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Organizational identities and institutions: Dynamics of the organizational core as a question of path dependence

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MPIfG Working Paper 10/4

Stefan Kirchner

Organizational Identities and Institutions

Dynamics of the Organizational Core

as a Question of Path Dependence

MPIfG Working Paper

anck Institute
for the Study of Societies

Stefan Kirchner
**Organizational Identities and Institutions: Dynamics of the Organizational Core
as a Question of Path Dependence**

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Abstract

Organizational identity is a mechanism that mediates between external pressures and internal demands on continuity. The concept of organizational identity is considered to be central to solving the research problem addressed of combining the effects of an institutional environment with the continuity of organizational core structures. In the course of feedback processes between organizational identity and activities, a path dependent development of organizational identity can be triggered. In this situation, organizations are restrained in their ability to adapt core structures to changing environmental conditions.

Zusammenfassung

Die Organisationsidentität beschreibt einen Mechanismus, der zwischen externem Druck und internen Anforderungen an Kontinuität vermittelt. Das Konzept der Organisationsidentität wird als zentral angesehen, um die gestellte Forschungsfrage nach der Verbindung zwischen institutioneller Umwelt und der Kontinuität von Kernbestandteilen der Organisation zu klären. Infolge von Feedbackprozessen zwischen der Organisationsidentität und den Aktivitäten in einer Organisation kann eine pfadabhängige Entwicklung der Organisationsidentität ausgelöst werden. In einer solchen Situation sind Organisationen erheblich in ihrer Fähigkeit beeinträchtigt, Kernbestandteile an veränderte Umweltbedingungen anzupassen.

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1 Research problem

The key research problem of this paper is delineating the possibilities and circumstances for organizational change and persistence in an institutional environment. Taking into account the variety of organizational aspects and dimensions, the line of argument is limited to implications for the core characteristics of an organization.

Empirical examples of the research problem posed are organizations that have developed under specific conditions and are subsequently unable to change core characteristics even in the face of dramatic changes in their socio-economic environment. For example, this could be observed with the persistent structural and strategic configurations of ASEAN family business groups (Carney/Gedajlovic 2002) as well as with Intel's lock-in of core strategies and competence development (Burgelman 2002, 2008). In both cases, organizations that successfully adapted to their environments found themselves in a situation in which the very process of adaptation led to a structural inability to cope with changed conditions.

On addressing questions of organizational change and persistence in an institutional environment, the existing literature provides two plausible, yet conflicting research positions (see a similar distinction made by Hannan/Burton/Baron 1996 and Lewin/Volberda 1999). One strain of literature, the neo-institutionalist position, claims that change dynamics of organizations are fundamentally bound to the characteristics of the institutional environment. While striving for legitimacy, organizational structure appears easily malleable in the face of changing institutionalized expectations. Friction arises when an organization is not willing to comply with common standards. In contrast, another strain of literature argues that organizations are highly resistant to change in certain core characteristics. This rests on the assumption of a rather common hyperstability to organizational structures in turbulent environments. Persistence and change are seen here as results of organizational properties and existing structures, which considerably limit the scope of organizational change taking place. Recently, this idea has been further developed and studied employing the path dependence approach to organizations.

One solution to the research problem outlined is proposed by introducing the concept of organizational identity. With organizational identity, positions of path dependence and neo-institutionalism can be related and connected to the concept and findings of

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organizational identity research. Organizational identity describes what is core to the organization and how change and persistence are possible in relation to existing organizational structures and environmental influences.

The argument of this paper is structured as follows: In Section 2, the identity approach is introduced. In Section 3, neo-institutionalist research on organizational change and persistence is considered and, in Section 4, connections to organizational identity concepts are shown. Section 5 is concerned with the path dependence position on organizational change and persistence. Finally, in Section 6, the path dependence approach is applied to organizational identity and implications for organizational change in institutional environments are deduced. This is followed by a discussion of the claims raised.

2 Introducing organizational identity

In the attempt to relate the effects of external pressures and the continuity of central organizational structures to each other, the organizational identity concept offers a mediating position that sheds light on the organizational processes involved.

There are several different approaches to organizational identity (Brown 2001; Rometsch/Sydow 2006; Whetten 2006; Cornelissen/Haslam/Balmer 2007; Rometsch 2008; Vogel/Hansen 2010; see also Wiesenthal 1990). In this paper, organizations are considered to be social systems (see Thompson 1967; Scott/Davis 2007). Organizational identity is understood to be a self-descriptive text of the organization as a social system that accounts for the organization as an entity (Luhmann 2000; Seidl 2005).

In a different yet seminal definition, organizational identity can be understood to be a characteristic of the organization as a social actor (Whetten 2006; King/Whetten 2008). According to this view organizational identity becomes empirically observable as central, enduring, and distinctive claims that constitute the collective answers of organizational members to the question: "Who are we as an organization?" (Albert/Whetten 1985). Other authors focus on the idea that organizational identity primarily resides in individual beliefs and perceptions that are collectively shared and negotiated, acknowledging that individual perceptions might deviate (Ashforth/Mael 1989; Dutton/Dukerich/Harquail 1994; Ashforth/Mael 1996). A further position states that organizational identity is observable in forms of identity as ongoing discourse or identity narrations (Czarniawska 1997; Humphreys/Brown 2002; Chreim 2005). This paper attempts to integrate these different approaches to solve the research questions proposed, with the assumption that identity claims, individual beliefs, discourses, and identity narrations refer to identity as a self-descriptive text of the organization. Accordingly, alternative concepts of identity are understood as different empirical ways of accessing organizational identity.

In the understanding of this paper, organizational identity is constructed using two frames of reference (Whetten 2006). In a *historical frame of reference*, organizational identity is constructed in a self-referential process, whereby current activities are evaluated according to that which is collectively remembered as being earlier characteristics of the organization (central, enduring). Consistency of organizational identity is tested and, if necessary, restored. In a *comparative frame of reference*, the organizational identity is related to the environment (distinctive). Organizational identity elements are used as referents to distinguish the organization from others and to mark similarities in the sense of belonging to a certain type of organization. Later in the debate on organizational identity, in a constructivist perspective on organizational identity, it was argued that, due to an “adaptive instability,” organizational identity is not enduring but has continuity (Gioia/Schultz/Corley 2000; Hatch/Schultz 2002; Corley/Gioia 2004). This continuity of organizational identity elements is reconstructed in a permanent process of remembering, interpreting, and challenging (Chreim 2005).

Identity serves as a self-description of the organization as an entity and therefore fulfills an *integrative function* (Seidl 2005: 82):

Organizational self-descriptions represent the organization to the organization. They provide the organization with a sense of unity: on the basis of the self-description the organization can observe its different parts as related to each other. On a very basic level the self-description is to the organization what the body is to the psychic system: it marks the “location” where the system takes place, it focuses its operations and prevents the organization from “losing” itself.

As a self-descriptive text, organizational identity is a simplified, rather blunt account of the complex organizational processes and structures (Ashforth/Mael 1996; Whetten 2006). Just as a map simplifies a territory according to significant properties and relations, the organizational identity is an abstract representation of the complexity of the whole organization (Seidl 2005). Like a map, identity provides orientation, which is based on a contingent reduction of complexity.

Alongside the integrative function, organizational identity fulfills an *operative function* (Seidl 2005). It does so, first, by serving as a perceptual lens for practices and decisions (Ashforth/Mael 1996; Seidl 2005). Based on the organizational identity, structures and events within the organization and the environment are identified as relevant, labeled, and interpreted, and are acted upon accordingly (Fiol/Huff 1992; Reger et al. 1994; see also Weick 1995). In this respect, organizational identity allows practices and decisions to relate themselves to identity, rather than serving as an explicit premise (Seidl 2005). Second, in addition to the function as a perceptual lens, the operative function of organizational identity can be understood as a framing mechanism for organizational activities (Cornelissen/Haslam/Balmer 2007; Jacobs et al. 2008). On the one hand, this frame enables the development and realization of decisions and strategic practices (Albert/Whetten 1985; Dutton/Dukerich 1991; Barney/Stewart 2000); on the other, organizational identity as a frame defines what is “in character” and what is not (Whetten

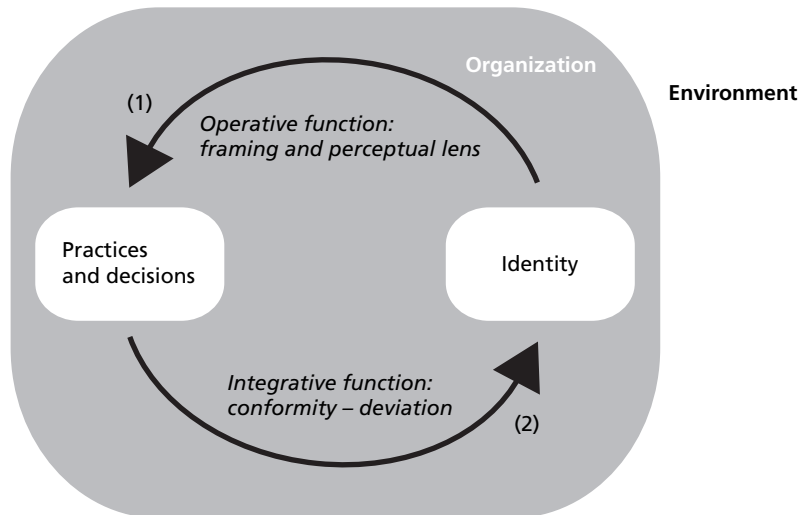
2006). Identity provides a general guideline for organizational practices and decisions, allowing for the observation of non-conformity and for deviations to be countered (see Luhmann 2000). In this latter understanding as a frame, organizational identity serves as a universal premise for organizational decisions and practices (see March/Simon 1976; Luhmann 2000).

Most practices and decisions in an organization are not directly related to organizational identity (Seidl 2005; Whetten 2006). So what are the effects of identity on everyday practices and decisions? The integrative and operative functions of identity allow particular practices and decisions to relate to the organization as a whole (see also Ashforth/Mael 1996; Stimpert/Gustafson/Sarason 1998; Barney et al. 1998; Corley 2004). By referring to identity elements, the conduct of practices and decisions can be ensured. According to David Seidl (2005: 85f.), it can be argued that the basis for the viability of identity elements is the matching of practices and decisions to organizational identity elements.

The association between practices and identity as a description of practices underlying identity viability is circular and can trigger a feedback effect. This relation is depicted in Figure 1. Here, arrow 1 describes the operative function: organizational identity is used as a frame and a perceptual lens that provide orientation for organizational practices and decisions. Similarly, arrow 2 describes the integrative function: organizational practices conform to or deviate from the description of the organization as an entity. The potential viability feedback effect of an identity element develops as follows. By providing a frame and/or a perceptual lens, an element of organizational identity gives rise to practices and decisions that relate to the identity element (arrow 1). Practices that relate to an identity element confirm this element in its function of providing integration of the different parts and activities (arrow 2). In turn, being confirmed in its integrative function, the element becomes more attractive as a frame and lens for other activities, so that more practices and decisions relate to the identity element. This again further confirms the integrative function – and so on.

Accounting for the unity of different parts, identity is the basis for the coordination of the variety of complex activities in an organization. Viability is threatened if identity and, say, a particular practice conflict (Seidl 2005: 86f.). A non-conform, deviating practice can fundamentally question a particular identity element because it discredits the ability of the element to properly represent the organization as a whole (see Ashforth/Mael 1996). In short, identity elements are only viable as long as they fulfill their integrative and operative function by providing orientation for organizational practices and decisions as well as, in turn, creating a sense of unity for the organization (see Seidl 2005).

Figure 1 Feedback process (self-reference, historic frame)



3 Neo-institutionalism: Facing institutional pressures

The first position on organizational change and persistence considered in this paper is that of sociological neo-institutionalism. The key assumption of neo-institutionalist approaches is that organizations adapt to pressures that derive from external, institutionalized expectations (Meyer/Rowan 1977; DiMaggio/Powell 1983). Such institutionalized expectations constitute legitimate and collective expectations of meaning (cognitive aspects) and appropriate behavior (normative aspects) (Berger/Luckmann 1980; see also Scott 2001; Djelic/Quack 2003). These expectations refer to acts and types of actors in a given relevant social group of actors (individuals as well as organizations). For organizations, this relevant social group has been termed organizational field (DiMaggio/Powell 1983; Fligstein 1991).

In response to the accusation of using an over-socialized conception of organizations, the existence of certain strategic alternatives has been stressed (Oliver 1991; Scott 2001; Zald/Morrill/Rao 2005). Organizations are not "institutional dopes" (DiMaggio/Powell 1991) in the sense that they are not at the mercy of institutions. Rather it has to be acknowledged that any kind of institutional pressure allows for some degree of strategic freedom. One key argument states that organizations facing pressure may protect their core processes by buffering or decoupling (Thompson 1967; Meyer/Rowan 1977). Their long-term capacity for the decoupling of core aspects, however, is questionable (Scott 2001).

Despite this point, the following simple formula still applies to the mainstream of institutional organization analysis: if the institutional environment changes, the organization will change accordingly, to match institutionalized expectations. This argument

becomes especially apparent when dealing with examples of successful institutionalization. In regard to organizations, institutionalization is equivalent to a common diffusion of “organizational templates” (DiMaggio/Powell 1983) in a given organizational field. Such templates can be described more precisely as simplified, decontextualized organizational models that provide standardized recipes for behavior and the meaning of organizational structures and practices (see Strang/Meyer 1993). Institutionalization is thus achieved when the adoption of an organizational model by a large number of individual organizations in an organizational field has taken place. A few neo-institutionalist authors state that organizational identity is central to the diffusion dynamics of decontextualized models, as it explains local variations caused by local translation activities as necessary recontextualization processes (Sahlin-Andersson 1996; Sevón 1996; Sahlin/Wedlin 2008). In this approach, organizational identity is a lynchpin of interactions with the institutional environment, such as adaptation and alignment to institutionalized practices.

In principle, identity is central to neo-institutional research. Institutional expectations mold general types, as well as actors perception of the world and the construction of the self (Berger/Luckmann 1980). Accordingly, identities are treated as central to institutional concepts (Scott 1994: 57), especially as the construction of identities is considered to link actors with a field (Lawrence/Suddaby 2006). Yet identity is commonly understood and treated as the property of individuals or professional groups, say, facing new or ambiguous institutional logics (Rao/Monin/Durand 2003; Reay/Hinings 2009). Only in the context of studies on translation is organizational identity explicitly considered (Sahlin/Wedlin 2008). However, while this line of argument explains local adoptions and translations of global models into local structures, it cannot provide a comprehensive explanation of why organizations can persist in the face of institutional pressures. While neo-institutional approaches focus on legitimacy, organizational identity studies have shown the interaction that occurs with reputation. As King and Whetten (2008) have argued, these perspectives can be integrated, since both concepts state the importance of outsider appraisal for an organization’s behavior. In the relation of identity to reputation and legitimacy, the approach can also describe the relation of isomorphism (similarity) and differences (uniqueness) within common organizational categories (Ravasi/van Rekom 2003; Pedersen/Dobbin 2006).

In empirical reality, institutions are represented by many different patterns (see Berger/Luckmann 1980). So far, no systematic differentiation has been made between various forms of organizational templates or models. According to the content of the institutionalized expectations, a distinction can be drawn between models that relate to certain practices as *models of organizing* and models that relate to the organization as a whole as *models of the organization*:

1. *Models of organizing* describe institutionalized organizational practices. These forms of institutionalized expectations can be understood as institutionalized “building blocks for organizations” that can be incorporated by organizations (Meyer/Rowan

1977; see Røvik 1996). A large share of neo-institutional research has studied such management and organizational practices – for example, Total Quality Management, group work, employee stock ownership programs, and the introduction of the ISO 9000 Norm (Cole 1985; Abrahamson 1996; Zbaracki 1998; Delmestri 1998; Walgenbach 1998; Abrahamson/Fairchild 1999; Dirsmith/Fogarty/Gupta 2000).

2. *Models of the organization*, in contrast, are not restricted to practices as such, but describe an organization as a whole and define this entity as being of a certain general type. Models of the organization specify certain core elements of an organization in normative and cognitive terms as well as their configuration and connections. As they constitute a higher order concept, they often include (a set of) specific practices. Models of the organization roughly correspond to what is commonly referred to as organizational form in the existing literature and is used to distinguish populations (see Hannan/Freeman 1993; Baron 2004): “[F]orms and populations are social identities that can be expressed in terms of social and cultural codes ...” (Hannan/Pólos/Carroll 2003: 478). Yet an organizational form often serves as a classification term rather than a description of internal coherence to a model. Nonetheless, examples of the (de)institutionalization of organizational forms as models of the organization are the decline and fall of the conglomerate firm in the 1980s (Davis/Diekmann/Tinsley 1994), the adoption and abandonment of the matrix form (Burns/Wholey 1993), and the diffusion of the multidivisional form (Fligstein 1991).

Following the implications of research on organizational forms, Greenwood and Hinings (1988, 1993, 1996) developed the concept of organizational archetypes. The concept of organizational archetypes states that what can be observed as an organizational form is the result of an underlying interpretative scheme. The interpretative scheme describes the organization as an entity and ascribes certain characteristics to it so that the set of selected organizational structures can be seen as the unity of different parts. Another concept that accounts for what has been framed here as models of the organization can be found in the term “conception of control” (Fligstein 1996, 2001). This term goes beyond the assumptions of organizational forms and archetypes in the sense that a conception of control not only characterizes the organizational structures but the perception and processing of the environment as well. The term is used to describe how organizations cope with markets as institutional environments:

Conceptions of control refer to understandings that structure perceptions of how a market works and that allow actors to interpret their world and act to control situations. A conception of control is simultaneously a worldview that allows actors to interpret the actions of others and a reflection of how the market is structured. Conceptions of control reflect market specific agreements between actors in firms on principles of internal organization (i.e., forms of hierarchy), tactics for competition or cooperation, and the hierarchy or status ordering of firms in a given market. (Fligstein 2001: 35)

A conception of control is a broad model of the organization as a whole including general recipes for internal and external relations.

The consequences of the approaches mentioned that describe models of the organization as certain types of organizations can be summarized as follows. As institutions, these models are socially derived and portray collectively shared expectations about being, meaning, and activities of the organization as a whole. As this paper is limited only to core characteristics of the organization, all institutions that cannot be considered models of the organization are left aside, for the moment.

Returning to the research question about organizational change and persistence in an institutional environment, the implications for this paper can be summarized as follows. As models of the organization, institutions diffuse throughout an organizational field and shape core characteristics of the individual organizations. Although some degree of freedom exists in the long run (see Scott 2001), organizational change and persistence is a question of the match or mismatch of organizational structures and institutionalized expectations. Organizations will adapt to legitimate models when significant pressure is perceived and exerted by the expectations of relevant actors in the organizational field.

4 Adaptive instability and the institutional environment

How can organizational identity help to understand the way organizations face institutional pressures and cope with them? In the existing literature there has only been a small overlap between neo-institutionalist approaches and the organizational identity concept (Glynn 2008; see Glynn 2000; Glynn/Abzug 2002; Whetten/Mackey 2002). In the perspective of organizational identity, however, the connection seems rather obvious:

The clear implication of ... [neo-institutionalist] research seems to be that organizations need to adopt ... identities that elicit legitimacy attributions. Yet identity remains an implicit theme in all the new institutional approaches ... (Brown 2001: 117)

The influence of a legitimating environment has been a central issue in organizational identity research (Dutton/Dukerich 1991; Hatch/Schultz 2002). This problem has been dealt with by describing how identity relates to image and reputation. The reputation of an organization accounts for descriptions of the organization as a whole that are generated by external observers (Fombrun 1996; Whetten/Mackey 2002). External observations and descriptions are not directly accessible to the organization. As an internal representation of reputation, the image describes the organizational beliefs about how external observers describe the organization (see Dutton/Dukerich 1991; Dutton/Dukerich/Harquail 1994; Gioia/Schultz/Corley 2000; Hatch/Schultz 2002; Seidl 2005).

The connection to institutional pressures in the environment derives from two properties of the organizational identity: the comparative frame of reference (Whetten

2006) and the adaptive instability of organizational identity (Gioia/Schultz/Corley 2000). On the one hand, the construction of organizational identity is always a process that relates to the environment, since the distinctive nature of identity claims has to relate to constructs outside the organization to mark similarity or difference: “We must do X because it is consistent with what’s expected of X-type organizations, like us” (Whetten 2006: 223). On the other hand, the organizational identity is adaptively unstable: “[I]dentity must be actively created and sustained through interactions with others” (Gioia/Schultz/Corley 2000: 65). This process of constructing continuity is always potentially prone to be confused by outsider expectations and appraisals (see Dutton/Dukerich 1991; Dutton/Dukerich/Harquail 1994; Ashforth/Mael 1996). The organization has to face its image (or reputation) within the social context and “as a consequence of its interrelationships with image ... organizational identity becomes dynamic and mutable” (Gioia et al. 2000: 74; Price/Gioia 2008). Interlaced with the historical frame of reference, organizational identity is always constructed by a simultaneous mirroring process, whereby inside and outside descriptions are evaluated in relation to each other. What others believe about the organization becomes crucial in the definition of the organizational self and the ability to maintain identity elements.

From an identity perspective, institutional pressures are primarily seen as a problem of reputation, whereby the condition of exchange with the environment can be understood as a function of reputation and the related expectations: “[T]he greater the discrepancy between the way an organization views itself and the way outsiders view it ... the more the ‘health’ of the organization will be impaired” (Albert/Whetten 1985: 269). The reputation held by outsiders interacts with their expectations held about reliability, accountability, and conformity with general (normative and cognitive) standards. Problems arise out of a mismatch between external conceptions or expectations and the specific realization (or outsider perception) of the organizational identity. This mismatch may cause problems with generating political support or securing the supply of needed resources (see Hatch/Schultz 2002; Cornelissen/Haslam/Balmer 2007). In accordance with the neo-institutionalist approach, it can be concluded that the adaptation to external expectations is important to secure survival and that, given substantial pressure matching, institutionalized expectations about what an organization is or should be and how it should behave become vital in the process of constructing and maintaining organizational identity.

The comparative frame of reference of the organizational identity refers to general types (Whetten 2006) that have been label models of the organization in this paper. The implications of the organizational identity approach are close to the concepts of organizational archetypes and the conception of control that were introduced above. Usually an organization refers by default to the environment, particularly the institutional environment, to construct and maintain its organizational identity (Whetten 2006; see also Fiol/Hatch/Golden-Biddle 1998; Luhmann 2000: 426f.): “Organizations define who they are by creating or invoking classification schemes and locating themselves within them” (Albert/Whetten 1985: 267). These classifications encompass organiza-

tional classes, forms, or types that are socially constructed and that are the objects of a collectively held expectation by a legitimating audience (see also Hsu/Hannan 2005).¹

Synchronization as a form of coupling of organizational identity and institutionalized models takes place as these models become a viable part of the organizational identity. Organizations, not unlike personal actors, perceive and describe themselves as a certain commonly shared type and are perceived as a certain type by others as well (Sahlin-Andersson 1996; Sevón 1996). Identity is therefore partially embedded in the social context of the organization, such as the organizational field (see also Whetten/Mackey 2002: 397f.; Baron 2004). While being a necessary prerequisite for institutionalization (Berger/Luckmann 1980), interaction on the grounds of reciprocal typifications may serve, similar to personal interaction (see Simmel 1992), as a necessary prerequisite for many forms of organizational interaction (King/Whetten 2008: 197f.).

The essence of the comparative reference of organizational identity is that identity is subject to a second feedback process. Mirroring describes a process whereby outsider perceptions of organizational identity are fed back into the organization (see Dutton/Dukerich 1991; Gioia/Schultz/Corley 2000; Hatch/Schultz 1997, 2002). Change and persistence are related to outsiders' perceptions and reactions: "The same environment that fosters shifts in identity in the first place ... simultaneously operates to limit the degree of those shifts" (Gioia/Schultz/Corley 2000: 73). Situations of match and mismatch with external preconceptions become crucial.² In addition to the integrative and operative function of identity, organizations may have to take into account reputation and the corresponding expectations of outsiders. The comparative frame of reference and the adaptive instability of organizational identity lead to the conception of an extended feedback cycle.

In Figure 2, the major relations are depicted again. The primary feedback cycle (A) is represented by the self-reference feedback (arrows 1 and 2 discussed above). In addition to the primary feedback, the effects of reputation are considered. In this sense, reputation constitutes a particular form of external expectation held by outsiders (King/Whetten 2008). Accordingly, the secondary feedback cycle is formed by arrows 3, 4, and 1. Arrow 3 indicates the observation of such aspects as organizational practices and decisions by outsiders. These observations are the basis upon which the reputation is formed and interacts with outsider expectations of reliability, accountability, and general conformity. Arrow 4 accounts for the reputation of the organization among out-

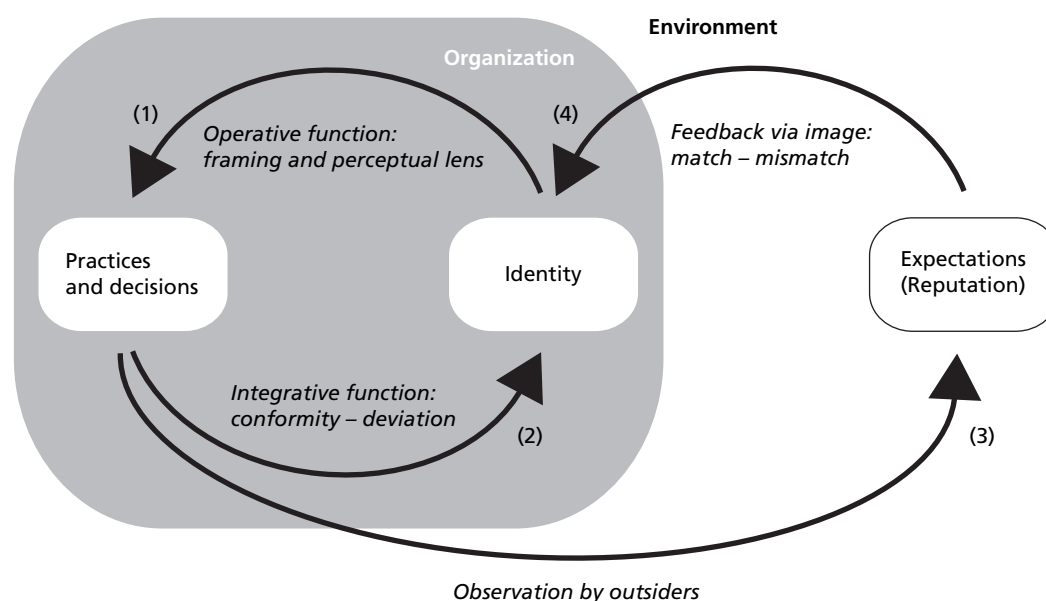
1 In organizational ecology research, organizational identity is considered a basis for organizational forms (Baron 2004; Hsu/Hannan 2005: 481; Haveman/David 2008: 577). However, in this usage of identity, internal organizational identity and commonly held models are not distinguished from one another. Instead, they are considered one single form of identity, therefore partially deviating from the definition used in this paper.

2 However, organizational traits, such as practices and decisions, have to be observed and described in some way before they can be fed back to the organization. What does not come to the attention of external observers will cause no feedback.

siders that is fed back into the organization via the organizational image. As the image is internally compared with the existing organizational identity, the organization can evaluate the match or mismatch with outsider perceptions and preconceptions. This may lead to an amplification of certain elements of the organizational identity that, in turn, fulfill its operative function in guiding practices and decisions (arrow 1). Again, outsiders perceive organizational practices and decisions (arrow 3), and external evaluations are fed back into the organization (arrow 4) – and so on.

When an identity element is perceived as matching the expectations of outsiders so that it generates a positive reputation, this element will become more attractive for other practices and decisions to relate to it. Fulfilling outsider expectations will enhance the viability of an identity element. As with the primary cycle, a mismatch with outsider perceptions can fundamentally bring an identity element into question. As the organization considers and promotes itself to be of a certain kind, outsiders monitor this self-classification. In addition to the relations depicted, the influence of projected images (Gioia/Schultz/Corley 2000) and impression management (Hatch/Schultz 2002) can be emphasized. This includes symbolic practices that are meant to show compliance with general standards and are directed at outsiders (arrow 3). Public relations and practices of corporate identity intend to provide an outside observer with detailed but filtered material to generate a positive reputation. As a parallel, independent text of organizational descriptions (see Luhmann 2000: *Außendarstellung*), projected images can severely influence the secondary feedback process. This is the case when projected images can successfully absorb outsider attention and, at the same time, divert the external observation from “real” activities to “ceremonial” ones (see Gioia/Schultz/Corley 2000; Brown 2001; Hatch/Schultz 2002). The result is a decoupling of identity and projection

Figure 2 Extended feedback (self-reference and comparative reference)



that still might substantially impact on identity in the long run (Ashforth/Mael 1996; Gioia/Thomas 1996; Scott/Lane 2000; Corley 2004).

However, there is a fundamental difference between the primary and secondary feedback cycles. While the primary feedback works self-sufficiently in principle, the secondary feedback always has to integrate one step of the primary feedback (arrow 1) to complete the cycle. This means that external descriptions have to become internal in order to provide an integrative function (see Seidl 2005, 2007). They have to be internalized and become a genuine property of the organization or the organizational identity respectively. Only when the primary and secondary cycles are synchronized can external expectations substantially affect organizational activities. If the identity element cannot provide its integrative function (arrow 2), it will not be viable because the primary feedback cycle has to have been fulfilled.

5 Path dependence: Dealing with organizational persistence

The second position on organizational persistence and change draws on insights found in the context of the concept of organizational path dependence. Before this term was introduced, other concepts had been developed to explain organizational persistence.

Basing his view on several empirical results, Stinchcombe (1965: 155) argued that certain structural characteristics of different organizational types remain surprisingly stable over time, leading to the assumption of a significant “power of persistence of organizational forms.” Conditions of earlier development periods are imprinted on central organizational traits and structures (see Johnson 2007). In an organizational ecology perspective, Hannan and Freeman (1977, 1984, 1993) handled the observation of organizational persistence by introducing the term “structural inertia.” Structural inertia is caused by forces preventing the core strategies and core structures of an organization that define organizational forms from changing. Structural inertia is a source of endurance of certain structural properties. It also constitutes a necessary condition for the ability of researchers to define a population of organizations and to assign an individual organization to such a population. These forces inhibiting the change of organizational form derive from both within and without the organization.³ In this view, persistence due to inertial forces is key for organizational performance and survival, as it enables

3 (1) Internally from such factors as sunk costs, information constraints, and the micro-political status quo, as well as from central organizational norms of conduct. (2) Externally from such factors as market entry and exit barriers and information about the environment, as well as from the legitimating environment. In regard to the wide range of organizational structures and practices, a hierarchy of inertial forces can be assumed in the sense that core parts of the organization are more difficult to modify than peripheral parts (Hannan/Freeman 1993: 79; see Baron 2004: 25).

the organization to generate internal continuity and, in turn, to acquire a necessary reputation of reliability and accountability. As a consequence of structural inertia, organizations can change and adapt, and yet this change is bound to specific trajectories. The findings of Stinchcombe (1965) and the concept of structural inertia lead to the idea of organizational path dependence (Hannan/Burton/Baron 1996).

The path dependence concept has been applied to organizations in order to describe the mechanisms of organizational persistence and change, and to develop a coherent and empirically sound concept (see Schreyögg/Sydow/Koch 2003; Sydow/Schreyögg/Koch 2005, 2009; also Beyer 2006). Building on the early foundations of the path dependence approach, applied to technological standards (David 1985; Arthur 1989), different studies on organizational path dependence have been conducted. This includes organizational path dependence relating to structures, knowledge, processes, and strategies, as well as the use of technologies (see: Kogut/Zander 1992; David 1994; Helfat 1994; Teece/Pisano/Shuen 1997; Coombs/Hull 1998; Burgelman 2002; Karim/Mitchell 2000; Koch 2008; Dobusch 2008; Schüßler 2009).

In contrast to *past* dependence, described by accounts of imprinting and structural inertia, whereby decisions and structures inherited from the past merely influence later decisions and structures, the state of *path* dependence has to comprise a systematic effect that prevents the organization from realizing an alternative to the activities in question. Certain decisions made and structures introduced in the past generate irreversibilities, which systematically foreclose certain decisions and structures in the present and in the future (David 2007). The systematic effect has to be generated by mechanisms of reproduction that entail self-reinforcing feedback dynamics in particular periods of the process (see Arthur 1994; Foray 1997; Sydow/Schreyögg/Koch 2009). Several mechanisms of reproduction have been named (Beyer 2005, 2006, 2010; also Kirchner 2008). In the early debate on this concept, reproduction mechanisms were identified as being rooted in investment effects, learning effects, and complementarities (Arthur 1989; David 1985). With the application of path dependence to institutions and organizations, mechanisms of power and legitimacy completed the picture (Thelen 1999, 2003; Pierson 2000; Mahoney 2000; Schreyögg/Sydow/Koch 2003; Sydow/Schreyögg/Koch 2005; Djelic/Quack 2007). In a state of path dependence, organizational change as the realization of an alternative to an existing solution is hampered, allowing change to occur only incrementally, if at all. Even in dramatically changing environments, organizations remain stable in their core characteristics, which may have matched early institutional or market constraints (Burgelman 2002, 2008; Carney/Gedajlovic 2002). Yet these organizations fail to successfully adapt.

6 Path dependence of organizational identity

In line with the research questions of this paper, the existing literature on organizational identity itself encompasses two contradictory positions that deal with persistence and change.

The first position states that persistence as the endurance of claims is a defining criterion for organizational identity (Albert/Whetten 1985). Organizational identity is often seen as fundamentally contradictory to efforts to induce organizational change (Reger et al. 1994; Stimpert/Gustafson/Sarason 1998; Fiol 2001). Identity has been portrayed as a key source of inertia for the organization (Hannan et al. 2006). It is often seen as fundamentally conflicting with organizational efforts to change (Reger et al. 1994; Stimpert/Gustafson/Sarason 1998) and has been understood as a “primary constraint on its adaptive capacity” (Bouchikhi/Kimberly 2003: 20). However, it has also been suggested that the continuous maintenance of organizational identity may be considered “desirable” (Ashforth/Mael 1996) and is indeed necessary, as the persistence of the organizational core provides a source of orientation and integration in situations of considerable ambiguity (Albert/Whetten 1985; Fiol 2001; Seidl 2005). In contrast to the position just raised, a number of authors consider organizational identity as being subject to ongoing processes of reconstruction and redefinition (Gioia/Schultz/Corley 2000; Hatch/Schultz 2002; Corley/Gioia 2004; Chreim 2005). In the confrontation with its image, organizational identity is characterized by an adaptive instability and cannot be considered enduring but rather as having continuity. The opposition of these two approaches to persistence constitutes a paradox in the organizational identity literature (see Ravasi/Schultz 2006). This situation calls for an alternative approach that is able to mediate between the two positions.

How can organizational identity contribute to an explanation of organizational persistence in terms of path dependence? The ability of organizations to relate current practices and decisions to organizational history is the basis for organizations to provide and maintain their functions (see Luhmann 2000; Ortmann/ Salzman 2002). By default, an organization is *past* dependent and not necessarily *path* dependent, since current practices and decisions relate to earlier states of the organization. As the organizational identity is constructed using a historical frame of reference, past dependence surfaces in accounts of organizational inertia and persistence due to the effect of organizational identity (see Ashforth/Mael 1996; Baron 2004; Stimpert/Gustafson/Sarason 1998; Barney et al. 1998; Gioia/Schultz/Corley 2000; Fiol 2001, 2002; Whetten 2006; Hannan et al. 2006; Nag/Corley/Gioia 2007). Path dependence, however, has to be based on feedback and mechanisms for any systematic reproduction to occur (Sydow/Schreyögg/Koch 2009). In order to apply the path dependence concept to organizational identity, the elements and processes involved as well as the mechanisms that shape the path have to be revealed.

The two feedback cycles introduced above will help to understand the potential for lock-in situations. As identity shapes activities and activities again shape organizational identity, a potential for lock-in and path dependence exists. The recursive nature has been described above using the cycle of integrative and operative function. The *primary feedback* of organizational self-reference entails possibilities for a substantial reinforcement of identity elements. This can trigger a path dependent development and a subsequent reproduction of organizational identity. The positive feedback inflicted by the ability of the organizational identity to give orientation and to describe the organization as an entity leads to the confirmation of identity (see above).

For example, the firm that defines itself as a distinct consumer products company will seek to build organizational processes and to accumulate the resources and skills that complement this identity. To the extent that the firm is successful in developing these processes and skills, it further reinforces its identity as a distinctive consumer products company. (Stimpert/Gustafson/Sarason 1998: 88; see Ashforth/Mael 1996)

This feedback is only a precondition, which on its own can merely act as an inertial force of corresponding structures. Lock-in and path dependence of organizational identity can only occur in combination with the effects of irreversibilities and the reproduction mechanisms that maintain the chosen solution. While the primary feedback process of operative and integrative functions operates and effects different organizational dimensions and layers, the respective mechanisms generate the effects of self-reinforcement and maintenance necessary for path dependence and a lock-in state.

Mechanisms of reproduction

Analytically, reproduction mechanisms can be distinguished as investment effects, learning effects, and the effects of complementarity, power, and legitimacy.

Investment effects

Since organizational identity shapes practices and decisions, an economic lock-in (Ortmann/Salzman 2002) can occur as the result of investment decisions that are consistent with identity. For example, a particular path of organizational competence development is adopted (see Teece/Pisano/Shuen 1997) if only those competences are developed that complement the existing identity. Establishing a particular identity element by making it a commonly shared distinctive, central, and continuous property also requires considerable efforts and resources. Thus, the accumulated material and cognitive switching costs of changing an established identity element can prove very high (Whetten 2006: 226; Stimpert/Gustafson/Sarason 1998: 92). Ultimately, this will encourage further self-reinforcing investment decisions that complement and further confirm the existing organizational identity.

Learning effects

Path dependence due to the effects of local learning (see Kogut/Zander 1992; Coombs/Hull 1998) can be caused since identity serves as a frame for organizational learning and as a perceptual lens that conditions the attention of organizational members. Being a frame and a general premise, identity broadly defines alternatives that are “in character” and appropriate to pursue. Accordingly, out of a variety of possible learning trajectories, only a small set appears available. Early decisions foreclose later learning progress. This situation constitutes a cognitive lock-in (Ortmann/Salzman 2002) in which organizational members have “difficulty noticing, interpreting, and appropriately acting on environmental changes that do not correspond with their firms’ organizational identities” (Stimpert/Gustafson/Sarason 1998: 90). Identity influences the set of choices that are open and the evaluation of their meaning and potential:

[O]rganizational resources, especially knowledge, skills, and expertise, are likely to be influenced by the basic assumptions and frames of reference that organization members use to define “who we are” as an organization ...
(Nag/Corley/Gioia 2007: 824; see Ashforth/Mael 1996; Glynn 2000)

Should decisions and practices relate to identity, they are implemented and carried out accordingly. In turn, organizational identity describes the organization as a whole and allows for the coordination of activities on the level of an entity, as well as for the complex parts to relate to each other. Organizational identity functions here as a shared mental model that shapes the organizational path (see Denzau/North 1993). This effect has been identified more broadly as cause for strategic blind spots (Teece/Pisano/Shuen 1997; Fiol 2002; Burgelman 2002). In time, this will narrow down the actual strategic choices available as structures and competences correspond only with the established identity. This will foster further activities that are in line with organizational identity.

Complementarity

Representing the organization as a whole, the construction of organizational identity takes place against a background of a complex, interwoven organizational matrix containing a variety of interrelated organizational structures (see David 1994). Elements within an organizational identity can also be complementary if they are related to each other in a hierarchy of nested identity elements (Whetten 2006). Less central identity elements are constructed to complement more central ones, thus “an organization’s early organizing choices, especially those involving higher-order social categories and their long-term, path defining effects” (King/Whetten 2008: 197). Replacing a particular identity element will prove difficult given the interconnections with other elements and structures. Accordingly, only elements that fit the complex matrix will be incorporated to preserve the effects of complementarities.

Power

Concerning power relations, it has been argued that the persistence of the core structures of an organization reflects the organizational status quo (Hannan/Freeman 1977,

1984). In giving rise to decisions and practices and in accounting for the entity, organizational identity constitutes a crucial device in the power games of groups and individuals within the organization. Forms of micro-politics, such as the expert and gatekeeper status as well as hierarchical power, are especially important (Crozier/Friedberg 1979). Through personnel interpretation and assessment of organizational structures, as well as of events in the environment, individuals can affect and shape organizational identity (Fiol 1991; Gioia/Chittipeddi 1991; Hatch/Schultz 2002; Ravasi/Schultz 2006). The power to define and shape elements of the organizational identity not only defines the conduct and activities but also redefines the basis for power at the same time, which, in turn, defines the power opportunities for groups and individuals. Shaped by the configuration of power within the organization, organizational identity is likely to follow a particular path.

Legitimacy

Finally, path dependence can be triggered by the shared belief of appropriateness or moral correctness (see Mahoney 2000) and by the effects of legitimacy internal to the organization. Applied to organizational identity, this reproduction mechanism implies the effects of organizational culture. Organizational culture, being distinct from but related to organizational identity, secures the reproduction of certain identity elements (Corley et al. 2006; Fiol/Hatch/Golden-Biddle 1998; Hatch/Schultz 1997, 2002; Ravasi/Schultz 2006; Jacobs et al. 2008). Legitimacy is granted to those elements of organizational identity that are commonly considered as appropriate and correct within an organization and have thus “withstood the test of time” (Whetten 2006: 224). The result is a circular definition of identity maintenance, as continuity of organizational identity leads to internal legitimacy and internal legitimacy leads to continuity of identity.

In the course of the feedback processes, combined with the effects of reproduction mechanisms, the organizational evolution will have increased the gap between established solutions and other alternatives. As decisions and practices feed back into identity construction, this relation is potentially self-reinforcing. Because identity claims involve irreversible commitments (Whetten 2006), organizational members can find themselves in an identity trap (Bouchikhi/Kimberly 2003) since they are collectively “locked into outmoded strategies and behaviors” (Ashforth/Mael 1996: 51). Early realizations of organizational identity lead to specific organizational activities that confirm the identity and thus potentially tip its development in one of many possible directions. As decisions and practices affect subsequent decisions and practices, this ultimately brings about a specific formulation of organizational identity and the development of a corresponding set of organizational structures. In this situation, organizational identity is both *locked in* and path dependent, allowing only bound change, if at all.

Path dependence in an institutional environment

In order to describe the institutional pressures potentially involved in the organizational path dependence of core properties, the *secondary feedback cycle* can be referred to. In addition to the feedback of organizational self-reference, the influence of outsider perceptions is another factor to consider (see above). Any state of organizational identity path dependence, by default, reflects the given environmental conditions, since the organization as an open social system has to maintain its exchange relations (Thompson 1967; Scott/Davis 2007). With external reference, the conditions for persistence and change are connected to external influences. Outsider appraisal affects organizational identity when conformity with outsider expectations (such as cognitive or normative institutional preconceptions) is considered and evaluated against the current organizational identity. A particular configuration of identity can thus be a result of, for example, the cohesive power of external enforcement (DiMaggio/Powell 1983), since deviations trigger external sanctions. In this case, conditions of institutional change might indeed be the same conditions of organizational change as generally proposed by the neo-institutionalist approaches. In this view, persistence and change are the result of a tight coupling of institutional expectations and organizational structures (DiMaggio/Powell 1991; Greenwood/Hinings 1996) and constitute a form of environment dependency, not a case of path dependence.

However, conformity to institutional preconceptions may, in turn, yield a positive feedback, as this confirms and potentially reinforces the general expectations held by outsiders about the organization. Such a connection points to a coevolutionary development of institutions and organizations (see Scott 1995: 147; Haveman/Rao 1997; Lewin/Volberda 2003). The positive feedback further enhances the practices and decisions to be made according to preconceptions, which enhances the external perception of appropriateness – and so on. Should the adoption of the organizational identity affect external structures, a *coevolutionary feedback* process can be triggered (see Rodrigues/Child 2003), which might result in a *coevolutionary lock-in* (Burgelman 2002, 2008). In this case, a coevolutionary lock-in is not exclusively an organizational phenomenon but encompasses interactions with the environment as a coevolutionary system (Baum/Singh 1994).

In any case, institutional preconceptions as models have to become an organizational property in order to be reproduced by the organization. The institutional influence on organizational identity is particularly important here in the form of *models of the organization*. As types or categories, these models prescribe certain recipes of organizational configuration. Being “path dependent” – in the sense of being a certain type of organization – means being tipped into an externally expected mold of organizational structure configuration that becomes increasingly difficult to escape from (see the similar argument by Greenwood/Hinings 1988).

An institutionally mediated model of the organization has to represent a viable self-description that fulfills its operative and integrative function. This again raises the problem of *the self-sufficiency of the primary feedback cycle*. Since the primary feedback cycle can provide autonomous reproduction according to integrative and operative functions, structures can be continuously reproduced long after a period of faded outsider appraisal. Through this very process, the imprinting of the structural properties of early development periods takes place according to the institutional environment. Preconceptions are translated into organizational identity and structures in a process of auto-communicative self-reference and interaction with the environment (see Sahlin-Andersson 1996). Yet, even if outside support for, or enforcement of, specific identity elements fades away, the organization will reproduce the element in question as a part of its organizational identity. This reproduction process can be path dependent and can prove very much resistant to a variety of change efforts.

Examples of organizational path dependence describe instances of hyperstability of certain core characteristics of organizations that can be interpreted as genuine aspects of identity (Burgelman 2002; Carney/Gedajlovic 2002). It is important to notice that organizational identity does indeed have a predisposition for lock-in and path dependent reproduction, though it is not path dependent by default, for certain conditions have to be met.

7 Discussion

The argument raised in this paper has three major implications for organizational change and persistence in an institutional environment.

- Concerning the relation between institutions and organizations, identity provides an instance that enables organizations to resist or to mediate institutional expectations and pressures. As a result of the self-sufficient characteristic of the primary feedback cycle, external expectations have to become properties of the organization and have to obtain a status of internal viability. Mediating demands for internal continuity and institutional pressures includes attempts to decouple identity from external observation with the help of projected images. Otherwise, institutions as general, abstract models are translated into the organization in accordance with the existing organizational identity (Sahlin/Wedlin 2008). In both cases, processes of identity reproduction constitute sources of organizational autonomy in the interaction of institutions and organizations. This applies both to models of the organization and to institutionalized practices as models of organizing. Since identity serves as a frame and perceptual lens, efforts to change or the adoption of organizational practices are potentially influenced by identity. This influence is exerted in processes of the translation of practices (Sahlin/Wedlin 2008) but, more importantly, organi-

zational identity can significantly hamper and principally impede non-core adoptions (Reger et al. 1994; Jacobs et al. 2008). Accordingly, organizations can and must reject institutionalized expectations, for “a coherent and distinctive [organizational identity] can act as a counterweight to competitive and institutional pressures to imitate successful and widely-accepted practices” (Ashforth/Mael 1996: 33). While neo-institutionalist approaches recognize strategic potentials of organizations in the face of external pressures, organizational identity provides an explanation as to why and by which endogenous processes resistance is possible.

- The path dependence of organizational identity provides insight into limitations to the adaptive capabilities of organizations. An organizational identity development trajectory can lose its flexibility due to feedback effects and irreversibilities of the identity reproduction processes. The resulting systematic inertia leads to a profound entrenchment of identity evolution. In line with studies of structural inertia, path dependence of organizational identity can produce long-term inefficient configurations of core organizational structures. Organizational identity too can be a reason for the common empirical observation of persistent inefficiencies and apparent inability to adapt to changing environments (Ashforth/Mael 1996). Organizational identity constitutes an independent source of persistence within given institutional environments. Accordingly, this perspective presents a possible explanation for the observation of the long-term persistent heterogeneity of “off-path organizational forms” in institutional frameworks (see Schneiberg 2007). However, while organizational identity constitutes a central form of organizational persistence, it is only one of many sources of path dependent developments alongside and in interaction with strategic decision-making, specific practices, or organizational culture (see above).
- Path dependence constitutes a process perspective and cannot be mistaken for an account of uneventful states of stability. Firstly, in most of the cases, path dependence has to be understood as a corridor that defines bound change trajectories (see Streeck/Thelen 2005; Beyer 2006). Not the absence of change but the systematic limitation of opportunities and scale with respect to change is key in this perspective. Secondly, the identification of the mechanisms of reproduction that repeatedly effect organizational identity development allows the circumstances of path breaking change to be uncovered. In the event of reproduction mechanisms such as legitimacy failing to repel alternatives to the existing solution, pathbreaking change is likely. Finally, it has been pointed out that pathbreaking change can very well be triggered by the active and mindful intervention of groups or individuals within the organization (see Garud/Karnøe 2001). A path dependence approach to organizational identity has to include perspectives of path destruction and path creation.

Looking ahead, the theoretical argument that has been made in this paper calls for empirical evidence to support the claims raised. In subsequent enquiries of organizational identities, it will be important to consider when and how organizational change involves path dependent, incremental change as well as pathbreaking developments. Specifically,

studies have to be conducted that reveal the actual influence of organizational identity on organizational activities – such as strategic decision-making processes, competence development, or routine approaches. In such studies it would be particularly important to show how practices and decisions become rigid in relation to the path dependence of organizational identities. This would have to be carried out by using longitudinal case study methods or extensive retrospective analysis of organizational documents. It has been argued that path dependence constitutes a rather common empirical phenomenon in many different social forms and levels (see Bassanini/Dosi 2001; Kirchner 2008). Empirical inquiries show the relevance of path dependent core characteristics for organizational adaptive capabilities (Burgelman 2002, 2008; Carney/Gedajlovic 2002). Accordingly, it will be the task to clarify the conditions when path dependence of organizational identities is either present or absent, and under what conditions existing path dependence can be reversed.

Drawing on the argument made in this article in the context of researching organizations in institutional environments, a final statement can be made. While many studies have tried to understand the mechanisms of organizational change, future research has to acknowledge that organizational change can only be understood accurately when mechanisms of stability are accounted for.

8 Conclusion

The key question of this article has been: What are the conditions for organizational change and persistence in an institutional environment? On this question, the existing literature provides two plausible, yet contradictory research positions: While the path dependence approach and similar concepts stress the resistance of organizations to change, even in the face of a continuously changing environment, neo-institutional approaches regard organizational change and persistence as the result of matching institutional standards, thus rendering organizational change a reflection of institutional change.

To answer this research question, the path dependence approach and neo-institutionalist concepts were discussed. The concept of organizational identity was introduced to deal with the implications of the two concepts, providing insight into how organizational identity mediates institutional pressures and internal demands for continuity. The role of institutional influences was also considered.

Organizational identity provides a term to describe how organizations cope with institutional pressures and manage to remain stable over time. The construction of organizational identity includes two central sources (Whetten 2006). On the one hand, identity is constructed using a comparative frame that embeds the identity of the organiza-

tion within the local social and institutional context. On the other hand, organizational identity elements are reproduced by referring to organizational history, which is remembered in a self-referential process and constitutes a historical frame. The operative and integrative function of organizational identity (Seidl 2005) can trigger a feedback of organizational self-description and activities. Combined with reproduction mechanisms, this feedback effect can lead to a path dependence of organizational identity. In principle, the cycle of organizational self-reference is self-sufficient and can provide a means to moderate and resist institutional pressures.

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