EXPLOITING INSTITUTIONAL CHANGE: ENTREPRENEURSHIP IN THE LEGITIMATION OF NEW ORGANIZATIONAL FORMS*

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ABSTRACT

In this paper, we develop predictions about how individuals can take advantage of institutional change to promote new kinds of organizations. Drawing on a strategic narrative of the early management-consulting industry, we explain how form entrepreneurs can theorize new organizations as "solutions" to the "problems" arising from institutional change. We then argue that the legitimacy of these new organizational forms is increased when form entrepreneurs draw on established categories of external expertise, maintain affiliations to the loci of this expertise, cultivate ties to social elites, demonstrate selflessness, and engage in boundary-defining collective action. Our theory building directs attention to the social processes involved in the legitimation of new forms, and highlights the active role of form entrepreneurs as agents of social change.

Institutional change – a shift in the structures and activities that stabilize social life – creates opportunities for individuals and groups to promulgate new kinds of organizations. As established structures, relationships, and logics crumble and new ones arise, resources are freed, core assumptions are questioned, and new social problems emerge. This presents a fertile environment for form entrepreneurs – actors who create and promote new kinds of organizations that can achieve new kinds of collective goals. In this paper, we elaborate a framework to explain the emergence of new organizational forms and develop testable propositions about how form entrepreneurs are able to legitimate them. How do entrepreneurs take advantage of wider institutional change to promote new organizational forms? What kind of strategic actions do they take to legitimate their new forms *vis-à-vis* alternatives?

Organizational scholars recognize that new organizational forms represent an important source of social change. But prominent theories of the spread of new kinds of organizations have under-emphasized the role of self-conscious and purposeful action in this process. For example, in the density-dependence model of organizational ecology, organizational forms become legitimate through replication (Hannan and Freeman, 1989; Hannan and Carroll, 1992). Most versions of this model do not consider changes in the wider institutional context or how actors might exploit these changes (for an exception, see Ruef [2000]). Institutional approaches, in contrast, mostly view organizational forms as legitimate to the extent that they accord with general social rules, norms, and values (Meyer and Rowan, 1977), and accordingly give considerable attention to the role of institutional change in creating opportunities for new forms to emerge (*e.g.*, Palmer, Friedland, Roussel, and Jennings, 1990; Dacin, 1997). But, as in organizational ecology, institutional research has placed little emphasis on how actors use institutional skill (Fligstein, 1997) to perform the institutional work (DiMaggio, 1988) required

to legitimate new organizational forms. For the most part, institutionalist studies of purposive action have focused on changes in established organizational fields (*e.g.*, Hoffman, 1999; Greenwood, Suddaby, and Hinings, 2002) or on the emergence of new technologies and practices (*e.g.*, Maguire, Hardy, and Lawrence, 2004), rather than on the expansion of new organizational forms *per se*.

In this paper, we elucidate *the kinds of actions form entrepreneurs take in theorizing and promoting new kinds of organizations*. In contrast to economic arguments about organizational forms that presume that the most efficient forms will dominate, we take seriously arguments that new organizational forms require active justification and promotion (*e.g.*, Aldrich and Fiol, 1994; Granovetter and McGuire, 1998). Our core thesis is that entrepreneurs are central to the establishment and expansion of new organizational forms, and we focus on their role as active agents in the legitimation process. Building on Strang and Meyer's (1993) notion of theorization – the self-conscious development and specification of abstract categories and the purposive formulation of patterned relationships – we argue that form entrepreneurs develop and specify abstractions that help observers understand and appreciate new forms. These entrepreneurs also forge relationships that legitimate forms and accelerate their expansion. Our ideas about form entrepreneurship are compatible with recent institutionalist studies that conceive of the social construction of new organizational forms as social movements and examine how actors mobilize support for their ventures by manipulating cultural frames (*e.g.*, Fligstein, 1996; Rao, 1998; Rao, Morrill, and Zald, 2000). But we extend this line of work by considering a broader tool kit (Swidler, 1986) or repertoire of strategies of action that form entrepreneurs can use in the theorization and promotion of their novel organizations.

We base our theory-building efforts on a rich description of early management-consulting firms, culled from an extensive reading of the history of the field. This historical account is intended to sharpen, illustrate, and ground our arguments, not to provide an empirical test. It constitutes a strategic narrative, a technique that Stryker (1996) suggested as a fruitful way of using history to build theory (for other examples, see Kieser, 1989; Rao, 1998; Hargadon and Douglas, 2001). Because it lets us examine multiple instances of form entrepreneurship over an extended period of time, this strategic-narrative approach can provide greater breadth of knowledge than participant observation or interviews (Rao, 1998: 921).

We begin by discussing two concepts that are central to our theory-building effort, *organizational form* and *legitimacy*. Then, to situate our arguments, we outline how institutional change created the opportunity (although not the necessity) for management-consulting firms to emerge and expand. Next comes the core of our paper: the development of propositions regarding the institutional work done by form entrepreneurs in the theorization and promotion of new organizational forms. We ground these propositions in rich descriptions of the actions taken by management-consulting pioneers. We conclude by discussing how these propositions could be tested empirically, how they generalize to other settings, and what insights they offer for theory and practice.

CORE CONCEPTS

Organizational Form

Organizational scholars have traditionally delineated organizational forms in two primary ways: (1) using *observable features*, such as formal structure, authority relationships, and technologies (Weber, 1947 [1924]; Scott, 1975), and (2) according to existing *social distinctions* (Hannan and Freeman, 1989). While both approaches have been fruitful, they have important

shortcomings. The first approach assumes that organizational forms can be defined in exclusively structural terms, without regard to existing social distinctions, while the second approach does not offer a strong, theoretically-motivated way to distinguish between forms.

Recently, institutional theorists have tried to ameliorate these deficiencies by identifying organizational forms according to *institutional logics* – the socially-constructed sets of beliefs and values upon which forms are based. For example, Greenwood and Hinings (1996) referred to "underlying interpretive schemes," or beliefs about domain, structure, and evaluation method. Haveman and Rao (1997) identified various forms of thrifts according to their "theories of moral sentiments," or institutional logics comprising opinions, beliefs, and judgments. Clemens (1993) examined the multiple models of organization adapted by political interest groups from unions, clubs, parliaments, and corporations. Ingram and Simons (2000) identified workers' cooperatives according to their "comprehensive world views" about the propriety of social arrangements.

In their search for a more powerful definition of organizational form, ecologists have moved in a similar direction. Pólos, Hannan, and Carroll (2002: 89) argue that all social forms, including organizations, are based on *identities* or *social codes*, which they define as "recognizable patterns that take on rule-like standing and get enforced by social agents." The socially-coded identity inherent in an organizational form comprises both rules of conduct and signals to internal and external observers. Rules of conduct generate an imperative standing for members of an organizational form by delimiting what all organizations embodying that form ought and ought not to be and do, while signals generate a cognitive understanding about members of an organizational form because they define what all organizations embodying that form are understood to be and do. In empirical work consistent with this approach, Ruef (2000: 658) identified organizational forms in health care by the "positioning of their identities" with

respect to one another, while Carroll and Swaminathan (2000) assessed mass-producer and specialty brewers' "interpretations" of the rise of microbreweries and brewpubs and the ways brewers deployed their form identities to educate and challenge consumers.

Our theory-building efforts are guided by both of these notions: that organizational forms are essentially embodiments of institutional logics that require legitimation, and that organizational forms are identities that generate validation (or censure) from internal and external actors. We view organizational forms as "structural incarnations of beliefs, values, and norms that emerge *in tandem with new institutions*" and believe that "the creation of all new organizational forms requires an institutionalization project, *wherein the theory and values underpinning the form are legitimated by institutional entrepreneurs*" (Rao and Singh, 2001: 245-246, emphasis added). We also recognize that the creation and promotion of new kinds of organizations requires form entrepreneurs to construct coherent identities using rules and signals that will be understood and approved by key observers.

Legitimacy

The construct of legitimacy has also been considered extensively in organizational theory. Among institutionalists, the dominant view is that legitimacy is a *generalized perception that the actions of an entity are desirable, proper, and appropriate* (Suchman, 1995: 574; see also Scott, 2001: 59). This idea has two origins. The first is Weber's (1978: 31) explanation that a legitimate social order involves activities that are perceived as more than purely expedient or customary, but also obligatory or exemplary. The second is Berger and Luckmann's (1967) thesis that social reality is constructed by social interaction, *i.e.*, through language and cognition. In this second view, legitimacy is unquestioned acceptance or taken-for-grantedness. Ecologists' conceptualization of legitimacy is closer to this latter view – an organizational form is said to be

legitimate to the extent that "relevant actors see it (perhaps implicitly) as the natural way to effect some kind of social action" (Carroll and Hannan, 2000: 223).

Legitimacy is a continuous variable rather than a dichotomous state (Tolbert and Zucker, 1996). The greater the legitimacy of an organizational form, the less likely that the existence of any member of that form will be actively questioned or require active justification and the more it will be taken for granted and accepted as normal by external actors. Legitimacy affects access to resources, including funding, participation of skilled personnel, raw materials, and distribution channels. Highly legitimate organizational forms are said to be highly institutionalized, as "their survival is not dependent … upon recurrent collective mobilization" (Jepperson, 1991: 145). In this way, gaining legitimacy reduces the amount of institutional work that an organization's principals must perform. In support of this proposition, empirical research has shown that legitimacy can hasten the spread of new organizational forms (Hybels and Ryan, 1996) and enhance the survival prospects of organizations that embody new forms (Ruef and Scott, 1998).

Given its value, how is legitimacy attained? Suchman (1995) and Stryker (1994, 2001) identified three bases of legitimacy, and thus three pathways to legitimation: instrumental (pragmatic), normative, and cognitive (see also Scott [2001]). First, legitimacy can rest on a pillar of expedience, instrumentality, and cost-benefit logic – the extent to which an organizational form is seen to provide valued outcomes to its constituents, such as oversight agencies, employees, customers, and creditors.[1] The instrumental pathway to legitimacy is utilitarian: a new organizational form is justified based on its functional appeal to constituents who scrutinize its activities to determine the practical consequences for themselves. Second, the normative basis of legitimacy rests on whether a form embodies the right thing to do.

[1] Instrumental or pragmatic legitimacy is broader than Scott's (2001) notion of regulative legitimacy, as instrumental legitimacy encompasses the self-interested calculations of *all* constituents, not just the sanctioning of regulatory bodies.

Organizational forms gain legitimacy to the extent that they accord with broadly accepted norms, values, and belief systems present in society (Meyer and Rowan, 1977). Normatively legitimate structures not only pursue socially-desirable goals, they also employ appropriate and acceptable means to those goals. Finally, the cognitive pathway produces legitimacy by orienting constituents to a single institutional logic or identity at the expense of others. Cognitively legitimate organizational forms take on a common social account of their existence and purpose that is characterized by objectivity and exteriority (Berger and Luckmann, 1967). This basis of legitimacy relies on preventing actors from recognizing, much less accepting, alternatives and thus making the focal organizational form seem necessary and inevitable.

What role do form entrepreneurs play in the legitimation of new organizational forms? While recent institutional and ecological studies have explored the role of actors in effecting change in established fields or in instituting new practices or technologies, we focus on how entrepreneurs work to have their new organizational forms seen as "desirable, proper, and appropriate" (Suchman, 1995: 574) within their social setting.

THE MANAGEMENT-CONSULTING FORM

Our theorizing about how entrepreneurs can legitimate new organizational forms is grounded in an historical account of management consulting in the United States. While the term management consulting is often used loosely, for the purposes of this paper we refer to the management-consulting form as an ideal type of organization that embodies a particular logic and social code. This logic and code are rooted in the assumption that organizations face complex problems relating to efficiency, coordination, and control that can best be solved by independent experts from outside the organization. These experts – management consultants – diagnose and suggest remedies for organizational problems, but do not assume responsibility for

ultimate firm performance. In essence, management consultants provide a professional service to their clients, much as do doctors, lawyers, and accountants. Like other professionals, management consultants act as trusted advisors and abide by standards of practice; for example, by protecting the confidentiality of engagements. This conceptualization of the logic and the social code underpinning management consulting – what management consultants do and do not, why they do what they do, and how it is valuable – is consistent with formal definitions offered by industry participants, such as the often-cited one from Greiner and Metzger (1983: 7; see also Canback [1998] and Kubr [2002]):

> Management consulting is an advisory service contracted for and provided to organizations by specially trained and qualified persons who assist, in an objective and independent manner, the client organization to identify management problems, analyze such problems, recommend solutions to these problems, and help, when requested, in the implementation of solutions.

Management consulting is an excellent context in which to ground theories of new organizational forms. Prior to World War I, there was essentially no management-consulting industry to speak of (Higdon, 1969; McKenna, 1995). But by 1945, the industry was well established and on the cusp of a golden age that would see it reach the highest levels of government and spread to educational, charitable, and religious domains (McKenna, 1995, 1996). Jobs within the industry became among the most sought-after in society. By the end of the century, thousands of management-consulting firms existed and industry revenues were estimated at over $100 billion (Kennedy Information, 2003: xii).

This growth from nothing to great social and economic prominence presents a puzzle. As one industry participant (Canback, 1998: 3; emphasis added) put it:

> Despite current popularity and astounding growth rates, management consulting remains one of the least researched and written about industries… We *take for granted* that the industry should exist and function the way it does. Yet [its growth] cannot be easily explained.

In fact, at the turn of the twentieth century when the first consulting firms were founded, the prevailing view was that managers were born, not made, and that corporate leadership was the realm of captains of industry rather than professionals (Chandler, 1962; Cochran, 1972: 13). Despite the highly organized efforts of Frederick Taylor and other proponents of scientific management (Barley and Kunda, 1992; Guillén, 1994; Shenhav, 1999) and the somewhat less organized efforts of vocationalists and pioneering personnel managers (Jacoby, 1985), it was far from accepted wisdom that managerial skills could be learned or even applied in any systematic way, and the concept of consulting to top management about how to run their business was entirely novel (Klein, 1977). In other words, management consulting did not emerge easily or inevitably from scientific or personnel management (McKenna, 1995). Instead, this new organizational form had to be explained and justified.

Perhaps more importantly, there is no legal imperative for organizations to hire management consultants. Indeed, as Ernst and Kieser (2002: 47; emphasis in original) put it, "the consulting explosion is impressive enough by itself. What makes it more remarkable, however, is the fact that nobody actually *has* to employ a consultant: unlike lawyers or accountants, consultants may be contracted or not." The fact that many organizations *do* hire consultants is made even more puzzling by the fact that the tangible benefits of doing so have never been clearly established. In fact, a recent survey found that 82% of clients were disappointed with their management consultants, and concluded that "companies are laying out tens of millions, and there's no objective evidence on any of this [consulting activity]" (see Reingold, 1999).[2]

[2] The efficacy of management consulting is a matter of great debate, but that is not a central issue here. We merely note that discussion about the industry suggests considerable dissatisfaction with management consulting, and that there exists no hard evidence that consulting provides an efficient solution to

Finally, clear alternatives to management consulting exist and are commonly used. For instance, organizations could "do it themselves." This could take two forms: line managers could evaluate and solve their own problems, or organizations could establish internal consulting groups.[3] Both alternatives were certainly feasible when the first management-consulting firms were founded, because there were two rapidly growing populations of at least partly professionalized employees who could have competed with external consultants to solve problems of control: industrial engineers (the practitioners of scientific management) began to appear in American corporations toward the end of the nineteenth century (Barley and Kunda, 1992; Guillén, 1994; Shenhav, 1999), while specialized personnel managers appeared shortly before World War I (Jacoby, 1985). Bendix (1956: 216) estimated that the ratio of administrative to production workers in the American economy rose from about 8% in 1900 to about 18% in 1928. Thus, around the time the pioneering management-consulting firms were founded, American corporations and government bureaus had a sizeable and rapidly growing pool of internal talent on which to draw to handle management problems.

In fact, a transaction-cost analysis of this basic make-or-buy decision (Williamson, 1985) suggests that in most circumstances, internalized managerial problem-solving arrangements would be superior to hiring external consultants. The people who have to diagnose and solve an organization's problems must know a great deal about that organization's business and must cope with the high levels of uncertainty that stem from the inherent complexity of their organizational "patients." This combination of high asset specificity and uncertainty increases coordination and monitoring costs as well as the possibility of hold up – the chance that a

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organizational problems (see, for example, Clark and Fincham [2002]).

[3] Our goal here is not to provide a detailed analysis of the alternatives to management consulting and their relative benefits. Rather, it is simply to demonstrate that viable alternatives exist, and that management consulting as an organizational form should not be seen as somehow necessary or its spread as inevitable.

consulting firm will be able to use the knowledge it has gained about a client organization to extract future benefits. Indeed, a leading consultant recently wondered "why managers would want to give away so much of their intellectual agenda to outsiders," and questioned "whether it is more cost-effective to hire experts from the outside than to do the same work internally" (Canback, 1998: 5).

In sum, from its inception in the early 1900s, the management-consulting form became widespread and generally accepted – even highly respected. But it has done so without clear demonstration of efficacy and despite the availability of alternative forms to accomplish its core task, namely to solve management problems. This, we think, presents an interesting context in which to explore the kinds of actions involved in the legitimation of new organizational forms.

INSTITUTIONAL CHANGE AND FORM ENTREPRENEURSHIP

It is well established that institutional change creates opportunities for new organizational forms to emerge and expand (*e.g.*, Stinchcombe, 1965; Palmer *et al.*, 1990; Fligstein, 1990; Ruef, 2000). Our primary focus here is on how form entrepreneurs *use* these opportunities, rather than on how opportunities arise in the first place. We build on work that emphasizes the skills of entrepreneurs in mobilizing resources in ways that advance their interests (*e.g.*, Lounsbury and Glynn, 2001; Garud, Jain, and Kumaraswamy, 2002; Maguire, Hardy, and Lawrence, 2004), but we focus specifically on how entrepreneurs theorize and promote new organizational forms rather than on how change agents reshape established fields or institute new practices. We summarize our orienting framework in Figure 1, with reference to the case of management consulting.

[Figure 1 about here]

While our propositions focus on the second and third elements of Figure 1 – theorization and promotion – a clear understanding of the actions taken by form entrepreneurs in management consulting requires that we describe the context of institutional change within which they operated. Accordingly, we first describe how opportunities for management consulting arose in the early twentieth century.

Institutional Change: The Creation of Opportunity

Form entrepreneurs require a resource space within which to act. In the case of management consulting, we locate the genesis of this space in the expansion of the corporate form of organization.[4] From the late nineteenth century to the early twentieth century, the American economy shifted from consisting largely of small, family-owned enterprises to being dominated by large, investor-owned corporations whose ownership was dispersed among many stockholders (Berle and Means, 1932; Chandler, 1962, 1977; Fligstein, 1990; Roy, 1997). Prior to this transformation, most businesses (except railroads) were owner-operated and consisted of single-product, single-unit operations. Before the Civil War, manufacturing was done on a small scale, often revolving around the family and undertaken in family residences, and there was little formal management in the contemporary sense; most of the few large factories in existence at that time were textile mills. After the Civil War, however, this began to change as businesses expanded both the scale and the scope of their operations. Then, from 1897 to 1904, the first great wave of horizontal corporate mergers took place; at the same time industrial firms began to integrate vertically (Chandler, 1977; Roy, 1997). The years following World War I saw a second

[4] Of course, other institutional changes during this period (*e.g.*, the rise of business education and the business press) precipitated the expansion of management consulting (David, 2001). But our task here is not to provide an analysis of how institutional change creates opportunity for entrepreneurs, as this has been the focus of much prior work. Rather, we illustrate how a fundamental change in the nature of American business allowed management-consulting form entrepreneurs to theorize their new types of organizations.

wave of industrial mergers and by 1930, corporations of a size unfathomable at the turn of the century had emerged (Chandler, 1990; Fligstein, 1990).

As a consequence of growth, often fuelled by merger, corporations became increasingly diversified and geographically dispersed. All large firms, even those that did not diversify or expand internationally, were forced to decentralize and develop systems for coordination and control (Cochran, 1972; Chandler, 1977; Fligstein, 1990). To create and maintain these systems, new kinds of managers occupying new kinds of positions were needed. Divisional managers became responsible for carrying out the functional strategies of their units and reporting to the corporate office. Middle managers, meanwhile, had to devise new ways of administrative coordination between top management and operating units (Chandler, 1977). Finally, corporate managers were charged with coordinating the various divisions, monitoring their performance, and allocating resources (Chandler, 1990). Corporate expansion also meant that for the first time, owners no longer administrated their enterprises, and full-time salaried executives came to dominate large corporations. This separation of ownership and control created a need for managers to justify their decisions and demonstrate accountability to owners that were often not closely involved with their enterprises (Berle and Means, 1932).[5] The benefits of industrial consolidation may have been obvious to owners and managers (*e.g.*, Edwards, 1979; Roy, 1997) but the problems of coordination and control were generally unanticipated consequences.

In sum, by the 1920s, American business organizations had attained a scale and level of complexity never seen before. They maintained far-flung operations, served geographically-dispersed customers, developed diverse product portfolios, and sought to capture growing markets. But they did not possess the necessary formal structures, communication and control

[5] The developments we describe were most pronounced in the U.S., where management consulting experienced its most rapid growth. Other developed nations – France, Germany, and Japan for instance – have until recently experienced these changes to a lesser extent (Fligstein, 1990; Chandler, 1990).

systems, or managerial skills to control or efficiently manage their operations (Fligstein, 1990). This situation created a gap, or what Seo and Creed (2002: 231) termed an "institutional contradiction," which allowed form entrepreneurs to mobilize, appropriate, and recombine resources to create and promote their new enterprises. The expansion of the corporate form had created an opportunity – but not the inevitability – for consulting firms to emerge and grow.[6] Indeed, other scholars who have studied the bureaucratization of American corporations in this era have tended to focus on the growth of management hierarchies *inside* employing organizations, rather than external consulting (*e.g.*, Bendix, 1956; Edwards, 1979; Jacoby, 1985).

Form Theorization: Problem-Solution Framing

If institutional change creates opportunities for new organizational forms to emerge and expand, how do form entrepreneurs react? In the case of management consulting, how did the founders of early management-consulting firms take advantage of the transformed American corporate landscape? Our effort to answer these questions begins with Strang and Meyer's (1993) notion of theorization: the development and specification of abstract categories and the formulation of patterned relationships. Theorization accelerates the diffusion of innovative practices and structures by elucidating the "virtues involved, in terms of standardized notions of efficiency or justice or progress" (Strang and Meyer, 1993: 497). In an organizational setting, it involves specifying a "generic organizational problem" and justifying "a particular formal structural arrangement as a solution to the problem" (Tolbert and Zucker, 1996: 183). Actors

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[6] Ruef (2002) also discussed changes in corporate America that favored the spread of management consulting. His focus, however, is on a later time period than ours. For example, he highlights the corporate downsizing and reduced careerism that occurred in the second half of the twentieth century. The *initial* opportunity for management consulting occurred with the changes in the late nineteenth and early twentieth century that we describe here.

theorize when they identify broad classes of situations as comparable and motivate the practices of their ventures as effective and replicable (Nee and Strang, 1998: 712).

In the case of management consulting, the shift from small, local, family-owned enterprises to large, geographically dispersed, and diversified corporations created unprecedented organizational problems, and management-consulting pioneers theorized their new organizations as *solutions* to these problems.[7] We illustrate how this was done using detailed case histories of three of the earliest known management-consulting firms: Booz, Allen & Hamilton, Arthur D. Little & Company, and McKinsey & Company.[8] The founders of each of these organizations engaged in similar theorization: each pointed to organizational problems related to efficiency, and claimed the ability to solve these problems in an objective and expert manner.

In 1914, Edwin Booz founded a two-person venture called Business Research Service, which he promoted as an objective provider of expert solutions to organizational problems. In 1917, Booz claimed in promotional material that his firm was the first of its kind in the Midwest to undertake independent business investigations. After World War I, Booz promised to increase organizational efficiency through "reorganization and perfecting of the business method." A brochure offered a "national service for business houses by expertly analyzing production and distribution problems." In 1926, Booz published a leaflet promising solutions to 25 problems related to organizational complexity, such as "How can we improve our methods of hiring, training and development?" and "How can I relieve myself of too much detail?" Additional

[7] In no way do we wish to imply that the proposed "solutions" were the most effective or efficient means of addressing the "problems." In fact, we emphasize that both were socially constructed.

[8] Unless otherwise stated, the historical information and quotations concerning Booz and his firm are from Bowman (1984), those concerning McKinsey and his firm are from Wolf (1978), and those concerning Arthur Little and his eponymous firm come from Kahn (1986).

promotional material promised to bring to bear "related experience," in an "unbiased fashion" to save firms "money, time, and worry."

With large businesses facing problems of coordination and control, Booz and his firm offered a promising solution. For example, in 1925 Booz undertook a landmark five-year consulting project for U.S. Gypsum – the same firm whose later labor unrest was chronicled by Gouldner (1954). This firm had expanded rapidly to become one of the largest in the nation at that time, and Booz reportedly organized, inspired, and "whipped into shape" its 150 managers. Other early clients of his firm included Goodyear Tire and Rubber, the Chicago Daily News, Montgomery Ward's, and the Stock Yards National Bank, all of which were expanding. Booz spent considerable time "probing and tinkering" with these firms, looking for "soft underbellies and festering sores," and "nosing around companies" whose leaders "had problems but could not ascertain what they were." In short, he promised to address many of the problems stemming from organizational growth and complexity.

Like Edwin Booz, James O. McKinsey believed that businesses of the day were grossly inefficient, and zealously sought to address this problem. In 1926, while teaching at the University of Chicago, he founded his own firm, James O. McKinsey & Company. McKinsey developed a comprehensive diagnostic tool called the General Survey Outline, a 30-page instrument that evaluated a firm's policies, structure, personnel, controls, facilities, financial condition, and industry outlook. This diagnostic tool allowed top managers to gain a holistic view of their operations, something for which no formal systems were yet in place. McKinsey's firm grew rapidly during the late 1920s and early 1930s. In 1935, he landed a high-profile project to conduct a comprehensive analysis of prominent retailer Marshall Field, which was

incurring large losses due to unsuccessful diversification. There, he was credited with systematizing office methods, rooting out waste, and simplifying operations.

Like Booz and McKinsey, Arthur Dehon Little founded an organization that offered solutions to organizational problems. The firm began in 1886 as a chemical testing laboratory; but as American businesses began to manufacture consumer goods on a unprecedented scale, Little began to offer managerial advice related to procurement and production processes. In 1904, the company's letterhead read "Analysis, Research, Advice, Expert Reports, and Expert Testimony." The firm barely survived its early years; on several occasions, Little almost dissolved his business, demonstrating the precarious nature of the nascent organizational form. But in 1911, Little landed a major consulting contract with General Motors to overhaul their research-and-development function. In that same year, his firm advised United Fruit on production processes. A short time later, an advertisement in trade journals asked "Are your materials standardized?" and in 1916, Little was hired to overhaul the procurement function of the Corbin Shoe Company, a project that aimed at lowering the costs and improving the quality of that company's raw materials.

As these illustrations show, form entrepreneurs in the early management-consulting industry claimed to address the problems facing corporate organizations in an expert and objective manner. By the outbreak of World War II, the form had taken hold; indeed, Dean (1938: 451) declared that "management counsel has become an important institution in our business world," and attributed this development to "the increased complexity and difficulty of the problems of management." Essentially, form entrepreneurs had used the tension caused by the changed organizational landscape to advance a new organizational model that embodied their

assumptions, beliefs, and values, and had convinced corporate leaders that they could benefit from this model.

Basis of expertise. What was it that made the claims of early consulting pioneers legitimate to their clients? As Strang and Meyer (1993: 498) noted, theorization of new forms must be credible and persuasive for diffusion to occur. Forms must be presented as both instrumentally and normatively appropriate (Tolbert and Zucker, 1996). Historical evidence from early management-consulting firms suggests that one way to legitimate new organizational forms is to base the solutions they offer on established domains of expertise.

Edwin G. Booz based his solutions on psychology, which was already established as a science. Booz had a master's degree in this discipline from Northwestern University.[9] He believed that organizations could use the latest psychological techniques to evaluate and train managers. One of the principle consulting tools he developed, known as the multi-vector appraisal, used psychological metrics to identify ineffective executives and find replacements. This appropriation of external expertise, we argue, helped validate his proposed claim of helping organizations manage their decentralized and diversified operations.

James McKinsey was an accountant by training and had strong ties to that profession. He fought to establish accounting as an aid to management rather than as an end in itself (Wren, 2005: 248). In 1922, McKinsey published a landmark textbook called *Budgetary Control*, in which he fervently argued that accounting should emphasize "a comprehensive understanding of the entire organization" and should be seen as "an integrating device for gaining a broad understanding of the problems of administration." His principal consulting tool, the General Survey Outline, was rooted in this philosophy and essentially served as a form of management

[9] His master's thesis was titled "Mental Tests for Vocational Fitness." It was completed under the tutelage of Professor Walter Dill Scott, a pioneer in the field of industrial psychology.

audit that provided a systematic means of evaluating large and complex organizations. It applied principles of accounting to the management function, just as Booz had done with psychology.

Finally, Arthur Little rooted his consulting activities in the natural sciences. Little had studied chemistry at M.I.T, although he never graduated, due to lack of funds. Prior to founding his own firm, Little was managing a paper mill, having shown an ability to improve the processing of wood pulp. Little and partner Roger Griffin founded their firm in 1886, at a time when "industry and science were comparative strangers." Little lamented this disjuncture and fought with zeal to have science, especially chemistry, recognized as a vital component of industrial progress. He believed that science could make organizations more efficient by improving operations and allowing larger scale production.[10] In fact, Little stated in 1908 that "in this stage of our industrial development no agency is more directly available for increasing efficiency that that afforded by chemistry as applied to industry." On his role in making science work for clients, Little claimed that he "had the power to generalize" and "the capacity to apply," and he set out to convince the industrial world that science was essential to progress.

By incorporating socially-accepted categories of expertise in their proposed solutions, form entrepreneurs in the nascent management-consulting industry appealed to the value of technical rationality. This contributed to the legitimacy of the form, because by the start of World War I most businessmen (and women) had internalized the goals of Progressivism – namely, to impart efficiency and integrity to government and industry (Hofstadter, 1955; Wiebe, 1962). The approach taken by consulting pioneers was thus similar to that of form entrepreneurs in consumer watchdog organizations, who appropriated the logic of scientific testing and related their activities to those of home economics professionals (Rao, 1998). By piggybacking on notions of technical rationality – and, by extension, social progress – form entrepreneurs make

[10] Based on this logic, Little's firm would later pioneer the field of Operations Research.

their forms both instrumentally and normatively appealing. Doing this also provides a measure of exteriority: solutions are not based solely on the expertise of one individual (the form entrepreneur), but rather on the knowledge and skills developed and contained within an established field of activity (Zucker, 1977). For example, in promotional material, Edwin Booz claimed to provide the perspective of "completely detached professional men." Finally, established fields of expertise serve as globally available models (Strang and Meyer, 1993: 494) that provide a common account that can be easily communicated to constituents. For example, McKinsey's General Survey Outline could promise to bring the rigor of accounting to bear on organizational management, mitigating the need for explanations based on first principles. The social category of accounting thus provided a ready-to-use shorthand for the solutions he was providing and a clear signal of his firm's identity. Taken together, these arguments suggest:

> **Proposition 1:** *Form entrepreneurs can increase the legitimacy of their new organizational forms by theorizing them as problem-solution models in which the proposed solutions embody established categories of expertise.*

These examples from the history of management consulting also highlight the fact that signals concerning an organizational form's identity are especially important when outputs are unmeasured or unmeasurable (Spence, 1973; Pólos, Hannan, and Carroll, 2002). The more intangible the output and the more untraceable the production process, the more form entrepreneurs must attach their new ventures to rationalized myths that resonate deeply in society (Meyer and Rowan, 1977), such as established categories of expertise. Recognizing this, we also propose:

> **Proposition 1a:** *The benefits of tying organizational forms to established categories of expertise are greater when the forms in question produce intangible services (rather than tangible goods) and when production processes are difficult to monitor.*

Ties to the loci of expertise. The case of early management-consulting firms also suggests the importance of maintaining ties to the *loci* – or epicenters – of external expertise, such as universities, professional societies, and professional publications. For example, Arthur Little was a president of the American Chemical Society and the official chemist of the American Institute of Metals. He frequently published opinion pieces in professional journals such as the *Journal of Industrial and Chemical Engineering* and the *American Brewers Review*. Moreover, despite not having graduated, Little worked hard to maintain strong ties to M.I.T. He was instrumental in founding an alumni magazine, *Technology Review*, to which he contributed. He lectured frequently at the university and collaborated on projects with faculty. In 1908, Little helped establish the first university research laboratory in applied chemistry at M.I.T. In 1917, he even moved his firm to Cambridge to be near the university. Most of the firm's staff at that time were M.I.T. graduates. Little eventually helped establish a separate school of chemical engineering there in 1919, having convinced George Eastman to donate $300,000 to the endeavor. In 1921, he became president of an M.I.T. alumni association.

James McKinsey, meanwhile, was on the faculty at the University of Chicago, first in accounting and later as one of the nation's first professors of business policy. At the university he worked closely with Leon C. Marshall, dean of the Business School, and was instrumental in shaping the business curriculum there. McKinsey's book *Principles of Accounting* was published by the University of Chicago Press in 1920. In 1924, he became the President of the American Association of University Instructors in Accounting. McKinsey maintained his affiliation with the university long after he founded his consulting firm – indeed, he was on the faculty until shortly before his death. He would teach in the early morning, then "rush to his office to participate in his consulting practice."

Similarly, Edwin Booz maintained strong ties to his *alma mater*, Northwestern, and to the chair of the psychology department there, Professor Walter Dill Scott.[11] Booz also maintained strong connections to his fraternity at Northwestern, the Wranglers. In fact, on the occasion of the twentieth anniversary of the fraternity in 1932, Booz was honored for contributing to the Wranglers "that same gift of analysis and foresight that has enabled him to build up his own business organization in an *entirely new field*" (Bowman, 1984: 6; emphasis added). Booz's first two permanent associates, George Fry and James Allen, were also Northwestern graduates.

The ties of these form entrepreneurs to the *loci* of expertise embedded in their problem-solution logics signaled the credibility and appropriateness of their new forms. Ties to recognized institutions can substitute for objective performance data in demonstrating effectiveness, thereby raising perceived instrumentality (Meyer and Rowan, 1977). For example, Arthur Little's claim to provide organizational solutions based on chemistry was at least implicitly supported by his ties to M.I.T., as was the normative appropriateness of his use of chemistry as a consulting tool. We thus posit:

> **Proposition 2:** *Form entrepreneurs can increase the legitimacy of their new organizational forms by maintaining ties to the loci of the expertise embodied in their problem-solutions models.*

Form Promotion

In their discussion of industry formation, Aldrich and Fiol (1994: 650) argued that pioneers must use both personal and interpersonal means to persuade constituents of the worthiness of their structures. Below, we discuss the personal and social actions that pioneering management consultants took to legitimate their fledgling enterprises: cultivating ties to prominent others, engaging in collective action, and claiming selflessness.

[11] Scott later became president of Northwestern University.

Ties to prominent others. Consistent with Aldrich and Fiol's (1994) claim that form entrepreneurs must leverage social capital to promote their organizational models, form entrepreneurs in the management-consulting industry made extensive use of ties to prominent others, often with missionary zeal. For example, Arthur Little was a member of Boston's exclusive St. Botolph's Club and Brookline Country Club, and he used these memberships to cultivate business contacts. He was a close friend of Wallace Donham, dean of the Harvard Business School, and with the prominent lawyer (later Supreme Court Justice) Louis Brandeis. Little also began an in-house publication, the *Little Journal*, targeted to chemists, engineers, and practicing managers. The journal, every word of which was written or approved by Little himself, addressed the benefits of applying science to industry in a way "that was easily understood by the manufacturer, the banker, and the average business man." He sent copies of his articles to any and all contacts, including Kodak founder George Eastman and President Woodrow Wilson.

Edwin Booz also promoted the logic of management consulting through elite contacts. Booz cultivated a friendship with prominent industrialist and financier Sewell Avery, and Avery became a lifelong supporter and client. For example, Avery was president of U.S. Gypsum when that firm hired Booz to undertake a large project there in 1925. In fact, Avery was a member of a network of high-level contacts who would become known as Booz Marines, individuals who continually hired and recommended the firm.

Similarly, James McKinsey engaged in active promotion. He systematically met and courted influential people, and devoted "all his lunches, half his breakfasts, and a third of his dinners" to discussing their business problems with them. Indeed, he was said to have "dined with every banker in Manhattan" and to have received work from "all but one of them." Like

Arthur Little, he was active in community and professional organizations, such as the Y.M.C.A., the Red Cross, and the American Management Association, and became chairman of this third organization in 1936. McKinsey used these activities, as well as his faculty position at the University of Chicago, to advance his new organizational model.

The use of social capital by form entrepreneurs plays an important role in the legitimation of their novel organizational forms. Individuals who possess friendships with members of the social elite and positions in prominent social and professional organizations are what Strang and Meyer (1993: 494) called culturally-legitimated theorists. Such individuals are well-placed to advocate new institutional arrangements. By gaining the sanctioning of social elites, form entrepreneurs can claim normative appropriateness. Their ties to elite individuals and institutions can also substitute for direct measurement. For example, if the dean of a prominent business school supports management consulting, potential clients (especially those who hire the graduates of that school) may deem this sufficient evidence of consulting's effectiveness. These arguments accord with DiMaggio's (1982) discussion of entrepreneurship within the Boston arts community, in which he highlighted the importance of ties in business, social clubs, and philanthropy in the establishment of new organizational forms. They also echo Granovetter and McGuire's (1998) description of how Thomas Edison and Samuel Insull used personal friendships, local and national business contacts, and prominent positions within industry associations to promote the now-dominant form of electric utility. We thus posit:

> **Proposition 3:** *Form entrepreneurs can increase the legitimacy of their new organizational forms by promoting them through networks of social elites.*

Taking collective action. Scholars have argued that new organizational forms must occupy a cognitively separate field of activity from alternative forms (Van de Ven and Garud, 1989;

Aldrich and Fiol, 1994; Suchman, 1995), and that collective action provides a means for raising awareness and creating this distinctiveness (Rao, 1998; Swaminathan and Wade, 2001; Lounsbury, Ventresca, and Hirsch, 2003). Empirically, Brint and Karabel (1991) described how the American Association of Junior Colleges played an important role in the expansion of two-year colleges by using journals, conferences, and monographs to increase their public recognition. Similarly, DiMaggio (1991: 286) showed how the American Association of Museums promoted the legitimacy of the art museum through regional and national conferences, leading him to conclude that "the diffusion of museums was guided and shaped by the emergence of field-wide structures at the national level, outside the boundaries of particular museums." These ideas parallel Abbott's (1988) thesis that the professions make up an interdependent system in which each profession claims work activities under its special and exclusive jurisdiction. Professions develop through competitions for jurisdiction over skilled work – turf wars – that are fought largely by professional associations. As Abbott (1988) and Swaminathan and Wade (2001) further observed, collective action to delineate a domain of activity is often undertaken in response to a perceived threat or a common enemy.

This need for collective organizations to establish and defend jurisdiction is clearly seen in the early management-consulting industry. In 1933, after four years of discussion, Edwin Booz and James McKinsey helped found the Association of Consulting Management Engineers (ACME) in direct response to what they saw as charlatanism on the part of firms that did not subscribe to their professional model of management consulting (Higdon, 1969). A prominent example of this threat to their consulting logic was a firm founded by George S. May. In marked contrast to the staid and sober personas of Little, Booz, and McKinsey, May was a flamboyant figure, known for his loud Hawaiian shirts and floral neckties. Having gained a reputation as a

cost-cutting foreman, he founded a management consulting firm in Chicago in 1925. The defining feature of May's organization was its aggressive, high-pressure sales tactics; in fact, it was said that May employed "the biggest battery of electric typewriters in private hands" to churn out sales letters and mass-mailing promotional leaflets (*Fortune*, 1944: 207) – behavior that explicitly violated McKinsey and Booz's beliefs regarding the appropriateness of advertising and promoting consulting services. In addition to these mailings, May also employed a separate sales force consisting of Agents who were paid on commission and who were not involved in consulting operations. These individuals would undertake cold-calls in an attempt to sell preliminary Survey Reports for a modest fee, which would then be used as a means of generating further business. As described in *Fortune* (Stryker, 1954: 140): "few companies have dared to sell their services so hard, so blatantly, and so indiscriminately as does the George S. May Co."

May & Co. differed from ACME firms in other important ways. Consultants (called Installation Engineers) were paid on commission and had quotas for the revenues they were expected to generate. Clients were often promised results, usually with respect to cost savings; clients, moreover, had the option of canceling an engagement at any time, owing only up to the hour of cancellation. Using a system called short interval scheduling, May would furnish weekly reports on a Friday, which had to be approved by the client before work would proceed the following Monday. All of these policies were shunned by ACME firms. Rather than hiring young graduates from prestigious universities, as Little, McKinsey and Booz did, May preferred to hire individuals over the age of 35 who had previous business experience. In another marked difference, May & Co. tended to target medium and small-sized clients; 98% of its business came from firms with fewer than 500 employees.

In sum, May eschewed the professional practices advocated by ACME members, and was considered by them to be "the *bête noire* of consulting" and a "vast embarrassment to their trade" (Higdon, 1969: 151). Yet, May's firm experienced some commercial success, and ACME's founders felt threatened by it. The presence of this common enemy led the pioneers of the professional model of management consulting to cognitively separate their form from that espoused by May, using ACME as a vehicle.

ACME actively sought to define rules of conduct for consulting firms. It established "high standards for membership and a strict code of professional ethics" for the consulting industry (Higdon, 1969: 287). Its Code of Ethics set forth "the major ethical concepts held to be necessary by its members for the practice of management consulting *at the professional level*" (ACME, 1959: vii; emphasis added). This code included restrictions on what the association considered non-professional practices, such as media advertising, contingent billing, and poaching clients and employees from member firms. ACME firms were, however, permitted to engage in the more subtle forms of self-promotion described above, such as publishing books, writing journal articles, sponsoring seminars, and giving guest lectures. This code of ethics illustrates Pólos, Hannan, and Carroll's (2002) idea of a social code: it set out what members of the management-consulting organizational form could and could not do.

ACME published many other documents that set standards of practice; most notable are *Professional Practices in Management Consulting*, *Common Body of Knowledge Required by Professional Management Consultants*, *The Personal Qualification of Management Consultants*, and *The Training and Education of Management Consultants*. These provided templates for conducting consulting projects and for hiring and training individual consultants. They therefore signalled to the men who followed the pioneers into this emerging field how exactly to establish

their identities as management consultants. It is no surprise, then, that ACME's activities promoted common structures and practices for its members. For example, all member firms tended to have a four-tiered hierarchical structure layering partners, directors, senior associates, and junior consultants (or the equivalent). In addition, ACME firms typically assigned an engagement director (a partner or other senior member of the firm) to each project, and then staffed the project with young employees – a practice that was pioneered by James McKinsey himself, who believed in putting his young assistants in the line of fire.[12]

We argue that the collective action embodied in ACME raised the legitimacy of the management-consulting form. The collective setting of performance standards contributed to the notion of the form as a novel and distinct means of rational problem-solving, increasing its instrumental value. The publishing of ethical standards of behavior, moreover, conveyed a measure of normative reassurance. In other words, ACME promoted the new form as a novel solution to an important problem, but one that would abide by widely held norms of professional practice. It helped construct a distinctive field frame (Rao, 1998; Lounsbury, Ventresca, and Hirsch, 2003) for management consulting, and its actions contributed to the objectification, or social consensus surrounding the value of the form. ACME also contributed to the form's sedimentation, or historical continuity (Tolbert and Zucker, 1996). It is not surprising that many subsequent members of ACME were spin-offs of the founding firms; for example, A.T. Kearney from McKinsey & Co., and Cresap, McCormick & Paget from Booz, Allen & Hamilton. We thus propose:

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[12] From the time of its founding in 1933 through the 1970s, ACME remained a highly prestigious association and represented the industry's leading firms. But ACME (now called AMCF – the Association of Management Consulting Firms) no longer occupies a central position in the contemporary industry. Most prestigious firms are no longer members. This drop in prestige is consistent with Swaminathan and Wade's (2001) prediction that the need for collective action decreases after an organizational form becomes legitimate and successful.

Proposition 4: *Form entrepreneurs can increase the legitimacy of their new organizational forms by engaging in collective action that defines the boundaries of the form according to both prescribed and proscribed behaviors.*

We also posit that the foil of the George S. May Company contributed to the legitimating effects of ACME. This argument draws from both social-identity theory and recent work at the intersection of social-movement theory and organizational studies. In social-identity theory, distinctiveness arises through mutual comparisons between groups, and reflects positively valued differentiation relative to other groups (Turner, 1982: 17). Distinctiveness of this type differentiates organizational forms from alternatives and provides "a sharper and more salient image" with which constituents can identify (Mael and Ashforth, 1992: 107). In other words, by defining its form in contrast to that embodied by George May & Co., ACME was able to better delineate the boundaries of what it considered legitimate management consulting. This is similar to the American beer industry, where promoters of the new microbrewery and brewpub forms labeled established mass producers as "the enemy" (Carroll and Swaminathan, 2000: 731). As Swaminathan and Wade (2001: 304) pointed out in their discussion of social movements and new organizational forms, it is the *perceived* threat that is important, so that the actual threat (if any) posed by May to ACME members was secondary to the way it was *framed* by the collective actions of the professional form's entrepreneurs. This line of reasoning leads us to propose:

Proposition 5: *Form entrepreneurs can increase the legitimacy of their new organizational forms by engaging in collective action that defines the form in contrast to a common enemy or threat.*

Claiming selflessness. Form entrepreneurs risk being seen as disingenuous – as pursuing their narrow self-interest under the guise of helping others (Ashforth and Gibbs, 1990). Our study of early management-consulting firms suggests that this risk can be mitigated when a form

entrepreneur actively demonstrates greater concern for the *logic* or *identity* underpinning his or her chosen form than for the particular *organization* that embodies it. For example, while A.D. Little & Co. would go on to become a large and successful management-consulting firm, it was far from a financial success during its founder's lifetime. In its early years, the firm was "like an outpost of pioneers in a forbidding land…its essential business was that of blazing trails and inducing reluctant manufacturers to use them." Little claimed to be unconcerned with issues of profitability, believing that "a professional man starts to fail the moment he permits money to shape his career." Little did not manage the firm's finances or organization well and it came close to bankruptcy several times in its first 30 years. In 1921, even as it was consulting to prominent corporations and boasting that it could increase efficiency and profits, the firm showed a net loss, prompting a movement by senior staff to convince Little to relinquish control.

Like Arthur Little, James McKinsey showed little concern for the economic well-being of his own firm. In fact, he abandoned it in 1935. McKinsey left his consulting firm to work for Marshall Field & Company, a large retailer that was feeling the ill effects of unprofitable diversification. (Undertaking a massive restructuring, including deep job cuts, McKinsey saved the company from bankruptcy, but was left physically weakened and died tragically of pneumonia in 1937.) Finally, like the other two men, Edwin Booz was not particularly concerned with his firm *per se*; indeed, he often neglected his duties as a manager in his own firm for months at a time as he became completely immersed in consulting projects. Booz was far more concerned with helping clients than with maintaining the health of his own firm. (In fact, his partner James Allen left the firm twice in frustration with Booz's neglect. Only under subsequent leadership did the firm become a financial success.)

Arthur Little, James McKinsey, and Edwin Booz all projected the impression that they cared more about the “greater good” of improving efficiency within industry than they did about the performance and profitability of their own organizations; indeed, they all tended to ignore the health of their firms in favor of advancing the logic and identity of consulting itself. In essence, these form entrepreneurs projected what Fligstein (1997: 400) called selflessness: Rather than acting as if they were oriented toward personal gain, they appeared to place the institutional logics and organizational-form identities they advocated above the profits or even the survival of their actual organizations. They projected more concern with demonstrating the utility and veracity of their approach to solving organizational problems than with commercial success. Accounts of selflessness have been found in other settings; for example, in the American beer industry, specialty brewers frequently contrasted their lofty goals (“craft, tradition and – dare I say it – beer”) with the baser goals of mass producers, namely to make money (Carroll and Swaminathan, 2000: 730-731). We thus posit:

> **Proposition 6:** *Form entrepreneurs can increase the legitimacy of their new organizational forms by de-emphasizing the commercial success of their own organizations and emphasizing instead its benefits for constituents.*

DISCUSSION

We have used the history of the early management-consulting industry to generate propositions about the role entrepreneurs play in the legitimation of new organizational forms. Essentially non-existent at the onset of World War I, management consulting became widely accepted – even taken for granted – within the U.S. thirty years later. This revolution occurred despite the lack of demonstrated benefits and in the presence of alternative courses of action. Our strategic narrative suggests that form entrepreneurs, who worked to legitimate their new organizational models within the space created by wider institutional change, were central to this

process. Our analysis of this historical case leads us to propose that form entrepreneurs who theorize their organizational forms as problem-solution models based on established categories of external expertise, maintain ties to the loci of this expertise, cultivate ties to social elites, demonstrate selflessness, and engage in collective action that delineates boundaries and positively distinguishes their forms from alternatives will gain legitimacy for their novel enterprises.

Contributions to Theory

Our ideas contribute to theories of institutional entrepreneurship by specifying a range of *concrete actions* that precipitate the transition of organizational structures from theoretical formulation to social movement to institutional imperative (Strang and Meyer, 1993). Our work complements recent analyses of how wider institutional change creates opportunities for new organizational forms to emerge and expand (*e.g.*, Haveman and Rao, 1997; Rao, 1998; Sine and David, 2003). While prior work shows that institutional change creates a fertile environment for new organizational forms, it has generally neglected the concrete mechanisms through which social actors promulgate these new organizational arrangements (Seo and Creed, 2002). Our focus, therefore, has been on how actors *take advantage* of the opportunities created by institutional change, and on how social change at one level can be translated into new social arrangements at another. In this way, we add to previous research that conceives of organizational-form entrepreneurship as a social movement (Fligstein, 1996; Rao, 1998; Rao, Morrill, and Zald, 2000).

Our theory-building effort contributes to institutionalist analysis of organizations, which views organizational forms as structural incarnations of beliefs and values that require legitimation. Rather than adopting the functional assumption that organizational forms are prevalent to the extent

that they are efficacious (*e.g.*, "consulting spread because it works"), we see forms as cultural objects based on socially-constructed logics, and situate the legitimation process at the nexus of institutional change and the actions of form entrepreneurs. We see these actors as active and artful exploiters of the problems and contradictions inherent in institutional change (Seo and Creed, 2002: 231). In the pursuit of their own interests, form entrepreneurs import, transform, and embed powerful institutional logics into their novel organizations; they then work to legitimate these models. In fact, without these activities, an organizational form may expand very slowly or not at all; for example, we would argue that without the work of form entrepreneurs that we describe above, the management-consulting industry would look different from what it does today – perhaps management advice would be more internalized, or perhaps the May & Co. form of consulting would be the dominant model. In other words, the expansion of the form of management consulting described here was neither inevitable nor the result of demonstrated superiority over alternatives, and it cannot be fully understood without analysis of the actions of form entrepreneurs. Once the legitimacy of a form is established, however, it tends to be resilient, as it has been with consulting, and only new institutional tensions or an accumulation of unintentional changes (March, 1981) can create the opportunity for subsequent change.

Our analysis also contributes to ecological research on the creation and diffusion of new organizational forms by suggesting how form entrepreneurs can send stronger signals of their novel organizations' identities to external observers and how they can incorporate codes that have already been approved by those observers. Rather than step back and look at aggregate tactics using statistical analysis, as most ecological studies have done, we show how attention to the actions of a few pioneers can illuminate the under-studied processes of organizational-form emergence. In doing so, we redirect attention away from the main focus of ecological research – the selection and

retention of organizational forms – and toward the neglected process of variation (Carroll and Hannan, 2000: xxi). Our analysis complements that of Carroll and Swaminathan (2000), who culled insights about organizational-form identity in action from interviews with pioneers of the new brewpub and microbrewery forms in the American beer industry and from the trade press.

Limits to Generalization

Three *caveats* about our theory-building effort are in order. First, although we have highlighted consistencies with other work, we have based our propositions on a single context. Research on other types of organizations may reveal additional legitimating actions and paths. Moreover, we have grounded our ideas in a field that was not highly institutionalized and did not have a dominant incumbent. Unlike Thomas Edison, who had to displace gas lighting with his electric bulb (Granovetter and McGuire, 1998; Hargadon and Douglas, 2001), form entrepreneurs in the nascent management-consulting industry did not have to unseat an established alternative in order to expand. Of course, internal management already existed, but it did not need to be eradicated in order for management consulting to spread. And as data from Bendix (1956: 216) indicate, the ranks of management were growing rapidly during the time that management consulting emerged, but administrators and managers still accounted for a small fraction of the U.S. workforce: only 15% in 1920. Given these distinctive features of the management-consulting case, our propositions might be most usefully applied to knowledge and service domains, and to fields that are emergent rather than established but in flux. Notwithstanding these potential limits to generalizability, we believe that the actions we propose here can contribute to the spread of most types of new organizational forms.

Second, our focus has intentionally been on the purposive actions of form entrepreneurs, rather than on the exogenous conditions that facilitate the rise of new forms. As such, we have

provided only an abbreviated account of how institutional change created opportunities for management consulting. We ignored, for example, the effects of changing labor laws, corporate anti-trust regulations, and economic cycles (for analysis of those factors, see Ruef [2002]). As discussed at the outset, however, we felt that more attention to the actual institutional work involved in new form legitimation was needed, as most prior work has been on how the opportunity for this work is created. But we emphasize that form entrepreneurship should always be seen as contextually embedded, and call for a tighter theoretical connection between the creation of opportunities and actors' legitimacy-building activities.

Third, we have built our ideas on a successful case of new form legitimation. A more complete theory of form entrepreneurship requires analysis of failed cases (Strang and Soule, 1998). What actions of form entrepreneurs do not work? Do some actions work under certain conditions but not others? Toward an understanding of failed cases, or more precisely non-cases, we note an interesting observation: There were no early consulting firms that based their claims to legitimacy on micro-economics. This is puzzling, since today that academic discipline permeates all segments of management, as well as the largest management-consulting firms. While our goal has been to generate a series of propositions that we believe to be widely applicable, comparative research examining form entrepreneurship across different times, places, and industries could clarify both the generality of our propositions and build scope conditions around them. For instance, it may be that in the early twentieth century, the discipline of micro economics did not offer prescriptive advice in a form that could be claimed by management consultants or made palatable to decision makers in client firms.[13] Searching forward in the history of the management-consulting industry – perhaps to other countries, where management

[13] We thank Mike Waldman (personal communication, Sept. 2004) for this interpretation.

consulting developed later than in the U.S. – could uncover later form entrepreneurs who built their firms' practices on economic principles.

Empirical Testing

Given the relative dearth of empirical studies of legitimation, it is important to discuss how the propositions above might be tested empirically. Two research strategies lend themselves well to this endeavor. The first is similar to the one used in many of the studies cited above: longitudinal analysis of the evolution of new forms, beginning early in their histories when their legitimacy is minimal. Either archival or contemporaneous case studies can fall under this approach. As Barley and Tolbert (1997: 105) suggested, however, this type of study would benefit from the careful sequencing of actions, which involves the charting of "records on who interacts with whom in what ways at what times," and the identification of actors' interpretations of their behavior at the time that it occurs. Sequence-analysis techniques such as optimal matching (Abbott, 1995) and event-structure analysis (Heise, 1989), can be applied to these kinds of data.

A second potentially useful empirical strategy is one that is seldom used in macro organizational studies: laboratory testing. Despite the fact that a pioneering study in institutional analysis of organizations (Zucker, 1977) was a laboratory experiment, very few institutional studies, much less other kinds of macro organizational analyses, have employed this method. A notable exception is Elsbach's (1994) analysis of the cattle industry, in which she showed how vignettes could be used to assess increases and decreases in organizational legitimacy in response to stimuli. A similar technique can be used to test the propositions developed here. New organizational forms could be introduced to subjects using documentation on the activities of form entrepreneurs. Problem-solution logics underpinning forms could be manipulated for expertise

content, as could form entrepreneurs' ties to *loci* of expertise, their social capital, and their demonstrations of selflessness. Collective action could be added and removed from the experimental conditions. Legitimacy could then be assessed by asking participants to allocate limited resources among competing forms and to justify their decisions, or by asking for qualitative assessments. This method would benefit from high internal validity – it would allow institutional researchers to manipulate explanatory variables and quantify changes in legitimacy.

Conclusion

In closing, we note the important implications of this work for practitioners: entrepreneurs, especially those working to promote entirely new kinds of organizations. Such pioneers of new forms often focus on the technical merits of their organizations' actions. Our discussion suggests that the expansion of new forms depends on more than this. We highlight the pivotal role of entrepreneurs' abilities to mobilize and transform institutional logics and organizational identities in ways that legitimate them on more than just an instrumental basis. By stressing ties to established fields of expertise, using their social capital to promote their forms (or co-opting allies who can do this), demonstrating selflessness, and engaging in collective action to establish the distinctiveness of their activities *vis-à-vis* alternatives, those struggling to legitimate new forms can enhance their chances of success. The difficulty of doing these things while at the same time tending to the internal operation of a new organizational model might explain why the expansion of new organizational forms is only rarely observed.

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FIGURE 1

Exploiting Institutional Change: The Theorization and Promotion of the Management-Consulting Organizational Form