

The Art of Managing Institutional Complexity

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ABSTRACT

This paper develops a theoretical framework to explain the role of organizational discretion in the strategic choices to manage institutional complexity. I suggest that organizations balance multiple logics in different ways (by combining or separating logics in their practices) or prioritize one logic over the others, depending on the degree of their organizational discretion, which is reflected by their status, resource autonomy, and stakeholder configuration. The empirical analysis utilizes a field of U.S. art museums where market and profession logics collide. Using a 8-year longitudinal data of 23 art museums, I find that high-status museums and the museums with low resource autonomy balance competing logics by focusing one logic in each activity (i.e., separation) rather than combining the two logics (i.e., combination). I also find that the museums with a dominant stakeholder are more likely to focus on their dominant stakeholders' logic (i.e., defiance) instead of balancing the two logics in their institutional field when they have low resource-autonomy. The paper provides a unique and unprecedented information about why organizations within the same institutional field respond differently to their complexity.

INTRODUCTION

Contemporary organizations face multiple and often conflicting institutional pressures (Kraatz & Block, 2008; Battilana & Dorado, 2010; Pache & Santos, 2010; 2013; Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011). Complex environment with multiple stakeholders and audience groups suggests that organizations often have more than one goal or mission, thus carefully managing multiple demands is critical for organization's performance and survival. Recent work on institutional theory has emphasized that organizations have agency to actively engage with and strategically react to institutional pressures (Thornton et al., 2012; Suddaby, 2013). However, it has been implicitly assumed that the organizations in the same institutional field have a similar degree of discretion to execute their agency, and this assumption has rarely been further explored (Joseph, Ocasio, & McDonnell, 2014). This paper suggests that organizations are not all equal, in terms of how they are affected by and can respond to multiple institutional pressures even when they are embedded with the same multiple logics due to the varying degrees of organizational discretion. The paper makes contribution in the literature by bridging the studies in institutional complexity (Greenwood et al., 2011) and resource dependence (Pfeffer & Salancik, 1978) and highlighting the importance of understanding multiple external stakeholders and their influence on organizational decision-making in the settings of institutional complexity.

THEORY AND HYPOTHESES

External constituents can exert pressures on organizations when the organizations depends on them for resources or legitimacy (Durand & Jourdan, 2012; Oliver, 1991; Pfeffer & Salancik,

1978; Raaijmakers, Vermeulen, Meeus, & Zietsma, 2015; Scott, 2001). Nonetheless, organizations are different in the level of susceptibility to the external institutional pressures due to the variance in their level of discretion. Organizational discretion indicates an organization's level of autonomy and freedom in choosing its goals and means of achieving its goals. Variance in organizational discretion may derive from the different status of the organizations in a field, different levels of resource autonomy that provide organizational slack, or the degree of dominance a stakeholder has relative to other constituencies (Oliver, 1991; Pfeffer & Salancik, 1978; Phillips & Zuckerman, 2001). Organizational theorists suggest that organizations maintain higher discretion when they have high- or low-status, compared to middle-status (Phillips & Zuckerman, 2001), when they are less dependent on external resources (Pfeffer & Salancik, 1978), and when there is more ambiguity about best strategy (Goodrick & Salancik, 1996; Hambrick & Abrahamson, 1995). I propose that depending on the organizational discretion, organizations will choose different responses (e.g., separation, combination, and defiance). These responses indicate strategic choices to focus on one logic over another or to balance multiple logics in different ways.

Hypothesis 1: An organization's status influences its choice of balance strategy, in that middle-status organizations, in comparison to high- or low-status organizations, are more likely to engage in separation than combination to address different logics.

Hypothesis 2: An organization's resource autonomy influences its choice of balance strategy, in that the lower the resource autonomy in an organization, the more likely it is to engage in separation than combination to address different logics.

Hypothesis 3: An organization with low resource autonomy depending heavily on a dominant stakeholder for the resources is more likely to engage in defiance than to balance multiple logics.

METHODS and RESULTS

I use a sample of art museums to test museum's exhibition choices in managing two conflicting institutional logics: professional versus market. The dataset is composed of 960 exhibitions from 23 accredited U.S. art museums between 2005 and 2016. Each exhibition was aggregated to the level of organization-year, producing a total of 97 observations.

From empirical tests, the paper finds that resource autonomy, the organization's discretion to utilize its resources, is an important predictor of how organizations manage institutional complexity. The results suggest that organizations with low resource autonomy balance multiple logics by separating each logic into different practices to show their external resource providers that they are clearly addressing the logics that the funders' prioritize. The results also reveal that organizations with low resource autonomy and a dominant stakeholder are more pushed to delete one logic and to give more emphasis to the dominant logic. The results provide some evidence that middle-status organizations are more likely to address multiple logics by focusing on one logic at a time compared to low-status organizations, but not compared to high-status organizations.

Reference available upon request.