

CHAPTER 6

LEADING THROUGH POSITIVE DEVIANCE

A Developmental Action Learning Perspective on Institutional Change

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INTRODUCTION

In recent years, scholars have begun to recognize that more is known about individual, group and organizational dysfunction than about individual, group and organizational health and flourishing. As it did for psychologists, after Martin Seligman's (1998) introduction of the subfield of positive psychology, this insight has given rise to a new subfield in organizational research called positive organizational scholarship (POS) (Cameron, Dutton, & Quinn, 2003). Like research in positive psychology, this new research program seeks to replace a long-standing negative bias in organizational research with a more balanced approach that investigates positive deviance in organizational contexts.

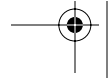
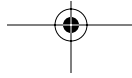
Positive deviance refers to "intentional behaviors that depart from the norms of a referent group in honorable ways" (Spreitzer & Sonenshein,

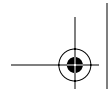
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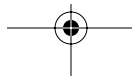
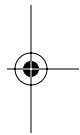




2003, 2004) and is a central construct in positive organizational scholarship. However, because of this sanguine view about the potential for positive deviance in organizations, this new sub field runs against a well-established tradition in organizational theory that sees social structure as replicated regardless of their objective value (DiMaggio & Powell, 1991). In particular, positive organizational scholarship, “advocates the position that the desire to improve the human condition is universal and that the capacity to do so is latent in most systems” (Cameron et al., 2003). Existing macro organizational theory argues that there is an “inexorable push toward homogenization” in well established fields (DiMaggio & Powell, 1991). Because positive organizational scholars may encounter resistance from some quarters in academia (Peterson & Seligman, 2003), it is critical that this new approach explains what it contributes to explanations of organizational phenomena over and above explanations offered by existing theories.

Toward this end, this chapter compares and contrasts how two apparently contradictory theories, action learning and institutional theory, address the critical issue of transformational change. On the one hand, the positive psychological theories of action learning (Argyris & Schön, 1974, 1978; Nielsen, 1996; Senge, 1990; Torbert, 1976, 1987, 1991) emphasize the ability of agentic actors to facilitate transformational group, organizational and institutional change (Fisher, Rooke, & Torbert, 2001). On the other hand, institutional theory emphasizes the constraints on individual agency represented by existing institutional logics and views the reproduction of existing social orders as the norm (Barley & Tolbert, 1997; DiMaggio, 1988). We argue that these two theories, although apparently contradictory, have numerous areas of overlap.

Specifically, developmental action learning theory provides a framework that accounts for both the unconscious reproduction of social orders described by institutional theorists and the increasing possibility of agentic action and transformational change described by positive organizational scholars (Cooperrider & Sekerka, 2003; Spreitzer & Sonenshein, 2003, 2004). At the center of this framework is the notion that individuals, organizations, and broader institutions can be characterized as evolving through a series of developmental stages or action-logics. Moreover, earlier work has established a parallelism between different ethical theories, different types of power, and different developmental action-logics (Lichtenstein, Smith, & Torbert, 1995; Torbert, 1991). This work shows that leaders and organizations operating at earlier action-logics treat either a utilitarian, a communitarian, or a principled ethical approach as primary, whereas later action-logics become capable of optimizing multiple ethical perspectives and multiple bottom-lines.

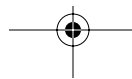
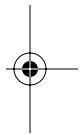




Toward the end of the chapter, we offer the case of the rise of Socially Responsible Investing between 1982 and 2001 as an illustration of how, in spite of strong initial change-inhibiting institutional pressures, a leader who operates at a relatively late developmental action-logic through transforming action learning has created a company and a series of widening networks that support widespread institutional transformation and growing legitimacy for a socially responsible triple bottom-line approach that balances financial, social equity, and environmental sustainability concerns.

Our aim is to develop a realistic and balanced theory of agency and institutional change that simultaneously explains: (1) the prevalence of resistance to change in institutions of all kinds; (2) the numerous examples of initiatives that transform whole institutional fields (Austin, 1997; Kraatz & Zajac, 1996); and (3) the developmental process through which persons and organizations become capable of transforming action learning and institutional entrepreneurship. In addition, we will show how current efforts in institutional theory to explain change can be augmented by incorporating insights from action learning theory. At the broadest level, we join ongoing efforts among macro organizational scholars to balance the “undersocialized” rational choice theory of agency in economics (Aldrich & Pfeffer, 1976; Hannan & Freeman, 1977; Williamson, 1981) with the “oversocialized” institutional theory of constraint on choice in sociology (DiMaggio & Powell, 1991; Emirbayer & Mische, 1998; Granovetter, 2002; Kraatz & Zajac, 1996). Our unique contribution is to introduce a theory of developmental stages that include both individual rational choice and institutional constraint on choice as two of eight possible action-logics that may characterize particular individuals, organizations, or institutional fields. Because these action-logics apply to multiple levels of analysis, they help to bridge the apparent disconnects between the typical micro orientation of psychological theories (such as positive psychology and action learning theory) and the macro orientation of institutional theory. By using a theory that crosses levels of analysis, we connect individual cognitions, with micro-organizational processes like leadership, meso-level organizational development, and field-level institutional changes. By using developmental theory in particular, with its progression from empirically more prevalent action-logics that reinforce the status quo to empirically rarer action-logics that support first incremental and then transformational change, we believe we can improve on recent ambitious and helpful efforts to describe and explain how institutional change occurs (Collins, 2001; Huff, Huff, & Barr, 2001; Kraatz, 2002). We argue that the later developmental action-logics provide the basis for institutional entrepreneurship (Fligstein, 1997, 2001).

We also view this effort as contributing to the development of positive organizational scholarship. First, by identifying how positive views of lead-





ership culled from action learning theory add to existing institutional explanations of change, we help to specify how a positive view of organizational phenomena dovetails with and extends existing organizational scholarship. Second, by specifying developmental factors that make large-scale organizational change possible, we contribute to the ongoing effort among positive organizational scholars to define central constructs like positive deviance (Spreitzer & Sonenshein, 2003, 2004). Because our goal is to illustrate broad connections among disparate theoretical views of change, we are unable to fully represent the spectrum of existing research on either institutional change or action learning. However, we hope that the value obtained by integrating these research areas will make up for any omissions caused by the broad view required for such an effort.

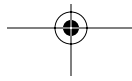
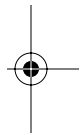
JUXTAPOSING INSTITUTIONAL THEORY AND DEVELOPMENTAL ACTION LEARNING THEORY

There are at least three ways in which the institutional and action learning literatures already share common language and concerns. First, like institutionalists, some action learning scholars acknowledge that social structures tend to be reproduced and that the action-logics of most people, organizations, and institutional fields reinforce such reproduction (Argyris & Schön, 1974, 1978; Fisher et al., 2001). Second, both literatures are informed by the cognitive revolution in psychology, with its concern for different logics of action, whether institutional or personal. And third, recent work in both the institutional and action learning literatures increasingly seeks to determine how change can and does occur (Collins, 2001; Huff et al., 2001; Kraatz, 2002).

Let us review first how the two theories converge in explaining broad-based resistance to personal, organizational, and institutional transformation. Next, we will examine how developmental action learning theory diverges from institutional theory by highlighting action-logics that support transformational change. We conclude by using a case of major institutional change—the development of the socially responsible investing sub-industry between 1982 and 2002—to illustrate institutional entrepreneurs intentionally engaging in transformational institutional change.

The similarities in how both theories explain resistance to change

Institutional theory holds that institutional forces of coercion, mimesis, and professionalism tend to focus and limit change toward reproduction of legitimate institutional practices (DiMaggio, 1988; DiMaggio & Powell, 1991). Early action learning theory (Argyris & Schön, 1974) also focused on how dominant logics of action inhibited change, but they focused on how





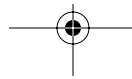
micro, interpersonal logics of action inhibit change at the group level (rather than how macro institutional logics limit change at the institutional level). They called this most common interpersonal action-logic “Model I.” In describing the Model I action logic, Argyris and Schön (1974, p. 67) describe forces that seem to track the coercive, mimetic and normative isomorphic forces identified by institutional theory. According to Argyris and Schön (1974, p. 64), due to this Model I logic, people in groups “use whatever means will assure success” (e.g., use coercion), “never . . . diminish status of parties by upsetting them” (e.g., attend to the status differences that drive mimetic isomorphism) and strive to “be objective, intellectual . . . demonstrate . . . command of the facts” (e.g., demonstrate conformance to normative beliefs about rational action). Just as institutional theory predicts that isomorphic pressures tend to reinforce existing social structures at the macro level, the Argyris and Schön theory predicts that the Model I action-logic reinforce the status quo at the group level.

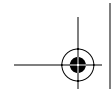
Developmental action learning theory (Alexander & Langer, 1990; Cook-Greuter, 1999; Fisher et al., 2001; Kegan, 1994; Rooke & Torbert, 1998; Sherman & Torbert, 2000; Torbert, 1987, 1991; Wilber, 1995, 2000) is a more recent action learning theory that is also broadly cognitive in nature and broadly congruent with both institutional theory and Argyrisian action learning theory. It holds that three early developmental action-logics each respond primarily to one of the three forces in institutional theory (see Action-logics II–IV in Table 6.1) in reinforcing the status quo.

Action-logic II in developmental theory (the Opportunist action-logic typical of six to ten-year-olds and of new organizations seeking resources before they have marketable products or services) focuses on concrete choices bounded by coercive limits within a short time horizon. This action-logic implicitly corresponds both with rational-choice theory (utilitarianism) and with the institutional force of coercion. This is the action-logic that neoclassical economics and Hobbesian political theory explicate and treat as the basic action-logic guiding all human affairs. (This and the following extremely abbreviated outlines of each action-logic are fleshed out in whole chapters on each individual and organizational action-logic in Torbert, 1987.)

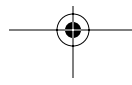
Action-logic III (the Diplomat action-logic typical of early teenagers) is based on playing an appealing role in a larger group culture, through past-oriented, other-focused behavioral mimesis of existing social norms. This is the action-logic that Rousseauvian political theory, sociological theory in general, and institutional theory in particular, with its emphasis on mimesis, explicate take to be the basic action-logic guiding human affairs.

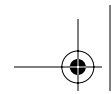
Action-logic IV (the Expert action-logic toward which late teens going to college often evolve) entails a future-oriented commitment to high quality work, based on predefined, internally consistent craft, professional, scien-



**Table 6.1. Analogies among Personal, Organizational, and Social Scientific Developmental Action-Logics**

<i>Personal Development Action-Logics</i>	<i>Organizational Development</i>	<i>Social Scientific Development</i>
I. Birth-Impulsive	I. Conception	I. Anarchism (Feyerabend, 1975)
(multiple, distinctive impulses gradually resolve into characteristic approach [e.g. many fantasies into a particular dream for a new organization])		
II. Opportunist	II. Investments	II. Behaviorism
(dominant task: gain power [e.g. bike riding skill] to have desired effects on outside world)		
III. Diplomat	III. Incorporation	III. Gestalt Sociologism
(looking-glass self: understanding others' /markets' expectations and molding own actions to succeed in those terms)		
IV. Expert	IV. Experiments	IV. Empirical Positivism
(intellectual mastery of outside-self systems such that actions = experiments that confirm or disconfirm hypotheses and lead toward valid certainty)		
V. Achiever	V. Systematic Productivity	V. Multi-Method Eclecticism
(pragmatic triangulation among plan/theory, operation/implementation, and outcome/assessment in incompletely pre-defined environment; regularly acts on single-loop feedback to achieve incremental change)		
VI. Strategist	VI. Collaborative Inquiry	VI. Postmodern Interpretivism
(self-conscious mission/philosophy, sense of timing/historicity, invitation to conversation among multiple voices and to mutual reframing of boundaries—hence, double-loop, transformational feedback occasionally acted upon)		
VII. Alchemist	VII. Foundational Community	VII. Ecological of Inquiry Cooperative Inquiry
(life/science = a mind/matter, love/death/transformation praxis among others, cultivating interplay and reattunement among inquiry, friendship, work, and material goods—continual triple-loop feedback sought among intent, strategy, action, and effects)		
VIII. Ironist	VIII. Liberating Disciplines	VIII. Developmental Action Inquiry
(full acceptance of multi-paradigmatic nature of human consciousness/reality, including distances/alienations among paradigms, such that few recognize paradigm differences as cause of wars, few seek action-logic disconfirmation and transformation, and few face dilemma/paradox of 'empowering leadership': that it must work indirectly through ironic words, gestures, and event-structures that invite participants gradually to attune themselves to listen for and play with single-, double-, and triple-loop feedback)		
IX. Elder (undefined, unresearched)	IX. ?	IX. ?





tific, and/or ethical standards that aspire to universalizability. This is the action-logic that Kantian philosophy explicates and that corresponds to the force of professionalism in institutional theory. It is based on subordinating both short-term, physical outcomes and middle-term, emotional inclusion in a group's performance to a longer-term, internally consistent intellectual plan/system for accomplishing a new project.

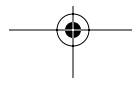
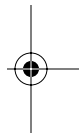
Two different empirical measures of adults' action-logics find that, along with virtually everyone below the age of 21, 58% of persons over 21 in managerial/professional positions are found to be operating at the Opportunist, Diplomat, or Expert action-logics (Kegan, 1994, $n = 342$; Torbert, 1991, $n = 497$). The fact that a significant majority of the population operates under these action-logics that tend to reproduce existing structures through processes of coercion, mimesis, and adherence to pre-defined professional norms, both confirms institutional theories and illustrates the relative difficulty of facilitating large scale organizational or institutional change.

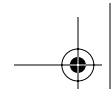
Having demonstrated the similarities between institutional theory and two action learning theories (Argyrisian and developmental), let us now describe how they diverge. In particular, we will show how action learning theories move beyond existing institutional theories of change.

How action learning theory explains change

Traditionally, institutional theory has presumed that change is primarily frictional, quasi-accidental, and in the direction of reinforcing current norms (recent exceptions that begin to account for strategic change will be discussed in the next section). By contrast, both Argyrisian and developmental action learning theories describe action-logics that facilitate different orders of change (Argyris, Putnam, & Smith 1985; Fisher et al., 2001; Raelin, 1999). First-order change is incremental, tactical, behavioral, in the service of the original goal (e.g., when I see I'm not convincing you, I change from "advocating" my point of view to "asking" what *your* goals are; then I use something you say to help persuade you). In contrast, second-order change is transformational, strategic, structural, changing the goal itself (e.g., when I see I'm not convincing you, I retire temporarily, reconsider and reprioritize my strategy, and set a different goal). Third-order change is continual, visionary, spiritual (e.g., when I see I am not persuading you, I suddenly feel a much larger pattern of unilateralness throughout my life and social history and feel called to listen deeply and seek mutuality in every encounter) (Bartunek & Moch, 1987, 1994; Nielsen, 1996; Torbert & Fisher, 1992; Torbert & Associates, 2004).

Argyris and Schön claim that their second (rarely exercised) interpersonal action logic ("Model II") generates effective second-order change ("double-loop learning" in their terminology). But they also acknowledge





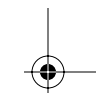
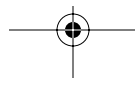
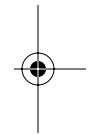
that it is difficult to teach many people (even successful, mid-life professionals who return to graduate school) this interpersonal action-logic. Moreover, although they document interventions that generate instances of second-order organizational change (Argyris, 1994), they present no clear cases of, or ways of measuring, sustained organizational or field transformation. Nielsen (1996) has argued that changing traditional institutional frameworks requires third-order change (or triple-loop learning), and gives occasional historical examples of when such triple-loop, attention-and-institution-changing learning has occurred (e.g., when John Woolman engaged in an inquiry with other Pennsylvania Quakers that resulted in the nonviolent abolition of slavery in Pennsylvania before 1800 [110–112]).

The developmental action learning perspective both explains why first-, second-, and third-order learning are so difficult to generate and provides a clearer roadmap for planning, implementing, and measuring change efforts. As already discussed, it shows that most managers, organizations, and institutional fields are found operating at Action-logic IV (Expert) or earlier. Yet, according to developmental theory, the capacity for intentional and reliable first-order change only develops at Action-logic V (Achiever), the capacity for intentional second-order change only develops in the transition to Action-logic VI (Strategist), and the capacity for third-order change only develops in the transition to Action-logic VII (Alchemist) (see Table 6.2) (Torbert & Associates 2004).

Table 6.2. How Different Developmental Action-Logics Relate to Institutional Constraints on, and Opportunities for, Change

<i>Developmental Action-logics</i>	<i>% of Actors Operating from</i>	<i>Predominant Influence Process</i>	<i>Effects on Continuity & Change</i>
I-IV	58%	Coercion Mimesis Professional norms	Replicate with frictional change (Reinforce isomorphism)
V	35%	Coordination thru single-loop learning	Participates in first-order change initiatives
VI	6%	Mutual transformation thru double-loop learning	Leads first- and second-order change initiatives
VII-VIII	1%	Liberating disciplines with timely use of all types of power	Enacts first-, second-, and third-order integrity/transformation

The multiple different samples aggregated in the two studies cited earlier (Kegan, 1994; Torbert, 1991) find 35–36% of adults operating at Action-logic V, the Achiever action logic where single-loop learning becomes a regular, systemic practice. Market-oriented modern businesses particularly cultivate this institutional logic of action because they tend to

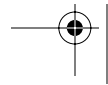
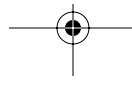




die if they cannot regularly make first order adjustments in performance (how frequently they die anyway testifies to their relative failure in cultivating Action-logic V and the still later action-logics). Action-logic V attempts to generate norms of organized cooperation across the first five action-logics, in order to achieve success according to a criterion outside the performing system (e.g., winning votes or selling goods).

According to developmental action learning theory, a still more creative level of institutional change and transformation is possible for the few organizations/members/leaders who, today, evolve to Action-logic VI, the Strategist/Collaborative Inquiry action logic and later. (The cited studies find about 6% at Action-logic VI and 1% at the following action logic.) Action-logic VI includes a concern for the unique—unique market niches, uniquely timely action at a particular historical moment, uniquely configured organizational structures—along with the capacity for double loop, transformational learning as well as single loop, incremental learning. Strategist leaders can personally model the vulnerability of transformational learning, and this is a necessary skill if they are to inspire others and whole organizations or institutional fields to transform, because intentional transformational learning occurs voluntarily and mutually (conformity can be coerced unilaterally, but not transformation [Collins, 2001; Torbert, 1991; Torbert & Associates, 2004]).

These theoretical claims about the capacity of leaders operating at Action-Logic VI to generate organizational transformation have been quantitatively tested at both the individual and organizational levels. The individual action-logic measure (the Leadership Development Profile) is among the most well-validated and predictively robust measures in the social sciences (Cook-Greuter, 1999, cites and critiques the entire methodological literature on the measure). The organizational measure is “younger,” having been used for a quarter century in intervention case studies (Fisher et al., 2001; Torbert, 1987) and having shown high inter-rater reliability (above .90) in the study we are summarizing here. This study (Rooke & Torbert, 1998) examines ten cases of attempted organizational transformation (of attempted second-order change across action-logics). In each case, the top management team received long-term consulting support from consultants measured at Action-logic VI or later. The study shows that all five CEOs at Action-logic VI or beyond were successful in generating organizational transformation, with four of the five participating in two or more transformations. By contrast, three of the five CEOs prior to Action-logic VI were unsuccessful in generating transformational change in their organizations. Looking still more closely, we find the one case of organizational regression in the study associated with the CEO at the earliest action-logic in this sample (Action-logic III/Diplomat). Despite the relatively small size of the sample, the results achieve significance at the .05 level (using the Spearman





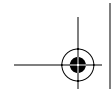
rank order test) and account for an unusually robust 42% of the variance. A later re-analysis of the data, adding together the consultant and CEO action-logic scores (hypothesizing that they are the two primary change agents) and correlating the resulting ranks with the number of organizational transformations in each case, accounts for 59% of the variance and achieve a .01 level of significance on the same test.

How the developmental action learning approach relates to recent work on change in institutional theory.

Now, let us examine how these tentatively empirically confirmed insights from the developmental action learning approach relate to recent work on change in institutional theory. This recent work is represented both by detailed case studies of change (Creed, Scully, & Austin, 1999; Elsbach & Sutton 1992; Foldy & Creed, 1999; Kraatz & Zajac, 1996; Scully & Meyerson, 1996) and by theoretical work (Fligstein, 1997, 2001; Greenwood & Hinings, 1996).

Looking at the case studies through the developmental action learning lens, we find examples where agentic groups engage in first-order tactics to accomplish what is arguably a second-order strategic change. For example, Creed et al. (1999) found that proponents of domestic partner benefits were able to mobilize support for their causes by framing changes in terms of existing “legitimate accounts” (in this case, civil rights and cost/benefit arguments). In this view, the institutional landscape is littered with multiple “ready to wear” accounts and frames that can be used by strategic agents to support or oppose change. The agents capable of such a change strategy must be capable of seeing beyond “a single right answer” (Action-logic IV/Expert), but are not yet fashioning uniquely timely arguments and actions (Action-logic VI/Strategist). Developmental action learning lens predicts that such agents are likely to be operating from Action-logic V/Achiever and will be limited in their effectiveness if second-order change on their own part is required.

A slightly different view of institutional agency comes from work by Elsbach and Sutton (1992) in a paper that links institutional and impression management theories. They describe a series of steps through which activist organizations facilitated radical social changes by sequencing different kinds of legitimate justifications for “illegitimate” actions. In stage one, members perform an illegitimate action (e.g., civil disobedience) that attracts attention to the organization. In step two, the activist organization displays its legitimacy through the use of culturally acceptable structures like professional spokespersons and press releases. At the same time, the organization decouples these legitimate structures from the illegitimate actions of “rogue members.” In steps three and four, the organization uses justifications and defenses to reduce negative public perceptions of the event while highlight-

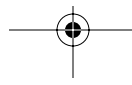
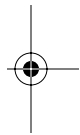
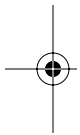


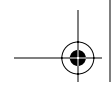
ing the positive outcomes that resulted. In step four, the organization receives endorsement and support for the positive outcomes of the event without incurring reputational damage due to the illegitimate means of achieving them. Here, we see evidence, not just of Action-logic V/Achiever capacities, but also of a sense of strategic timing characteristic of Action-logic VI/Strategist. However, there is no evidence of the activist group engaging in second-order transformation of its own operating strategy, so its action-logic may be in transition from Action-logic V to Action-logic VI.

When we look carefully at Fligstein's (1997, 2001) theoretical notions of the social skills required for institutional change, we find resonances with particular developmental action-logics. The very choice of the word "skills" suggests an Action-logic V/Achiever sense, and this is reinforced by Fliegstein's (1997, pp. 399–401) unsystematic (but interesting and useful) list of fifteen "tactics" that support change. These tactics can be roughly ordered as follows, using the developmental lens (see Table 6.3). Although this list of titles omits the descriptive paragraphs, we believe they are roughly intuitively interpretable, and we provide additional commentary and quotes below.

Table 6.3. Developmental Action-Logics Implied by Fligstein's List of Social Skills for Institutional Change

<i>Fligstein's Social Skills</i>	<i>Developmental Action-Logics</i>
Direct authority	Opportunist
Convincing people one has more cards than one does	
Maintaining "goallessness" and selflessness	Diplomat
Making others think they are in control	
Not disturbing dominant groups	
Wheeling and dealing (in relation to subordinate parties)	Expert
Agenda setting	Achiever
Taking what the system gives	
Brokering	
Asking for more, settling for less	
Aggregating interests	
Trying five things to get one	
Networking to outliers who have no coalitions or isolating particularly difficult outliers	
Framing action	Strategist
Maintaining ambiguity	

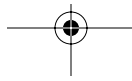
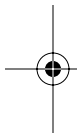


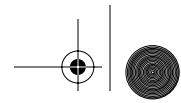


The most obvious aspect of Table 6.3 is that roughly half the tactics reflect Action-logic V/Achiever. In addition, six of the remaining eight tactics reflect earlier action-logics. According to developmental theory, persons or organizations at later action-logics maintain access to the tactics and understandings of the earlier action-logics through which they have evolved, and can intersperse such tactics strategically, rather than by necessity. Thus, a true Diplomatic action-logic actually experiences others and existing norms as in control (and conforming to norms and high status others as good), whereas the tactic of *Making others think they are in control* actually implies either the earlier Opportunist action-logic, or a later action-logic using a Diplomatic pattern to mask a deeper strategy. Similarly, when we examine what Fligstein actually says about them, the two Strategist-sounding tactics do not actually reflect the Action-logic VI spirit of mutual transformation toward actualization of some higher principle. For example, of *Framing action* he says, “Strategic actors have to convince others who do not necessarily share interests that what will occur is in their interests. This can be done by selling pie in the sky (i.e., overriding values that all accept) or convincing them that what will happen will serve their own narrow interests” (Fligstein, 1997, p. 399). Were Fligstein approaching institutional change from a Strategist or later action-logic, he would *not*: (1) treat the notion of constructing a principled, mutual frame cynically (“pie in the sky”); or (2) take for granted that “skilled actors of dominant groups generally defend the status quo even in a crisis” (Fligstein, 2001, p. 118).

Thus, from a developmental point of view, Fligstein (2001) is constructing an institutional change strategy based predominantly in the Achiever action-logic, the next action-logic beyond the three developmental action-logics already implied in institutional theory. This makes all the sense in the world, developmentally, for two reasons: (1) because the Achiever is the first skillful practitioner of cooperation and incremental change among the otherwise clashing early action-logics; and (2) because the Achiever action-logic is far more prevalent than any other later-stage action-logic.

However, the developmental action learning approach highlights the still higher potential for mutual, nonviolent, transformational institutional change that practitioners and organizations operating at still later action-logics bring. We have offered one study that tentatively confirms the unusual organization transformation skills with which the Strategist action-logic endows leaders. But the question remains whether such leaders can and do successfully generate transformation in wider institutional fields. We now offer an extended case that illustrates the quality of such transformational change in a wider institutional field—the development of socially responsible investing between 1982–2002.





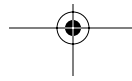
THE CASE OF SOCIALLY RESPONSIBLE INVESTING

Our case concerns the development, over the past twenty years, of the Socially Responsible Investing sub-industry within investment advising. This case illustrates institutional entrepreneurship, not from an established seat of institutional power, but by acts of true economic entrepreneurship, followed by acts of social entrepreneurship, and culminating in field-wide institutional entrepreneurship.

In 1982, Joan Bavaria founded Trillium Asset Management (then called Franklin Research & Development Corporation), responding to client requests to somehow screen their investments not only for optimal short-term financial gains, but also for companies' longer-term, not-directly-financial impacts on social equity and environmental sustainability. (Today, attempting to jointly optimize economic profitability, social equity, and environmental sustainability is known as managing the triple bottom line [Waddock, 2001].) Trillium became the first company solely dedicated to defining and practicing socially responsible investment advising, research, and advocacy, and it remains the largest such company to this day.

The company has been consistently profitable and has grown modestly but steadily over 19 years, expanding to four sites, with nearly \$1 billion under investment in 2001. Thus, it has steadily proven itself in first-order change terms, finding and growing a market. But, for its first fifteen years, this approach to investing was treated as a laughable proposition by the big, traditional investment advising corporations, mutual funds, and mainstream economists and finance professors, because narrowing one's investment portfolio on criteria other than shareholder wealth maximization cannot help but reduce one's financial return, according to short-term rational choice criteria. (The work of 1998 Nobel Laureate in Economics, Amartya Sen [1982, 1987; Klamer, 1989], is rare in recognizing that this isn't necessarily so.) Thus, institutional forces (not only in the financial industry, but in academia) acted strongly to maintain isomorphism within the industry during this period, as institutional theory would predict. But then, during the late 1990s, two-thirds of the socially screened equity funds outperformed the average equity mutual fund over a three-year period, and major investment houses were suddenly advertising "social" funds as quickly as they could mount any facsimile of one (Becker, 1999; Torbert, 1999). Moreover, between 1999 and the end of 2001, socially screened investment portfolios under professional management grew 1.5 times as fast as all investment assets, topping \$2 trillion and accounting for more than 10% of all invested funds (Social Investment Forum, 2001) for the first time. What had happened?

First and most obvious, socially screened equity funds had proved they could match or exceed the financial returns of traditional funds. Moreover,





in addition to their financial return, one gained the benefits of supporting companies that addressed social equity and ecological sustainability concerns in relatively positive ways. Thus, in Action-logic V, first-order change terms, people were learning that they could do better with socially screened funds.

But how did this sub-industry arise in the first place and develop to the point of generating this data? First, Joan Bavaria was measured by the Leadership Development Profile (Cook-Greuter, 1999) as an Action-logic VI/Strategist leader, in the 1980s. Second, she created an Action-logic VI/Collaborative Inquiry organization from the outset, not only creating a unique market niche, but also incorporating as a worker-owned cooperative, with women and minorities constituting a majority of the employee/owners. Bavaria also initiated and participated in companywide learning throughout the next twenty years, seeking out a variety of consultants. Retention and longevity are far better than the industry norm, and the few employees who have gradually "moved on" through processes of performance reviews, personal choice, and company discipline have largely been those who have not been able to support the trans-conventional integration of competition and collaboration and of economics and politics in the company's strategies and daily activities. Third, over the first decade of developing Trillium Asset Management, Bavaria gradually attracted a Board of Directors with similar ideals and action-logics and, with their support, overcame a potentially crippling law suit from a disgruntled Board member operating at an earlier action logic. (All these and the following facts and inferences about Trillium derive from Brown [1987], a doctoral dissertation on the earliest years of the company, and from the fifteen-year association of one of the authors with the company as a board member.)

In the middle 1980s, Bavaria became one of the leading cofounders of the Social Investing Forum, serving as its chairperson for a time, thus creating an inter-organizational network that could create and maintain the integrity of the new subfield. In 1989, Bavaria coauthored the Valdez Environmental Principles (soon renamed the CERES Environmental Principles) and played a key role in attracting signatories such as General Motors. By 1999, CERES, which she now chaired, organized 19 institutional investment groups, representing \$195 billion, for a year-long drive to dialogue with leading companies about endorsing the code of conduct on corporate accountability. During this same period, through CERES, Bavaria and colleagues launched the Global Reporting Initiative, a set of global sustainability guidelines supported by both corporate and NGO partners, with a \$3 million grant from the United Nations Foundation. "We're moving beyond the concept stage and into the implementation stage," she said. "Our goal is simply to make environmental reporting standard procedure for public companies around the world" (Bavaria, 2000).



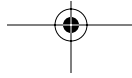
By initiating CERES and GRI, Bavaria participated in creating entirely new standards of legitimacy, not just within the field of investing itself, but among business corporations nationally and globally.

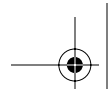
Finally, for the purposes of this brief reprise, Bavaria was chosen as a *Time* magazine “Hero of the Planet” in 1999 as well. (Bavaria herself has reviewed this description for accuracy and, as might be predicted of an Action-logic VI practitioner of collaboration, mutuality, and distributed leadership rather than “heroic” leadership, she doesn’t much like being singled out like this. And, indeed, a notable feature of her leadership has been the assemblage of a very strong senior team that works together smoothly and creatively, and any of whom represent the company well.)

In this case, we see an entrepreneur with an at-least-second-order-change vision focus from the start on first-order economic success in the market. At the same time, she begins to create a succession of ever-wider new institutions that support a second order transformation in financial advising, in corporate reporting, and in economic theorizing, including first the members and Board of her own company, then the widening networks of the Social Investing Forum, CERES, and the Global Reporting Initiative.

She started from the at-that-time-not-yet-fully-explicated theory that companies that disciplined themselves, not only to generate good short-term financial results (a single bottom line), but also good longer-term, social equity results (a double bottom line), and inter-generationally sustainable ecological results (the triple bottom line symbolized by the three-petal trillium) would be better, long-term financial bets than companies fixated by a single time horizon and a single bottom line.

This Action-logic VII vision will probably take generations to embody fully. Indeed, the recent popularity of social investing, based on its single-loop financial returns, threatens to erode its triple-loop principles and practices, as more large investment houses mount superficial social screens for the purposes of short-term sales alone (Torbert, 1999). Furthermore, because SRI funds tend to eschew big oil companies, they also tend toward high tech companies. As a result, since 2001, the combination of war and recession has reduced SRI financial returns. Moreover, the entire SRI movement is still in its infancy, including all its methods of assessment (even “straight” financial accountants have been having a good deal of trouble cranking out the true numbers in the late 1990s and early 2000s!). Therefore, there is appropriate continuing controversy about all the claims made in these paragraphs on behalf of Socially Responsible Investing, and the reader is invited to inquire further (e.g., Entine, 2003; Waddock 2003).



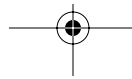
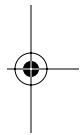


CONCLUSION

This chapter has juxtaposed institutional and action learning theories, showing where they overlap and parallel one another. Then it has shown how the positive psychology of developmental action learning theory in particular describes action logics (that are today empirically relatively rare) that go beyond reinforcing the status quo or allowing incremental change, to nurturing personal, organizational, and institutional transformations. It has illustrated these theoretical claims with a long-term case of transformational change in an institutional field, the case of introducing socially responsible investing in the finance industry.

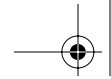
The foregoing suggests that action learning and institutional theories not only share common theoretical interests, but that these interests complement each other in important ways. If institutional theory has lacked a coherent model of institutional entrepreneurship and transformation, developmental action learning theory offers such a model. At the same time, early action learning approaches tended to overlook just how the normative features of institutional fields enable and constrain change agents. Until now, institutional theory has explained stability better than change, while action learning has explained change better than stability. But now, we can begin to see how institutional theory and developmental action inquiry theory together point toward just which types of agentic, organizational, and institutional action-logics (Action-logics I-IV) constrain anything but frictional change, which support incremental change (Action-logics V and later), and which support transformational change (Action-logics VI and later). Thus, the chapter develops a contextually sensitive theory of institutional agency that explains both stability and positive change.

The major questions that are likely to arise for interested readers are: (1) how can persons and institutions (including the social sciences) help themselves to evolve to later developmental action-logics? and (2) how can leaders, consultants, teachers, and the systemic processes of later action-logic organizations help to catalyze development to later action-logics? These are profound psychological, social, and political, mysteries that few scholars or practitioners have as yet directly addressed (Argyris, 1994; Burns, 1978; Erikson, 1969; Reason & Torbert, 2001; Senge, Scharmer, Jaworski, & Flowers, 2004; Sherman & Torbert, 2000; Torbert, 1991; Torbert & Associates, 2004). These questions stand as a challenge for future research and practice in the realm of positive organizational scholarship.

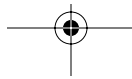
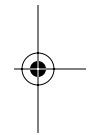


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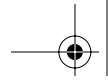
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