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Organizational Settlements: Theorizing How Organizations Respond to Institutional Complexity

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Abstract

Research on hybrid organizations and institutional complexity commonly depicts the presence of multiple logics within organizations as an exceptional situation. In this article, we argue that all organizations routinely adhere to multiple institutional logics. Institutional complexity only arises episodically, when organizations embrace a newly salient logic. We propose two concepts to develop this insight. First, we suggest the notion of organizational settlement to refer to the way in which organizations durably incorporate multiple logics. Second, we define organizational hybridization as a change process whereby organizations abandon their existing organizational settlement and transition to a new one, incorporating a newly salient logic. Overall, we propose a shift in attention from the exceptionality of hybrid configurations of multiple logics toward exploring the dynamics of transitions from one state of complexity to another.

Keywords

institutional theory, change management, organization theory, organizational design

Introduction

The leaders of many research universities have recently decided to exploit the potential value of academic discoveries, encouraging their scientists to become more entrepreneurial by commercializing intellectual property (Clark, 1998). As a result, universities have formed technology transfer offices, established relationships with venture capitalists, and initiated entrepreneurial training programs (Colyvas & Powell, 2006; Mowery, Nelson, Sampat, & Ziedonis, 2001; Owen-Smith, 2003). In many cases, these interventions went hand-in-hand with leaders' attempts to transform universities' values, goals, and identities (Clark, 1998; Washburn, 2005). Stakeholders such as lawmakers, government bureaucrats, and the business community have supported these efforts, but academics have often been more critical, noting the potential risks for the institution of public science (Krimsky, 2003; Slaughter & Leslie, 1997).

In the above example, universities embrace an institutional logic—the commercial logic—with which they had not previously engaged. The institutional complexity perspective conceives this as a response to institutional pressures (Oliver, 1991; Pache & Santos, 2010), implying increased institutional complexity (Besharov & Smith, 2014; Greenwood, Kodeih, Micelotta, Raynard, & Lounsbury, 2011). However, previous work has paid little attention to the fact that virtually all organizations are *already* under the influence of multiple logics (Kraatz & Block, 2008) and

balance demands that can be traced to distinct societal domains and belief systems. For instance, even before embracing entrepreneurship, universities had to balance numerous incompatible influences, such as demands for relevant teaching (informed by state and market logics) and academically ambitious research (informed by the public science logic; see also, Dunn & Jones, 2010).

If we consider each and every organization as the result of a truce that regulates how potentially competing practices and beliefs associated with diverse institutional logics are managed (Kraatz & Block, 2008), hybrid organizations no longer appear distinct. In this article, we propose the notion of *organizational settlement* to conceptualize truces that organizations form to accommodate multiple logics. Our notion of organizational settlement draws on previous work on institutionalized organizational forms as settlements that temporarily resolve tensions between competing logics at the field level (Rao & Kenney, 2008; Tracey, Phillips, & Jarvis, 2011). Greenwood et al. (2011) speculate that organizations “develop blended hybrid arrangements that, over time,

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become institutionalized within the organization and thus uncontested ‘settlements’” (p. 352). Empirical work documents organizational settlements that exist as idiosyncratic truces at the level of specific organizations (Durand & Jourdan, 2012; Jay, 2013; Smets, Jarzabkowski, Burke, & Spee, 2015; Smith & Tushman, 2005; Spicer & Sewell, 2010).

The literature has remained relatively silent on what exactly it is that is “settled” when organizations successfully manage institutional complexity. In this article, therefore, we offer a conception of organizational settlements based on a set of established structural and cognitive elements and consider the change processes that take place when organizational settlements are challenged. We argue that when organizations are exposed to newly salient institutional logics—by choice, coercion, or incremental adaptation—they must reach a new organizational settlement. This process entails a transition from an existing organizational settlement to a new one—a process we call hybridization.

The goal of this article is to inspire new directions of research on institutional complexity. First, we articulate the concept of *organizational settlement* to support the key insight that all organizations are essentially hybrids, subject to demands of multiple logics. Second, we call for a focus on *organizational hybridization* as a dynamic change process through which organizations, in response to newly salient logics in their environment, episodically reshape the settlements of internal elements pertaining to multiple logics. These concepts allow us to move from exploring configurations of multiple logics (Besharov & Smith, 2014; Pache & Santos, 2010) to explaining how organizations undergo change and the likely outcomes of these processes. Overall, we take a key insight from the study of special hybrid organizations (Battilana & Lee, 2014; Jay, 2013; Mair, Mayer, & Lutz, 2015; Pache & Santos, 2013)—according to “which they combine different institutional logics in unprecedented ways” (Battilana & Dorado, 2010)—and generalize it to all organizations. Accordingly, when existing settlements are challenged and reconfigured in response to newly salient logics, this will involve the combination of elements in unprecedented ways (institutional complexity). Once a settlement is reached, the effects of institutional complexity subside until newly salient logics create new pressures for the organization.

Organizational Settlements and Hybridization

Institutional complexity prevails when organizations face demands and prescriptions emanating from multiple institutional logics (Greenwood et al., 2011)¹—sets of core organizing principles associated with a specific societal domain and the related beliefs, practices, and arrangements. The core organizing principles of logics supply certain goals, norms,

underlying assumptions, social identities, and practices to the actors who subscribe to them (Friedland & Alford, 1991). Logics influence organizations both as prescriptions (when actors in the organization are committed to an institutional logic) and demands (when powerful constituents, such as the state, impose the logic upon the organization).

Virtually all organizations experience institutional complexity, due to their interactions with stakeholder groups spanning multiple domains (Kraatz & Block, 2008). In addition to the “core” societal logics as proposed by Friedland and Alford (1991) and subsequently reiterated by Thornton et al. (2012), organizations are also influenced by more specific institutional logics, such as progressivism (Haveman & Rao, 1997), shareholder orientation (Fiss & Zajac, 2004), and bureaucracy (Meyer & Hammerschmid, 2006). It is difficult to imagine organizations that are not exposed to influences stemming from different logics.

Organizational Settlements

In theory, when organizations are exposed to institutional complexity, they face uncertainty about the norms and rules applicable to specific situations, inhibiting coordinated action and hampering legitimacy (Battilana & Lee, 2014). However, most organizations do not appear to durably experience major problems as a result of complexity. Faced with diverse prescriptions and demands, organizations cope by creating their own idiosyncratic organizational settlements. Various studies document how individual organizations may struggle to accommodate logics but at the same time develop mechanisms by which this complexity is somehow managed (Binder, 2007; Durand & Jourdan, 2012; Reay & Hinings, 2009). Smets et al. (2015) identify three individual-level mechanisms of segmenting, bridging, and demarcating practices that help reproduce relatively stable settlements at the level of the organization.

Rao and Kenney have previously used the notion of settlements to refer to field-level compromises between multiple logics that are crystallized into institutionalized organizational forms (Rao & Kenney, 2008). Drawing on Rao and Kenney’s idea, our notion of organizational settlement applies to the organizational level of analysis, and refers to specific organizational configurations that permit the co-existence of organizational principles and practices cohering to different logics.

The question arising is how we can conceptually characterize organizational settlements. In this article, we propose a characterization based on two analytical dimensions: organizational structure and organizational cognition. We define *organizational settlement* as the specific configuration of structural and cognitive elements that an organization develops to accommodate or productively leverage multiple institutional logics and to accomplish relative stability in the face of institutional complexity.

The structural elements of an organizational settlement regard the division of activities relating to various institutional logics and the allocation of specific work roles and organizational units. This may involve, for instance, an arrangement whereby activities adhering to different logics are allocated to specialized units of the organization (Kraatz & Block, 2008).

By contrast, the cognitive dimension of organizational settlement captures members' conception of the organization, its environment, and in particular the organizational norms, decision criteria, and reflective practices that relate to relevant institutional logics. Previous work has referred to this conception as the interpretive scheme (Bartunek, 1984; Gioia & Chittipeddi, 1991; Ranson, Hinings, & Greenwood, 1980). Interpretive schemes "map our experience of the world, identifying both its relevant aspects and the understanding of them" (Bartunek, 1984, p. 355). They can resolve potential tensions between logics, for example, by prioritizing competing demands and prescriptions, segregating the applicability of institutional logics to specific organizational domains and issues, synthesizing potentially competing prescriptions and norms, and providing routinized practices for coping with ongoing institutional tensions (Battilana & Lee, 2014; Besharov & Smith, 2014; Pache & Santos, 2013; Smets et al., 2015).

Hybridization as a Search for a New Settlement

Organizational hybridization is a specific subtype of organizational change in which an organization transitions from one settlement to another. The change will be prompted by the organization's exposure to a logic that has previously not been part of its structural or cognitive settlement, resulting from the deliberate pursuit of resource acquisition opportunities by organizational elites (Durand & Jourdan, 2012), coercive pressures from stakeholders (Hoffman, 1999; Thornton & Ocasio, 1999), or emergent ("bottom-up") change processes enacted by organizational constituents (Zilber, 2002). Instances of such exposure include manufacturing companies' efforts to embrace environmentalism (Hoffman, 1999), the increasing market orientation of hospitals and universities (D'Este & Perkmann, 2011; Reay & Hinings, 2005), engagement of financial organizations with religious organizing principles (e.g., Islamic finance; Gümüşay, 2015) and socially responsible investments (Markowitz, Cobb, & Hedley, 2012), and software firms' or activist organizations' adoption of open-source software development principles (O'Mahony & Bechky, 2008; Perkmann & Spicer, 2014). In all of these cases, because new prescriptions and demands impose potential conflicts, organizations must rework their settlement.

Following on from the above definition of settlement, the resulting change process will likely vary depending on the extent of structural and cognitive change. The structural

changes will have implications for how the organization reorganizes, allocates, and distributes its activities in response to a newly salient logic. Greenwood et al. (2011) distinguish between structurally differentiated hybrids and blended hybrids as structural alternatives for organizations required to cope with multiple logics. The challenges posed by multiple institutional logics resemble those observed in cross-functional collaboration and organizational ambidexterity (Simsek, 2009); in both cases, the organization must cope with different organizing principles and conflicting goals and priorities.

When change is approached through *structural differentiation*, practices relating to the newly salient logic are deployed in a specialized subunit(s) that manage the exigencies of the new logic. The organization searches for a settlement by initially keeping the newly salient logic isolated, thereby reducing potential tensions and trade-offs (Greenwood et al., 2011). This approach is exemplified by medical schools, which initially accommodated the care logic through distinct departments separate from the incumbent science logic (Dunn & Jones, 2010).

By contrast, in *structural blending*, the adjustments associated with the newly salient logic are integrated into the mainstream functions of the organization and operate side-by-side with existing practices. As a result, practices reflecting different logics are combined and layered into the organization (Greenwood et al., 2011). These change processes prompt a degree of change to roles and responsibilities in the organization, and as a result, the potential tensions arising from differing prescriptions and demands are more widely experienced by the organization's members at all levels. This strategy is exemplified by the transformation of aid organizations into microfinance organizations by complementing their charity logic with borrowed elements from the finance logic in many of their core activities (Battilana & Dorado, 2010).

In addition to structural change, the configuration of the organizational settlement requires cognitive changes, involving an alteration of the organization's interpretive scheme. Here again, we can distinguish two ideal-type scenarios of how organizations approach the change. *Scheme-conserving change* attempts to retain the established shared understandings and priorities based on the institutional logic(s) that already prevailed in the organization. This approach benefits members of the organization with a vested interest in the extant organizational settlement (Creed, Dejordy, & Lok, 2010; Lok, 2010) and relegates the new logic to a subservient position (Durand & Jourdan, 2012). By maintaining the existing interpretive scheme, the organization responds to a newly salient logic with minimal changes to existing strategy and identity. Because practices are intrinsically tied to beliefs and norms, scheme-conserving change is likely to lead organization members to perceive the new practices as foreign and incompatible with the organization's culture, identity, or

strategy (Canato, Ravasi, & Phillips, 2013; Nag, Corley, & Gioia, 2007).

A *scheme-revising strategy*, by contrast, begins by rejecting the existing scheme and incorporating the prescriptions and demands of the newly salient institutional logic into the desired self-conception of the organization. It represents a particular type of radical change (Greenwood & Hinings, 1996) in which the members of the organization are called to reconsider the relevance of the organizing principles associated with the various institutional logics they face for organizational decision making and practices. The key risk is that the various logics may impose incompatible rationalities (Townley, 2002), increasing the threat of organization-wide tensions and conflicts (Besharov & Smith, 2014).

Organizations embracing potentially conflicting priorities and demands have been discussed in the paradox literature (Smith & Lewis, 2011). The multiplicity of values requires organizational members to be pragmatic with respect to multiple evaluation criteria. The incorporation of a new logic creates ambiguity as actors are required to negotiate anew the appropriate principles for specific decisions and organizational activities. The scheme-revising approach thus creates a somewhat chaotic liminal state with a plurality of potentially conflicting prescriptions and ideals, forcing members of the organization to work toward new understandings that provide predictability and allow internal and external coordination.

Overall, we suggest that organizational hybridization involves a journey from one specific organizational settlement to a new one. At one extreme, the most radical approach to organizational hybridization—combining structural blending with a revision of the organization's interpretive scheme—threatens organizational legitimacy and efficiency. Due to the tensions created by the infusion of new organizing principles associated with a previously unfamiliar institutional logic, the organization's survival may be at risk before an acceptable organizational settlement can be reached. However, an organization that can afford temporary loss of efficiency and enjoys sufficient support from entrenched audiences may benefit from increased innovativeness as the blending of logics enables it to bridge multiple institutional domains through new innovative practices (Tracey et al., 2011) and develop a unique competitive niche. Thus, while this radical approach may be the least common, it is also likely to represent the most innovative cases, which attract disproportionate media attention.

The most conservative approach—combining structural differentiation with a conservation of the interpretive scheme—involves minimal disruptions to legitimacy and efficiency in the short term. Such a strategy seems particularly appealing to organizations highly dependent on a limited number of stakeholders and unable to risk legitimacy loss, or organizations operating in resource poor environments with fierce competition where loss of efficiency cannot be tolerated. Hence, this approach allows them to

experiment with activities relating to a new institutional domain without committing to radical changes. Small-scale experimentation through differentiated teams can pave the way for more radical organization-wide changes later on (Anand, Gardner, & Morris, 2007).

Discussion and Outlook

We argued that the conception of hybrid organizations as a special class of organizations with atypical combination of institutional logics has obscured the fact that virtually all organizations adhere to multiple logics and will episodically experience heightened institutional complexity. Embracing a newly salient logic is therefore an incremental step rather than a radical departure from normal organizing. These observations give rise to two insights. First, organizations accommodate multiple institutional logics on an ongoing basis through arrangements we call *organizational settlements*, consisting of structural and cognitive elements. Second, when organizations embrace a newly salient logic, they must adjust their settlement in order to “tame” the competing demands and prescriptions of multiple institutional logics. We call this process *organizational hybridization*.

Organizational hybridization is a special kind of organizational change process that is triggered by organizational acquiescence (Oliver, 1991) with a new institutional logic, either due to pressures created by resource dependencies, bottom-up organizational alignment with the new institutional logic, or the strategic choice of organizational elites. This change process may take varying paths, depending on the combination of structural and cognitive changes that are made to the extant settlement.

Our arguments have important implications for future work on institutional complexity. We encourage future research to evolve from the current somewhat static focus on the ideal-type configurations of logics (Battilana & Lee, 2014; Greenwood et al., 2011) toward an organizational change perspective (e.g., Jay, 2013; Smets, Morris, & Greenwood, 2012). Because institutional complexity matters most when organizations initially face it, our priority should be to understand the process of hybridization rather than the resulting hybrid settlements.

Recognizing that most, if not all, organizations accommodate multiple logics (Greenwood et al., 2011; Kraatz & Block, 2008), future research should seek to explain the compatibility of logics as an endogenous accomplishment that is stabilized through the organizational settlement and not as an exogenously given characteristic (Besharov & Smith, 2014). Although some recent studies provide in-depth depictions of ongoing practices through which settlements are accomplished (Binder, 2007; Smets et al., 2015), there is a significant dearth of research on the processes through which stable organizational settlements are formed. For example, it would be interesting to explore how intra-organizational coalitions form around new settlement projects and

how they work toward transforming the old settlement into a new one.

To understand how hybridization processes are triggered, we need to examine how organizations can “break” their existing organizational settlement once they have chosen to acquiesce with external pressures. Smets et al. (2012) introduce “institutional distancing” as a process through which organizations mitigate institutional pressures to question their existing organizational settlement. They found that a law firm hired “cosmopolitan” employees that were not subject to institutional conformity, provided continuous encouragement for divergent practices, and shielded their employees structurally from external influences to facilitate change. Future research should explore to what extent institutional distancing, or other methods of “unfreezing” (Lewin, 1951), are a necessary step to launch and implement changes involving organizational hybridization.

The temporal dynamics of hybridization and the “strength” of resulting settlements also warrant attention. We do not yet know much about the duration of the change processes where new organizational settlements are generated. During such liminal processes, the organization abandons the existing settlement, yet lacks a stable understanding of how the newly salient logic is to be incorporated into its activities (Howard-Grenville, Golden-Biddle, Irwin, & Mao, 2011). When eventually formed, some settlements may fail to reduce tensions among elements of multiple institutional logics, resulting in an organization that has a permanent sense of conflicting goals (e.g., Jay, 2013) or competing identities (Pratt & Foreman, 2000). By studying organizations’ transitory phases during which they rework an established organizational settlement and actively engage in the uncertain process of formulating a new one (Jay, 2013; Spicer & Sewell, 2010), we might gain further insight into the emergence of new organizational forms.

The processes of organizational hybridization and their consequences provide opportunities for quantitative study. The structural dimension of organizational hybridization can be operationalized as the creation of specialist units to handle newly salient logics, such as positions and offices for corporate social responsibility, or technology transfer offices at universities. The cognitive dimension, in contrast, can be traced through interviews or analysis of secondary data such as annual reports, CEO letters to shareholders, or strategy statements. The choice of hybridization strategies may help to explain outcomes such as organizational survival, growth, resource acquisition, or, in the case of firms, profitability.

Conclusion

In this article, we have developed the concepts of organizational settlement and organizational hybridization to capture the process through which organizations expand from their institutional domains to address new stakeholder demands or secure new resources (Durand &

Jourdan, 2012). We encourage researchers to more fully consider the relationship between institutional complexity and organizational change (Greenwood et al., 2011). Organizational hybridization can be a source of advantage for organizations that abandon existing field-level settlements and move early to embrace a previously unfamiliar institutional logic that is relevant for its stakeholders. The examples of universities embracing science-based entrepreneurship and manufacturing companies embracing environmentalism show that any organization may embrace hybridization as a source of innovation.

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Note

1. We use the concept of “institutional complexity” but acknowledge the almost synonymous notion of “institutional pluralism” (Kraatz & Block, 2008). Institutional complexity denotes an organization’s exposure to plural logics that produce competing demands on the organization (Greenwood, Kodeih, Micelotta, Raynard, & Lounsbury, 2011).

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