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**Organizations as penetrated hierarchies
Environmental pressures and control in professional organizations**

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Manuscript ID:	OS-13-0218.R4
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Keywords:	Organization control, External relationships, Institutional pressure, Professional organizations, Resource dependency
Abstract:	Organizational control and environmental influences on organizational behavior are central themes in organization studies, yet little effort has been made to bring them together. In this paper we seek to contribute to filling this gap by investigating and conceptualizing environmental influences on organizational control. The paper examines patterns of organizational control and their environmental couplings through three parallel case studies of public universities in three European countries. We provide a systematic characterization of the space of configurations of control in professional knowledge-intensive organizations along the two axes of centralization of power and formalization of social relationships. We show that environmental characteristics do matter for the contestation and selection of control models. Finally, we unpack and conceptualize the synergetic influence of three environmental characteristics (institutional pressures, resource environment, and external social relationships) as providing sources of legitimacy and power for specific control regimes.

Abstract

Organizational control and environmental influences on organizational behavior are central themes in organization studies, yet little effort has been made to bring them together. In this paper we seek to contribute to filling this gap by investigating and conceptualizing environmental influences on organizational control. The paper examines patterns of organizational control and their environmental couplings through three parallel case studies of public universities in three European countries. We provide a systematic characterization of the space of configurations of control in professional knowledge-intensive organizations along the two axes of centralization of power and formalization of social relationships. We show that environmental characteristics do matter for the contestation and selection of control models. Finally, we unpack and conceptualize the synergetic influence of three environmental characteristics (institutional pressures, resource environment, and external social relationships) as providing sources of legitimacy and power for specific control regimes.

Key words. Organizational control, professional organizations, institutional pressure, external relationships, resource dependency

Introduction¹

Since Max Weber (1922), organizational control – i.e. the means through which the leadership steers the behavior of organizational members in order to achieve coordination and alignment with organizational goals (Ouchi 1979) – has been a central issue for organizational studies (Clegg 2012). Historically, the scholarly debate was characterized by a divide between a tradition considering the hierarchical-bureaucratic model as a functional solution to the problem of coordination in modern organizations (Ouchi 1980) and a critical tradition focusing on dynamics of power and control of external resources (Crozier et al. 1980; Pfeffer and Salancik 1978).

The study of professional knowledge-intensive organizations, highlighted features that cast doubt on the functionality of the hierarchical-bureaucratic model, such as goal and task uncertainty, professional autonomy, disconnected structures from tasks, and the related challenge of control under conditions of ambiguity (Pfeffer 1982; Scott 1987). Public universities have become recognized as examples demonstrating the inappropriateness of the hierarchical-bureaucratic model (Cohen et al. 1972; Mintzberg 1979), and as such they have traditionally been considered as loosely coupled organizations (Weick 1976), where organizational units are mutually unresponsive and evade hierarchical control due to weak leadership capacities.

¹ Authors are listed alphabetically. The authors would like to thank Christine Musselin for her contribution to an earlier version of the paper that was presented at the EGOS conference in 2011, and members of the research group Knowledge, Politics and Organization at the Department of Administration and Organization Theory, University of Bergen for their comments to a draft of this paper. The authors would also like to thank the editors of Organization Studies Frank den Hond and John Sillince, as well as two anonymous reviewers, for their comments and suggestions.

Theoretical framework

Control in professional organizations

The functionalist and managerial tradition justifies the need for central control by the presence of interdependencies between activities and the risk that employees try to achieve their own personal goals (Ouchi 1980). It assumes that organizations address this issue by introducing formal hierarchy and rule systems tailored to the characteristics of their activities (Diefenbach and Sillince 2011). While this perspective initially applied mostly to private organizations, during the 1980s public policies began promoting the view that public organizations should also adhere to this model (Brunsson and Sahlin-Andersson 2000).

The critical tradition considered that organizations are characterized by the uncertainty of their tasks and environment. Accordingly, power accrues with the actors who are able to control uncertainties (Crozier et al. 1980) and critical external resources (Pfeffer and Salancik 1978). In this perspective, control is achieved through informal and micro-level arrangements, through social relationships and the sharing of information among employees, while hierarchy and formal structure are a means to accrue power and privilege for the organizational elite (Hardy and Clegg 2006). Some scholars even argued that the end of the bureaucratic model had come, and that decentralized models characterized by distributed assignments and flat hierarchies might become the post-modern form of organizations (Powell 1990).

Control in universities and its variations

Universities are a prime example of organizations, which defied scholarly attempts to identify a clear-cut model of control, associated with their technology and with the academic profession.

Some scholars considered them as loosely coupled (Cohen et al. 1972; Weick 1976) and political organizations (Pfeffer and Salancik 1974), where collegial peer-to-peer decisions prevail over top-down hierarchy, and autonomy of professionals is defended against managerial control (Townley 1997). Others provided a more nuanced account in which professional autonomy and collegiality are not incompatible with central control (Musselin 2007) and bureaucratic management (Blau 1973, Mintzberg 1979), provided control is achieved through softer means than overt use of hierarchical power (Lutz 1982; Padgett 1980).

Empirically, a broad variety of patterns can be identified. American universities introduced central leadership and management as early as the 1960s (Ramirez and Christensen 2013), while European universities were characterized by the coexistence of state bureaucratic control over the administration and professional control over academic tasks (Clark 1983).

Since the 1990s, many European countries introduced a wave of reforms aimed at improving the efficiency of public-sector organizations under the label of New Public Management (NPM), promoting concepts like organizational autonomy, strategic leadership and management, competition, and accountability (Ferlie et al. 2008). NPM policies were designed

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Points of observation

We investigate *organizational control* according to the two dimensions of central control vs. participation, respectively the use of formal vs. informal control instruments.

Our assessment of *formal hierarchy* is based on (see de Boer et al. 2007): a) the extent to which power is centralized in the hands of a few individuals, excluding (representative) decision-making bodies; b) the extent to which leaders are clearly identified, responsibilities are allocated to them, and organization members are accountable to them and; c) the extent to which leaders enjoy decision-making discretion, have established managerial teams, have created new middle management positions, and separate managerial careers have emerged.

To assess the use of *rule systems*, we look at the extent to which the university has established organizational goals and formulated objectives for organizational subunits with instruments to measure results.

Further, we investigate to what extent central control is exercised through informal means, like putting institutional pressures on academics and stating goals and visions, and to what extent central control has been softened through (formal or informal) participation, including consulting academics before decisions are made, the use of horizontal peer coordination, and the co-construction of rules with academics.

Concerning the *institutional environment*, we focus on the degree of pressures towards the hierarchical-bureaucratic model within national policy systems. We look at: a) the general

Table 1 about here

In all three countries, some degree of autonomy and negotiated settlements among the State and major social interests has shaped the universities' policy environment. Central is located in a country traditionally characterized by a legalistic tradition and by negotiation between political authorities and major interest groups, while the policy system in the country of South is characterized by decentralization, a search for consensus amongst social groups, where self-regulation and the autonomy of stakeholders is more important than top-down steering by the State. The country of Northwest is characterized by a tradition of consultation and negotiation among political authorities and economic interests, as well as strong democratic traditions.

However, the balance between state steering, negotiated settlements and university autonomy, as well as the influence of NPM, is quite varied (Paradeise et al. 2009). While Central's country introduced NPM with a strong focus on rationalization, steering at distance and strengthening hierarchical-bureaucratic control, the country of South has retained a governance model largely based on academic self-regulation and network governance, with limited diffusion of NPM narratives and instruments (Bleiklie et al. 2011). The country of Northwest was traditionally considered a slow-mover in public-sector reforms, but change accelerated after 2003 with the introduction of a national accreditation and evaluation agency and a more competitive funding system.

Differences also characterize the structure of the resource environment. South and Northwest are faced with mixed funding systems, including a substantial component of historical

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Rule application. At Central, performance systems are delegated to local implementation within a space of negotiation that aligns decentralized actors in a legitimate order of objectivity. Strategic annual and multi-annual plans are, for example, written on all levels of the organization due to certain standards and numerical indicators. It remains, however, within the realm of managerial discretion to eventually overrule or change such systems. The authority of the leadership to announce internal re-organization forms an important control instrument, as it creates an emergency state in which the rules of the game temporarily change. The national embeddedness of the rule system at Northwest can be illustrated by the national evaluation and accreditation regime under which evaluation exercises are regularly undertaken. Evaluations are intrusive as they may point out research areas or teaching programs that should be changed. Similarly, the internal distribution of the basic university grant follows criteria that reflect the national allocation model. The allocation is subject to lobbying and negotiation, but the national funding rules frame the process in a powerful way. Internal rules mostly define general principles and procedures at South, but are not directly used to control academics. For example, the university has a clear commitment to academic performance, but no formal measurement system has been introduced, and the decision to evaluate units is at the discretion of the leadership, based on strategic considerations and a perception of low performance. Budgeting is similarly a highly centralized and informal process controlled by the central management, without explicit allocation rules.

Environmental influences and control

Our case studies provide evidence of how variations in control are associated with environmental characteristics and highlight the interplay between various processes (see table 4).

Table 4 about here

Comparing Central (high pressures), Northwest (medium pressures) and South (low pressures) confirms that the strength of NPM policy pressures are associated with the introduction of formal hierarchy and rule systems (Seeber et. al 2014); yet, this does not translate into similar variations in the extent of central control. Moreover, how NPM policies are instrumented very much affects their influence on control.

Formalization of policy environment. Both Central and Northwest are confronted by an increasingly formalized policy environment, where rules for evaluation and performance assessment have been introduced. However, Central is exposed to a national rule system that is less intrusive, and therefore, the leadership can leverage its legitimacy in order to control academics indirectly. Discretion in implementation and the possibility of suspending rules are crucial, as this allows the leadership to clarify that rules embody central power. Northwest also enjoys increased managerial discretion in a number of areas, but within a national rule system that sets clearly defined and mandatory rules. Lack of discretion implies that national regulation circumscribes leadership authority and can hardly be used as internal instruments

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enjoy privileged access to national policy arenas. Social relationships are mostly relevant to important stakeholders, which might support the university, including strong informal ties with the region. University board members (mostly non-academic stakeholders) also link the university in some fields of organizational interests such as national and European politics, business, and R&D. As representatives of one of three major national research universities, Northwest leaders enjoy privileged access to ministry officials and to a more modest extent to members of parliament. The leadership also promotes policy initiatives through the national association of higher education institutions or together with the other major research universities when the association is unable to agree on common policies. The four external representatives on the university board also represent an expression of the corporatist idea of bringing together a representative mix of external stakeholders (academics, politicians, public sector, business) and the resources they might represent. In contrast South is characterized by a deep asymmetry between a tightly knit web of social relationships connecting the leadership with its environment and a faculty largely composed of foreigners who arrived recently in the country and are relatively less networked. Important informal ties are related to the small world character of the system, where leading people move between the organizational and the policy layer. For instance, a former university secretary general was nominated deputy minister for higher education and research, whereas both the current and former university president occupied previously leading positions at the research council. The policy style of the country also translates into a practice of systematic consultation between the public administration and the university central administration. External members of the university

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mediating role of the State is likely to be different when influencing the balance between global pressures and national instantiations of institutional orders affecting the environment of organizational control.

For Peer Review

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Table 1. A characterization of our cases (2011)

	South	Central	Northwest
Founding year	1996	1961	1946
Undergraduate students	2'377	9'300	14'500
PhD students	263	1'050	1'489
Faculties	4	6	6
Disciplinary profile	Mostly social sciences and engineering.	Applied science and technology; behavioral and social sciences	Comprehensive
Average impact of scientific publications*	1.7	1.6	1.6

* World average = 1. Source: Scimago Ranking 2011.

Table 3. Instruments of control

	South	Central	Northwest
Hierarchy			
Central coordination and control	Concentration of power in the hands of the board, of the rector and central administrator, weak power of faculties. Co-optation of faculties in the top hierarchical layer with a subordinate position.	Top-down hierarchy with checks and balances. Strong role of the rectorate, of deans and research directors, and of management teams; weak power of faculties. Academic bodies abolished or have a consultative role.	Increasingly top-down hierarchy with some remaining features of a collegial organization. Stronger power of rectors, deans, and chairs while representative bodies have retained involvement in decision processes.
Allocating responsibility	Allocation of responsibility mainly concerns research and teaching, strategy and financial resources are highly centralized.	Clearly defined allocation of responsibilities concerning organization, strategic direction, and financial affairs.	Allocation of responsibility concerning strategy and financial resources, research, teaching and human resources is clearly defined.
Constructing management	Managerial positions at the central level. At the faculty and institute level mostly academic positions.	Members of the rectorate and deans are full-time managers, some with external managerial experience.	Members of rectorate and deans are in practice full-time managers. Introduction of management teams at all levels.
Rule systems			
Setting objectives	Soft and informally stated objectives, but pressure to demonstrate performance.	Systematic establishment of rules and standards for managing the organization.	National rules and standards for setting goals and managing the organization.
Measuring results	No formal measurement scheme; peer-based approach. Central administration owns relevant information.	Regular measurement of performance indicators and of the financial and staffing situation.	Measuring and rewarding performance built into national funding system.
Formalizing decision-making procedures	Some formalization, important role of informal contacts and negotiations.	Increasing formalization partly due to national legislation, partly to internally developed regulations.	Increasing formalization of decision-making procedures partly in national legislation, partly in internally developed regulations.
Informal control instruments			
Mobilizing institutional pressure	Vision of becoming a research-oriented university. Direct personnel pressure on academics by the leadership.	Internal information systems / rule setting due to external audit / evaluation. Aligning the organization to external funding priorities.	Clearly stated goal of improving academic quality and visibility of the university. Using soft pressure and incentives to influence academics.
Informal	Practice of informal	Co-optation of leading academics in	Role of informal consultation limited.

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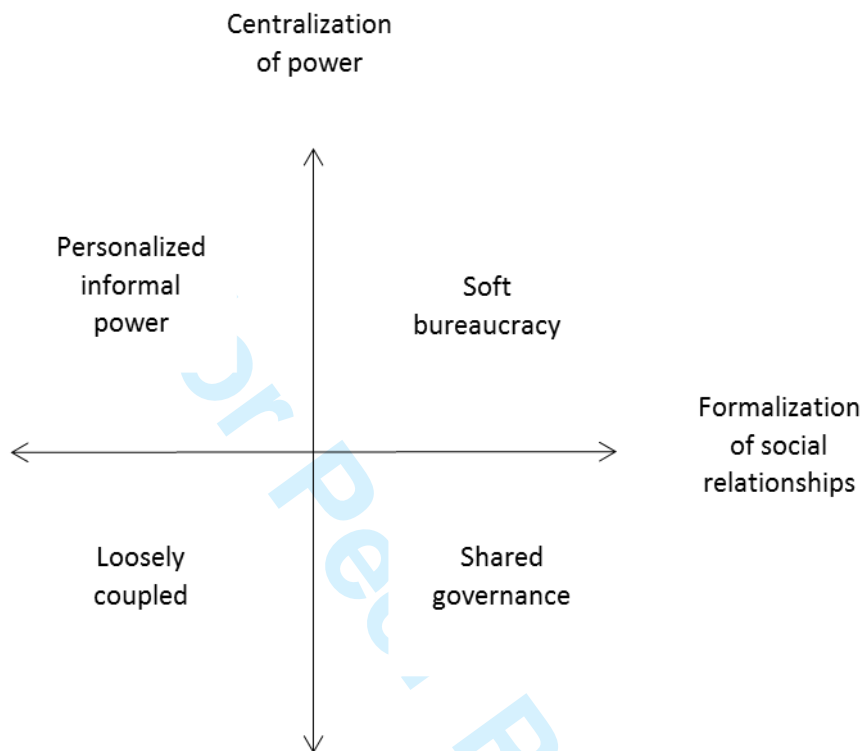
consultation and negotiation	consultations to prepare decisions; leadership and board tend to arbitrate.	policy-design and informal decision-making. Staff briefings.	Widespread consulting through formal hearing processes.
Delegation to peer coordination, co-construction of rule systems	Discretionary practice by university leadership to create informal working groups to prepare new rules.	Top-down assignment of temporary working groups for policy development. Delegation of implementation. Local adaptation of central rule systems.	Delegation of policy implementation. Local adaptation of central (often national) rule systems.

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Table 4. External leadership relationships and resource control

	South	Central	Northwest
Social relationships of the leadership	Membership in rector's conference. Strong personal ties of the rector to the research council and to the deputy ministry of research. Close informal ties to the regional government.	Rectorate represents university in association of universities, federation of technical universities, and innovation policy body. Strong informal ties within the region, to intermediary policy and funding bodies.	Rector plays an important role in the association of universities, particularly in the sub group of the three major research universities. Strong informal ties to senior ministry officials and research council, efforts to establish stronger regional ties.
Control of core funding	The leadership has a strong discretionary role in negotiating directly with the regional government the core budget.	Limited role in field-wide negotiations of largely standardized core budgets based on funding formula.	Limited role in negotiating the core budget. Lobbying for dedicated grants to major building projects.
Control of third-party funds	Leadership influences decision on national strategic projects of relevance to the university. Close cooperation between academics appointed at the research council and the leadership, which has regular contacts with the research council.	Role in regional funding and development initiatives. Limited role in negotiating state funding and third party funding. Academics with links to funding bodies operate independently of the leadership, but may cooperate on issues of strategic importance.	Leadership has little direct influence third party funding Academics represented on research council boards operate independently of the leadership, but may cooperate on issues of strategic importance.
Control of external evaluation	Formative evaluation by the national accreditation agency managed together with the leadership, which has strong control on it and discretion on how to implement recommendations.	Regular national evaluations of teaching and research partly managed with the leadership. Full leadership discretion on how to implement recommendations.	Evaluation of disciplinary departments undertaken by research council. Quality assurance system evaluated by national accreditation agency.

Figure 1. Space of configurations of control



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Figure 2. Coupling between environment and control

