Why change a good thing? The liability of inertia

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ABSTRACT

Institutional and ecological theories of organizations are consistently being seen as complementary rather than opposing perspectives. Both theories support the viewpoint that change is often detrimental to organizations. However, within institutional theory a lack of change can also be seen as a liability. To the extent that organizations do not change when their stakeholders change, they may face a “liability of inertia”.

INTRODUCTION

Change is inevitable but is it desirable? Traditional organizational and economic theory argues that most intended changes should benefit organizations (Miner, Amburgey, & Stearns, 1990). Organizations that do not make changes are assumed to fail more often in the long run. At the other extreme are theories that posit that change increases the risk of failure because modern environments favor organizations with high reliability. Thus, even changes that may benefit the organization in the long run increase the risk of failure in the short term.

Two of the more prominent theories, organizational ecology and institutional theory, highlight the importance of environmental pressures on organizational change. Population ecology argues for environmental selection while institutional theory argues for a theory of adaptation. Yet, despite this and other fundamental differences, there is increasing convergence between ecological and institutional theories (Baum & Oliver, 1991; 1992; Carroll & Hannan, 1989; Carroll & Hao, 1986; Hannan, Carroll, Dundon, & Torres, 1995; Singh, Tucker, & House, 1986). Population ecology and institutional theory seem to have high consensus regarding implications of change; both in the sense that there are constraining external forces that promote inertia and that change increases mortality. However, it may be misguided to think that all change is detrimental. I will argue that a lack of change can be equally damaging to an organization; therefore, there is a "liability of inertia". This study contributes to the growing literature that combines elements of institutional and ecological theory (for a review see Baum, 1996) by considering the different perspectives on organizational change, its importance, and the consequences of non-change.

The balance of the article is organized as follows. The next section summarizes the organizational ecology approach to change, including drawing reference to the structural and liability of newness arguments. This is followed by a brief overview of the institutional perspective on change. The ensuing section demonstrates that both these theories implicitly support a "liability of inertia" proposition. In the final section, I discuss the implications raised by the "liability of inertia" proposition both for research and for organizations considering change.

ORGANIZATIONAL ECOLOGY AND CHANGE

Traditional organizational and economic theory assumes that the population changes because decision makers modify their individual organizations (Barnard, 1938; Child, 1972). In contrast, organizational ecologists emphasize environmental determinism (Hannan and Freeman, 1989). Similar to the Darwinian process of natural selection, population ecology has put forward that change occurs at the population level with unfit organizations dying out by environmental selection (Hannan & Freeman, 1977). Hence, whether or not individual organizations are consciously adapting, the environment selects out optimal organizational traits. Moreover, individual organizations cannot change quickly and easily. When they do change, they face great risks (Barnett & Carroll, 1995). Hannan and Freeman (1984) argue that "core" structural change is precarious and leads to greater chances of failure and mortality. They argue that "although organizations sometimes manage to change positions on these dimensions, such changes are rare and costly and seem to subject an organization to greatly increased risks of death" (p. xxx). In contrast, organizations that consistently reproduce their structures and routines are more

likely to survive (Hannan & Freeman, 1984). They also suggest that as the ability to reproduce routines increases, organizations become more inertial. There are several benefits and costs of inertia, some of which will be discussed below.

Structural Inertia

Structural inertia theory suggests that the processes of change create internal reorganization and external legitimacy problems. Therefore, change itself is harmful, irrespective of the content (Hannan & Freeman, 1984). Moreover, with increasing inertia, the costs of change are increasingly difficult and costly (Amburgey et al., 1993; Hannan & Freeman, 1984). As organizations age and get better at reproducing routine, they also become more inert (Hannan & Freeman, 1984). They drew the logic of the proposed relationship between age and mortality rate as follows: Selection process favors "reliability" and "accountability" in organizational forms. Reliability and accountability require that the organizational structure be highly reproducible. The "reproducibility" of organizational structure increases with age due to the processes of internal learning, coordination, external legitimization, and development of webs of exchange. All those processes lead to greater inertia in organizations. Since selection processes favor organizations with inert structures, organizational mortality rates decrease with age. This leads to the "liability of newness"(or "age dependence") argument, which asserts that in populations of organizations, younger organizations are more likely to die.

Liability of newness/ change

The liability of newness proposition recognizes the many uncertainties that new organizations face. Stinchcombe (1965) recognized that newly founded organizations face uncertainty arising from new roles, new types of relationships, lower levels of societal trust and unstable ties to new organizational forms especially in their initial periods. Therefore, he suggested that newer organizations were more likely to fail than old. He called this the "liability of newness".

Hannan and Freeman (1984) argue that an organizational change creates a liability of newness. This liability of newness exposes organizations to a higher risk of failure (Stinchcombe, 1965) and may be appropriately called the liability of change (Amburgey, Kelly, & Barnett, 1993). Change also creates new roles and new relationships similar to those of a new organization. Amburgey, Kelly, and Barnett (1993) in a study of Finnish newspapers show that organizational change increases the risk of failure but that this risk subsides over time. This argument is depicted in figure 1 and essentially claims that change increases the risk of mortality, although at some point the risk decreases and the organization resumes its normal trajectory. This argument would seem to suggest that organizations should not change.

INSTITUTIONAL THEORY AND CHANGE

A second approach to organizational change is offered by institutional theory. Whereas organizational ecology favors selection, institutional theory takes an adaptation approach to organizational change. Indeed, this is one of the main differences between the two theories (Barnett & Carroll, 1995). Institutional theory has also accorded less attention to change (Donaldson, 1995; Greenwood & Hinings, 1996). Recent work

however, has begun to address this shortcoming. I begin by describing the key points of institutional theory and then I will move to talk about how institutional theory contributes to our understanding of change.

"Institutionalism involves the processes by which social processes, obligations, or actualities come to take on a rule like status in social thought and action" (Meyer & Rowan, 1977: 341). The adopting of these processes is seen as a way of promoting the organization's stability, and the persistence of its structure over time (Selznick, 1957). Institutional theory proponents argue that organizations respond not only to internal pressures on how to structure and perform, but also to external pressures from the environment in which they are embedded. Forms may be adopted because they are "defined as the appropriate way of organizing" (Greenwood & Hinings, 1996: 1025). In times of change (and other times of high uncertainty) it is imperative to achieve a fit with prevailing institutional practises and norms. Selznick (1996), among others, has argued that organizations conform to institutional pressures in order to appear legitimate so as to increase the chances of survival. The establishment of legitimacy is also important when the technology is ambiguous and evaluation is difficult. Under these conditions, legitimacy becomes the only way for stakeholders to evaluate the organization. Through the adoption of institutionalized rules, organizations increase acceptance by different external groups (Meyer & Rowan, 1977). Following institutional norms may also help organizations acquire needed resources and support (Kikulis, Slack, and Hinings, 1995; Meyer & Rowan, 1977; Tolbert & Zucker, 1983; Zucker, 1987). Organizations are also more likely to survive if they establish links to legitimated community and public institutions (Baum & Oliver, 1991).

In thinking about institutional theory and organizational change, it is often thought that institutional pressures are a major source of resistance to organizational change (Greenwood and Hinings, 1996). Buckho (1994: 90) argued that institutional pressures and norms are a "powerful force" against transformational change. Thus, similar to ecological theory, normative embeddedness increases inertia. Institutional theorists generally stress the stability of organizational arrangements and inertia rather than change (Tolbert, 1985, Tolbert and Zucker, 1983). However, the institutional pressures may sometimes be catalysts for change, "signalling the contextual dynamics that precipitate the need for organizational adaptation" (Greenwood and Hinings, 1996: 1023). Additionally, the power with which institutional norms affect organizations vary at times and is a function of a variety of institutional pressures (Dacin, 1997). Therefore, inertial pressures may not be uniformly strong. Similarly, organizations have multiple stakeholders that they must satisfy. As Scott (1987) notes, "in many areas there are multiple possible sources of authorization. Organizations must determine to which, if any, to connect" (p. 502). Therefore, a change in stakeholders should necessitate a change. As will be argued in the following section, not changing can also be hazardous to the organization's survival.

Despite the different fundamental approaches, there are still many other similarities between organizational ecology and institutional theory when it comes to discussions of change. For example, much of the liability of newness/ change is based on the uncertainty that new / changing organizations face. The liability of newness reflects concerns regarding legitimacy and survival (Singh et al, 1986). Similar to institutional theory, ecology theory argues that organizational forms are legitimated to the extent that

they accord with general institutions. Organizations may also change because they watch each other and mimic what they perceive to be successful practices (Fligstein, 1991). Again, however, a theory of inertia generally pervades both approaches.

But there are cases where change is necessary. Institutional forces can argue against change but they can also necessitate it. Therefore, when one company makes a radical change and it is deemed successful, that change is likely to be institutionalized as other organizations mimic the strategy. Early adopters or breakers away are seen as acting out of rational self-interest (Tolbert & Zucker, 1983) but those that follow are seen as responding to the established legitimacy of these practices. Those that don't "change with the times" will be left behind. Boeker (1989) consistent with Oliver (1992) also showed that poor performance could lead to questions about legitimacy and deterioration in institutionalization. Again population ecologists have found similar things (Greve, 1999). There is ample anecdotal evidence for this fact, and much of this is supplied by ecology and institutional theory articles. Several of these examples will be discussed in the next section.

THE LIABILITY OF INERTIA

Both theories presented thus far argue for strong forces against change yet both theories also implicitly suggest a liability of not changing. With population ecology it is the blueprint – organizations that deviate form the blueprint may be selected out. In institutional theory, organizations that do not meet the demands of legitimizing agents may also fail. The following section outlines how a lack of change can hurt organizations

through a loss of legitimacy. Examples are provided to illustrate this proposed "liability of inertia".

Greve (1999) notes that not changing can have uncertain consequences. Organizational ecologists argue that blueprints consist of rules and procedures for obtaining and acting upon inputs in order to produce an organizational product or response (Hannan & Freeman, 19xx). The formal structure of the organization (like tables of organizations, written rules of operations, etc.) and the normative order (the ways of organizing that are defined as right and proper by both members and relevant sectors of the environment) are suggested as two grounds to identify forms and define populations. Organizations that deviate from this blueprint increase their risk of failure.

Institutional structures and myths must also be adopted by organizations to avoid illegitimacy (Meyer & Rowan, 1977). As more organizations incorporate certain rules then the remaining ones must incorporate these rules in order to compete and be seen as legitimate. When a sufficient number follow suit the strategy becomes institutionalized (Roberts & Greenwood, 1997). Generally, when a sufficient concentration is reached, more and more firms are likely to adopt the new form (Palmer, Jennings, & Zhou, 1993). Thus, similar to the blueprint idea, those organizations that do not adapt risk becoming illegitimate and thus increase their chances of failure. This idea is proposed in Figure 2.

Several examples provide evidence for this relationship. Hannan and Freeman (1984) observe that universities need to update their textbooks in order to maintain legitimacy. If they did not, their legitimacy would be threatened and the organization might lose funding and increase its risk of failure. On a larger scale, education in general is moving towards increasing homogenization thus indicating greater institutional forces

(Dacin, 1997). Certain systems have evolved that reflect this including worldwide grading systems (i.e., the Internal Baccalaureate, Cambridge System) and international standardized testing such as the GRE and GMAT. Increasingly, educational systems are being brought into alignment with one another. As more and more schools adopt this form, schools that do not will face rising risk of failure as their legitimacy is threatened.

Again, change can be as simple as adopting symbols or labels. For example, hospitals will also seek to get equipment that legitimizes their status as a hospital. They may not need the equipment, but not having it has negative connotations and may discredit the organization. As Meyer & Rowan (1977) note, this could have serious repercussions, "failure to incorporate the proper elements of structure is negligent and irrational; the continued flow of support is threatened and internal dissidents are strengthened" (p. 351). Thus, hospitals that fail to change according to the changing stakeholders, or to the changing views of stakeholders, risk becoming illegitimate. On a larger scale, Ruef and Scott (1998) argue that the antecedents of legitimacy vary depending on the nature of the institutional environment as well as the organizational function that is being legitimated. In their study of the hospital industry, there were several changes in the institutional regime and the hospitals had to follow suit and adopt these changes or risk losing legitimacy. In hospitals, the shift from being a provider of collective goods to a profit maximizer had a major influence on the legitimacy of hospitals. Non-profit hospitals faced increased risks of legitimacy. A loss of legitimacy would have been fatal for any of these organizations.

The example provided by Swaminathan (1996) of Argentinean newspaper also suggests that a lack of change may hurt organizations. In this example, the mortality rate

of newspapers with institutional links increased in times of political turmoil in part because these stakeholders' power is not solid. Newspapers that were tied to the wrong institutional actors are more likely to fail. Thus we see that when the institutions change (i.e., a certain group gained majority) those that were not aligned and could not align quickly were more likely to fail.

Similarly, (Miner et al, 1990) found that institutional linkages predicted increased likelihood of failure. This fits within the proposed framework in that organizations with strong linkages that are institutionalized should not change but those that are losing their linkages need to change, or risk failure. The very parties that legitimized the organization may have withdrawn their support because of the changes.

Thus it is argued here that in some cases, where stakeholders change or other institutional pressures take precedence, organizations that do not change accordingly will face greater risk of failure over time than organizations that do change. This relationship is summarized in Figure 3. More confirmation of this relationship is provided by Dacin (1997: 55), who observed the case of a newspaper that failed because of its neutral stance towards the language controversy (in Finland). This provides additional evidence for the case where a newspaper failed because it did not change to the changing institutions.

CONCLUSION

Organizations face difficult challenges when deciding whether to change and how to change. The current paper suggests that change may have mixed results: sometimes positive, sometimes negative. This argument is in line with recent research by Greve (1999) that showed that organizations that are doing poorly benefit more from change

than those organizations that are doing better. I would argue that one reason they may be doing poorly is a misalignment with the normative pressures of their environment. In contrast, organizations that are doing well are likely aligned with institutional pressures, and therefore, why change a good thing?

Research in the area offers several potential contributions. The first is to expand the importance of legitimating factors on organizational survival, regardless of whether these are selected or adapted. Secondly, it is important to acknowledge that change is not all bad, nor all good, and it may depend. One of the questions that Amburgey and colleagues (1993) asked was whether change was beneficial for organizations. They answered "it depends". I would like to add an additional "it depends" to the study of organizational change. It depends on the institutions. Therefore, we need to test whether there is a liability of inertia and when this might occur and for whom. Are older organizations more institutionalized and therefore less able to change? Do they then face greater risks from potentially explosive technology and change? Again, the idea of inertia suggests more need to study how institutional pressures change and when they are more or less important (Dacin, 1997).

To date, research on organizational change, particularly within organizational ecology and institutional theory, has focused on the powerful forces against change, and the high risks associated with change. Although this is not being disputed, this paper argues that it is also not complete. Organizations can also suffer to the extent that they do not change.

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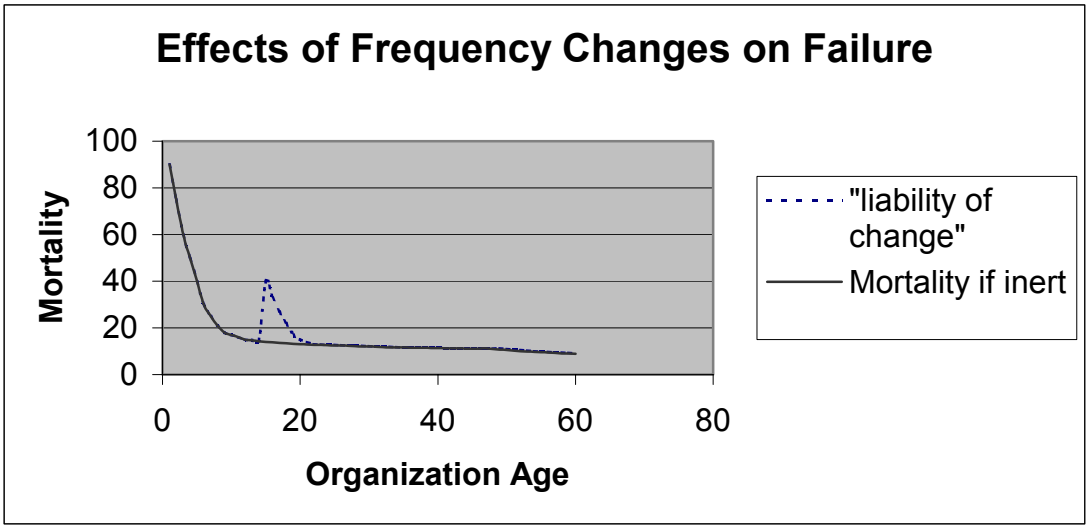
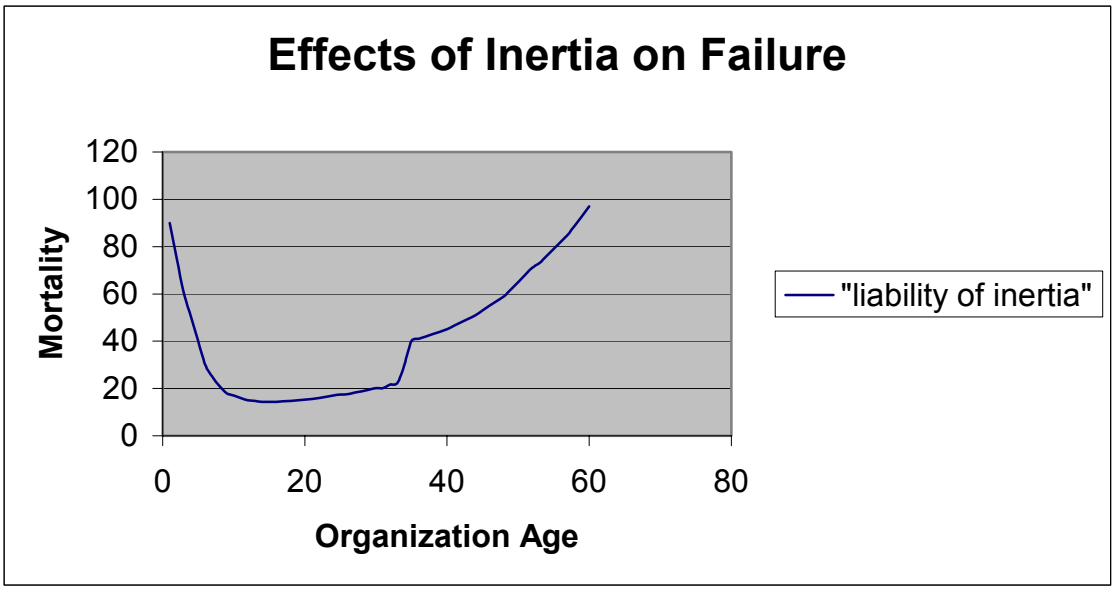
Figure 1:



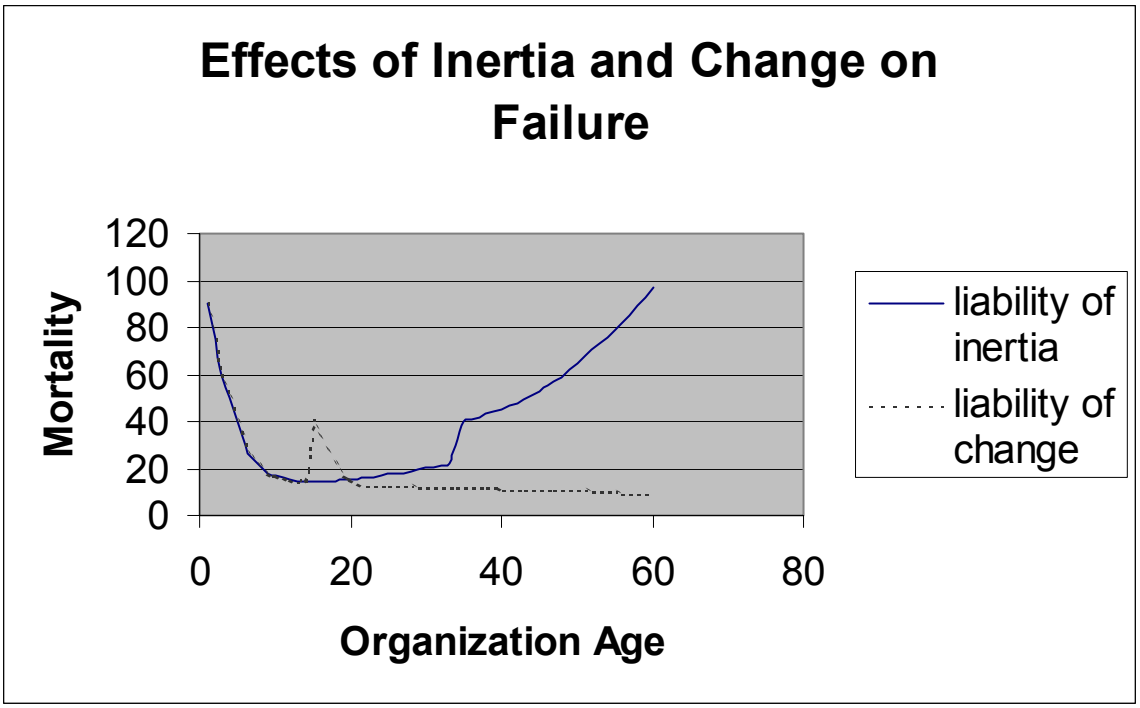
At Year 15 I have inserted a change event. The dashed line indicates the effect of change on the organization's chance of survival.

Figure 2:



At Year 15 I have inserted a change event. In this case however, the organization does not change when it should. There is hypothesised to be a period of slight increase in mortality where the organization continues to have some customers. However, as the organization continues to "not change" it increases it likelihood of failure.

Figure 3:



At Year 15 I have inserted a change event. The dashed line is from figure 1 and represents the liability of change continued from the point of change. The solid line continuing from Year 15 represents the liability of inertia on the organization's chance of survival. From this illustration, it is obvious that change is more beneficial to the organization than inertia, even though change does incur higher costs at the point of transformation.