

THE BTF VISION OF UNFOLDING RULE WORLDS

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A Behavioral Theory of the Firm (Cyert & March, 1963) is a multifaceted collection of “little ideas” that has the potential to evolve into multiple and potentially revolutionary directions. In my first encounters with the BTF (the book and the theoretical research program), I was intrigued by its predominant focus on models of dynamic processes. BTF employs a distinctive style of theory construction that proceeds through articulation of models of behavior in organizations, and that builds on relatively parsimonious and realistic assumptions about underlying organizational processes (of decision making, information processing, expectation formation, etc.) and their limitations (arising from bounded rationality of organizational actors and processes). It is a bold approach of modeling the organizational processes that shape action in and of organizations, and it has been a persistent source of inspiration for many students of organizations since then. At the same time, BTF models tend to be dynamic (often incorporate computer programs that simulate dynamic processes) and can reveal the surprising implications of organizational processes and structures (e.g., competency traps, superstitious learning, garbage cans, etc.) and their unfolding in time. In particular, dynamic models of organizational learning and organizational rules appear to offer unusual potential for the future elaboration of the BTF.

BTF’s concern with rules (“standard operating procedures,” formal and informal “routines,” etc.) complements its focus on dynamic models and I think that this (somewhat paradoxical) combination provides the seeds for a revolution in the social sciences. Cyert and March placed rules on center stage. They saw rules so intimately connected to the functioning of firms that ignoring them was not an option; it is “hard to see how a theory of the firm can ignore the effects of such procedures on decision making behavior within the organization (Cyert & March, 1963: 133).” In their view, rules establish stable, predictable structures for action and decision making. At the same time, they approached rules from a dynamic perspective. “These rules, in turn, reflect organizational learning processes by which the firm adapts to its environment (Cyert & March, 1963: 99).” Not only were the rules powerfully conditioning organizational choice; the rules were also the outcomes of organizational learning processes and thus subject to constraints and biases typical for organizational processes. BTF conceived action (including decisions) in and of organizations as the outcome of dynamic, complex systems of standard operating procedures (SOPs). It was a compelling and realistic conceptualization. At the same time, it became clear that predominant, neo-classical economic models of firms as unitary rational actors were too simplistic to be plausible. BTF essentially established that organizations cannot be reduced to production functions, the rational pursuit of fixed and clear goals, or external constraints and templates. Instead, organizational structures and processes matter – profoundly. Organizational rule systems and the organizational processes that transform them play a key role for organizational action and outcomes, and they have powerful impact on the functioning and success of firms.

I see the future of BTF shaped by opportunities arising from its conception of organizations as adaptive rule systems. The notion has been articulated and elaborated in several diverse and innovative directions, including evolutionary economics (Nelson & Winter, 1982), logics of appropriateness and consequences (March & Olsen, 2006; Schulz, 2014), research on routines (Becker, 2008; Cohen & Bacdayan, 1994), and research on organizational learning and organizational rules (Levitt & March, 1988; March, Schulz, & Zhou, 2000; Schulz, 2002; March, 2010). At the same time, developments in society and politics make a focus on rules increasingly relevant. Just consider the intensifying regulations in the financial sector, or the unstoppable elaboration of the tax code, the elaboration of W3C Internet standards, the expansion of healthcare systems, and the relentless expansion of the national security state. Likewise, markets, often seen as epitomizing exchange and rational choice, are essentially constructed from rules that define actors and the types of (trans-) actions that they can take (e.g., North, 1990). Clearly, understanding rules and how they change becomes important in such a world, and theoretical approaches seem to increasingly incorporate rules (and related things) into their frameworks.

An intensifying focus on rules and rule change might trigger (or at least accompany) a shift of the dependent variable in organization studies. While performance was the predominant focus in models of the firm in the past, it seems BTF's focus on rules impels us to return to questions of social and organizational order; that is, how and what kinds of rule-based structures evolve, and how they stabilize and adapt. The world in which we live is increasingly constructed from rules. New rule-based worlds arise as rules and rule populations emerge and evolve. As these rule worlds unfold, they transform rule-based fitness landscapes and enable new forms of action, transaction, and organization, while limiting others. How do rule systems emerge, expand, specialize, differentiate, interlock, grow, and shrink? Studies of the speed and direction of rule change (e.g., different types and extent of content changes) can produce new insights into the unfolding of rule worlds (and their different parts) and lead to new predictions about the emergence, elaboration, transformation, and stabilization of social, organizational, and economic structures. It seems to me that the BTF vision of unfolding rule worlds has undiminished power to inspire more and radically new insights on the emergence and transformation of social order, the development of social systems, and the elaboration of Weber's Iron Cage.

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