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When Worlds Collide:  
The Internal Dynamics of  
Organizational Responses to  
Conflicting Institutional Demands

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**When Worlds Collide:**  
**The Internal Dynamics of Organizational Responses to Conflicting Institutional**  
**Demands**

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ABSTRACT

Institutional theory suggests that organizations are strongly influenced by the pressures for compliance exerted by their institutional referents. Yet, organizations are increasingly subject to conflicting demands imposed by their institutional environment which makes full compliance impossible to achieve because satisfying some demands will require ignoring or rejecting others. Although prior work suggests that organizations develop strategic responses in such situations of conflicting institutional demands, this work lacks predictive power since it ignores the internal dynamics of organizational responses. Our paper addresses this gap by proposing a model of organizational responses to conflicting institutional demands that takes into account intra-organizational political processes. Our key contribution is to explore the conflict dimension of institutional pressures and provide a more precise model of organizational responses, including the identification of situations in which conflicting institutional demands may lead to organizational paralysis or breakup.

**Keywords:** Institutions; Agency; Conflicting demands

## **When Worlds Collide:**

### **The Internal Dynamics of Organizational Responses to Conflicting Institutional Demands**

*“Since the micro finance institution Compartamos listed its shares for over \$1 billion in April 2007, it has stirred up an increasingly fierce debate. To Mr. Yunus and its other critics, the Mexican bank is no better than an old-fashioned loan shark, earning its huge profits by charging poor borrowers a usurious interest rate of at least 79% a year. Perhaps sensing opinion turning against it, the bank has belatedly sprung to its own defense, issuing a defiant justification of its business in an 11-page “letter to our peers”. And it manages to make a convincing case for its strategy of fighting poverty with profits.” (The Economist, June 26th 2008)*

How does an organization respond when influential stakeholders hold contradicting views about its appropriate course of action? In the case of micro-credit, key institutional constituents disagree about whether or not making profits is a legitimate goal for a micro-finance institution. Some microfinance experts, mostly originating from the finance and economics fields, view the generation of large profits as desirable because this will attract more investment in micro-credit, increase competition and, in turn, lead to a decrease in interest rates, fueling a dynamic cycle that can improve the quantity and quality of services provided to poor borrowers. Other microfinance experts originating from the social sector, including the influential founding father of the field of micro-finance Muhammad Yunus, argue that the generation of substantial profits at the expense of poor people is morally wrong, hence illegitimate for organizations with a social purpose. As the Mexican microfinance

institution Banco Compartamos adopted the first view and decided to go for an IPO, their legitimacy in the field of micro-finance was overtly challenged. Although silent at first about this challenge, Compartamos leaders felt the need to take deliberate action to explain their choices, hoping to convince external observers of their appropriateness and thus reclaim the organization's contested legitimacy. This case is an illustration of how organizations are faced with and try to respond to conflicting pressures from their institutional environments. Interestingly, while institutional scholars acknowledge that organizations are often exposed to multiple and sometimes conflicting institutional demands (Djelic & Quack, 2004; Friedland & Alford, 1991; Kraatz & Block, 2008; Meyer & Rowan, 1977), existing research makes no systematic predictions about the way in which organizations respond to such conflict in institutional prescriptions. The goal of this paper is to address this gap.

Organizations scholars have long recognized that organizations are embedded in social environments that influence their behaviors. Institutional theory, in particular, offers a rich and coherent account of how organizations comply with regulative, normative and cognitive environmental elements in an attempt to secure legitimacy and support (DiMaggio & Powell, 1983). It suggests that organizations addressing multiple and competing demands face a dilemma: satisfying one demand may require violating others (Pfeffer & Salancik, 1978), thus potentially jeopardizing organizational legitimacy.

Recent theoretical developments in institutional theory suggest that the availability of competing institutional models of action creates latitude for organizations to exercise some level of strategic choice (Clemens & Cook, 1999; Dorado, 2005; Friedland et al., 1991; Seo & Creed, 2002; Whittington, 1992). Building on this argument, a few models attempt to identify organizational response strategies to multiple and conflicting institutional demands. Kraatz and Block (2008) describe four adaptation strategies to what they refer to as "institutional pluralism". They propose that organizations may attempt to eliminate the sources of

conflicting institutional demands, compartmentalize them and deal with them independently, rein over them through active attempts at balancing them, or forge a new institutional order. Yet, the antecedents of these strategies are not discussed in their model. The implications of multiplicity of demands are also addressed in Oliver's (1991) model of strategic responses to institutional demands, which integrates institutional theory and resource dependence arguments. Although Oliver's model proposes a useful typology of responses to institutional demands in general, it lacks predictive power when discussing responses to conflicting demands in particular. It merely suggests that organizations find it difficult to acquiesce to what is expected from them and are thus highly likely to resort to more resistant strategies such as compromise, avoidance, defiance or manipulation. Thus, although current models recognize that compliance to conflicting institutional demands is problematic and point to alternative response strategies, they remain silent about the conditions under which different response strategies are likely to be mobilized. This can be explained by the fact that these models treat organizations as unitary actors developing strategic responses to outside pressures and largely ignore the role of intra-organizational dynamics in filtering and resolving conflict in institutional demands (Greenwood & Hinings, 1996).

In summary, we lack a framework that allows us to understand more systematically the influence of conflicting institutional pressures on organizational processes and behaviors (Kraatz et al., 2008; Lounsbury, 2007). We intend to fill this gap by addressing the following research question: *How do organizations experience and respond to conflicting institutional demands?* With its focus on organizational agency and choice, this research endeavor requires understanding the details of micro-level action (Hirsch & Lounsbury, 1997), i.e. to understand how actors within organizations experience, assess and manage competing institutional expectations. To do so, we move beyond the view, dominant in neo-institutional studies, of organizations as unitary and tightly integrated entities taking univocal decisions (Kim, Shin,

Oh, & Jeong, 2007; Selznick, 1996), and explore the role played by intra-organizational processes in organizational decision-making. The exploration of intra-organizational dynamics allows us to go beyond Oliver's (1991) broad prediction of increased organizational resistance to multiple conflicting demands and to identify, with more precision, the conditions under which specific response strategies are used.

Our paper begins by identifying the contexts in which conflicting institutional demands are likely to arise and be imposed on organizations. We then explore the way in which conflicting institutional demands are experienced by organizations. We next develop a model that predicts organizational responses to such conflicting demands as a function of the nature of the conflict and the intra-organizational representation of that conflict. The proposed model predicts non-linear responses in terms of level of resistance and identifies situations in which the institutional conflicts may lead to extreme organizational outcomes, such as breakup or organizational paralysis. We conclude by discussing the contributions and limitations of the proposed model and suggesting directions for future research.

## **THE ORIGINS OF CONFLICTING INSTITUTIONAL DEMANDS**

Institutional theory argues that institutional environments provide meaning and stability to social behavior, shaping and constraining organizational actions. Institutional influences are exerted on organizations through rules and regulations, normative prescriptions and social expectations (Scott, 2001). They are also carried over through "institutional logics" (Thornton, 2004; Thornton & Ocasio, 2008) which are broader cultural templates that provide organizational actors with means-ends designations as well as organizing principles (Friedland & Alford, 1991). In this paper, we use the term "institutional demands" to refer to these various pressures for conformity exerted by institutional referents on organizations in a given field. "Conflicting institutional demands" then refers to antagonisms in the

organizational arrangements required by institutional referents. Organizations facing conflicting institutional demands operate within multiple institutional spheres and are subject to multiple and contradictory regulatory regimes, normative orders and/or cultural logics (Kraatz et al., 2008).

The phenomenon of conflicting institutional demands and its impact on organizations is attracting increasing attention from institutional scholars (D'Aunno, Succi, & Alexander, 2000; Marquis & Lounsbury, 2007; Purdy & Gray, 2009; Rao, Monin, & Durand, 2003; Thornton, 2002; Zilber, 2002). Yet the study of specific organizational responses to conflicting institutional demands has been neglected. A few empirical studies have identified idiosyncratic organizational responses to conflicting institutional pressures for conformity (Alexander, 1996a, 1996b; D'Aunno, Sutton, & Price, 1991; Elsbach & Sutton, 1992; Reay & Hinings, 2009) without proposing a more general framework. Although two theoretical models (Kraatz et al., 2008; Oliver, 1991) have outlined generic response strategies to conflicting demands, they do not explore the conditions under which specific responses are mobilized. Overall, despite significant progress, we still lack a systematic examination of how conflicting institutional demands are imposed on organizations, as well as how organizations respond to them.

Understanding how organizations respond to conflicting demands requires first understanding when such conflict is likely to arise in a field and how it is imposed on organizations. Organizational fields (DiMaggio et al., 1983) are the level at which environmental processes operate to shape organizational behaviors. They vary in the configuration of their wider structures and legitimating rules (DiMaggio et al., 1983; Meyer et al., 1977) as well as in the complexity of their resource and power arrangements (Pfeffer et al., 1978). As a result, they also vary in the nature of the demands that they exert on organizations and in the way they impose and monitor these demands.

Building upon the work of Scott and Meyer (1991), we propose that conflicting institutional demands are particularly likely to emerge in fragmented fields. Fragmentation refers to the number of uncoordinated organizations or social actors upon which field members depend (Meyer, Scott, & Strang, 1987). In a highly fragmented field, such as the educational sector in the US (Scott et al., 1991), organizations rely on and are responsive to multiple and uncoordinated constituents. This differentiates them from unified fields – such as the Military field in most democratic countries – where organizations depend upon a few coordinated decision makers. The coexistence of multiple uncoordinated actors and their respective logics about what constitutes effective (Whetten, 1978) or legitimate (Deephouse, 1996; Ruef & Scott, 1998) behavior increases the likelihood that institutional expectations may compete.

We further propose that once conflicting demands emerge in fragmented fields, the likelihood that they will actually be imposed on organizations is a function of the ability of these competing institutional referents to enforce their demands. This is in itself a function of the degree of the field's centralization (Scott et al., 1991). Centralization is a characterization of a field's power structure and accounts for the presence of dominant actors at the field level that support and enforce prevailing logics. Such powerful actors include regulatory authorities (Holm, 1995) that coerce organizations to behave in a certain way through their legal power, major funders (Ruef et al., 1998) that exercise their dominance through resource dependence relationships, or educational and professional organizations (Greenwood, Suddaby, & Hinings, 2002) that influence behaviors through normative socialization and accreditation processes.

Highly centralized fields typically rely on one principal constituent, whose authority in the field is both formalized and recognized (Meyer et al., 1987). Such central actors have the legitimacy and authority to arbitrate and resolve potential disagreement between disparate

players and in turn impose relatively coherent demands on organizations. In contrast, decentralized fields are poorly formalized and characterized by the absence of dominant actors with ability to constrain organizations' behaviors. In such decentralized fields, institutional pressures are rather weak and, in case they are incompatible, they can be easily ignored or challenged by organizations since the referents exerting them have little ability to monitor and enforce them. The most complex fields for organizations to navigate are *moderately centralized* fields which are characterized by the competing influence of multiple and misaligned players whose influence is not dominant, yet is potent enough to be imposed on organizations.

In summary, we argue that a structure that is particularly likely to impose conflicting institutional demands on organizations is one where a highly fragmented field is moderately centralized. In such fields, competing demands can be expected to emerge due to the multiplicity of institutional referents inherent in high levels of fragmentation. They are, in addition, likely to be imposed on organizations because of the existence of a few powerful referents that do not have enough power to clearly dominate the field on their own and resolve conflict, but nevertheless have enough power to constrain organizations to take their demands into account. We thus propose that:

*Proposition 1: Fragmented fields that are moderately centralized are more likely than other fields to impose conflicting institutional demands on organizations.*

Scott's (1983) study of healthcare organizations in the US illustrates this proposition. He highlights the fragmented character of the field, where organizations are expected to satisfy multiple and sometimes conflicting requirements from a wide variety of funding agencies, each in charge of specific programs. He also describes the field's dual authority structure – which thus qualifies as a moderately centralized field – with public authorities in charge of funding authority and healthcare professions in charge of programmatic authority.

While public authority control systems stress concentration of decision making and formalization of procedures, professional control systems have historically emphasized delegation of decision making and the construction of safeguards to support the autonomy of independent practitioners (Scott, 1983), thus leading to long-lasting irreconcilable demands. Reay and Hinings (2009) describe a similar dynamic in the healthcare field in Alberta, Canada.

Organizations that are embedded in fragmented and moderately centralized fields such as healthcare are thus likely to face enduring conflicting demands. This type of field structure happens to be quite prevalent and to occur in a wide range of sectors. These include biotechnology (Powell, 1999), microfinance (Battilana & Dorado, 2009), alternative dispute resolution (Purdy et al., 2009), museums (Alexander, 1996b), symphony orchestras (Glynn, 2000), mutual funds (Lounsbury, 2007), drug abuse treatment centers (D'Aunno et al., 1991), law firms (Cooper, Hinings, Greenwood, & Brown, 1996) and community banking (Marquis et al., 2007). In order to understand how organizations in these disparate fields respond to institutional conflicting demands, we now explore how they experience this conflict.

## **HOW ORGANIZATIONS EXPERIENCE CONFLICTING INSTITUTIONAL DEMANDS**

Conflicting institutional demands in a given field are not experienced in a similar way by all organizations since field level institutional processes are filtered and enacted differently by different organizations (Greenwood et al., 1996; Lounsbury, 2001). Institutional demands, which emanate from the organization's broader regulatory, social and cultural environments, permeate organizational boundaries through two central mechanisms. First, they can be conveyed by actors located outside of the organization that disseminate, promote and monitor them across the field. These external actors might be located in professional organizations, regulatory bodies or funding agencies. They exercise compliance pressures on organizations

by means of resource dependence relationships (DiMaggio et al., 1983; Oliver, 1991; Pfeffer et al., 1978). When organizations depend upon key institutional referents for resources, such as funds, staff or license to operate, they are likely to comply with what these stakeholders expect from them to secure access to these key resources. Second, institutional pressures also manifest themselves internally as a result of hiring and filtering practices (DiMaggio et al., 1983). Institutional demands are conveyed by staff members, executives, board members or volunteers that adhere to and promote practices, norms and values that they have been trained to follow or socialized into. Organizational members, by being part of social and occupational groups, enact, within organizations, broader institutional logics (Friedland et al., 1991; Thornton & Ocasio, 1999) that define what actors understand to be the appropriate goals as well as the appropriate means to achieve these goals (Scott, 2001).

An organization's experience with institutional demands has been argued to vary depending on the interpenetration of these external and internal pressures (Greenwood et al., 1996). For example, Fiss and Zajac (2004) in their study of the adoption of a shareholder value orientation among German firms show that firms' decisions to prioritize the creation of value for their shareholders (rather than for other stakeholders) is influenced by pressures from both powerful external shareholders and powerful internal executives. These two mechanisms interact since the hiring of organizational members espousing a given institutional logic can be a response to conformity pressures from external institutional constituents (D'Aunno et al., 1991; Lounsbury, 2001; Zilber, 2002). Thus, in order to understand variations in organizational responses to conflicting demands, we propose to explore how the institutional context interacts with intra-organizational dynamics. This requires moving away from a conception of organizations as unitary actors who are either passive recipients of (DiMaggio et al., 1983) or active resisters to (Oliver, 1991) external

constraints, to a view of organizations as pluralistic entities shaped by (and potentially shaping) the institutional pressures they are subject to (Barley & Tolbert, 1997).

In this vein, we conceptualize organizations as complex entities composed of various groups promoting different values, goals and interests (Greenwood et al., 1996). We argue that these groups play an important role in interpreting and enacting the institutional demands exerted on organizations (Delmas & Toffel, 2008), as well as in making decisions in the face of these institutional constraints (George, Chattopadhyay, Sitkin, & Barden, 2006). This view of organizations as filters of institutional demands echoes early conceptualizations of organizations in institutional theory (Selznick, 1949, , 1957), as well as more recent developments (George et al., 2006; Greenwood et al., 1996; Hirsch et al., 1997; Kim et al., 2007; Selznick, 1996; Seo et al., 2002), both of which suggest that intra-organizational processes are an important factor explaining differences in organizational responses to institutional pressures. This conceptualization allows us to understand that organizations, when facing similar conflicting demands, may experience them differently and, in turn, mobilize different responses.

Building upon this approach, we argue that an organization's response to conflicting institutional demands is a function of the *nature of these demands* and of the *degree to which demands are represented* within the organization. We contend that organizations may differ in their response strategies depending on what conflict is about and on the motivation of organizational groups to see one of the competing demands prevail. We propose to explore in a systematic fashion the interaction of these two factors - *nature of demands* and *internal representation* – on the mobilization of various response strategies.

### **Nature of demands**

The nature of demands is an important factor when studying organizational responses to conflicting demands because it allows us to predict the degree to which these demands are

negotiable. Conflicting institutional demands may differ with regard to the nature of their prescriptions (DiMaggio et al., 1983; Oliver, 1991). Specifically, they may influence organizations at the ideological level, prescribing which *goals* are legitimate to pursue, or they might exert pressures at the functional level, requiring organizations to adopt appropriate *means* or courses of action (DiMaggio et al., 1983; Oliver, 1991; Scott et al., 1991; Townley, 2002).

An instance of conflicting demands involving goals is illustrated by Purdy and Gray's (2009) study of U.S. state offices of dispute resolution. It highlights that these offices draw support from different institutional referents that disagree about whether their goal is mainly "democratic" or "bureaucratic": whereas public policy advocates view the purpose of these offices as improving policy decisions by involving disputants in the decision process, judicial advocates view it as enhancing the efficiency of the U.S. justice system by handling a large volume of routine cases. These two goals are conflicting to the extent that the realization of the "democratic" objective - requiring specific resources and processes to allow for the participation of disputants - undermines the realization of the "bureaucratic" objective of handling as many routine cases as efficiently as possible.

An illustration of institutional demands conflicting at the means level is provided by Westphal and Zajac's (2001) study of stock repurchase programs by US corporation at the end of the 80's. The authors show that two organizational constituencies (in this case, stock market analysts and management professionals) which hold convergent views about the profit generation goal of corporations, diverge in their perceptions of what control practices are most appropriate to achieve this goal. While stock market referents pressured public corporations to adopt stock repurchase plans in order to increase earnings per share and reduce managerial autonomy, management professionals perceived these pressures as

inappropriate since they were too restrictive to their managerial discretion of using cash reserves for investments or acquisitions that could increase future earnings.

Although presented here as discrete categories, goals and means sometimes overlap. Meyer and Rowan (1977) argued that programs and technologies, which are primarily means to achieve organizational goals, sometimes become myths: they become taken-for granted means-end designations imbued with a goal like status. For example, Zilber (2002) shows how the practice of speakers taking turns in gatherings at a rape crisis center in Israel became an embodiment of the center's feminist mission of fighting against domination and was thus promoted and defended by organizational members. When technical prescriptions are so institutionalized that they become ends in themselves for the constituencies implementing them, conflict around these prescriptions qualifies, in our model, as a conflict around goals.

In summary, the key distinction that we propose is between demands that involve conflict at the goals level (which may or may not involve conflict at the means level) from demands which are harmonized at the goals level yet lead to dispute about the means (functional strategies, processes) required to achieve these goals. Functional and process demands are material and peripheral and are thus potentially flexible and negotiable. In contrast, goals are expressions of the core system of values and references of organizational constituencies and are, as such, not easily challenged or negotiable. This distinction is likely to influence organizational responses.

### **Internal Representation**

When trying to understand how organizations respond to conflicting institutional demands, the dimension of internal representation allows exploring the internal dynamics at play and, in particular, the stakes involved in the conflict. Organizations differ in the extent to which competing institutional demands are internally represented, i.e. in the extent to which organizational members adhere to and promote a given demand (Kim et al., 2007). As

described earlier, such internal representation can be the outcome of hiring practices that, accidentally or purposefully, bring into the organization members (such as professional staff members, managers, board members or regular volunteers) who adhere to various normative and cognitive templates (D'Aunno et al., 1991; Lounsbury, 2001). Internal representation is also influenced by broader societal institutional logics that provide organizational members with cognitive templates that influence their perception of what objectives and practices are appropriate (Friedland et al., 1991; Thornton, 2002). Organizational members who have been socialized or trained into a specific institutional logic are likely to be committed to defending it in case it is challenged.

The extent of internal commitment to institutional demands matters for organizational responses, as highlighted by Greenwood and Hinings (1996) in their model of radical organizational change. They argue that organizations are likely to resist institutional demands when an alternative template is supported internally by at least one internal group. In a recent empirical study, Kim, Shin, Oh and Jeong (2007) show that the enactment of pressures for changes in the presidential selection system in Korean universities can be predicted by the absence or presence, within the organization, of groups committed to the promotion of the old selection system. To understand how organizations respond to conflicting institutional pressures it is thus important to consider the extent to which the different sides of the conflict are represented internally. We propose to distinguish situations in which internal representation is absent, from situations in which a single side of the conflict is internally represented, as well as from situations in which multiple sides (two at least) of the conflict are internally represented.

Conflicting institutional demands may be represented by external actors only, leaving internal constituencies relatively impartial to the dispute. While such absence of internal representation may not be frequent given the above-mentioned permeability of organizations

to institutional influences, it is nevertheless possible, especially in new organizations, or in organizations entering a new field where members might not yet have been exposed to and socialized into the pressures of the field. In such cases, organizational members exhibit “indifferent commitment” (Greenwood et al., 1996) to the institutional conflict.

In cases of single internal representation, one or all internal groups are overtly committed to one of the sides of the conflict and are likely to take action to promote and defend it. Alexander’s (1996b) study of American museums in the 20’s provides a good illustration of a case where a single conflicting demand is represented within the organization. She shows that external funders expressed demands on museums for popular and accessible exhibitions that conflicted with the view of powerful internal professionals, the curators, who favored scholarly and erudite exhibitions, leading to strategic and programmatic tensions.

In cases where multiple sides of the conflict are internally represented, different organizational groups exhibit “competitive commitment patterns” (Greenwood et al., 1996) that lead them to fight against each other to make the template that they favor prevail. Glynn’s (2000), study of the Atlanta Symphony Orchestra provides a vivid illustration of the tensions that arise from the promotion of competing ideologies by two key internal constituencies. Musicians, espousing the “artistic excellence” logic of their profession, sought to develop “a world-class orchestra in a world class city”. Managers, however, promoting the “economic utility” ideology they had been trained into, focused on building “the best orchestra (they could) afford” (p. 288). As a result of this competitive commitment, the two groups engaged in a passionate battle over what the orchestra’s core competencies were and how its resources should be allocated, with musicians emphasizing investment in artistry and managers emphasizing cost containment. A similar pattern is illustrated by Chen and O’Mahony’s study (2006) of volunteer production communities, which shows that the coexistence of two

competing logics championed by different organizational groups led to the emergence of internal tensions.

In summary, the dimensions of internal representation that we propose allow us to account for intra-organizational political processes that affect organizational responses to institutional pressures. In particular, we identify situations in which the conflict existing at the field level is internalized and enacted within organizations, generating particularly challenging situations.

Overall, we suggest that once conflict emerges and is not resolved at the field level, how organizations experience this conflict is influenced by the nature of demands and the internal representation of the conflict. The nature of demands influences the negotiability of the conflict and the level of internal representation influences the stakes involved in the response. These factors are summarized in Table 1.

**TABLE 1**  
**Key Factors Influencing the Experience of Conflicting Demands**

KEY FACTORS	DIMENSIONS	INFLUENCE ON CONFLICT EXPERIENCE
<b>Nature of demands</b>	<ul style="list-style-type: none"> <li>• Conflict over means only (not involving goals)</li> <li>• Conflict over goals</li> </ul>	⇒ Negotiability of conflict
<b>Internal Representation</b>	<ul style="list-style-type: none"> <li>• Absence of internal representation of conflicting demand(s)</li> <li>• Single internal representation of conflicting demands: one (1) side represented only</li> <li>• Multiple internal representation of conflicting demands: two (2) sides (or more) represented</li> </ul>	⇒ Stakes involved in the response

We now explore how these factors shape organizational responses to conflicting institutional demands.

## **HOW ORGANIZATIONS RESPOND TO CONFLICTING INSTITUTIONAL DEMANDS**

What do organizations do when faced with powerful competing institutional demands? Recent developments in institutional theory recognize that exposure to conflict in institutional prescriptions requires from organizations the exercise of some level of strategic choice (Clemens et al., 1999; Dorado, 2005; Friedland et al., 1991; Sewell, 1992; Whittington, 1992). This body of work acknowledges that the existence of antagonistic demands challenges the taken-for-granted character of institutional arrangements, makes organizational members aware of alternative courses of action and requires from them making decisions as to what demand to prioritize, satisfy, alter or neglect in order to secure support and ensure survival. In such situations, choice is not only an option, it becomes a necessity because more than one course of action is considered appropriate (Whittington, 1992).

This process is described in detail by Seo and Creed (2002) who, building on the work of Benson (1977), identify institutional contradictions as the key driver of purposeful action (referred to as “praxis”) within an institutional context. They propose that the inherent contradictions of social structures provide a continuous source of tensions and conflicts within and across institutions, which reshapes the consciousness of organizational actors and motivates them to take action to alleviate the tensions. They also point to misaligned interests as an important determinant of praxis, recognizing that the degree to which actors are dissatisfied with a given institutional demand is positively related to the emergence of agency within an institutional context. We build upon these views to develop our model of organizational responses to conflicting institutional demands.

## **A repertoire of responses to conflicting institutional demands**

What repertoire of responses can organizations choose from when facing conflicting institutional demands? In a model of strategic responses to institutional processes, Oliver (1991) proposes a detailed typology of strategies available to organizations as they face institutional pressures: acquiescence, compromise, avoidance, defiance and manipulation (sorted here in increasing order of resistance to the demands). Considering that *conflicting* institutional pressures are a special case of institutional pressures, we propose to rely upon Oliver's exhaustive typology to explore in more detail the specific responses mobilized by organizations as they face the challenge of dealing with conflicting institutional demands.

**Acquiescence** refers to the adoption, by organizations, of arrangements required by external institutional constituents. The most passive response strategy, acquiescence can take three different forms: it can result from *habit* (i.e. the unconscious adherence to taken-for-granted norms), from the conscious or unconscious *imitation* of institutional models or the voluntary *compliance* to institutional requirements (Oliver, 1991). **Compromise** refers to the attempt by organizations to achieve partial conformity with all institutional expectations, either through the mild alteration of the demands, through the mild alteration of the responses or through a combination of the two. When using compromise, organizations aim at satisfying at least partially all demands. They might try to *balance* competing expectations through the negotiation of a compromise; they might conform only to the minimal institutional requirements and devote resources and energy to *pacify* the resisted constituents, or they might attempt to actively *bargain* alterations of the demands with institutional referents (Alexander, 1996a; Oliver, 1991). **Avoidance** refers to the attempt by organizations to preclude the necessity to conform to institutional pressures or to circumvent the conditions that make this conformity necessary. Avoidance tactics include *concealing* non-conformity behind a façade of acquiescence through pure symbolic compliance, *buffering* institutional

processes by decoupling its technical activities from external contact, or *escaping* institutional influence by exiting the domain within which the pressure is exerted (Alexander, 1996a; Oliver, 1991). A more aggressive strategy, **defiance** refers to the explicit rejection of at least one of the institutional demands in an attempt to actively remove the source of contradiction. Defiance can be exercised through *dismissing* or ignoring institutional prescriptions, overtly *challenging* or contesting the norms imposed, or directly *attacking* or denouncing them (Oliver, 1991). Finally, **manipulation** refers to the active attempt to alter the content of institutional requirements and to influence their promoters. Oliver (1991) points to three specific manipulation tactics: organizations may attempt to *co-opt* the sources of the institutional pressures to neutralize institutional divergences, to *influence* the definition of norms through active lobbying or, more radically, to *control* the source of pressure. Table 2 summarizes this detailed typology of response strategies.

**TABLE 2****Available Response Strategies to Institutional Demands***Source: Oliver (1991)*

<b>STRATEGIES</b>	<b>TACTICS</b>	<b>DEFINITION</b>
<b>Acquiescence</b>	Habit, Imitate, Comply	Adoption of demands
<b>Compromise</b>	Balance, Pacify, Bargain	Attempt to achieve partial conformity in order to accommodate at least partly all institutional demands
<b>Avoidance</b>	Conceal, Buffer, Escape	Attempt at precluding the necessity to conform to institutional demands
<b>Defiance</b>	Dismiss, Challenge, Attack	Explicit rejection of at least one of the institutional demands
<b>Manipulation</b>	Co-opt, Influence, Control	Active attempt to alter the content of the institutional demands

**A model of organizational response strategies to conflicting institutional demands**

Organizations have been shown to mobilize different strategies in the face of multiple institutional pressures for compliance (Dacin, Goodstein, & Scott, 2002; Kim et al., 2007; Lounsbury, 2001; Lounsbury, 2007). Organizations are predicted to acquiesce more readily to demands exerted by powerful institutional referents upon which they depend for legitimacy or resources (DiMaggio et al., 1983; Oliver, 1991; Pfeffer et al., 1978). This base prediction, however, is inadequate when exploring the issue of responses to conflicting institutional

demands. First, in conflict situations, plain compliance is problematic since complying with one demand requires defying the competing other(s). Second, organizations often face competing demands that emanate from moderately centralized fields, where institutional constituents hold roughly similar levels of power (by way of the equivalent dependence relationship that organizations have developed with them). This makes the argument about power differentials ineffective as a predictor of organizational responses.

Our argument builds upon and extends Oliver's (1991) model which addresses multiple conflicting institutional demands as one out of ten antecedents to strategic responses. Oliver predicts that organizations facing a multiplicity of conflicting pressures are unlikely to simply acquiesce and, rather, are likely to resort to compromise, avoidance, defiance or manipulation. The predictive power of her model is thus quite low when it comes to specifying responses to conflicting demands, because it is unable to distinguish between alternative resistance strategies. In our model, we rely on Oliver's base prediction to rule out full acquiescence as a likely response to conflicting institutional demands, yet we expand her model by identifying determinants of the use of various resistant strategies.

The core of our argument is that the nature of the institutional conflict (means versus goals) interacts with the degree of internal representation (absence, single or multiple) to shape the experience of conflicting demands and influence the strategies mobilized by organizations in response. We now explore in a systematic fashion how they do so. We start by discussing expected responses to institutional conflicts over organizational means and then move to discussing the more challenging situations of institutional conflicts over organizational goals. To predict responses, we analyze how costly (in terms of the mobilization of resources that it requires) as well as how risky (in terms of potential loss of legitimacy) a response strategy might be in a given situation. This analysis is made from the point of view of intra-organizational groups and takes into account their level of attachment to

the competing demands. We also evaluate the likelihood of success of the predicted responses, as well as potential unintended consequences for the organization.

**Conflicts over means only.** First we focus on conflicting institutional demands that agree on the goals that the organization should pursue yet disagree on which means should be put in place to achieve these goals. We propose that such instances of conflicting institutional demands are only mildly challenging for organizations. Their focus on technical issues makes the demands involved relatively peripheral for organizations. Such conflict may not necessarily be worth the cost of an institutional battle. Moreover, the demands' content is potentially flexible and negotiable. The peripheral and negotiable character of these competing demands increases the likelihood of achieving a compromise between them.

In the absence of internal representation of the demands, the impulse to actively resist or challenge institutional pressures will be relatively low. We predict that under such conditions, organizations are likely to resort to compromise or avoidance. These two strategies share the commonality of partially satisfying (truthfully or symbolically) institutional demands. As a result, they involve only a moderate level of risk for organizations of losing institutional support. Compromise allows organizations to find an acceptable middle-ground between alternative practices and thus to please – at least partially – institutional referents. When compromise is challenging to achieve (when, for instance, demands are fully incompatible over the long run), avoidance, as an attempt at reducing the amount of tension experienced, appears as a viable strategy. For example, public schools, which are under permanent pressure from the state to operate within the limits of an allocated budget while being pressured by parents to increase the resources invested in mentoring and development opportunities for their students, are likely to engage in compromise strategies: they may bargain with budgeting authorities to negotiate additional monies to satisfy parents' requests for more mentoring, or mobilize volunteer resources to do so without stepping out of

their budgetary constraints. Alternatively, they may try to avoid parents' pressures (the state budgeting constraint being more difficult to avoid) by limiting the extent of parents' scrutiny and their participation in the school's programming. And while parents' organizations may have an interest in directly attacking and challenging public school funding policies, it is unlikely that the schools themselves will engage in such a battle.

Defiance and manipulation, in contrast, involve the mobilization of political capital and the overt contestation of institutional demands. They are, as a result, more costly, as well as more risky for organizations which may lose institutional support in the process. In a context where conflict deals with peripheral issues and members are relatively impartial to the dispute, we believe that these strategies are less likely to be used. We therefore propose that:

*Proposition 2: When facing conflicting demands focusing on means and in the absence of internal representation of these demands, organizations are more likely to resort to compromise and avoidance than to other response strategies.*

When one side of the demands is internally represented, the intra-organizational dynamic changes since the presence of internal champions for one set of demands enhances internal commitment to conflict resolution in favor of the demand internally promoted. Although compromise would be a feasible strategy to secure legitimacy at a relatively low cost, it is not likely to be adopted since it would go against the interests of internal groups. We propose that, in such situations, avoidance is a more likely strategy. In fact, avoidance tactics such as symbolic compliance or decoupling have been shown to be particularly resorted to under such circumstances (Elsbach et al., 1992; Meyer et al., 1977) since they allow organizations to fake conformity while maintaining discretion over actual practices. Westphal and Zajac (1994) for instance show that in a context where external market analysts' preference for CEO long term incentive plans clashed with the managerial logic of low-risk compensation contracts, powerful CEOs – i.e. the supporters of the managerial logic –

influenced their organizations to symbolically adopt long term incentive plans while not actually implementing them.

In addition, organizations may be likely to mobilize defiance strategies since members may be willing to go a step further in protecting their own interests, going as far as to defy some of the contested prescriptions. Alexander's study of American museums (1996b) precisely points to this dynamic. She shows that to respond to conflict between funders' and curators' views of what types of museum exhibitions were appropriate, curators were able to devise strategies that allowed them to enforce their own conceptions. To symbolically respond to funders' pressures, curators favored more popular formats while keeping intact the scholarly content of their exhibitions, which they considered as too important to be altered. Yet, in an act of defiance to their institutional funders' pressures, they also voiced their perception that "corporations and government have distorted the types of shows that museums put on", and their belief that corporations, in particular, "constrain and flaw exhibitions" (p. 829).

Finally, we argue that organizations facing such a type of conflict are not likely to resort to manipulation strategies: the high cost of this strategy makes it relatively unattractive in a context where demands are only peripheral. We thus propose that:

*Proposition 3: When facing conflicting demands focusing on means where one side of the demands is internally represented, organizations are more likely to resort to avoidance and defiance than to other response strategies.*

When two sides of the conflict are internally represented, response strategies may differ in important ways. This may occur, for example, in organizations where unions are strongly represented and promote practices that contradict the practices promoted by management. It may also occur when two different professions coexist and fight for dominance within an organization. This is the case in multidisciplinary partnerships, where

consultants and auditors (Greenwood et al., 1996) or lawyers and accountants (Suddaby & Greenwood, 2005) hold different values and different views about the appropriate way of organizing work. Situations where two sides of the conflict are internally represented may also result from the use of cooptation strategies in earlier attempts to address conflicting demands by, for example, bringing opposing stakeholders on to the board of organizations (Selznick, 1949).

The internal representation of at least two parties of the conflict has an important influence on organizational responses by making avoidance and defiance less likely strategies. The presence of both parties within the organization will make it hard to adopt avoidance responses since each party will have the ability to scrutinize the other's behavior and contest any inappropriate conduct. In addition, the impulse to defy the contested practices will also be low, even in the presence of power differentials. Dominant groups are likely to hold enough power to make their views prevail without needing to waste resources in dismissing, challenging or attacking the alternative template. Less powerful groups may not be motivated to defy the contested practices. Such behavior is likely to be useless given the power differential between groups and costly since it may lead to an internal escalation of conflict. Internal groups may not be willing to pay such a high price for a low-stakes conflict focusing on means.

With avoidance and defiance less likely responses, the actual response to conflicting institutional demands is likely to be determined by the differential power of the internal groups promoting the demands (Fligstein, 1991; Greenwood et al., 1996; Kim et al., 2007). If the different groups are equally powerful (i.e. if they have an equivalent ability to influence the organization's course of action), this balanced power structure will enhance their capacity to discuss and negotiate a solution acceptable to each group and augment the ability of each party to monitor the other's behavior. We propose that in such cases, the impulse to find a

compromise will be high, particularly when facing a conflict on negotiable issues, such as means, practices or procedures. In contrast, when one group involved in the conflict is much more powerful than the other(s), that group is likely to use this power to ensure the imposition of its preferred template. If the other party is not willing to concede, the powerful party has the ability to impose its views through more radical manipulation strategies: co-optation, influence and control are indeed viable tactics when one is in a dominant position. Overall, we propose that:

*Proposition 4: When facing conflicting demands focusing on means where at least two sides of the demands are internally represented, organizations are more likely to resort to compromise strategies when internal power is balanced and to manipulation strategies when internal power is unbalanced.*

Montgomery and Oliver's (1996) study of hospital responses to the AIDS epidemic provides empirical support for this prediction. The study shows that physicians and patients, two key internal constituencies of hospitals who agree on the overall purpose of the medical interventions, held contradictory expectations about the appropriate report policies that hospitals should implement. On one hand, the belief system associated with patients – the primacy of individual rights – required that patients' privacy be respected. On the other hand, doctors' belief system – the primacy of professional prerogatives – required that physicians be informed of their patients' condition in order to do their work properly. Recognizing that doctors are more powerful than patients in hospitals, the study shows that doctors are able to manipulate the definition of norms in such a way that hospitals adopt policies that favor their belief system (such as treating patients who refuse testing as if they are HIV positive). Interestingly, the study also points to the fact that in hospitals with a higher presence of HIV patients – i.e. in hospitals where the power dynamic between patients and doctors is more balanced – policies that favor the interests of individual patients (such as never placing HIV

test results in patients charts) are more likely to be used, indicating that in such cases, a form of compromise was reached, allowing the interests of both groups to be taken into account.

**Conflicts over goals.** We now turn to conflicting demands that involve disagreement about the goals that the organization should pursue. By nature, these conflicts are more challenging for organizational members because they threaten their core understanding of what the organization is about. We argue that, independently of how demands are internally represented, it will be difficult to achieve compromise on conflicting goals since these are not easily negotiable. Striking a balance on incompatible goals, accommodating them or bargaining with institutional referents to obtain concessions on the imposed goals are challenging strategies since they require that organizational members overtly recognize the incompatibility of the demands on goals, which may in turn jeopardize the institutional support. We therefore propose that organizations facing such conflict are not likely to resort to compromise as a response strategy.

Furthermore, in the absence of internal representation of the demands, organizational members are victims of rather than participants in this dispute about organizational goals. Such situations are frequent for organizations that rely on a variety of external funding sources to survive, as different funders might hold distinct views of what the organization is about and what it stands for. Humanitarian NGOs, for example, are subject to competing pressures from individual donors who request a focus on humanitarian crises publicized by the media and from institutional funders (United Nations, World Bank, etc.) who pressure the NGOs to focus on more long term and potentially less emotional humanitarian issues. Organizational members are then caught between these competing external demands.

We argue that in the face of such conflict, organizations are likely to resort to avoidance and defiance strategies. Avoidance may indeed be viable in such situations as the mildest way to resist institutional demands without jeopardizing legitimacy. By loosening

institutional inspection or by disguising non conformity, avoidance allows relatively neutral organizational members to escape institutional conflict at a relatively low cost. For example, some humanitarian NGOs develop fundraising campaigns for unrestricted funds, in an attempt to detach the scrutiny of individual donors from the NGO interventions.

Organizations may also resort to defiance strategies when the tensions experienced by organizational leaders are too high to be treated by avoidance. Although not partakers to the debate, organizational leaders may suffer enough from the challenging conflict situation to take action to address the conflict. In such cases, defiance, or the explicit contestation of at least one demand, may be a viable strategy. The international humanitarian NGO Doctors Without Borders, recipient of the Nobel Peace Prize in 1999, was made famous for its TV announcement, three weeks after the tsunami that hit south east Asia in December 2004, that it would refuse any new funds restricted to post-tsunami relief because it had received enough funds to cover the costs of its intervention. In doing so, the organization altogether challenged and dismissed individual donors' pressures to do more in the region.

Manipulation, with its associated tactics of co-optation, influence and control, requires the mobilization of human and political capital and is therefore unlikely to happen. Such an attempt to rally institutional constituents to their cause is implausible when organizational members are not particularly committed to a specific demand. Overall, we propose that:

*Proposition 5: When facing conflicting demands focusing on goals and in the absence of internal representation of the demands, organizations are more likely to resort to avoidance and defiance than to other response strategies.*

When one side of the competing demands is internally championed, conflicting demands focusing on goals generate a different response pattern. Not only does conflict involve disagreement at the substantive level about the essence of the organization, but it is also relayed internally by organizational actors that have stakes in the dispute. We propose

that, in such situations, organizations are likely to resort to avoidance strategies since the internal champions of a demand will find it easy and comfortable to circumvent the pressures for compliance with which they disagree. However, avoidance may not be viable over the long term, since a public divergence on the organizational goals may ultimately affect the organization's legitimacy. More proactive strategies, such as defiance and manipulation may thus be mobilized. The organizational members mobilized to promote central issues related to the organizational goals may be willing to go as far as rejecting the contradicting demands and manipulating external stakeholders' views, through co-optation, influence or controlling tactics, in order to make their own views prevail. We therefore propose that:

*Proposition 6: When facing conflicting demands focusing on goals and where only one side of the demands is internally represented, organizations are more likely to resort to avoidance, defiance and manipulation than to other response strategies.*

The Compartamos example cited in the introduction, which described a conflict about whether or not profit generation and redistribution was an appropriate goal for a micro-finance organization, provides an illustration of such a situation. Although the conflict involved external actors (experts from the micro finance community originating from the finance sector or from the social sector), important internal stakeholders of the organization (shareholders and management) clearly had a stake in the debate: they had themselves pushed hard for profits to become the driver of Compartamos growth engine, aligning themselves with a "finance logic". Under the leadership of these key stakeholders, Compartamos, after a period of avoidance that lasted about a year, not only defied but also attempted to manipulate its constituencies by publishing a "letter to our peers", hoping to influence them to change their values and beliefs about what is an appropriate goal for a micro-finance bank.

The final configuration of our model is the internal representation of both sides of a goal-based conflict. This situation changes the intra-organizational dynamics in important

ways. Such types of conflict are troublesome for organizations since they potentially challenge their very essence and do so in a way where different internal groups are mobilized to fight against each other's views and motives. We propose that, in such situations, independently of power differentials, moderate strategies such as compromise or avoidance are not viable since compromising on goals is difficult and avoidance is hard to achieve given the scrutiny of the opposing party. Yet, power differentials between groups promoting conflicting demands are likely to dramatically influence response strategies since they condition the ability of the groups involved to shape the outcome of the internal decision making process.

In cases where one of the internal groups involved in the conflict clearly dominates, this power imbalance reduces the need to destabilize the opposing groups through dismissal, challenge or attack, thus making defiance an unlikely strategy. The dominant group's chances to succeed at manipulation will be high since power imbalance will allow it to co-opt, influence or control less powerful groups to impose its views and goals. The use of manipulation strategies is thus highly likely in such situations.

However, in situations where the two internal champions of conflicting institutional demands are equally powerful, we propose that the high stakes involved in a conflict around goals, combined with the competitive commitment of internal groups, is likely to lead to strong internal tensions: competing groups are likely to resort to proactive resistant strategies to reject the contested demands and destabilize the other group with the hope of achieving domination. Ultimately, one group might end up winning the ideological battle and take control over the other through the mobilization, at the organizational level, of manipulation strategies. Yet, if no clear winner emerges, dramatic outcomes may occur at the organizational level: organizations may experience escalations of conflict leading to

organizational paralysis (such as long-term strikes) or even more permanent organizational breakups (such as demergers, spin offs or organizational deaths). Overall, we propose that:

*Proposition 7: When facing conflicting demands focusing on goals where at least two sides of the demands are internally represented, organizations are more likely to resort to manipulation than to other response strategies. Yet, the more balanced the internal power structure, the more likely that manipulation will fail, leading to organizational paralysis or breakup.*

The aforementioned study of Atlanta's Symphony Orchestra (Glynn, 2000) provides support for this proposition by describing an instance of organizational paralysis under conditions of conflict over goals and of internal representation by two equally powerful groups. Musicians, embodying the "artistic excellence" logic of their profession, were in strong disagreement with the utilitarian ideology of the managers of the orchestra, which subdued aesthetic objectives to financial constraints. These internal tensions were accentuated by a decision taken by managers not to tenure musicians due to lack of finance despite their having satisfied standards of musical quality. Since no party had the ability to control or influence the other, tensions climaxed in a ten weeks strike in 1996 during which musicians fought not only to improve their contractual conditions, but more broadly, "for the future of the orchestra" (p. 290).

An illustration of organizational breakup is provided by the humanitarian NGO Doctors Without Borders, which went through a crisis 10 years after its creation (Vallaey, 2004). In the 80's, as the field of humanitarian intervention was taking shape, two main ideologies emerged about the appropriate role of NGOs (Brauman, 2002). Under the "legitivist" approach, national states were perceived as the only legitimate interveners in humanitarian crises, while NGOs were conceived mainly as denounciators of breaches in humanitarian law and advocates of the victims of humanitarian disasters. Under the "independentist" approach, humanitarian NGOs were viewed as the most legitimate actors to

take impartial action in often politically charged situations, thus requiring NGOs to equip themselves with the logistical means to take part in humanitarian rescues. Both these ideologies had, at the time of founding, powerful advocates within Doctors Without Borders' leadership. As Kouchner, Chair of the Board and a vocal advocate of the "legitivist" approach, covertly organized a symbolic yet highly publicized intervention to rescue Vietnamese refugees in the sea of China (in an attempt to attract media attention about the issue and control the organization's agenda), independentist members felt manipulated and subsequently overthrew him as Chair of the Board. As a result of this internal crisis, Kouchner and the other legitimists left Doctors without Borders to create a new organization, Médecins du Monde (Doctors of the World) which also became an important player in the humanitarian field.

The full model summarizing the expected organizational responses to different types of institutional conflict is outlined in table 3.

**TABLE 3**

**A model of responses to conflicting institutional demands**

<b>DIMENSIONS OF CONFLICT</b>		<b>PREFERRED RESPONSE STRATEGIES</b>			
<b>Nature</b>	<b>Representation</b>	<b>Compromise</b>	<b>Avoidance</b>	<b>Defiance</b>	<b>Manipulation</b>
Means	Absence	<b>High</b>	<b>High</b>	Low	Low
Means	Single	Low	<b>High</b>	<b>High</b>	Low
Means	Multiple	<b>High</b> (balanced power)	Low	Low	<b>High</b> (unbalanced power)
Goals	Absence	Low	<b>High</b>	<b>High</b>	Low
Goals	Single	Low	<b>High</b>	<b>High</b>	<b>High</b>
Goals	Multiple	Low	Low	Low	<b>High*</b>

*\* The more balanced the power structure the higher the likelihood of organizational paralysis or breakup*

In summary, we propose that different types of institutional conflicts challenge organizations in different ways, leading in turn to specific response strategies. More precisely, we expect organizations to resort to more resistant strategies when facing conflicting institutional demands related to goals than when facing conflict related to means. Yet, our model also allows organizations to respond differently to the same type of institutional conflict, by virtue of specific intra-organizational dynamics. This satisfies the fundamental institutional argument that organizations are constrained by their environment, without assuming, as in prior models, that they respond exactly in the same way to the same pressures (Greenwood et al., 1996). Specifically, we propose that a key element affecting response mobilization is whether or not the different sides of the conflicting demands are represented internally. While our model suggests that a two-sided internal representation favors the mobilization of compromise strategies when dealing with a conflict on means, it also suggests that, when dealing with a conflict on goals, the presence of champions of two sides of a dispute may lead the organization to favor manipulation strategies. However, if manipulation fails due to the balanced power of the two groups and conflict subsists, the outcome may be organizational paralysis or even breakup. Our model thus offers a richer and potentially more relevant account of how organizations respond to conflict in institutional prescriptions.

An illustration of the organizational dynamics suggested by our model is the breakup in 2008 of the global consulting and technology services corporation Booz Allen Hamilton into two distinct entities: a service firm operating under the brand of Booz Allen Hamilton serving mainly the US Government and a global consulting business that adopted the name of Booz & Co serving private and public clients worldwide. Founded in 1914 by Edwin Booz as one of the first management consulting firms, Booz Allen Hamilton grew fast after the 2nd World War and became one of the largest and most respected management consulting firms in the world. A specificity of the company was its work for the US Military. While most large

management consulting firms also served both government and business clients, Booz Allen Hamilton had become, since the 2nd World War, an important contractor for the US Military and US Intelligence Departments, a line of work that grew rapidly during the 80s and 90s. The company thus became immersed in two organizational fields imposing very different demands on the organization. Corporate and civil government consulting contracts were expected to be performed through short term projects, flexible teams and knowledge sharing across projects. In contrast, military government contracts, particularly in the US defense sector, required longer term interventions, performed by fixed teams checked for security clearance, keeping knowledge private and obeying numerous regulations. This led to conflicting institutional demands about the most appropriate means of organizing work.

Until the late 90's, the leadership of the company, happy with the growing revenues and not particularly committed to any side of the institutional debate, was able to strike a compromise between these antagonistic demands by organizing the firm in two distinct business units. Yet, as the company's work for the US Government, in particular the Defense Department, grew fast after September 2001, the conflict changed shape as the US Government business started to account for more than half of the revenue and employees of the firm. This situation, coupled with the growing international hostility towards the US, led to a deeper debate about the appropriate goal of the company: was it to be an independent global consulting firm serving large corporations and governments or was it to serve the interests of the US Government and Department of Defense? The conflict on means had thus turned into a conflict on goals. In addition, a cadre of partners in the firm that was rooted in the logics of the Defense field started to champion this logic against the views of the majority of management consulting partners. Progressively, both sides of the institutional conflict became represented in the organization. From 2004 onwards, the growing cadre of partners championing a "defense logic", despite being in minority in terms of their numbers and

ownership of the company, gained power due to their control of the majority of revenues and staff, creating a more balanced power structure between the two opposing camps. At this point, it became increasingly difficult to balance competing institutional demands on goals, championed by equally powerful internal groups. Tensions became evident in the misaligned incentives and interests among partners of the two camps, in the perceived constraints and hindrances on the operation of the commercial unit, as well as in the lack of comfort of many potential international clients with the closeness of the company to the US government<sup>1</sup>.

As predicted by our model, this situation led, in 2008, to an organizational breakup with the separation of the two businesses into fully autonomous entities, enabling each new organization to better fulfill the demands imposed by their institutional constituents. The US government line of business was acquired by the Carlyle Group, a private equity firm with deep political connections with the US government, thus ensuring the alignment of the organizational goals with the demands of its most powerful institutional constituent. The other part of the organization, renamed Booz & Co., became a more traditional global management consulting firm, serving large corporations and the civil arms of non-US governments. Interestingly, this breakup happened despite the best efforts of the leadership of the company which, as recently as 2006, had championed an initiative called “One Firm Evolution” to try to keep the firm intact.

In summary, the conflicting institutional demands imposed on the organization were resolved through the extreme response of a voluntary organizational breakup. Quietly, a major organizational event happened that made the structure of the organization match more closely the structure of the institutional landscape in which it was immersed. Whereas this might be an extreme example, it shows that under certain situations, explained in our model, conflicting institutional demands cannot be easily resolved because of the intra-organizational dynamics

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<sup>1</sup> As reported by informants contacted by the authors

that they generate. We thus argue that institutional demands not only shape organizational responses but, in certain situations, can shape the very structure of the organizational landscape.

## **DISCUSSION**

The theoretical arguments that we advance here contribute to existing literature in multiple ways. Early formulations of institutional theory, which predicted passive organizational compliance to institutional demands, have been criticized for their lack of an explicit and coherent theory of action (DiMaggio & Powell, 1991). Later developments (Clemens et al., 1999; Dorado, 2005; Seo et al., 2002; Sewell, 1992; Whittington, 1992) have started to recognize that heterogeneous environmental conditions actually create latitude for organizations to exercise strategic choice. This paper is an attempt to delineate more precisely the environmental dimensions (i.e. fragmentation and centralization) as well as the enabling mechanism (i.e. conflict in institutional prescriptions) that make agency possible within an institutional framework. A contribution of our paper is the notion that power balance at the field level, generating moderately centralized fields, is an important antecedent of conflicting institutional demands.

More importantly, by integrating field and intra-organizational levels of analysis we go beyond the general prediction proposed by Oliver (1991) that organizations are likely to resist conflicting institutional demands. Oliver's view of organizations as unitary actors that develop optimal response strategies to exogenous institutional processes did not allow to predict the type of resistant strategies mobilized by organizations when facing conflicting demands. To address that gap, we discuss how conflicting institutional pressures penetrate organizations, understood as "heterogeneous entities composed of functionally differentiated groups" (Greenwood et al., 1996). More precisely, we explore the combined interaction of the

nature of institutional demands and their internal representation. In taking these factors into account, our approach departs from the continuum of resistant responses proposed by Oliver and predicts the actual strategies favored by organizations. This approach allows us to contribute to the understanding of the phenomenon of resistance to institutional pressures called upon by Lawrence (2008) in his review of power, institutions and organizations.

In addition, our findings suggest a caveat on the traditional use of co-optation as a mechanism for addressing institutional pressures. Co-optation strategies (Pfeffer, 1981; Selznick, 1949) are frequent drivers of internalization of multiple parties of a conflict since they involve the recruitment for an organization (as board members or staff members, for instance) of dissenting external stakeholders. However, our model suggests that co-optation can be beneficial or detrimental to organizations depending on the type of conflict it is supposed to address. While co-optation can be a highly effective strategy to socialize dissenting voices into the organization “way of doing things”, our model points to the danger of bringing into an organization members who champion views that challenge the central organizational goals, as perceived and enacted by the dominant organizational coalition. In these cases, co-optation strategies can have, over the longer term, very disruptive consequences for organizations.

We believe that these contributions to the current predictions of institutional theory are important given the increasing prevalence of the phenomenon of conflicting institutional demands. While contradictions in institutional pressures have long been acknowledged by organizational scholars (Friedland et al., 1991; Oliver, 1991; Scott, 1987), the current evolution of modern societies combined with the evolution of modern organizations are leading to an increasing occurrence of conflicting institutional demands (Scott et al., 1991; Seo et al., 2002). This is happening through multiple and reinforcing mechanisms.

First, the globalization of practices and cultures increasingly exposes organizations to the simultaneous influence of local and global institutional pressures. Local regulative, cognitive and cultural influences interfere with the national and global trends towards a homogenization of rules, values and practices. As the number of institutional influences on organizations increases, the likelihood that these multiple pressures will conflict also increases (Friedland et al., 1991; Marquis & Battilana, Forthcoming). Second, we argue that field fragmentation has been increasing due to the wider range of specialized institutions that compose modern societies. In the same vein, centralization has been decreasing because central authorities, such as the state, due to their inability to directly control complex societies, increasingly devolve authority to moderately powerful players in the field. Third, organizations increasingly adopt hybrid forms that draw from and try to integrate sometimes competing logics. An example is the increasing integration of social goals by commercial enterprises and of commercial goals by organizations with a social mission. Finally, at the organizational level of analysis, the increase in workforce diversity as well as in occupational differentiation (Greenwood et al., 1996) increases the likelihood of emergence of competing normative pressures in organizations. In scholarly work, the overall phenomenon is reflected in the recent upsurge of empirical studies studying competing institutional logics (Battilana et al., 2009; Chen et al., 2006; Heinze & Weber, 2008; Lounsbury, 2005, , 2007; Marquis et al., 2007; Purdy et al., 2009; Rao et al., 2003; Reay et al., 2009; Thornton, 2002).

Our paper thus provides foundational work to understand in a systematic way the impact on organizations of this increasingly common phenomenon of conflicting institutional demands. This phenomenon may be particularly prevalent in fields whose mission and resource dependence patterns require the interaction of a wide variety of stakeholders (hence inducing high levels of fragmentation) and which are dependent on a few key resource providers (hence inducing moderate levels of centralization). Such field configurations are

often to be found in industries involved in the provision of public or social services (health, education, culture, social services, etc.). The collective nature of these goods places their producers at the intersection of a fragmented web of interests (direct and indirect beneficiaries, specialized interests groups, professionals, funders, local and national governments, regulatory agencies etc.). By virtue of their public service dimension, these services providers are particularly responsive to a few central players, including regulatory agencies which grant them with the right to operate, key funders which provide them with the financial resources required to carry on their mission (since end users are not always paying for the full cost of the service), as well as trained professionals with strong norms and identities (doctors, educators, curators, social workers).

This does not mean that our model only applies to social or public service organizations. Profit seeking organizations have also been shown to be subject to the competing influence of partners, investors, shareholders, professionals and regulators. These organizations may thus experience, just as their social counterparts, conflicting institutional demands. For example, Powell's (1999) study of the construction of the biotechnology field in the United States points to the "heterodox assortment of organizations" that private biotech firms are dependent upon, ranging from universities, elite research hospitals, non-profit research institutes, large multinational drug companies as well as federal regulatory bodies (US Patent and Trademark Office; Food and Drug Administration). It further highlights the tensions emerging from the lack of a clear governance structure at the field level around issues of patent regulation and regulatory drug approval. Constrained by lengthy federal drug approval processes for new drugs, as well as evolving patent law and intellectual property rights, in an emergent context where norms and standards about what is "new" haven't yet been agreed upon, young biotech companies are described to struggle for survival in the midst of multiple conflicting requirements and standards.

The theoretical model that we develop here is not without limitations. Our efforts to achieve parsimony led us to outline a simplified representation of organizational life. First, we overlooked a potential source of conflicting demands related to the evolution of fields. Fields' structures and power arrangements are not static. They evolve with changes in regulation, with changes in culture, with the introduction of new players or with external shocks. During these transitions, existing field configurations are challenged and organizations are subject to conflicting demands which result from the menace or replacement of one set of demands by new ones as the environment evolves and the organizing principles in which the organization is embedded evolve in accordance. Yet, in these cases, the occurrence of conflict is short-lived since it is largely limited to the transition phase. This dynamic is well illustrated by Thornton's (2002) study of the field of higher education publishing: she shows that, as the field evolved from a dominant editorial logic to a dominant market logic, tensions emerged around a variety of issues such as governance structure and growth strategy. However, the occurrence of conflict in institutional demands was limited to the change phase, as the rise of the market logic ultimately led to the decline of the old editorial logic and its related demands. While we recognize this additional source of conflicting demands, we propose that under circumstances of temporary conflict, demands may be ignored or avoided, especially in instances where an existent institutional order is perceived to be temporarily challenged but not seriously menaced by another one. For this reason we decided to focus our model on enduring conflicting demands.

Second, we are aware that conflicting demands may take dimensions that we have not outlined here and that may influence the nature of organizational responses. For instance, in addition to the dimensions that we emphasized in our model, conflicting institutional demands also differ in terms of the pillar on which they rest (regulative, normative, cognitive), which influences how easily they can be avoided or contested (Scott, 2001). For instance Scott

(2003) argues that regulative pressures for compliance are more prone to challenge than cognitive pressures. While this is true, we also argue that in conflicting situations cognitive pressures may lose their taken-for-granted character because alternative responses are seen as possible. Overall, while we acknowledge the importance of other factors, we focused our model on the dimensions of conflict (nature of demands and internal representation) which we believe are the most important in predicting how organizations respond and are also tractable in empirical research.

Future research may explore how fields shift from one structural order to another. While our model focuses on the impact of field structure on organizational responses, future research could explore how organizational responses shape the structuration of fields. A fragmented field might become more unified over time, as a result of pressures to concentrate exerted by regulators or investors. Alternatively, a field might evolve from a moderately centralized to a centralized structure, as the result of the collective manipulation strategies (such as the creation of coalitions or professional organizations) implemented by field members. Understanding the dynamic process through which organizational responses shape organizational structure, which in turn influences subsequent responses, is an important next step to uncover the complexity of institutional processes.

Additional research may explore other determinants of organizational responses to conflicting institutional demands. Such factors include organizational variables such as the profile of organizational leaders (Ingram & Simons, 1995; Oliver, 1991), the composition of the board (Alexander, 1996a) and the funding structure (Alexander, 1996a). They may also include, structural factors such as relationships with other organizations that favor specific responses (Westphal et al., 2001) and the organization's position in the field (Dorado, 2005; Haveman & Rao, 1997; Sherer & Lee, 2002). In addition, experiential factors may also be taken into account. As illustrated by Westphal et al. (2001), an organization's prior experience

with a specific type of response increases the likelihood that this response will be used again in the future. Recent work has further pointed to the cognitive underpinnings of the response process. George et al. (2006) argue that patterns of institutional resistance and change depend on whether decision makers view environmental shifts as potential opportunities for or threats to gaining legitimacy. Building upon this approach, it may be interesting to further explore “perception of conflict” as well as “perception of the importance of constituents” as a determinant of strategic choice. Such an endeavor would build natural bridges to the stakeholder theory literature (Freeman, 1984; Mitchell, Agle, & Wood, 1997), which explores how organizations identify, take into account and manage the conflicting claims that various constituents have on them. Recent work in the strategy field (Murillo-Luna, Garces-Ayerbe, & Riverra-Torres, 2008; Sharma & Henriques, 2005) indeed suggests that organizations are more likely to attend to pressures exerted by stakeholders that they perceive as more important and, in turn, resist the demands exerted by referents that they perceive as less important.

Finally, given the increasing prevalence of conflict in institutional demands, it would be interesting to complement our model with an exploration of the specific organizational skills required to succeed in mobilizing particular strategies. Organizations may not be equally skilled at managing compromise, avoidance, defiance or manipulation. Those who are particularly competent in mobilizing these strategies are likely to be in a better position to survive and thrive in the midst of conflicting institutional demands (Kraatz et al., 2008). Elsbach and Sutton (1992), for instance, show that two radical social movement organizations were able to turn the execution of actions conflicting with the dominant social norms into opportunities to enhance their legitimacy through the mobilization of complex strategies combining compromise, avoidance and manipulation. The study shows that this was achieved thanks to these organizations’ ability to understand what the institutional environment

expected from them, their aptitude to design highly legitimate structures that they could decouple from members' illegitimate actions, as well as their mastery of impression management techniques. Given the potential crisis that may result from responses to conflicting demands, the mastery of crisis management skills (Coombs, 2007; Pfarrer, Decelles, Smith, & Taylor, 2008) may help organizations to survive and thrive in the midst of institutional contradictions.

## CONCLUSION

Increasingly, the fragmented and moderately centralized structure of institutional fields is leading to situations where institutional worlds collide and impose conflicting demands on the organizations that inhabit them. While prior work has argued that organizations will adopt strategic responses with different levels of resistance, this work ignored the extent to which conflicting demands permeate organizations and may lead to conflicts among internal groups. Our research goal is to address this gap. Much remains to be explored about the way in which organizations navigate complex institutional environments. We nevertheless hope to provide with this paper foundational work to understand how organizations manage conflicting institutional demands and why, in some cases, they are able to turn conflict into opportunity for institutional agency and strategic choice while, in other cases, institutional conflict may lead to organizational paralysis or breakup.

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