

Synthesizing Diverse Perspectives on Organizational Diversity: A Review and Extension of the Literature

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Abstract

Organizations face conformity pressures, and become isomorphic with their institutional environment in order to attain legitimation, which increases organizational homogeneity. After the legitimation phase however, organizations face increasing competitive pressures forcing them to adopt idiosyncratic strategies, which drives them towards more heterogeneity. Synthesizing insights from the population ecology, institutional theory and strategy perspectives, this study examines the effect of conformity and competitive pressures upon organizational diversity. It presents several theoretical propositions based on a typology of strategic responses to such conflicting pressures, and the resulting impact on organizational legitimacy, competitiveness, and structures, thus promising a fruitful stream for further research.

Introduction

Organizational heterogeneity has often intrigued scholars, and has been viewed through diverse theoretical perspectives. Do organizations belonging to an organizational field exhibit heterogeneity in their structural and behavioral attributes, or are they likely to show more similarity? Several factors impact organizational structures, some of which, like institutional pressures, engender increasing homogeneity, while others impel organizations to strive for greater uniqueness, thus resulting in more heterogeneity. DiMaggio and Powell (1983) characterize it as a paradox when they say; “Rational actors make their organizations increasingly similar, as they try to change them.” They contend that while considerable diversity is quite evident even among same class organizations, there is also significant homogeneity among them. Conformity pressures on organizations are attributed to institutional processes, which manifest themselves in several different ways. On the other hand organizations, especially the ones that operate for profit, need to differentiate themselves from others since they have to contend with a competitive environment. Not only must they be better at performing the same functions, they must also perform them in a uniquely efficient manner that is not imitable by others. The *resource-based* view (RBV) literature amply highlights how

unique, costly-to-imitate resources, capabilities, and competencies help firms attain and sustain competitive advantage (Wernerfelt, 1984; Barney, 1991; Conner, 1991; Mahoney and Pandian, 1992; Teece *et al.*, 1997; ?).

Various theoretical perspectives, however, have differing perceptions of organizational diversity. It is essential to highlight those differences because, although many of its aspects appear similar, the frames of reference adopted by different theoretical traditions vary. For instance, as we amplify later in the literature review, while the organizational ecology perspective examines heterogeneity at the population level, the RBV applies it at the level of individual organizations. Institutional processes and isomorphic pressures could be applicable to both, the entire population of that field, and also to individual organizations. Unless the context and the level of analysis are clearly specified, views of different theoretical perspectives on organizational diversity are likely to get confounded. This study confines itself to exploring the strategic options open to organizations, mainly *for profit* organizations like firms, when facing conformity as well as competitive pressures.

The moot question is whether when organizations are confronted with strong institutional pressures to conform, is there scope for them to be unique and compet-

itively distinct from others. Oliver (1991) addresses this issue by proposing different strategic responses to institutional processes, ranging from passive conformity to proactive manipulation. While these possible responses certainly further our insight into the strategic options available, they do not factor in the contribution of innovation and organizational efficiency in enabling organizations to remain competitively distinct from others. Several questions arise in this regard. Is there scope for organizations to be unique and competitively distinct even in the face of isomorphic pressures? However, it first needs to be clarified whether isomorphic pressures apply only to the structural attributes of organizations, or do they also restrict their strategic options, forcing them to forego unique competitive opportunities? Does not the stringency of the institutional environment, and the extent of the firm's competitive advantage, impact organizational responses, and hence affect the extent of diversity among them? Moreover, does this have to be only a dyad of *conform/violate* options, or could organizational responses also vary, along a continuum? We argue that isomorphic pressures need not automatically lead to organizational homogeneity, as it may be feasible to conform, without necessarily being similar.

This essentially conceptual study seeks to examine the range of organizational responses to isomorphic as well as competitive pressures, when those are moderated by the stringency of the institutional environment, and the strength of their existing competitive advantage over rivals. It also seeks to determine if conformity pressures make organizations uniformly homogenous, or is their homogeneity segmented in organizational clusters, according to the particular strategy adopted by them. The next section provides a brief overview of organizational heterogeneity from the differing perspectives of *population ecology*, *institutional theory*, and *strategy* literatures. It then posits certain theoretical propositions based on a typology of organizational responses, and assesses their possible impact on organizational legitimacy, competitiveness, and structural homogeneity. Based on the similarity of such responses, distinct groups within an organizational field are identified, which occupy a separate niche along the homogeneity vs. heterogeneity con-

tinuum. The concluding section highlights avenues of further research.

Overview of the Literature

Population Ecology

There is immense diversity among organizations on various dimensions, like those of structure, size, and behavior (Carroll and Hannan, 2004; Hannan and Freeman, 1977). Even within a single class of organizations, or an organizational field comprising organizations performing similar functions, there is considerable variation on all of those dimensions. For population ecologists the level of analysis is the entire population, and much research effort has been devoted to explaining various aspects of organizational founding and mortality. Acknowledging that organizations are subject to institutional pressures, population ecologists contend that organizations must conform to institutional norms, especially in the initial stage of their founding. Such conformity accords them *legitimation*, which helps them secure resources from the environment for their survival (Hannan and Carroll, 1992). It is important to highlight here that for population ecologists, legitimation is of the organizational form, and does not pertain to any specific organization, which is generally the frame of reference for institutional theorists.

Using a density dependence model, Carroll and Hannan (1989) predict a decline in organizational mortality rates, and an increase in their founding rates with time, and as organizational forms attain legitimation by conforming to institutional norms. However, after the legitimation phase it is the competitive pressures that become pre-dominant, causing mortality rates to increase. The focus of their research is on organizational founding and mortality rates, and not upon the aspect of homogeneity. But, the later literature on *organizational niches* and *resource partitioning*, as in their study of the US auto manufacturers, does allude to organizational heterogeneity (Hannan *et al.*, 2003; Kim *et al.*, 2002, 2001). However, these studies focus upon the identification of niches and niche-width within the entire population, and not much upon explaining diversity between individual organizations.

Institutional Theory

Institutional theory also posits that organizations are induced to become isomorphic with their environment, which brings some degree of similarity among them. Several scholars have propounded different aspects of this theory. Selznick (1948) view is one of “infusing with value beyond the technical requirements at hand” and supplying it with “intrinsic worth.” He clearly views institutionalization as a process happening to organizations over time, and whose extent would vary across organizations. For scholars like Berger and Luckmann (1967) it is one of “shared *social reality*” and “reciprocal typification of habitualized actions,” focusing on the “taken for granted” aspects. Meyer and Rowan (1977) characterize institutionalization as social processes, obligations, or actualities that come to take on a rule-like status in social thought and action. The common feature of all these definitions is that institutionalization is viewed as a social process by which individuals come to accept a shared definition of *social reality*. As Scott (1987) says this conception is independent of the actor’s own views or actions, and is taken for granted as defining the “way things are” or “the way things are to be done.” Zucker (1983) too emphasizes conformity - not conformity engendered by sanctions, but conformity rooted in the ‘taken for granted’ aspects of everyday life. All these views recognize constraints on organizations to conform to a set of institutional beliefs, though not because they constitute reality but because they are rewarded for doing so through increased legitimacy, release of resources, and enhanced survival capabilities (Meyer and Rowan, 1977). It is these external forces that impose a structure upon the organization, and therefore organizations undergo structural isomorphism in the process of conforming to the institutional pattern.

These pressures could be coercive in nature, with organizations being required to adopt certain measures either due to those being formally mandated, or because those may be expected of them, even though informally (Meyer and Rowan, 1977). Some organizations might also try to mimic other successful ones, on the premise that it may be “the right way of doing things.” DiMaggio and Powell (1983) further elaborate

these processes, typifying them as *coercive, mimetic and normative* - the latter being those that are exerted by professions. The net effect of these isomorphic pressures is that in the process of conforming thereto, organizations start developing identical structures. They argue, therefore, that with the passage of time organizations would become increasingly homogenous. The question arises if this process continues monotonically, even after the initial period of organizational founding. DiMaggio & Powell, beyond positing increasing homogeneity once a field gets established, do not elaborate whether that process continues indefinitely even thereafter.

Scholars like Baum and Oliver (1996) and Haveman and Rao (1997) sought to integrate the insights of *population ecology* and *institutional theory*. Likewise, D’Aunno *et al.* (2000) explain the causes of divergent organizational change to advance *neo-institutional* theory. They maintain that divergent change involves both, a transformation in organizational goals - a focus of the original institutional school, and a transformation in widely held beliefs and norms - focus of *neo-institutional* research (DiMaggio and Powell, 1991). They contend that both institutional and market forces affect divergent change to varying degrees in different organizational fields, and therefore future research should specify their roles more precisely.

Strategy

The *industrial organization* (IO) model within the strategy literature focuses upon industry structure analysis, and how various forces determine a firm’s positioning and competitiveness within an industry (Porter, 1985). Caves and Porter (1977) explain reasons for intra-industry performance differences through their conceptualization of ‘strategic groups’ within an industry, and how ‘mobility barriers’ between these groups prevent firms from neutralizing their competitive advantage. Rumelt (1984), carrying the argument further, introduced the notion of ‘isolating mechanisms’ to explain how firms have performance differences within the same industry, and even within the same strategic group. This literature thus looks at organizational diversity, but only between ‘strategic groups’, and also at ‘isolating mechanisms’

between clusters of firms within an industry. Further, it does so only from the perspective of competitiveness, and not on the structural or other attributes of individual firms.

On the other hand the focus of the RBV School within strategy literature is primarily at the level of individual organizations/firms, where it seeks to explain how firms attain competitive advantage through their bundle of unique resources, capabilities, and competencies. Building on the work of the early pioneers, who contributed new notions like 'unlocking potential resources' (Penrose, 1995); 'tacit knowledge' (Polanyi, 1966); and 'firm routines' (Nelson and Winter, 1982), Wernerfelt (1984), generally considered the founding contributor to modern resource-based explanations for competitiveness and growth, described the firm as a bundle of tangible and intangible assets. He explained how resource position barriers could be created against late entrants. Management therefore needs to focus upon resources rather than on products, and diversification, acquisitions and mergers can all be explained in terms of the quest for additional resources. Peteraf (1993) sought to explain firm heterogeneity through a four-element framework, which arises from the different bundles of resources and tangible/intangible assets of various firms. Other scholars later made several significant contributions to the RBV like: 'core competence' (Prahalad and Hamel, 1990); 'combinative capability of knowledge residing in the teams' (Kogut, 1992); and 'the dynamic capabilities perspective' (Teece *et al.*, 1997). However, pertinent to the object of this study is the notion that firms build up valuable, rare, and non-imitable resources, capabilities, and competencies, in order to attain competitive advantage. This endeavor of firms to stay unique, contributes immensely to the diversity of their structures, strategies, and processes. Thus, while institutional processes engender conformity and homogeneity, competitive pressures promote diversity.

Discussion

Based on the brief overview of the relevant organizational diversity-related aspects from *population ecology*, *institutional theory*, and *strategy* literatures, this study attempts to synthesize various perspectives, and

draws up certain theoretical propositions to further advance our insights. In the early stages of organizational founding the pressures to conform to institutional norms are especially strong. Unless organizations adhere to those norms they would not get legitimized, and would be unable to secure resources from the environment. Thus, the very survival of the organization is at stake. Through institutional isomorphism organizations address those concerns, secure legitimacy, and thus become *effective*. Later, as more organizations are founded, and they too start conforming to institutional norms, they increasingly begin to look and behave alike. This leads to organizational homogeneity. However, since organizational resources are finite, competition ensues between organizations for those resources. Competitive concerns now put pressure on organizations to become more *efficient* than others. Thus, concern for organizational *effectiveness* precedes the concern for *efficiency*. As highlighted earlier, for population ecologists, legitimation is of the organizational form, and conformity pressures during the legitimation phase drive organizations towards greater homogeneity.

Proposition 1a.

Organizations exhibit increasing homogeneity during the legitimation phase.

Proposition 1b.

Organizations exhibit decreasing homogeneity during the competitive phase.

Organizational Effectiveness and Efficiency

The concern for *efficiency* during the competitive phase impels organizations to devise unique strategies in order to attain competitive advantage. Some of those strategies, however, may not be in full compliance with the institutional norms. Hence the dilemma arises, whether competitive strategies violating institutional norms should be discarded, or whether the norms themselves should be violated. Since different organizations devise their unique responses, they start adopting idiosyncratic structural and procedural changes, thus contributing to organizational heterogeneity. In this endeavor, organizations often resort to

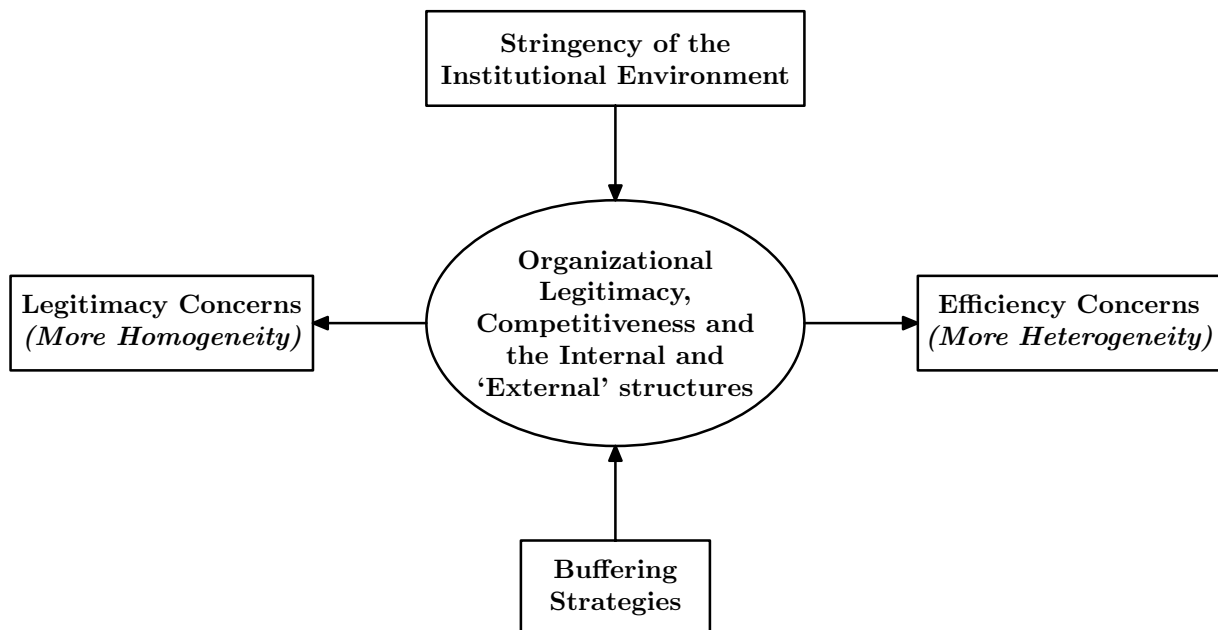
'decoupling', to seal off their technical core (Thompson, 1967). Alternatively, they could choose to exercise merely 'token adherence' to the norms. The extent, to which organizations are able to retain *efficiency* even in the face of conformity pressures, depends upon their innovativeness in devising better buffering strategies than their competitors.

Organizations with better capabilities and competencies remain *efficient* even when fully compliant with norms, while others might need to circumvent some norms in order to remain competitive. Further, some organizations might choose to violate the norms blatantly, while some others could use *decoupling* and *buffering* strategies, whereby they maintain only token adherence to norms. In the latter situation their internal structure (including procedures and processes) will be different from their 'external structure' This study refers to 'external structure' as the organization's structural and/or procedural appearance to outsiders - their 'public face' For instance, organizations establish an Equal Opportunity and Affirmative Action office, in terms of the letter of the law, but that does not

guarantee that its actual functioning will be as per its spirit. Thus, there will be a disconnect between its internal structure/procedures, and its public face.

It could be argued that institutional norms apply only to the structural, procedural, and regulatory aspects of firms, and do not prevent them from adopting idiosyncratic competitive strategies. However, firms unable to match the efficiency of industry leaders, and finding some norms to be too restrictive to attain competitive advantage, succumb to the temptation of circumventing or violating them. There is ample anecdotal evidence of firms choosing to circumvent/violate various regulations and norms pertaining to fair trade practices, anti-monopoly, market power increasing acquisitions and mergers, accounting practices, audit, insurance, and disclosure of information to stakeholders etc, in order to enhance competitiveness. Even *mimetic* and *normative* institutional pressures are often violated surreptitiously. For instance, even though advertising by doctors is against professional norms, some choose to circumvent this under the guise of announcing changes in office hours or location.

Figure 1
Organizational Heterogeneity Varies Along a Continuum



The need to balance conflicting concerns for *legitimacy* and *efficiency*, thus differentiates performance, and causes organizational heterogeneity to vary along a continuum, based on the buffering strategies adopted. This is depicted graphically in Figure 1.

Efficiency Concerns and Organizational Diversity

Organizations need to find the ideal balance between pressures to conform and competitive pressures. Oliver (1991) has identified several strategic responses that vary along a continuum - from passive acceptance of the institutional norms, to their proactive manipulation - to circumvent conformity pressures. However, all options proposed by her, like *acquiescence*, *compromise*, *avoidance*, *defiance* and *manipulation* seem to convey that institutional processes are retrograde, efficiency-destroying measures, which need to be countered somehow. The positive contribution of institutional norms in bringing order, to what otherwise could be a jungle-like environment, needs to be noted. Institutional norms, especially the *mimetic* and *normative* variety, get established only when the majority recognizes their benefits. Even the so-called *coercive* norms get formally mandated when the need for serving common public good is felt. Institutional norms provide the regulatory framework, impose discipline, and guarantee a 'level playing field', which is for the collective benefit of all organizations. If institutional norms were viewed in this perspective then most organizations would strive to be competitive and efficient, but within the bounds imposed by those norms. The preferred option for organizations will, therefore, be to conform to institutional norms.

The Conformists

Stringency of the institutional environment has a major bearing on the strategy selected. Organizations in highly regulated environments like hazardous industries, public health or financial sectors, being subject to close government and media scrutiny, are unlikely to select confrontational strategies. For them *legitimacy* concerns are paramount, not only as a guarantee for the continued supply of resources but to avoid pub-

lic or state opprobrium. This study calls these organizations, *conformists*. Such organizations can be expected to utilize their innovation and skills to attempt higher efficiency, but without violating institutional norms. The more efficient among them remain competitive without circumventing institutional processes. These organizations enjoy high *efficiency*, along with full *legitimacy*. Further, their internal and 'external' structures are unlikely to show any significant discrepancy between them.

Proposition 2a.

Organizations with high efficiency and skills, operating under an environment of stringent institutional norms, will seek to be competitive without violating them.

Proposition 2b.

Such organizations will enjoy high competitiveness along with high legitimacy.

Proposition 2c.

The internal and 'external' structures of these organizations will be alike.

Proposition 2d.

Organizations operating in stringent institutional environments that cannot match the leaders in efficiency will have to reconcile to lower competitiveness.

Varying Combinations of Competitiveness and Compliance Concerns

As more organizations vie for the limited resources, intense competitive pressures will mount and only the efficient organizations will secure resources needed to remain economically viable. Some regulatory or institutional norms may be too constraining for organizations unable to match the innovativeness and efficiency of the more efficient organizations. The less efficient organizations could feel compelled to devise responses that circumvent institutional norms. Organizations could select one of the strategies outlined by Oliver (1991) that best balances *conformity* and *competitiveness* concerns. Stringency of the institutional

environment will again have a bearing upon that selection. If it is too stringent and the penalties for violation far out-weigh any perceived gain in *efficiency*, the organization may opt to fully comply with the norms, and be reconciled to lower competitiveness. If the institutional environment is not too stringent and the relative pay-off is high, they may select any of the strategies like *avoidance*, *defiance* and *manipulation*. This will result in varying degrees of *efficiency* and *legitimacy* combinations along a continuum. The internal structures of such organizations will differ from each other, depending upon the adopted strategy - the greater the extent of manipulation and decoupling, the greater will be the diversity. The external, public manifestations of their structures however will be similar, since organizations will appear to be conforming to institutional norms.

Proposition 3a.

Organizations operating in less stringent institutional environments will select a buffering strategy that balances conformity and competitiveness pressures.

Proposition 3b.

The internal structures of such organizations will differ from each other.

Proposition 3c.

The 'external' structures of these organizations will appear to be similar.

The Renegades

Some organizations could either surreptitiously violate or blatantly defy institutional norms to enhance their competitiveness. While such defiance may enable them to achieve high efficiency, they are likely to be treated as *renegades*, and have low *legitimacy*. As highlighted earlier, *legitimacy* here is of the particular organization from the perspective of *institutional theory*, and not of the organizational form, as per *population ecology*. Internal and 'external' structures of these organizations will vary considerably from those that choose to conform to norms. Organizations choosing

to defy institutional norms are likely to be the powerful ones that are not too dependent upon the environment for resources, and are therefore able to withstand institutional ostracism. If these organizations are influential enough and prove successful in the long run, they could also have their practices adopted as the new institutional norms.

Proposition 4a.

Organizations defying institutional norms will exhibit high competitiveness but low legitimacy.

Proposition 4b.

Such organizations are unlikely to be overly dependent upon the environment.

Proposition 4c.

Such organizations will exhibit considerable variation in their internal and 'external' structures from those of other organizations.

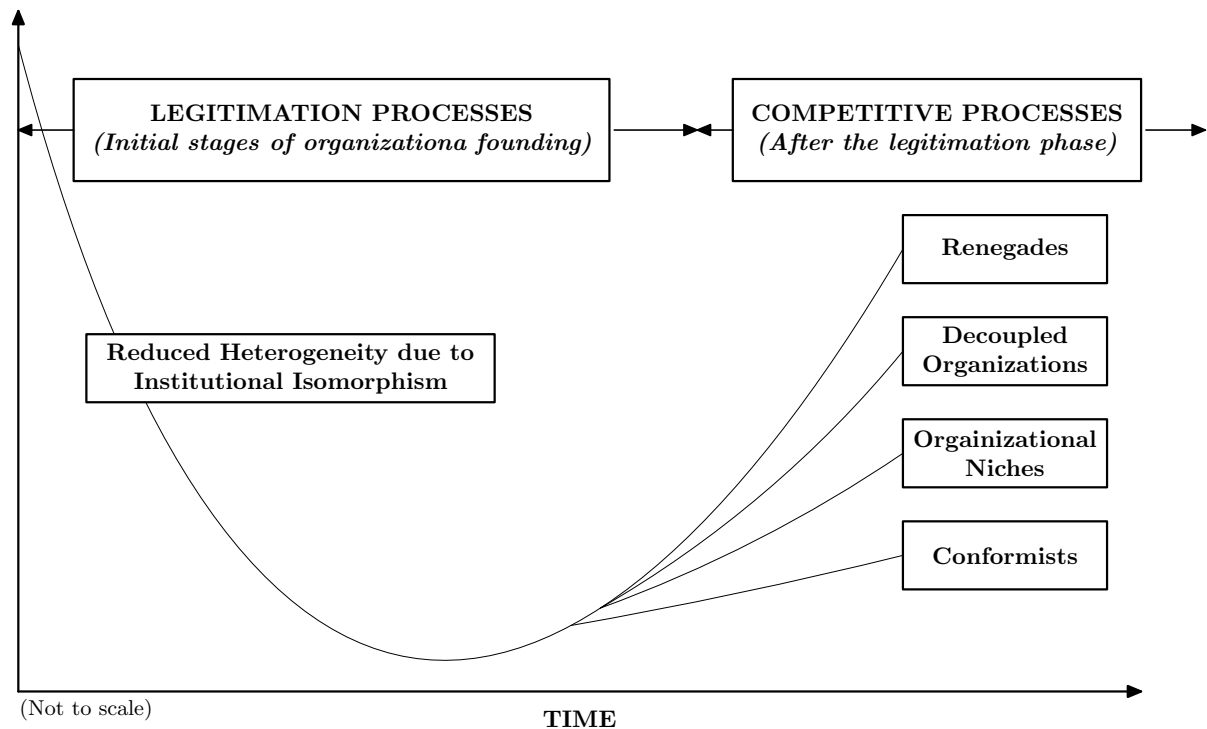
Proposition 4d.

Powerful organizations that exhibit consistently good performance, even while violating institutional norms, may ultimately have their practices accepted as new norms.

Organizational Niches

As competitive pressures build up, and when strong players constrict the competitive capacity of others within the limited 'resource space', the latter may choose a different *niche* where they are not in direct competition. Competitive pressures will then be segmented and felt only between players within respective niches. Organizations will be more homogenous within their respective niches, and within their respective strategic response-based clusters, and will not exhibit 'across the board', uniform homogeneity. A graphic depiction (not to scale) of homogeneity within organizational clusters, differentiated as per strategic responses to competitive processes, is at Figure 2.

Figure 2
Segmented Organizational Homogeneity due to Competitive Processes.



Typology of Strategic Responses and Organizational Homogeneity

It will, however, be apparent that for a more accurate depiction of segmented homogeneity the internal and 'external' structures of organizations need to be considered separately. This is because organizations often *decouple* their core from the rest of the organization to buffer it from the uncertainties in the institutional environment. Organizations then endeavor to maintain the external manifestations of their structure and their public face, as per the letter of institutional norms, though their internal processes may actually be against their spirit. There is thus a disconnect between the internal structure, and its apparent, 'external' and public depiction.

Figure 2 depicts that organizations display considerable heterogeneity at the time of their founding. This variance starts narrowing down under pressures of institutional isomorphism. However, once the field is legitimized and competitive pressures overshadow those of conformity, heterogeneity starts increasing again

due to different strategic responses. At one end of the continuum are organizations that are more efficient, remain competitive without violating institutional norms, and enjoy full legitimacy. At the other end are renegades who defy norms to attain greater competitiveness, thus achieving *efficiency* at the expense of *legitimacy*. Between these extremes are several strategic options that result in varying combinations of *efficiency* and *legitimacy*. These, however, show homogeneity within their respective clusters, and not uniform homogeneity. The stringency of the institutional environment has to be taken into account as it impacts strategy selection. The strategic responses have different effects on the internal and 'external' structures. These need to be viewed independently. Table 1 presents a typology of organizational responses to *conformity* and *competitive* pressures, under different levels of environmental stringency. It also shows the resulting effect on organizational legitimacy, competitiveness, homogeneity, and the internal and 'external' organizational structures.

Table 1
Effects of Strategic Responses on Legitimacy Competitiveness and Homogeneity

Institutional Environment	Organizational Efficiency	Option Adopted	Legitimacy	Competitiveness	Internal Structure	External Structure
Very Stringent	High	Compliance	High	High	Similar	Similar
	Medium/Low	Compliance	High	Medium/Low	Similar	Similar
	Medium/Low	Defiance	Low	Medium	Different	Different
Not Very Stringent	High	Compliance	High	High	Similar	Similar
	Medium/Low	Buffer/ Avoid/ Conceal	Medium	Medium/Low	Different	Similar
	Medium/Low	Defiance	Low	Medium/Low	Different	Different
	High/Medium	Manipulation	Ultimately High	High/Medium	Ultimately Similar	

Proposition 5a.

Organizations occupying an organizational niche will exhibit greater homogeneity within the niche than with other organizations outside the niche.

Proposition 5b.

Organizations during the competition phase will exhibit greater homogeneity within clusters that are differentiated by strategies adopted, than any ‘across the board’ uniform homogeneity.

Conclusion and Avenues for Further Research

This study has sought to synthesize the diverse views of organizational diversity from the perspectives of *population ecology*, *institutional theory* and *strategy literatures*. During the initial legitimation phase when organizations face intense conformity pressures, organizations exhibit greater homogeneity in their structures. However later, organizations adopt a variety of strategic responses to differentiate themselves from others in order to become more competitive. This leads to more diversity, but such diversity is not uniform. It depends upon the *buffering* and loose *coupling* strategy selected, taking into account the stringency of the institutional environment, and the extent of its existing organizational efficiency. Organi-

zations clustered as per their strategic responses and niches will exhibit more homogeneity within the clusters, but not across them. Several theoretical propositions have been evolved and a typology of organizational responses to *conformity* and *competitive pressures* is presented, which develops deeper insights into the resulting impact on legitimacy, competitiveness, and structural homogeneity. These hold promise of fruitful research through empirical testing and further refinement.

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