen's Institutional Economics). On the other hand, and contrary to these authors and of other recent neo-institutional tendencies, in this position, the basic category continues being that of the rational election, based in strict sense, on an economics calculation, and its conception of the economics reality, even extended to community such as companies, continues being radically individualistic (the economics agent will never be a system, but at most, an aggregation of individual agents).

But this institutional economics adds certain correctives to the neoclassicist theses of micro-economics:

- The optimization calculation that precedes in the rational decision to all action, is made in reference to orderly outlines of preferences, but in this calculation (according to Simón's thesis about restricted rationality), it is admitted that such a calculation is carried out from cognitive limited capacities, on the basis of uncertain, incomplete or inexact information, and with difficulties of ending up controlling agreements or other forms of co-option of actions with other agents.
- The central analysis unit is the transaction cost. The parties that carry out exchange activities (in economics sense) make their rational election, calculated in reference to benefits and costs implied in such exchanges.
- The community arisen contractually as institutions (as the companies conceived as hierarchies) arise and maintain themselves only when the contractual agents consider that the difference

between attainable benefits from such contracts and costs of transactions, (generated in their configuration and maintenance: by negotiations, controls, execution of activities linked to the obtaining agents objectives) surpass those that could obtain in another co-option type: the one defined by surrounding conditions.

- The sense of the creation and maintenance of an organized community (that, apart from this, and without more justification, is only conceived structuring a hierarchical pyramid) it is seen, not only in the reduction of transactions costs, but also in the capacity of such hierarchies to reduce uncertainty and to create a more stable frame for the economics exchanges.

- The material object studied by this group of theoretical tendencies is constituted by institutions such as markets, company-organization, enterprise networks, hybrid forms of economics coordination, as well as the juridical norms in whose framework, economic exchanges take place, and that favor the classification or coordination of the economic activities in a hetero-supplies system (it is opposed to the self-supply system, for example that of the old Oiko-Nomía).

- The formal object of the economics-institutional analysis is centered in the institutional dimension, but understood only as a regulation of inter-individual relationships ((interpersonal contracts, convened structural relationships, forms of stabilizing individual behaviors through money, language and information or communication, etc.). This dimension is an aspect considered in its explanation of structures, behaviors effects, efficiency and change or evolution in the different ways of ordering or coordinate economic activities.

The new institutionalism presents two basic problems:

a) What alternative institutions, and in what kinds of coordination problems in the economic exchange, are they more efficient, lower costs, and better domain of the uncertainty and complexity, the market or the hierarchical organization of the companies.

b) In what way do the coordination problems rebound on (costs, efficiency, uncertainty dominium) arisen in the exchange relationships on the configuration and evolution of the institutions.

This new economics doctrine treats these problem through a categories instrumental of relatively simple explanation, and which consists of the following fields of components or variables that configure the models employed in this tendency:

- Institution..
- Exchange.
- Costs.10
- Efficiency.
- Uncertainty-Certainty (complexity) and risk.

These components can be used as dependent or independent variables. For example: The institutions have the function of regulating the exchange of goods, services or rights of property and disposition. Such exchanges cause costs, and these rebound on the efficiency of the assignment of factors. But this same efficiency looked for as an objective decides on the advantages and election of institutions that regulate the exchange (but these institutions imply establishment costs and maintenance or internal coordination).

On the other hand, the generation and circulation of information is not developed in the neuter space of the Economics Theory, but in a social space where fields forces exist, in a social space structured by power relationships. The limitation, or the uncertainty which the economics calculation faces, are not entirely compensable for the search of more information.

In fact, as shown by all the recent sociological research, the variables power, information, and costs (consumptions of resources), are not independent, but they are insert in superior complex systems, in this case social systems.

NEOINSTITUCIONALISM AND GOVERNANCE

The initiatives to develop Electronic Government projects, must be contextualized in a social, economics and political environment, in which the problems to be confronted are of great complexity and interdependence, the frontiers of the public / private sector are not clear and there is a growing interdependence between organizations. With this situation, the governments should not only base their performances on the authority and the sanction but also in the consensus and cooperation among a multiplicity of agents in the development and implementation of public actions.

As from this verification, there arises a new government style, different from the hierarchical

control model, and characterized by a greater degree of cooperation and interaction between what is public and what is private, which has been called governance.

With the incorporation of the Governance focus, (or Public Governance), the paradigm of the New Public Management, guided by criteria of efficiency and effectiveness, is enriched, thanks to the incorporation of logics, for the action dedicated to develop the cooperation capacity and interaction of the public agents' with other public-private agents. The public agent is attributed outstanding responsibilities at, at least in three levels: the normative, in which it is necessary to have an important debate about the values of public intervention, government functions and configuration of the decisive process for the community, in those in which the government itself, and the diverse social agents intersect; that the formulation of the public policies, where the agent will have to preoccupy himself to take into account different implied interests, including those with a weak social representation; and in the implantation of public policies, where innovation and experimentation are the agent's jurisdiction, by means of the introduction of special cooperative instruments, as ways of public-private association (Meneguzzo;1997, Kickert; 1997).

To facilitate the understanding of the contents of Public Governance, Kickert (1997) describes the case of Holland, in which the weight of the private and social institutions in sectors of public intervention, as in education, social security and sanitary is outstanding, in which one notices the presence of a society which is a neo corporative model. To this description of the institutional context (Neo institutionalism) the interest is added by the literature of the agents' nets (Policy Networks) since it is evident that to articulate governance processes it is necessary to have a plurality of agents (Public Administrations, political parties, private enterprises, cooperatives, associations, voluntary organizations, etc.) that operate at international, national, regional and local level. It is expected that through this process of collaboration, results and policy yields will improve, and in the end guarantee that the political and public system will be governable.

The introduction of the TIC in public organizations is one of the main transformations of the

contemporary States.¹⁰ In the development of the analytic pattern, the neo institutionalism perspective, highlights the role institutions, understood as a group of norms, rules, values and processes that guide and constrain the behavior of the agents involved, conditioning the effective results of the installation of the what is called Electronic Government. With this objective they combine the arguments on definition and operation of the institutions with their incidence in the operation of the governments and the Public Administrations.

The arguments in favor of the introduction of the TIC within in the activities of the governments come to highlight their potential to improve efficiency, quality and responsibility of the public sector. To this one must add that the emergence of Electronic Government's initiatives, usually are considered in terms of opportunity for innovation in the public administration or as an opportunity to break up with the supposed bad habits and defects of the public administration.

However, the practice comes to relativize its achievements, showing how, with just single new digital supports, public organizations tend to reproduce the operation and relationship rules that one sought to overcome.

With this institutionalism perspective, in the first place you focalize the attention on the transfer and diffusion processes of operation and relationship rules which appear among administrations, although also assisting on the role certain private agents play, especially the suppliers of solutions not always thought of, for the reality of the public sector. It is sought to argue on how certain rules and operation guidelines, supported on certain values and visions of the reality, are able to be transferred from distant and different political-administrative realities, that would require a specific treatment that frequently they do not receive.

An analysis from the neo institutionalism perspective should should find out the regulations that underlie the institutional system and its consequences, assisting so much as to the structure of incentives which are offered to the different agents (according to the available resources, the norms that regulates its use and the objectives they pose) like as to the agents' mental models, and which are partly conditioned by the institutions themselves, (Prats Catalá, 1996). in this epigraph those less tangible aspects are included, referred to culture, to the values and the norms

¹⁰ Including the information costs.

and processes not formalized, but that contribute to explain the operation of the Public Administrations. The dominant ideology, the model of reference administration or the effective organizational fashions, are some of the aspects to be considered to identify the incidence of the institutions in this dimension.

As for their influence on the agents' behavior, the institutions generate a kind of structure of incentives which frame the interaction of those present in a certain performance environment.

These incentives guide and limit the actors' behavior, but the influence of the institutions is also summed up in a second dimension. So, in a cognitive sense, the institution contributes meanings to the behavior of the agents through three mechanisms (Sanz Menéndez; 1997):

- a) Contributing a certain vision of the world and of the action possibilities.
- b) Introducing some principle beliefs, with normative character which distinguish the correct thing from the wrong one.
- c) Fixing some causal beliefs, referred to the cause-effect relationships that associate themselves to certain actions. In this way the institution does not only fix a reference frame for the actors through a structure of incentives, but rather it determines its beliefs on the viability of the strategies to be developed within itself. .

Institutions and organizations ¹¹ are created conventions, but while the second can be designed, built and changed by methods and techniques, of a more operative and more foregone character, the first ones present bigger difficulties to the application of direct solutions or based on a greater predictability.

In other words, if the organizations can be considered more or less as isolated and stagnate systems, and due to that more manageable, the institutions which result from an interaction process between multiple actors, move in an opener and less predictable level, with which one evidences the methods and techniques to be applied should be, necessarily, different. That is to say, you can influence or guide the institutional change in the same measure that you can guide and influence in the community action, but it is difficult to determine completely (Prats Tastes it; 1996).

¹¹ Also Public Administrations

As from these differences one poses the necessity to approach the institutional change as one of the axes to facilitate the successful installation of the Electronic Government. In other words, although the improvement of the government's systems and administration by means of the development of the TIC, ¹², it can be posed thought the improvement of the organizational capacities ¹³, a true sustainable transformation should consider the role of the institutions which configure the relationships and behavior of these organizations. Mentioning this one seeks to avoid the organizational analysis which conceives the administrations and their management as a closed order, isolated and completely auto explicable. Distinguishing between organization and their environment, the institutional analysis allows to point out how this second one impacts on the determination of elements such as values, the structures, or work processes that condition the dynamics organizational resultants.¹⁴

FINAL CONSIDERATIONS

We have wanted to reflect, in the preceding pages, a panoramic view of the institutionalism focus and its importance within the business management. That is why we aim at the transcendence which is reaching the public administrations.

And in this it is necessary to highlight a series of connotations that, doubtlessly, will make us meditate on the companies' government.

- In the first place, Strategic Management is the effective methodology, today, for calculating valid solutions for the upper management of companies, which do not differ, in their positions, be they private or public, although each one has its own casuistry. In every case, effectiveness and efficiency are conjugated, performance profitability is pursued, and, especially, one bets on the increase of organization value.

- The institutionalism as a way of thinking economics (and of undertaking actions in consequence), identifies itself with the design of upper management of companies in general and with the internal environment of the organization in particular, but it does not scorn its external environment,

¹² Information and Communications Technologies

¹³ We refer to the concept introduced by Prahalad (Rethinking the Future)

outlining strategic adaptations inside-outside, through special methodologies such as the DAFO. It conceives in its positions other management variables and parameters. In this way, in their strategic vocabulary, denominations such as value, profitability or competitiveness, are plausible

- These characteristics imply different strategic action lines, in the form of organizational design of the new public administration which arise from previous diagnostics, connected to some objectives to be reached. The organizational pyramid seems to flatten out, opening the way to a decentralized management, by lines, and where the automated information leads to better and right decision making. but also where knowledge management plays a preponderant role, born from the external environment Competitive Intelligence.

- Summing up, without fear of being mistaken, the companies tend towards a common point, like a lighthouse in the bay, and in spite of the idiosyncrasy of each organization in their positions, the good performance rotates around the strategy and within reach of some objectives, on the basis of competitiveness (by differentiation, advantage) which passes, with good criteria, for the increment of value of the organization through time¹⁴.

At this point the works developed on Competitive Intelligence and Knowledge Management, as well as the interrelation between both (Jiménez, 2001; Arroyo 2005).

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