

Chapter 2

Decisions and Organizations

Abstract This chapter explores the study of decision-making within organizations in the political science literature as part of institutional performance. The chapter builds upon a simple analytical model that combines the theory of human rationality underlying each approach to organizational decision-making, and the way institutions are perceived to influence human decisions.

2.1 Introduction

It is widely agreed that World War II marks a boundary between at least two different ways of analyzing and interpreting institutions and organizations. Despite a major methodological change was already challenging the whole social and behavioral sciences since the 1930s—specially at the University of Chicago—, the war implied also a further change in its scope and objects. In particular, it implied a rapid refining and deepening of the application of statistical methods to social phenomena (cf. Almond 1998). This change included the way institutions and organizations were viewed, studied, and analyzed.

From a pre-war organization theory that focused on “orderliness in organizations, for example, a clear division of labor and departmentalization based upon it” (Simon 1996b, p. 73), the “new” theory called attention to the actual processes which led members of organizations to make their decisions. These processes included, among others, emotions, motivation, cognition, and organizational structure. Herbert Simon’s doctoral dissertation about decision-making processes in administration—first published as *Administrative Behavior* (Simon 1947)—had a lead role to play in this change.

His was not though the first attempt to deal with organizations as decision-making processes,¹ but it certainly was a foundational work that enabled the explosion of studies regarding decision-making within organizations after World War II, amidst the behavioral revolution in social sciences such as economics and political science.

¹ Simon himself pointed out this fact in his dissertation citing Barnard’s *The Functions of the Executive* (Barnard 1938) as one of the first *deviations* from the mainstream theory of administration. Elsewhere (March and Simon 1958; Simon 1996a) the influence of John R. Commons’ *Institutional Economics* (1934) in his theory of rationality is also acknowledged.

Table 2.1 Contrast between political theories neglecting the role of institutions and the behavioral approach. (Source: March and Olsen 1984)

Approach	Basic principles	Behavioral view
Contextual	Politics is an integral part of society; the polity is not differentiated from the society	A separated analysis of organizations is both possible and necessary
Reductionist	Political phenomena are aggregate consequences of individual behavior	The outcomes of the political process are ascribed to organizational structures and rules of appropriate behavior
Utilitarian	Action is the product of calculated self-interest	Political actors also respond to duties and obligations
Functionalist	History is an efficient mechanism for reaching uniquely appropriate equilibria	Possibilities for maladaptation and non-uniqueness in historical development
Instrumentalist	Decision making and the allocation of resources are the central concerns of political life	Political life is organized in more ways, namely around the development of meaning through symbols, rituals, and ceremonies

Whilst this approach served as an incipient but solid source for several and relevant works on organizational behavior that founded the currently spread theories of organization and firm behavior (e.g., Cyert and March 1955; Cyert and Simon 1956; March 1955, 1956; March and Simon 1958; Simon 1957), its impact in the political science or economics during the second half of the twentieth century should not be overweighed (Rubinstein 1998). In point of fact, some commentators contend that there was a time when institutions and organizations were forgotten by dominant *coteries* in political science (March and Olsen 1984). Reflecting on this question, Rothstein (1998, p. 139) claims that in approaches such as “structural-functionalism, system analysis, group theory (whether pluralist or élitist)—and, later, economic approaches such as neo-marxism—formal political institutions played little or no role”.

This neglect of institutions has been approached in various ways. As an example, March and Olsen (1984) described at least five ways in which institutions were diminished in their relevance for political phenomena analysis. Table 2.1 summarizes their statement opposing the basic principles of these approaches regarding human political and social action to those elaborated by behavioral theories of human action.

During the immediate post-war period, three basic factors favored neglecting institutions and organizations from political analysis. First, in the context of (neo)Marxist analyses of some cataclysmic events in recent human history—war, fascism, communism, Nazism, etc.—political theories tended to focus upon isolated features of the political process such as “authoritarian personality” or “State capitalism”. This bias is quite apparent in the work of some of the leading authors of the so-called Frankfurt School, such as Franz L. Neumann, Arkadiji Gurland, Otto Kirchheimer, and Max Horkheimer (Jay 1996).

The second factor was the development of a number of theories of political behavior within the behaviorist revolution in political science. In effect, classical behaviorist contributions were hardly focused on the decision-making processes that lead to political behavior. For instance, Easton (1965) centers his analysis on “political life as a system of behavior”—building on Talcott Parsons’ “system” frameworks (Almond 1998, p. 73)—rather than on the individual as such system. Moreover, while Verba (1965, p. 513) affirms that “the political culture of a society consists of the system of empirical beliefs, expressive symbols, and values which defines the situation in which political action takes place”, behaviorist analyses of political culture (Pye and Verba 1965) tended to approach the phenomenon in such a way that it enabled systematic and comparative analyses—responding to the behaviorist emphasis on the need for comparison for the achievement of a science of politics (Easton 1953)—thus leaving aside the study of the processes by which people create those empirical beliefs, symbols, and values.² Other classical examples of this approach were the studies on different aspects of democracy, whether focusing on its strict political conditions (Dahl 1956), its social and economic requirements (Lipset 1959, 1983), or the conditions under which it can be destroyed (Linz 1978). As a consequence, a reduced number of studies on the relation between organizational structure and individual decision making may be found in this literature.³

The third and last factor was promoted by new developments in game theory (von Neumann and Morgenstern 1944) and statistical decision analysis (Friedman and Savage 1952; Savage 1954). The application of their techniques definitely contributed to an important branch of political science—generally referred to as Rational Choice Theory—that assumed individuals were independent actors that tried to maximize their preferences behaving strategically in a world free from institutions (Rothstein 1998, p. 140) and abstracted to the extent that it was virtually considered to be only furnished with other people’s utility functions.

As a matter of course, these two last approaches provided political science with a set of powerful analytic tools. As to the analysis of decision making, game theory and statistical decision analysis provided those tools mostly through an advanced use of statistics and mathematical models.⁴ Their models were good and sophisticated predictors of what an ideal rational agent would do in an ideal organization-free situation. Nevertheless, doubts have been cast regarding their ability to work as predictors of actual political decisions (Blais 2000), which are inevitably made in institution-mediated environments. The reasoning is that they do not work as predictors of actual

² Reflecting on the origins of political culture studies, Almond and Verba (1989, p. 15) state that “[t]he development of statistical analysis made it increasingly possible to establish the patterns of interaction among attitudes, the relations of social-structural and demographic variables to attitude variables, and the relations of attitude variables to social and political behavior.”

³ Yet efforts were devoted to the study of the operation of particular organizations (e.g., Lipset 1983, pp. 387–438).

⁴ As an assessment of this fact, see, for instance, Oskar Morgenstern’s foreword to the first edition of Davis (1997).

decision situations in so far they do not search about the decision-maker's goals, motives, and capabilities, as they are considered to be already "given" (Allison and Zelikow 1999).

Yet a new interest in institutions has been announced and cheered in profusion (March and Olsen 1984; Powell and DiMaggio 1991; Olsen 2001; March and Olsen 2006).⁵ A number of compilations reveal that this institutional revival has brought a great deal of different research programs not only in political science, but also in sociology (Scott 1995) and economics, the latter redefining the role of institutions on exchange (Williamson 1981, 1985; North 1990), the role of the state in the development of capitalism (Barzel 2002), and developing a new theory of the firm (Coase 1937, 1998; Williamson 2002). We also learn, though, that the authors who fit in this "movement" do not share a unique approach to institutions (Peters 1999), and that this discord has produced a number of "schools" dwelling in this so-called "new institutionalism" (Hall and Taylor 1996).

New institutionalism has been usually interpreted as a more realistic account of organizations, in reaction to an atomistic approach to "action as the product of goal-oriented, rational individuals" (Simon 1997), and to an "abstract, asocial conception of the contexts in which these goals are pursued" (DiMaggio and Powell 1991).

In the social sciences, this approach implied (a) the clear aim to construct theory and use quantitative data, (b) the analysis of "actual behavior rather than only [. . .] the formal, structural aspects of institutions" (Peters 1998), and (c) the concern with outcomes and decisions. To give a longer cite, March and Olsen (2006) argue that new institutionalism

connotes a general approach to the study of political institutions, a set of theoretical ideals and hypotheses concerning the relations between institutional characteristics and political agency, performance, and change. Institutionalism emphasizes the endogenous nature and social construction of political institutions. [. . .] [Institutions] are collections of structures, rules, and standard operating procedures that have a partly autonomous role in political life.

Furthermore, these authors consider that this new approach is more realistic in the way it "tries to avoid unfeasible assumptions that require too much of political actors, in terms of normative commitments (virtue), cognitive abilities (bounded rationality), and social control (capabilities)" (March and Olsen 2006). Yet this chapter is aimed at showing that this assertion is rather optimistic in the sense that not all new institutionalist approaches try to overcome these "unfeasible assumptions".

Actually, some excellent reviews of the work done under the label *new institutionalism* tend to focus either on the differences between the new and old institutionalism (DiMaggio and Powell 1991), or on the different research programs and alternatives this approach lends to fields such as political science (March and Olsen 1984, 2006) or sociology. However, less effort has been devoted to study and compare the different

⁵ See also Heclo (2006) for an excellent account of the American academic atmosphere that surrounded the fall and rise of institutions in the social sciences.

basic assumptions that underlie a varied number of approaches to decision-making in an organizational environment.⁶

In reality, while it is naturally assumed that each approach implies (a) a particular theory of human rationality, and (b) a particular interpretation of the way organizations affect human behavior, a thorough review of the literature according to these two variables is, as far as we know, still lacking.

Therefore, our aim in this chapter is *not* to give an accurate account of the historical development of new institutionalism, notably because this work has already been mastered by others—e.g., Thoenig (2000), plus the already cited March and Olsen (1984); DiMaggio and Powell (1991) and March and Olsen (2006). *Nor* shall we review all the different approaches to institutional analysis in current political science, since such an accurate analysis would lead us far beyond our scope.

Instead, we shall focus on the treatment of decision-making in political science literature as part of institutional performance, and this analysis will take into account both the theory of human rationality underlying each approach to organizational decision-making, and the way institutions are perceived to influence human decisions.

Yet before starting our work, a couple of comments ought to be made. First, this study is not concerned with the problem (if any) of discussing the meaning of the term *organization*. Instead, we will set out an operational definition from the beginning. Since our approach to organizations emphasizes the central role played by decision-making, the definition of *organization* that will be used also contemplates decision-making as a central point. *Organization*, therefore, might be now stated as “the pattern of communications and relations among a group of human beings, including the processes for making and implementing decisions” (Simon 1997, p. 19). The idea behind this definition has been embraced by authors from both behavioral and rational-choice theories. For instance, the idea that organizations provide order and predictability may be found in March and Olsen (2006) and Downs (1957) alike. In addition, March and Olsen (2006) defend that “[t]hey fashion, enable, and constrain political actors as they act within a logic of appropriate action”, and that they “simplify political life by ensuring that some things are taken as given”.

On the other hand, it is also important to point out that *organization* and *institution* should not be confused, adopting operationally the distinction usually accepted in institutional economics. According to North (1990), organizations may be viewed as “groups of individuals bound by some common purpose to achieve objectives”, while institutions can be defined as “the rules of the game”, so that it is the institutional framework in a society what influences “both what organizations come into existence and how they evolve” (North 1990). And inversely, organizations do cause changes in institutional framework.

In these terms, the Spanish judicial system can be viewed as an organization or group of organizations (including the Ministry of Justice and the General Council of

⁶ But see Rothstein (1998).

the Judiciary), while the on-call service in lower courts may be seen as an institution. This knowingly contrasts with the rooted use of the term *institution* to refer to public organizations that is widely spread in most civil law countries and their legal and social sciences communities. Nevertheless, the distinction is in itself not entirely relevant for the development and understanding of the arguments in this book. Therefore, confusion is not expected if readers relax this “demarcation criterion” and think of these terms as quasi synonyms.

2.2 Decisions and Organizations: A Classification

Among the different ways to analyze organizational and institutional performance, one of them has been the way institutions affect and shape actors’ preferences and which strategies organization members follow to reach their goals. For instance, Rothstein (1998, 146–152) draws a theoretical line along which he situates different scholars’ theories. According to this line, one extreme would be occupied by William Riker’s theoretical individualism, which denies any role to institutions in shaping individuals’ preferences (e.g., Riker 1976). The other extreme would be populated by authors such as March, Olsen, DiMaggio, and Powell who have developed ideas such as “organizational culture” in order to explain the ways in which the preferences of organization members are influenced by the organization structure.

Although Rothstein (1998) does not further elaborate his approach populating the whole line with non-extreme approaches to the issue, the idea of the theoretical line happens to be a useful tool.

The question of how the organization structure influences agent’s preferences is directly related to the question of how agents decide to make certain decisions within their organizations. For, if actors decide according to their preferences, the way institutions affect actors’ preferences will be of utmost interest. Moreover, in each analysis of the way humans perform decisions underlies a theory of human abilities to gain the knowledge necessary to create the preferences that lead to decisions—i.e. rationality. Therefore, these two intertwined issues—organization influence and theory of rationality—should in our opinion be considered—along with the data that supports each proposal—in order to assess the contribution of both our own and others’ analyses to organizational decision-making.

A simple way to broadly classify different approaches to organizational decision-making according to both variables may be creating four basic categories that define broad, extreme values of these variables (Model 1), as shown in Table 2.2. According to it, OI– means that organizational influence in decision-making is either ignored or denied; OI+ means that organizational influence is either implicitly assessed or explicitly analyzed; and TR+ means that the theory assumes that human beings are utility maximizers (*olympic rationality* (Simon 1983)), while TR– means that the theory assumes that individuals are only capable of a limited rationality.

Table 2.2 Model 1
classifying decision-making
analysis according to
organizational influence and
theory of rationality

		Organizational influence	
		OI–	OI+
Theory of rationality	TR+	A	B
	TR–	C	D

Table 2.3 Model 2
classifying decision-making
analysis according to
organizational influence and
rationality theory

		Organizational influence		
		OI–		OI+
			OI+(+)	OI+(–)
Theory of rationality	TR+	A	B	E
	TR–	C	D	F

Certainly, this classification is simple, perhaps too simple. In effect, given that our interest here is to perform an analysis of the relation between rationality and organizational influence in decisions, OI– approaches (A and C) should be excluded. Notice that while the binary form of facing the problem of human rationality in the classification is rather neat and clear, the distinction between approaches acknowledging organizational influence (B and D) is rather poor. In actuality, the “organizational dimension” would require not only to acknowledge whether organizational factors must be accounted for in decision analysis (this is the criterium already proposed), but also the nature of this influence of the organizational factors in cases when it is affirmed. While the first dimension is clearly (though simply) represented in the model, the second one is not.

This nature of organization influence upon actors’ preferences and, ultimately, upon decisions might be viewed from at least two very different perspectives. First, it could be viewed *negatively* in the sense that organizations normally shape preferences (a) selecting what alternatives are presented and discussed, and (b) setting the order in which these alternatives are presented and discussed. *Negative* influence, then, is not to be interpreted as though authors from this group make (negative) value judgments on the way organizations affect preferences (though they sometimes do). Instead, it means that institutions somehow limit the span of alternatives available in a decision situation, and thus they *constrain* human rational decision-making. The second view could *positively* assess the role of organizations by saying that organizations are tools made by humans in order to cope with a complex reality, and that they offer humans stable patterns of events that help strengthen human rationality. Again, this does not imply that authors in this group necessarily consider this situation desirable (though they sometimes do), but that organizations somehow *expand* human rational decision-making.

Taking these distinctions into account, a new classification might be created that incorporates the nature of organizational influence. Model 2—shown in Table 2.3—makes the distinction according to the direction of the organizational influence in decision-making. Thus OI+(+) is to be interpreted as a *positive* influence in the terms specified above, and OI+(–) is its *negative* counterpart.

Table 2.4 Model 3 classifying decision-making analysis according to the nature of organizational influence and rationality theory

		Organizational influence	
		OI+(+)	OI+(-)
Theory of rationality	TR+	Maximum rationality/ organization enhances decisions	Maximum rationality/ organization limits decisions
	TR–	Bounded rationality/ organization enhances decisions	Bounded rationality/ organization limits decisions

According to this model, approaches belonging to the group *A* and *C* would either ignore or deny any organizational influence in actors’ premises (preferences, knowledge, etc.) before deciding. As already noted, they shall not be reviewed here. Group *B* would be populated with authors that, though considering human beings capable of a maximum of rationality, also consider that the organizational environment somehow enhances their ability to make decisions.

Group *D* is constituted by theories of organizational decision-making that consider organizational influences as enhancers of human rational capacity, and at the same time affirm that humans are capable of only a limited rational behavior. Group *E* is formed by authors who defend that while humans are perfectly rational, organizations/institutions limit their span of alternatives in various ways, thus altering the possibility to reach optimal options. Finally, group *F* is populated with authors who think that while humans are only capable of a bounded rationality, institutions limit even more such a capacity by limiting the span of alternatives they may choose upon (see Table 2.4).

In this chapter the further theoretical background around decision-making in political science shall be set forth according to this distinction (Model 3). First, we will review the rational choice theorists’ approach to decisions and institutional performance, which assume maximum rationality (*B*, *E*). Second, we will deal with different views of bounded rationality in political analysis (*D*, *F*).

2.3 Rational Choice Theories

In this section those approaches that assume perfect rationality in humans are reviewed regarding their assessment of institutional or organizational factors in decision making. Under the common label *Rational Choice Theory* we include similar approaches that have received names such as public choice (Mueller 1997, 2003), positive political theory (Riker and Ordeshook 1973), and applications of social choice theory and game theory (Austen-Smith and Banks 1998). First, the theory of rationality underlying those approaches will be briefly presented as a set of basic

principles and assumptions on human beings. The two last subsections are devoted to review two different views of the role of organizations in decisions.

2.3.1 Foundations

The origins of the application of the notion of perfect rationality in political science may be found at the roots of the so-called rational choice theory. According to a couple of well-known proponents of this approach, the role of rational choice theorists is “to build models that predict how individuals’ self-oriented actions combine to yield collective outcomes” (Amadae and Bueno de Mesquita 1999, p. 270).

Nevertheless, in a deeper sense, two different sources—both just after World War II—may be found that explain this general aim of rational choice theories. On the one hand, a first source was the realization that computers were capable of symbolic processing (Simon 1996b), and thus computer programs could be created that “would properly model those mental processes involved in intelligent human behavior whatever they may be: information search, problem solving, learning, invention or creativity” (Casanovas and Noriega 2007, p. 16).

On the other hand, a different (though related) source was game theory, developed after World War II by John von Neumann and Oskar Morgenstern.

In effect, the application of game-theoretical approaches to political science and, in particular, to international relations is one of the keys to interpret the popularity of this theory of rational decision among political scientists until our days. The other is the elegance of their theory of decision.

Most models in this stream of political analysis start with a set of prior assumptions (Bennett 1995):

- Players: there must be two or more, whether they are individuals, groups, or nations.
- Strategies: each player of the game has a set of strategies that represent possible courses of action.
- Outcomes: a set of possible outcomes or solutions of the game.
- Preference functions: each player has a preference function that links a possible outcome with the player’s utility.

Some early formulations of the rational-choice approach in political science felt strongly attracted to this view of human rationality, following the basic scope and methods of their leading counterparts in economics. But a particular elaboration of this set of assumptions for political science was not fully developed until the end of the 1950s, Anthony Downs and William H. Riker perhaps being the most prominent and cited representative authors of this shift.⁷ In different ways, both authors set up

⁷ A comprehensive account of the origins and theoretical or historical development of this approach to political phenomena is not attempted in this book. See Riker (1961) for an early bibliographical

the theoretical framework (Downs 1957) and most of the analytic tools (Riker 1958, 1962) upon which mainstream rational choice theories were and still are built and developed.

A foundational approach in modern political science such as Downs' *An Economic Theory of Democracy* (Downs 1957) combined a "neoclassical" approach to rationality with an account of how both individuals and organizations behaved in the political process. But while Downs' contribution to the theory of rationality is very modest (the basic neoclassical assumptions remain untouched in his *An Economic Theory of Democracy* (1957)), it certainly implied a momentum in the analysis of democratic societies, thus embodying a new and fresh look at political behavior.

Downs' notion of rationality draws directly on Kenneth Arrow's view of economic rationality (Downs 1957, p. 6): "A rational man is one who behaves as follows:

1. he can always make a decision when confronted with a range of alternatives;
2. he ranks all the alternatives facing him in order of his preference in such a way that each is either preferred to, indifferent to, or inferior to each other;
3. his preference ranking is transitive;
4. he always chooses from among the possible alternatives which ranks highest in his preference ordering; and
5. he always makes the same decision each time he is confronted with the same alternatives."⁸

As to institutions, Downs argues that "the government provides the framework of order upon which the rest of society is built" (Downs 1957), which is a close formulation to that of Herbert A. Simon (1983) who—as we saw in the Introduction—views organizations as providing "a stable environment [. . .] that makes at least a modicum of rationality possible".⁹ In particular, Downs sees political order as a guarantee to reduce uncertainty in choice, in the sense that a stable political order—i.e., a stable institutional or organizational environment—provides the individual with an acceptable degree of prediction regarding other people's actions. Yet Downs does not go beyond this point as far as institutional analysis is concerned. Instead, such organizations as political parties or governments are presented in his model as rational, power-seeking agents, thus obviating any reference to organizational or institutional factors affecting decision-making in some way.

Downs' model contains a number of relevant methodological assumptions. First, it assumes a radical methodological individualism according to which collective behavior must be viewed as aggregate individual actions. In order to account for

review of some aspects of it (elections and aggregating of preferences), and see Amadae and Bueno de Mesquita (1999) for a historical review. General discussion may be found in Elster (1986).

⁸ Arrow (1963) [1951] had broadly defined *rationality* as the behavior that satisfies his axioms I and II, i.e., the principles of connection (comparability) and transitivity between alternatives. See Arrow (1963, p. 11–21) for a full explanation.

⁹ Yet as we shall see later on Simon linked the organizational structure to rationality.

Frameworks for Modeling Cognition and Decisions in
Institutional Environments

A Data-Driven Approach

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