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Resource Dependency Theory

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**Resource Dependency Theory**

We now begin focusing on theories that are primarily concerned with the environment and how they influence organizational effectiveness and survival: resource dependence theory, network organization, and neoinstitutional theory. These theories and conceptual frameworks are relatively recent contributions to organizational research, most emerging in the literature in the 1980’s onward. All of these theories provide what Scott calls an “open systems” perspective on organizations (Scott 2003). Each of these theories will argue that there is no single best way to organize a corporation or to make decisions. The optimal course of action is always contingent (or dependent) upon the external situation of the firm. As such, the best way to organize a firm depends on the nature of the environment to which the organization relates. The theory we will discuss in this chapter is Resource Dependence Theory, and it views an organization in terms of its resource dependencies with other firms in the environment.

**Resource Dependency Theory Compared**

Given we have already covered a series of different theories, it may help to contrast them with the theory of resource dependence. So let us review a few and compare them: we will look at coalition formation, organizational learning and organizational culture, and we will discuss how they differ from the resource dependence perspective. In the earlier chapters, we learned about coalition formation and what it entailed. We learned that *coalitions* arise when multiple actors have inconsistent identities and preferences, and none of them can go it alone without the assistance of others. We read about “players” having their own interests and resources, and how they had to negotiate (or exchange and bargain) until they reached an agreement by which coordinated action could follow. We also learned that coalitions could be managed and formed through various processes of exchange and bargaining – like horse-trading and log-rolling. These exchanges were all pair-wise, or dyadic, and they aggregated within a group to form a shared goal and agreement. The time frame on these exchanges and agreements were narrow – as the coalition agreement was often fleeting.

Resource dependence theory is similar to coalition theory in that it concerns exchange and efforts to produce agreements. However, it differs from coalition theory in at least two important ways. First, it shifts the unit of analysis from coalitions of persons to *inter-organizational relationships of dependence*. Here, the concern is with a focal organization and its multiple resource dependencies with other organizations in the environment. Second, while coalition theory focuses on narrow windows of time specific to each transaction, resource dependence theory concerns *extended forms of exchange, or exchange relations*. An organization can form a wide variety of buffering or bridging maneuvers used to overcome persistent dependencies in the environment. For example, you will learn that when a company merges with another, it is often a means of absorbing dependencies and acquiring a degree of autonomy in the environment.

These dependence relations can also be asymmetric – in fact, managers of resource dependence actively seek ways to render other firms dependent on them, but not vice versa. So with resource dependence theory, we have an egocentric view of an organization trying to acquire the best exchange relations it can in an environment of many potential partners. In prior weeks we also discussed *organizational learning*. If you recall, organizational learning focused on how organizational participants adapted their practices within the firm as they engaged in the process of doing their work. This was facilitated by efforts to encode best practices into organizational memory and by communicating about practice in local communities of practice and by communicating outwardly in networks of practice beyond the organization.

Managers try to develop employee concern with improving practice and by forging social relations and interactions that facilitate knowledge experimentation and transfer. Most of the emphasis lies in local adaptations of routines – and as such, the argument is that internal application (learning
by doing) is the main means to understanding and expertise.

Resource dependence theory has some similarities with organizational learning. Like organizational learning, resource dependence theory focuses on the technological core of an organization. However rather than describe the internal process of practice improvement and knowledge transfer, it describes how the technological core of an organization is buffered from the environment. Resource dependence theory describes how the organization (as a sort of unitary actor) bridges with firms in the environment so as to garner autonomy and control. Hence, concern is placed on becoming effective in an external environment and by establishing certain SOP’s for resource exchanges with other firms. So the focus shifts from a mostly inward view to a mostly outward one.

In the last chapter we discussed organizational culture, and there the goal was to create an ideology or culture that members identify with personally, and managers used all sorts of strategies (rituals) to make that happen. Now of course, it’s possible that different paradigms of organizational culture (integrated, fragmented or ambiguous) will apply best to your firm’s goals or context – but the general argument is somewhat similar to that of organizational learning: adaptation is internal to the organization and not focused on external relations outside. Whereas for organizational learning, the effort was to generate relations and practices, here the effort is to engineer deeper social structures of cognition and norms. Here, managers worry about internal contingencies, like layering on a culture too thick and having organizational members reacting in resistant ways. For example, you recall Kunda’s worry about generating cynics. Managers have to balance the effort to prescribe a culture with allowing participants room for their selves. Otherwise, the participants relation to the culture will undermine its effect.

As such, organizational culture is inherently concerned with the process of sense-making and ritual performance. Standard operating procedures are viewed as practices, and deeper, broader sets of practices than perhaps organizational learning relates. By contrast, Resource dependence theory is not concerned with sense-making but with the selection of SOP’s that manage the firms resource dependencies in the environment. In a way, resource dependence theory is a step back toward the organizational process model. It brings our theories back up to the surface of ostensive rules and routines, and away from deeper forms of sense-making. Managers form and select SOP’s that concern relations in the environment; and they seek relations that create favorable exchanges – or favorable consequences. So resource dependence theory is also a shift back toward a logic of consequence in certain regards.

We can also discuss the prior theories in this textbook more generally – as natural systems, as compared to the open organizational system being characterized in resource dependence theory. A good example of this can be found in how prior theories described organizational uncertainty. It was something that arose within the firm, from inconsistent preferences, identities, unclear rules, routines, practices, and so on. Resource dependence theory is also concerned with organizational uncertainty, but it sees uncertainty as residing in the firm’s external relations of interdependence. When external dependence relations are not managed and coordinated well, they create uncertain conditions (if not unfavorable conditions) for the firm’s survival. Prior theories also regard dependence and uncertainty differently from resource dependence theory. For example, for coalition theory, dependence is not a problem but something sought after to make the coalition hold. And uncertainty or ambiguity is often reason for why a coalition stays together.

By contrast, in resource dependence theory, the firm tries to accomplish autonomy and certainty, and it does this by freeing itself from dependence on other firms and by forging contracts. Hence, whereas uncertainty and dependence are an asset to coalition formation, they seem to prevent firms from acquiring an advantageous resource position. In sum, the shift from immediate local exchange conditions within a firm, to externally sustained exchanges in the environment, seem to have different consequences and implications for each of our theories.
An Overview of Contingency Theory and Resource Dependence Theory

Let’s now briefly discuss the history and core features of the theory of resource dependence. Resource dependence theory, in part, grew out of contingency theory. Therefore it helps to understand the core features of that theory before going further. Contingency theory was a class of organizational theory from the 1950’s through the 1970’s that argued a firm’s optimal course of action was contingent upon the internal and external situation it found itself in. As such, contingency theory offered a natural and open system view of a firm. Perhaps the most complete characterization of contingency theory can be found in Thompson’s work (1967). He describes how firms need to buffer and protect their technical core from all sorts of internal and external disturbances that can disrupt its functioning. He affords several prescriptions on how to minimize these contingent problems:

- For example, managers need to seal off their technological core and buffer it from internal and external influences.
- Managers can prevent and reduce environmental uncertainty by distinguishing both the input-acquisition functions (such as supply) and output-disposal functions (such as sales) from the technical core.
- Internal strategies of the firm might include stockpiling and smoothing, or internalizing uncertainty through growth (thereby absorbing uncertainty).
- External Strategies include maintaining alternatives and minimizing dependence. Some specific aspects of this include cooptation, contracting, and coalescing (like joint ventures).

Resource dependence theory builds off contingency theory and greatly elaborates on maneuvers firms can use to manage disturbances in the external environment.

Resource dependence theory was founded by Jeffrey Pfeffer and Gerald Salancik. According to Pfeffer and Salancick, organization’s modify their boundary so as to manage disturbances in the external environment. The firm’s central goal is effectiveness in a context or environment (e.g., survival). This is different from Organizational Learning where internal efficiency and improvement is the focus.

Resource dependence theory is primarily focused on relations with the external environment, rather than on ones within the firm. As such, resource dependence theory views organizational conditions in a particular way. It presumes there is environmental determinism. This means an organization’s behavior can be explained by looking at its context, such as external constraints and controls. It assumes an organization’s specific goals are contingent on dependence relations keeping it alive (i.e., the relationships that secure its necessary resources). Within this context, the firm’s general goals are to find greater certainty and autonomy. From this it follows that organizations respond to resource dependencies in at least two ways: they comply and adapt to dependencies or they avoid & manage them.

What are the core features of resource dependence theory? One of the most important features of the theory concerns the resources involved and how they establish dependencies. To identify resource dependencies, it helps to ask - What are the key resources in an environment? Who controls the resources in question? Resources come in a variety of forms, they are valued differently depending on their importance and availability, and they differ in terms of who has discretion and control over them.

There are various types of resources firms depend on, such as physical materials. These might be actual materials the organization builds a product from. But firms may also depend on technical resources like information or knowledge as well. And last, they may depend on social resources, like prestige and reputation, that enable them to survive. All these resources can vary in value. On the one hand, their value can differ by the importance of the resource. Is it in demand - is it valued? Does the firm need the resource to survive? Is there a “critical” resource? For example,
What does Stanford need to survive? Does it need students? Does it require a physical location, books, teachers, students, money, heating, food? What can it live without? Is there demand for safety, healthy food, expert teachers, and awards? For example, what is the greatest demand of Stanford alumni – it is sustaining high SAT scores, winning national championships (prestige)? What resources are considered most and least important?

On the other hand, does the availability, or supply of the resource influence its value? Is the resource scarce? Do only some of the other organizations have it? How concentrated is the resource? Are there alternatives to the resource? Can another kind of resource be substituted for it? Who else has it? Let’s consider Stanford again – what does it offer that is unique and that no other can provide? Discretion over a resource also defines relations of resource dependence. Discretion is defined in two ways: First, who controls the resource? Can the exchange partner dictate how you use the resource? Is the resource regulated by the government (changing districting to increase resource / student pool)? Is your firm dependent on the supplier (materials and funds) or consumer (students / families)? Second, what controls dependencies? (laws) Are there copyrights or contract licenses (curriculum)?

In sum, resource dependence varies from a variety of factors: there are different types of resources, and they can vary in value due to their importance and availability. And then certain actors and institutions can control discretion over them. Now clearly, important and rare resources are of greater value. Moreover, actors and institutions that have the greatest discretion over them (and least amount of dependence) will be the most
autonomous and capable for forging certain rela-
tions with other firms in the environment.

Managing Resource Dependence

Once you understand the value attributed to
a resource and the game of resource dependence –
which is to be autonomous and establish benefi-
cial resource relations with the environment (on impor-
tant ones you control!) - a variety managerial
strategies follow. Some of the first managerial
strategies echo contingency theory: protect the
technological core from the environment via buff-
tering strategies – like coding, stockpiling, down-
sizing (or what some call, “removing slack”), ad-
vvertising (which showcases strengths), an so on.
None of these buffering strategies change the core
task and technology of a firm. They are more con-
cerned with putting SOP’s in place to manage the
organization’s boundary. Let’s take each strategy
one at a time:

1. First – firms can perform coding – Coding
occurs when an organization classifies inputs
before inserting them into the technical core.
Such preprocessing facilitates proper routing
and, if necessary, proper exclusion. For ex-
ample, many schools track and stream stu-
dents. This classifies inputs (students) into
homogeneous ability groups so as to buffer
instruction from uncertainty (when you have
students of wide ability, your technology – or
curriculum in this case – is variably received
and has uncertain effects.

2. Second, firms can buffer their core tasks by
stockpiling. Organizations can collect and
hold raw materials or products, thereby con-
trolling the rate at which inputs are inserted
into the technical core or outputs are released
to the environment. It is easy to imagine this
for raw materials like wood needed for furni-
ture manufacturing. But another example of
this can be found in universities. A good por-
tion of a university’s budget is dependent on
grants, but granting agencies can change the
amount of funding they make available, and
some years faculty fail to secure those funds
(so you have cycles of feast and famine!).
This is partly why universities are increas-
ingly concerned with securing endowments
and gift funds. Universities with large en-
dowments can stockpile funds and dip into
them during difficult times and maintain the
same number of students in their programs.

3. A third strategy entails leveling, or smooth-
ing. Leveling is an attempt by the organiza-
tion to reduce fluctuations in input or output.
Whereas stockpiling is a passive response,
leveling entails a more active attempt to
reach out into the environment so as to moti-
vate suppliers of inputs or to stimulate de-
mand for its outputs. Here, an example
might be a district (or even a university
again) advertising its strengths so that enroll-
ments and housing values stay high. By cre-
ating demand, they sustain inputs in a recess-
ion.

4. A fourth maneuver entails forecasting – If en-
vironmental fluctuations cannot be handled
by stockpiling or by leveling, organizations
may have to anticipate changes and attempt to adapt to them. For example, a university may foresee that their school will lack funds and look to identify sources for private funding – say, if a Republican candidate is expected to become president and slash the budget of the National Science Foundation or National Institutes of Health, then universities might develop relations with private foundations and industry partnerships as a means to buffer research and student training from these resource constraints.

5. The final buffering strategy involves adjusting scale. Here, the firm changes the scale of its technical core in response to information provided by forecasting, or for other reasons. A good example of this occurs when firms downsize programs, or when school districts get rid of performing arts and foreign languages but retain a focus on math and science. It is a drastic move, but it does not involve changing the nature of the technical core, rather just its size.

In addition to buffering the technological core from the environment, an organization can protect itself via bridging strategies. The goal of bridging strategies is to shape dependence relations in the environment. One can do this by negotiating with other firms, by selectively exchanging certain resources with them, by pooling resources across them (or partially absorbing other firms), or by performing mergers and totally absorbing other firms. These are all increasingly greater efforts at bridging. Let’s look at examples of each in turn.

The most minor bridging efforts, or rather pre-bridging efforts, arise in negotiation. The least costly means is to negotiate with other firms and evoke normative coordination – here behavior is regulated by common informal expectations that reduce uncertainty. In Pfeffer and Salancik’s work (1978:147-151) they give a nice story of a teacher union relating their demands to a school board: the union gives a list of six demands, the first five of which concern the quality of education (smaller class sizes, more preparation time, etc.), and the last concerns their salary. The school board approves 1-5, but not 6, since they regard the last one to be a private demand cloaked in socially legitimate trappings.

The norm evoked here is one of informal expectations about trust and honesty. The management’s job is to note where normative constraints affect dependence relations, noting whether they are beneficial, and if not, to seek ways to change them via persuasion. And that’s what happened when the school board rejected the teacher’s 6th demand. Unfortunately, normative coordination does not always work, and free-riding and opportunism can “burn” an organization (e.g., one assumes that teachers will not strike during school year, but that does not always happen). Hence, additional bridging efforts are typically sought.

A second pre-bridging tactic is to bargain. Here the manager uses a family of tactics to ward off impending dependence relations. The firms negotiate and exchange in an attempt to prevent the resource relation from becoming imbalanced. We saw this type of bargaining occur in the week on coalitions, so we can gloss over it here.

More serious forms of bridging involve exchange, or the mutual giving up of autonomy for an exchange of resources. Firms can do this through contracting. There, the firm attempts to reduce uncertainty by coordinating their future behavior in limited, specific ways. They define the rules of inter-organizational contact and exchange. Negotiated contracts are an excellent way to acquire greater certainty in environmental relations. For example, it does not hurt to have routine negotiation with teacher unions about their contracts so as to avoid strikes.

Another, form of exchange can arise via the creation of interlocking directorates. Here, members of competing organizations are given a position within the central organization that oversees them (e.g., a board of directors). By being on each other’s boards, the firms trade away their sovereignty in exchange for some mutual support. By giving external members a role, the organization accomplishes the partial co-optation of an external organization’s interests as their own, but also gives up some of its control. A focal organization may
then become more effective in an environment because they have coopted external members that might have control over resources central to its functioning.

For example, we had a student write up a case on Stanford’s Committee of Undergraduate Education when it was formed several years back (Pope 2006). The committee was trying to reform the undergraduate curriculum and it encountered a good deal of resistance from the environment and stakeholders. In response, the committee was organized via a “Noah’s Ark” model where they secured representatives from all the environmental stakeholder organizations: 1 undergraduate from the student council, 1 graduate student from the student council, etc. This opened up representation but also co-opted their dissent in the process. The administration gave up some control for greater effectiveness in the environment of vocal stakeholders.

Another form of resource exchange can arise in hierarchical contracts. These are contracts developed to manage dependencies via conditional clauses evoking hierarchical mechanisms to handle disputes. It is a contract that preserves and defines the rights of parties in case some problem of contingency arises. For example, it can be a clause for subcontracts ensuring full pay if the subcontractor does not come through. These are more complete and detailed exchanges or developed contracts.

A more extensive means of bridging with other firms can entail the pooling of resources across them. One means of accomplishing this is to engage in a joint venture. Here, two or more organizations create a new organization in order to pursue a common purpose. For example, two private schools pool their resources to create a day-care center to serve teachers and their children, thereby reducing the uncertainty of teacher attrition / retention.

Firms can also enter strategic alliances as a means of pooling resources. These are agreements between two or more organizations to pursue joint objectives through the coordination of activities or sharing of resources. For example, Berkeley and Stanford have a courtesy program where students can take courses at one another’s university.

Last, firms can join associations and cartels. Cartels entail more pooling and loss of autonomy, but they are also rare. Cartels like OPEC go above and beyond informal norms, and have actual means of sanctioning members for not following their decrees – they effectively act as a block of organizations. Notably, cartels are illegal in the United States.

![Horizontal and Vertical Mergers](http://commons.wikimedia.org/wiki/File:Horizontal_%28PSF%29.png)

Now firms also can perform a complete pooling of resources – or total absorption through mergers. This can arise in several forms. First, the firms can perform a vertical merger. Here, the firm extends control over exchanges vital to its operation. Hence, a high school would merge with a middle school, or a manufacturer / producer would buy out a supplier to get control and to create certainty of supply. Firms can also perform horizontal mergers. They can accomplish this by taking over their competition, thereby reducing uncertainty and increasing organizational power in their exchange relations. An example of this would be when one high school takes over another one so that it can benefit from economies of scale and pool resources. This actually arises sometimes in rural areas of the United States where a township high school is created as a merger of several smaller rural high schools. Last, one can engage in diversification. This is a Method for decreasing...
dependence by acquiring entirely different types of businesses. For example, I once observed a high school that took over a nonprofit dedicated to art. It became a museum and a school! I also saw a school that expanded into a private day care as well. Therefore, a firm can merge all its resources in several ways to bring itself greater autonomy and control over resources in the environment.

That is a lot of managerial strategies! They move from simple negotiation, to exchanges, to pooling and partial absorption, to complete mergers. I think it helps at this point to take a step back and ask what are the “general” managerial strategies one can take away from the resource dependence approach? I think there are two basic prescriptions. The first general strategy is to avoid resource dependence on other firms. This can be done by using buffering strategies like stockpiling, and engaging in long-term contracts that buffer your output. You can also try and change the legal rules and set regulations so as to manage competitive markets. It also makes sense to diversify, and to find substitutable exchanges (backups). A second strategy is to break your firm’s dependence on other firms (and to possibly create their dependence on you!). Here you can use secrecy, restrict information, begin an anti-trust suit, co-opt the controlling firm, acquire control over the input of the controlling organization (via something like a vertical merger), and set up rules of regulation.

**Forms of Dependence and Theory Limitations**

So you have two general approaches, and a variety of particular managerial strategies you can use to work your firm’s resource relations in the environment. Can we predict certain forms of dependence will arise if some of these strategies are used over others? Scholars like Richard Scott think so (2003:118-119). He predicts that certain managerial strategies will result in certain resource dependence relations. For example, some firms tend to assume a *symbiotic interdependence* – this occurs when two or more kinds of organizations exchange different resources. This can give rise to power differences if the resources exchanged are not of equal importance and value (A⇔B). An example of this might be *subcontracting* – where money is exchanged for expertise. Such symbiotic dependence (from moderate to extreme – see Scott page 212) corresponds with normative coordination, contracts and their clauses (hierarchical contracts); as well as joint ventures and vertical mergers.

Another form of dependence is *commensalistic or competitive*. This occurs when two or more organizations compete for the resources of a third party (A⇒C⇔B). This is often resolved by differentiation (one specializes and becomes a supplier, so there is division of labor and interdependence). An example of this might arise when multiple consulting firms *compete* for the same contract. According to Scott, competitive dependence arises under normative coordination, co-optation and the forming of interlocking boards of directors, trade associations, joint ventures, and horizontal mergers (where competitors merge).

Just like all the other theories we review in this textbook, resource dependence theory is not a perfect theory and it has certain shortcomings. Resource dependence theory assumes all organizations are more or less similar. They acquire resources in an uncertain world and are staffed by boundedly rational managers who seek to optimize both their own and the organization’s interests. But is that accurate? Do some organizations live outside the issues of resource dependence? (e.g., rich ones?)

What does certainty and uncertainty mean for resource dependence theory? Is dependence on social resources and knowledge less clear than dependence on money and materials? Resource dependence theory is purely resource and exchange-based, and it assumes there is clarity of value and importance. Unfortunately, the *value of a resource is often unclear* until well after the fact. Moreover, meaning-making / sense-making are lost on resource dependence theory. All tasks are related to efficiency and effectiveness. But what happened to *culture and mission*? Normative coordination is not thoroughly described in resource dependence theory and we find stronger characterizations in theories of organizational culture.
Last, all of these dependencies are described in pair-wise fashion. What about the larger network? Can the larger network pattern define opportunities and constraints? Can the network define norms and pressures better than relations of dependence?

Case: The Near Merger of Northwestern and the University of Chicago

In what follows, we will describe a case where two universities tried to perform a merger and failed. In the process of relating the case, we will review the main features of resource dependence theory and see how they apply to the case. In this manner, we hope you will get a better sense for how to apply the theory and recognize its strengths and limitations. The case we will relate was written by a historian, Sarah Barnes. She gives a nice account of the failed 1933 merger between the University of Chicago and Northwestern University – or what might have been the world’s first “super-university”. The merger effort arose during the great depression when both universities were undergoing financial difficulties. In many ways, the two universities were competitors in the city of Chicago for students, recognition, funding, and so on. Northwestern was situated on the north side of Chicago in a bucolic area overviewing Lake Michigan. It was a large undergraduate institution that mostly recruited locally and it placed a strong emphasis on applied programs like Journalism and Medicine. Like I said, Northwestern is in a bucolic setting. Very pretty, and the students seem to have lots of fun, even today.

In contrast, on the south side of Chicago in an urban neighborhood was the University of Chicago, a large graduate institution with an elite, national reputation and a strong emphasis on the pursuit of truth and theory. Now the University of Chicago is where I studied, and my recollection of the place (even in the 1990s) was that it still was a leading graduate school, and a very serious intellectual place; a wonderful place to learn, but often very somber. Back in 1933, the contrast between these institutions was quite stark. Northwestern had tax exempt status, Chicago did not; Northwestern had a safe neighborhood, Chicago did not; Chicago had prestige and reputation, Northwestern did not; Chicago was innovative, Northwestern was not. Chicago was international, Northwestern was local. Chicago was theoretical, Northwestern was applied. Together, the two could benefit from each other’s strengths and lose their weaknesses.

In addition, the merger has some financial benefits. Merging would save each university $1.7M in annual upkeep and better economies of scale. And both institutions seemed to recognize this, and the negotiation moved swimmingly along until they broadened representation on Northwestern’s review panel so as to begin vetting the merger with larger constituents. Alumni and resistant groups were now included, and they saw things as too rushed. When the two schools got down to details, the merger began to unravel: Chicago wanted to keep its college and undergraduate program, so that would still compete with Northwestern University’s program; and neither wanted to lose their medical school or education school.

The merger also fell apart because a key proponent on the Northwestern University board of trustees died. Also, when the Northwestern University review panel expanded, damaging news and gossip leaked into the press upsetting alumni. The gossip was to the effect that the merger was “already decided”, that it was a “takeover”, that it was a “last ditch effort by Hutchins to save his “failed” presidency”; that “NW would lose it’s identity”, etc. The discourse was partisan and both social support and public focus on the mutual gain fell asunder.

So what can resource dependence theory tell us about this case? Let’s briefly review resource dependence theory again. When does resource dependence theory apply? It has relevance to a case when there are focal organizations interested in decreasing competition, increasing autonomy, increasing power, and (possibly) increasing efficiency. The main mode of organizing action is to scan the environment for resource opportunities and threats, attempt to strike favorable bargains so as to minimize dependence and maximize auton-
So far, this seems to capture Northwestern University and the University of Chicago. Resource dependence theory also characterizes organizational elements in certain ways. The technology (or what brings about changes in dependence), is focused on external adaptations in order to increase autonomy and/or decrease dependence (see management). The participants are focal organizations and the organizations that have resource interdependence with. The goal of a firm is survival through external adaptation, and this is accomplished by establishing certain relations that place the focal organization in control or with greater autonomy. The social structure focuses on inter-organizational relations, and the effort is to manage standard operating procedures and to perform bargaining / politics on these relations. And finally, the environment is central. The focus is on exchange partners and external relations more than internal dynamics. All of these characterizations of organizational elements also seem applicable to our case.

Last, a manager guided by resource dependence theory would perform some buffering strategies, like the stockpiling resources, leveling with advertisements, forecasting where their needs will be, and adjusting

Case: Merger of Northwestern University and the University of Chicago.
the scale of their core technology. They will also bridge with other firms to bring security to the organization within a competitive environment. The bridging strategies they will use can entail negotiation and long-term contracts, partial absorption and sharing of resources, such as in forming joint ventures and alliances, or total absorptions via company mergers. Here too we see aspects of merger, co-optation, adjustment of scale in the case.

So let’s apply resource dependence theory to the case. The Chicago-Northwestern merger is clearly a case where the environment is uncertain and problematic for both universities. It is also a case where the two organizations explore a horizontal merger (or in secrecy, an effort to co-opt) between competitors. In theory, the merger would entail some buffering, where each university downsizes their core technology losing their worst programs but keeping their best. But then they combine in a complementary form that would have an improved economy of scale. The merger would have made for an unparalleled “super-university”. One can only image what it could have been by combining the strengths of the two campuses!

So why didn’t it happen? Does resource dependence theory give us an explanation? Let’s apply our concepts and elaborate the theory’s application to each school and see. For Northwestern, the proposed technology of organizational change was the merger and how it might increase economies of scale (making the university more efficient and autonomous) and minimize some of the problems related to the great depression. The larger size of the combined university could also lead to increased diversification, thereby increasing the university’s autonomy in the environment. The participants at Northwestern were Walter Scott, the board of trustees, outside consultants, faculty, alumni, and the press. The goal of Northwestern was to become an ideal university, where they increased their positioning and quality of education via improving their applied programs in professional and community practice. The network of supporters centered on president Scott and a key Board of Trustee member, but then opponents emerged in the School of Education, the Medical School, and their College of Liberal Arts – all of whom wanted to get a fair deal from the merger. Other stakeholders enter later due to press leaks. These are alumni, and they are mostly opposed. The deeper belief structure at Northwestern sought to promote service, social pragmatism, and utilitarianism. These were in stark contrast with the University of Chicago, as you will see next. The environment in which Northwestern found itself was one of a major economic downturn hurting all aspects of the university.

Let’s next look at the University of Chicago. Chicago, like Northwestern, saw the merger as a means of increasing economies of scale, making the university more efficient and autonomous, and minimizing some of the problems related to the great depression. The larger size of the combined university would also lead to increased diversification, thereby increasing the university’s autonomy in the environment. The participants at Chicago were Robert Hutchins, Chicago’s board of trustees, an outside consultant, faculty, alumni, and the press. Chicago’s goal, like Northwestern’s, was to develop an ideal university. But here the goal was to increase the sustainability of the university by increasing the quality of education via the pursuit of theory and truth. Moreover, Chicago had an elite focus instead of an applied one. Chicago’s mission was also more developed and frequently voiced by the charismatic president Hutchins.

The social structure and values of Chicago were quite different from Northwestern. Hutchins was a strong leader, so it was a more centralized decision structure. In addition, Chicago valued graduate training far more than undergraduate training. Last, its professed beliefs rested in the pursuit of theory and truth, and an idealization of the “Great Books”. Northwestern, on the other hand, viewed Chicago as an Easterner funded (Rockefeller) school led by elitist, idealist (Hutchins). The fact that its goals clearly aligned with its practices and beliefs, served to form a relatively integrated university culture at Chicago. The environment for Chicago was much like that
### Resource Dependence, Chicago-Northwestern Merger (1933):

Summary/Basic Argument -- The resource dependence perspective suggests that organizations seek to avoid dependence and uncertainty. When does it apply?

<table>
<thead>
<tr>
<th>Key Elements</th>
<th>Resource Dependence Theory (RDT)</th>
<th>Northwestern University</th>
<th>University of Chicago</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Technology</strong></td>
<td>External adaptations in order to increase autonomy and/or decrease dependence (see management).</td>
<td>Merger would increase economies of scale (making the university more efficient and autonomous) and minimize some of the problems related to economic cycles. The larger size also leads to increased diversification – thereby increasing autonomy.</td>
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</tr>
<tr>
<td><strong>Participants</strong></td>
<td>Focal organization and other organizations with resource interdependence.</td>
<td>Walter Scott</td>
<td>Robert Hutchins</td>
</tr>
<tr>
<td><strong>Goals</strong></td>
<td>Goal is organizational survival through external adaptation (for certainty and autonomy).</td>
<td>Increase the sustainability of the university, educate and train citizens.</td>
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<tr>
<td><strong>Social Structure</strong></td>
<td>Formal roles, standard operating procedures, inter-organizational bargaining / politics. (note: coalition approach emphasizes individuals and interests. Here, the organization is the main actor and exchanges are with other organizations.)</td>
<td>Undergraduate and graduate programs. Evaston Campus, Downtown Campus, Trustees, Deans, Alumni, Students. Coalitions/Opponents: School of Education, Medical School, and College of Liberal Arts. Cognitive / Normative: Service, Dewey pragmatism, utilitarianism.</td>
<td>Undergraduate and graduate programs. Trustees, Deans, Alumni, Students. Cognitive / Normative: Theory/Truth, Idealism and “Great Books”</td>
</tr>
<tr>
<td><strong>Environment</strong></td>
<td>Key component of the perspective. Exchange partners and external relations more salient than internal dynamics; Bridging more relevant than buffering.</td>
<td>Major economic downturn hurting all aspects of the university. Supposedly, economic pressures were greater for Northwestern than for Chicago. Influence of the media/press,</td>
<td>Major economic downturn hurting all aspects of the university. Influence of the media/press,</td>
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<td><strong>Management Strategies</strong></td>
<td>Buffering: protecting technical core from environmental threats (coding, stockpiling, leveling, forecasting and adjusting scale). Bridging: security of entire organization with relation to the environment. Total absorption via merger (vertical, horizontal, and diversification), partial absorption (cooptation [vertical or horizontal], interlocks, joint ventures, strategic alliances, associations)</td>
<td>Horizontal merger</td>
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for Northwestern. Chicago was experiencing major economic woes that hurt all aspects of the university. However, these economic pressures were supposedly greater for Northwestern than for Chicago.

In sum, simply identifying the organizational elements and how they are characterized in the case reveals how the two organizations differed. They had very different social structures and goals, and Chicago was slightly less financially dependent on the environment than NW.

Let’s consider the different managerial concerns these two schools had. For Northwestern there was much to be gained from the horizontal merger, but also some to lose. There were certain resources it wanted to retain. It wanted to retain the tax break it got (a buffer) as part of its charter. It was willing to lose its graduate programs if it could retain its applied professional schools and undergraduate program. In exchange it would get an elite graduate program and international prestige. In addition, it would co-opt its regional competition for students, faculty, funding, etc.

Chicago on the other hand wanted the benefit of Northwestern’s tax break. But it was not very willing to lose its professional programs and undergraduate college. It wanted to keep its school of education, medical school and college—Chicago was working for an edge! In some regards, Chicago saw the merger as an opportunity to move its less desirable programs off-site (applied programs). Last, it saw this as a chance to co-opt its competition and form a world-leading super-university.

Resource dependence theory would approach this case with a focus on the different levels of dependence. And it would cite those levels as a reason for Chicago’s more aggressive approach and the merger failure. It would note that Chicago tried to change the rules of the merger toward a more asymmetric contract and that Northwestern saw this as a violation of normative coordination. Other theories seem to help with the details of this case. The internal workings of each school’s deciding bodies are better characterized by coalition theory. There we can see how the build-up to a contract and merger required a good deal of political wrangling. Also, the death of a key player at Northwestern seems central, at least as presented by Barnes. Moreover, coalition theory can help make sense of all the camps for and against the merger at either school. So coalition theory may help explain how the internal mobilization efforts fell apart while resource dependence theory helps explain why the two universities approached the merger differently and incompatibly for a merger.

However, mergers are often somewhat asymmetric, so the issue becomes how asymmetry got in the way. My sense is that neither resource dependence theory nor coalition theory are well-tuned to the deeper “cultural” differences in the two universities that likely played a huge role. The distinctive, highly valued cultures of each university made it imperative for the merger to proceed in an equal form or long term contract even though Chicago may have had the greater resource advantage. Moreover, Chicago had a more pronounced and integrated intellectual culture at that time, and it may have made Hutchins and the Chicago camp over-value their notion of a university and make them approach the merger more as a takeover than a pooled effort. In this manner, the two sides never came to an agreement.
<table>
<thead>
<tr>
<th>When does it apply?</th>
<th>Summary or Basic Argument</th>
<th>Key Organizational Elements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Organizational Learning (OL)</strong></td>
<td>When does it apply?</td>
<td>Exists when there are clear feedback loops, adaptations, memory, and support of actor-expertise / adaptations of rules to local reality.</td>
</tr>
<tr>
<td><strong>Organizational Culture</strong></td>
<td><strong>Summary or Basic Argument</strong></td>
<td>Actors seek expression and fulfillment of identity, and organizational culture is the medium for such expression/sense-making.</td>
</tr>
<tr>
<td><strong>Resource Dependence Theory (RDT)</strong></td>
<td><strong>Summary or Basic Argument</strong></td>
<td>Focal organization with input/output concerns that cannot be resolved without considering the environment. For the most part, organizations are considered unitary actors (some of the struggles/internal divisions are minimized) in order to highlight the interactions with suppliers and clients.</td>
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</table>

**Key Organizational Elements**

<table>
<thead>
<tr>
<th>Technology (how solutions get decided)</th>
<th>Participants</th>
<th>Goals (what probs to resolve)</th>
<th>Social Structure</th>
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<tbody>
<tr>
<td><strong>Technology</strong></td>
<td><strong>Participants</strong></td>
<td><strong>Goals</strong></td>
<td><strong>Social Structure</strong></td>
</tr>
<tr>
<td>Internal adaptation, or where actors alter routines for the better and fit reality (knowledge).</td>
<td>Members of organization doing work / SOP's</td>
<td>Application problems – pattern recognition not there (no fit).</td>
<td>Informal, lateral relations, communication, negotiation, &amp; collective improv. Actor identities (demand) important. Network of practice (professional identity / reach) &amp; community of practice (cohesive group).</td>
</tr>
<tr>
<td>Matching, sense-making / meaning-making, or where actors seek to express beliefs, norms, and values via a variety of practices and externalize them in artifacts depicting shared understandings / notions of appropriateness.</td>
<td>Actors within the organization, and those salient to meaning-making.</td>
<td>Create intrinsic motivation (sense of fulfillment), and remove differentiation / cynicism in most cases.</td>
<td>Deep structure composes the elements of culture – themes (beliefs &amp; norms), their expression via practices (rituals, etc), and their manifestation or expression in artifacts (reports, mission statements, etc.).</td>
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<thead>
<tr>
<th>Environment</th>
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<tbody>
<tr>
<td>Source of inter-organizational knowledge / tricks / transfers.</td>
<td>Many elements of culture have origins from outside, and they are transported in, then translated to the local culture.</td>
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<th>Dominant Pattern of Inference</th>
<th>Management Strategies</th>
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<tr>
<td>Action = result of local actors collaborative search (trial &amp; error / transfer) and adapting rule to situation.</td>
<td>Find ways to confer ideology and lead others to identify with it (using a variety of practices and artifacts), but don't make it so explicit / fanatical that cynicism emerges. Give room for autonomy and self-expression so distancing is unnecessary, and encourage members to generate a culture of their own (org learning culture NE to Tech culture which is top-down engineered).</td>
</tr>
<tr>
<td>Action = result of deep structure or culture that is generated in the organization, but which is mediated by the member’s relation to it.</td>
<td>Buffering: protecting technical core from environmental threats (coding, stockpiling, leveling, forecasting and adjusting scale). Bridging: security of entire organization with relation to the environment. Total absorption via merger (vertical, horizontal, and diversification), partial absorption (cooptation [vertical or horizontal], interlocks, joint ventures, strategic alliances, associations).</td>
</tr>
<tr>
<td>Action = scan environment for resource opportunities and threats, attempt to strike favorable bargains so as to minimize dependence and maximize autonomy / certainty.</td>
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References


