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ORGANIZATIONAL PATHS: HISTORY, PROCESS AND IRELAND'S INDUSTRIAL DEVELOPMENT AUTHORITY

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*This paper represents work in progress.
All constructive feedback is welcome.*

ABSTRACT

Taking issue with the largely ahistorical and aprocessual character of much organizational theorizing, and following calls for ‘building path-oriented organization research on a rigorous path theory’ (Sydow, Schreyögg and Koch, 2005: 2), I argue for knowing the organizational as an ongoing process. Through the contributions of path dependence theory, and with Ireland’s Industrial Development Authority (IDA) as empirical focus, this paper will also seek to address: the historicity and evolution of the organizational; the role of initial, external conditions on the emergence and subsequent development of the organizational; the dynamics of path building and the development of path dependency; and processes and process patterns that are likely to vary historical persistencies or unlock path dependencies, e.g., path-breaking events.

INTRODUCTION

This paper addresses calls for ‘building path-oriented organization research on a rigorous path theory’ (Sydow, Schreyögg and Koch, 2005: 2), along with calls for more processual and historically informed organizational theorizing (e.g., Booth and Rowlinson, 2006; Burrell, 1997; Clark and Rowlinson, 2004; Jacques, 1996, 2006; Kieser, 1989, 1994; Rowlinson and Procter, 1999; Üsdiken and Kieser, 2004; Zald, 1990, 1993, 1996, 2002). Through the contributions of path dependence theory, and with Ireland’s Industrial Development Authority (IDA) as empirical focus, this paper will also seek to address a number of issues of interest to the above calls, specifically: the historicity and evolution of the organizational; the role of initial, external conditions on the emergence and subsequent development of the organizational; the dynamics of path building and the development of path dependency; and processes and process patterns that are likely to vary historical persistencies or unlock path dependencies, e.g., path-breaking events.

In taking issue with the largely ahistorical and aprocessual character of much organizational theorizing, this paper departs from knowing the organizational by way of classification and moves towards knowing the organizational as an ongoing process through the lens of path dependence. Having outlined the tenets of the theory and the methodology underpinning the research, I move on to telling a story of organizational emergence and evolution, namely that of Ireland’s IDA.

PATH DEPENDENCE – INCORPORATING HISTORY AND PROCESS

Recognizing calls for more processual and historically informed organizational theorizing (e.g., Booth and Rowlinson, 2006; Burrell, 1997; Clark and Rowlinson, 2004; Jacques, 1996, 2006; Kieser, 1989, 1994; Rowlinson and Procter, 1999; Üsdiken and Kieser, 2004; Zald, 1990, 1993, 1996, 2002), path dependence theory offers a way of articulating the organizational as an ongoing dynamic over more dominant ways of thinking and knowing that are more static (Donnelly, 2007, 2009; Schreyögg and Sydow, 2009). From its roots in economics and an interest in the emergence of new technologies (e.g., Arthur, 1988, 1989, 1990, 1994; David, 1985, 1987, 1997, 1999, 2001), path dependence arguments have since entered into organization studies (e.g., Araujo and Rezende, 2003; Bruggeman, 2002; Donnelly, 2007; van Driel and Dolfsma, 2009; Greener, 2002; Noda and Collis, 2001; Sonnenwald, 2003; Schreyögg and Sydow, 2009; Sydow and Schreyögg, 2009; Sydow, Schreyögg and Koch, 2005, 2009).

With an interest in how process, sequence and temporality can be best incorporated into explanation, path dependence attempts to ‘strike a better balance between historically insensitive causal generalization and idiographic historicism’ (Haydu, 1998: 367). Viewed as an idea through which ‘history’ is commonly made visible, the path dependence approach holds that a historical path of choices has the character of an irreversible branching process with a self-reinforcing dynamic in which positive feedback increases, while at the same time the costs of reversing previous decisions increase, and the scope for reversing them narrows sequentially, as the development proceeds. Thus, preceding steps in a particular direction induce further movement in the same direction ‘because the *relative* benefits of the current activity compared with other possible options increase over time’ (Pierson, 2000: 252, emphasis in original), thereby making the possibility of switching to some other previously credible alternative more difficult.

Those who are not familiar with the path dependence approach think that it is no more than recognition that ‘history matters’. However, the approach not only recognizes the impact of history, but also shows that a decision-making process can exhibit self-reinforcing dynamics, such that an evolution over time to the most efficient alternative does not necessarily occur. In general, path dependence refers to situations in which decision-making processes (partly) depend on prior choices and events. It recognizes that a decision is not made in some historical and organizational void; rather, it depends on the contingent starting point and specific course of a historical decision-making process.

Social scientists generally invoke the notion of path dependence to support a few key claims (Pierson, 2004): specific patterns of timing and sequence matter; from initially similar conditions, a wide array of social outcomes are often possible; large consequences may result from relatively small or contingent events; particular courses of action, once introduced, are almost impossible to reverse; and consequently, development is often punctuated by critical moments or junctures which shape the basic contours of social life. All of these features contrast sharply with more familiar modes of argument and explanation, which attribute large outcomes to large causes and emphasize the prevalence of unique, predictable outcomes, the irrelevance of timing and sequence, and the capacity of rational actors to design and implement optimal solutions (given their resources and constraints) to the problems that confront them.

Accounts of how and why events develop as they do necessitate a mode of causal logic that is grounded in time and in characteristically temporal processes (Abrams, 1982; Aminzade, 1992). As Mahoney (2000: 511) notes, path-dependent analyses have at least

three defining characteristics: (1) they entail the study of causal processes that are very sensitive to events that occur early on in an overall historical sequence; (2) given the contingent character of these early historical events, they cannot be explained by reason of preceding events or initial conditions; and (3) when contingent historical events occur, path-dependent sequences are reflected in essentially deterministic causal patterns. Sydow, Schreyögg and Koch (2005, 2009), in remodeling classical path dependence theory, elaborate this logic into an analytic structure to focus on the emergence and evolution of organizational paths and path dependencies, as shown in Figure 1 below. I have expanded the Sydow, Schreyögg and Koch (2005, 2009) model to account for processes and process patterns that vary historical persistencies or unlock path dependencies by way of a reactive process (reaction and counter-reaction to an already existing organizational path), which I borrow from an interpretation of Mahoney's (2001) notion of reactive sequence.

Insert Figure 1 about here

Phase I, what Sydow, Schreyögg and Koch (2005, 2009) refer to as the 'preformation phase', is relatively open, with action not significantly restricted in scope. Antecedent conditions, or historical factors, define available options and shape selection processes. These conditions characterize a wide range of action, where decisions made cannot be predicted by past events or initial conditions. However, to a degree, antecedent conditions are also influenced by the past (Child, 1997), in that they are influenced by historically framed and imprinted contingency and not by wholly unrestricted choice (Schreyögg and Sydow, 2009). Reflecting antecedent conditions, then, at least two options are open for selection at the critical juncture, which represents the point when one option is chosen and the dynamics of self-reinforcing processes are set into motion.

The choice is consequential because it leads to Phase II, what Sydow, Schreyögg and Koch (2005, 2009) refer to as the 'formation phase': the creation of an evolving and narrowing organizational path that, building into structural persistence, becomes increasingly difficult to reverse over time. It is here that positive feedback or increasing returns become active through self-reinforcing dynamics of set-up or fixed costs (when high, individuals and organizations have a strong incentive to stay on path), learning effects (experience of an existing path leads to higher returns from continuing use), coordination effects (benefits of a

given path increase as others adopt the same option) and adaptive expectations (self-fulfilling character of ‘picking the right horse’) (Arthur, 1994: 112). Thus it is that, once a specific selection has been made, it becomes increasingly difficult with the passing of time to return to the initial critical juncture when at least two options were still available. As noted by Arthur (1989, 1994), increasing returns to adoption are realized not at a single point of time but rather dynamically, such that each step along a particular organizational path produces consequences that increase the relative attractiveness of that path for the next round.

As effects begin to accumulate, they generate a powerful cycle of self-reinforcing activity, contributing to Phase III, what Sydow, Schreyögg and Koch (2005, 2009) refer to as the ‘lock-in phase’, such that flexibility becomes severely constrained and the organizational path is fixed and takes on a quasi-deterministic character. Schreyögg and Sydow (2009) suggest that organizational paths, due to their social character, require a modified conception of lock-in. Thus, instead of a fully determined lock-in, Schreyögg and Sydow (2009: 3) argue for conceiving of lock-in ‘as a matter of degree accounting for variance in the actual practicing of the path.’

The continued existence of an organizational path over time has the potential to generate a reactive process, Phase IV. As suggested by the adaptation to Sydow, Schreyögg and Koch’s (2005, 2009) model, and borrowing from Mahoney (2001), an initial challenge to the existing organizational path sparks a process of reaction and counter-response, as patterns put in place during critical juncture periods are resisted or supported. Although such resistance may not be path breaking, it can trigger an outcome or critical juncture that results in the development of a new organizational path.

METHODOLOGY

Ireland’s IDA affords the possibility of studying a single case over an extended period of time, namely 1949 to 1994. The analysis is based on both archival and interview material. The archival sources include Irish parliamentary debates, articles in newspapers, annual reports, website, government-sponsored reports/reviews, government policies and economic programs, government department memo, legislation, and published work (e.g., articles, books, reports, monographs) relating to the period under study. This material is supplemented with interview data collected from face-to-face, semi-structured interviews with three former chief executives, whose collective experience with the IDA spans the period 1967 to 1994.

I was mindful that my work entailed historiography (Thies, 2002: 351) and, even though '*there is no such thing as a definitive account of any historical episode*' (Gaddis, 2001: 308, emphasis in original), I pursued a number of strategies to minimize the potential adverse effects of investigator bias and unwarranted selectivity in the use of materials from the historical record. Principally, I sought to cross-reference and triangulate with various sources of evidence so as to maximize coverage and bring to light inaccuracies or biases in the individual sources, in the process constructing a more accurate account (McCullagh, 2000; Thies 2002). For example, to avoid the problems associated with interview data, e.g., analyzing or describing the past from the viewpoint of the present (Butterfield, 1931; Thies, 2002) or interpreting interviewee accounts in favor of the way they saw events, I sought to triangulate with other sources of evidence – e.g., archives, newspaper and other contemporaneous accounts – so as to minimize inconsistencies, inaccuracies or biases in these individual sources and ultimately provide a more accurate account. Equally, concerning secondary sources, I followed Thies (2002) recommendation to start with the most recent contributions and then work backwards, the aim being to note the 'facts' that have stood the test of time.

In the knowledge that the record was incomplete, I am inclined towards viewing the 'results [of my research] as the uncertain product of an incomplete evidentiary record' (Elman and Elman, 2001: 29). Compounding this problem, the primary and secondary sources available to me were still too large to consider on my own, thus necessitating yet more selectivity in the sources I used. As such, I acknowledge the potential impact of this selectivity on the judgments or inferences I have made.

Methodologically, path dependence entails 'tracing a given outcome back to a particular set of historical events, and showing how these events are themselves contingent occurrences that cannot be explained on the basis of prior historical conditions' (Mahoney, 2000: 507-508). With path dependence characterizing 'specifically those historical sequences in which contingent events set into motion...event chains that have deterministic properties' (Mahoney, 2000: 507), narrative analysis is considered most useful 'when temporal sequencing, particular events, and path dependence must be taken into account' (Mahoney, 1999: 1164). Narratives have an explicit start point, a sequence of intervening events, and an end point that is reached through the many paths and the interrelationships between the intervening events (Griffin, 1992). A narrative explanation depends on these unfurling interconnections to explore the process leading to the outcome under investigation. As the story develops, there are contingencies, conjunctions and paths to be considered that

might change the general flow of the narrative. As such, narrative explanation has to absorb the order of events and the position of an event in the story (Gotham and Staples, 1996).

Having a coherent story line, it becomes possible to explain events at one point in time with reference to previous developments in the plot. Thus it is that the researcher-as-storyteller comes to identify the inherent logic that causes one event to follow from another (Abbott, 1992; Griffin, 1993; Isaac, 1997). Approaching explanation through storytelling provides what is considered a good way to represent how causal relations are rooted in particular contexts and performed over time (Haydu, 1998). However, narrative alone does not provide causal explanations of path-dependent processes for, as Griffin (1993) notes, chronological order does not automatically yield causal significance. Further, on its own, narrative description can obscure explanation through its inability to recognize that an event may not have impact until much later in a sequence of events (Griffin, 1993).

Approaching path dependence through the narrative method of event structure analysis (Corsaro and Heise, 1990; Griffin, 1993; Heise, 1991; Isaac, Street and Knapp, 1994), and its associated computer program ETHNO (Heise, 2007), offers a rigorous systematic method for analyzing narrative that helps the analyst extract a causal interpretation. A heuristic methodology using an inferential, disciplined, non-probabilistic and replicable logic (Griffin and Ragin, 1994), event structure analysis overcomes problems associated with introducing theoretical assumptions into accounts, neglecting causal connections or wrongly assessing the relative influence of causal factors into narrative construction (Griffin, 1992, 1993).

Thus, having constructed the running chronology of events that constitute the organizational forming sequence for the IDA, I then used the ETHNO program to help me develop my interpretation of the causal relationships, the path dependencies, and the critical points in the IDA's creation, reproduction and disruption. I entered each event into the ETHNO program in chronological order and, as each new event was entered, ETHNO posed a series of 'yes/no' questions to me that asked for clarification about whether an event entered earlier was necessary for the occurrence of this new event. Through this process of interrogation, I was able to break down the running chronology of the narrative and reconstruct it with causal connections based on my 'expert judgments' (Griffin, 1993).

ETHNO, it has to be said, does not determine causality. Rather, I structured and interpreted the narrative events, based on information and knowledge I had to hand (Griffin, 1993, Isaac, Street and Knapp, 1994). Through the use of 'yes/no' queries, ETHNO obliged me to be clear-cut and thorough in my assessments about the association between particular

events and to evaluate these events causally, not chronologically (Griffin, 1993). The heuristic of event structure analysis, and its associated ETHNO tool, allowed me to hone my understanding of the causal relationships between the different events. In so doing, I was in a position to verify which events had no effect and how certain events had consequences for the future even though they did not trigger anything in the present. With the help of ETHNO, I decomposed the IDA's creation, reproduction and disruption into a series of events such that path dependencies were identified and made clear. Figure 2 below presents a sample ETHNO output showing associations between a series of events.

Insert Figure 2 about here

ORGANIZATIONAL PATH DEPENDENCE – IRELAND'S INDUSTRIAL DEVELOPMENT AUTHORITY

Taking path dependence as lens, we now move on to trace the emergence and evolution of the IDA. The story that unfolds takes as its starting point Ireland's turn to protectionism following the general election of 1932, charting the increasing investment by successive Governments in the machinery of protection and the critical juncture that marked the creation of the IDA in 1949 as an autonomous agency within an institutional matrix focused on protection. The story then moves on to tell of the gradual shift away from protection towards free trade, a repositioning that witnessed the lock-in of the IDA as the pre-eminent agency of state dealing with industrial development. Throughout the course of time, the story traces the growing commitment to the IDA in terms of political, institutional and monetary resources, with the IDA in turn reinforcing that commitment through delivery on its objectives, largely in the shape of new job creation. Essentially, the story is illustrative of increasing returns reinforcing the chosen path of industrial development, itself reinforcing the IDA as the principal instrument through which such development occurs. However, as the story continues to unfold, the increasing reliance on foreign investment to meet targets, at the expense of indigenous industry, eventually surfaces as a challenge to the IDA in the early 1980s and culminates in the path-breaking event that sees the IDA being split into separate agencies in 1994.

Phase I – Emerging within Protectionism: Creating the IDA (1949-1950)

With a sluggish economy, the Great Depression in train and economic nationalism on the rise, two possible paths to economic development were on the table at the time of the 1932 Irish general election, namely, free trade or protectionism. With the protectionist platform winning the day, the new government embarked on a path that continued in force for almost two and a half decades, underpinned by Fianna Fáil¹, the party advocating protectionism, winning five successive general elections and remaining in power for almost two decades.

By the late 1940s, the institution of protectionism was coming under pressure because of its inefficiency, the saturated domestic market, migration from the land, increasing unemployment and emigration, and a deteriorating balance of payments. While continuing with the policy of protectionism, a new inter-party government, formed following the 1948 general election, sought to combat its ills through engaging a more proactive industrial policy centered in a new organization, the IDA. In establishing the IDA in 1949, the government chose between establishing an autonomous industrial development body and the existing civil service arrangements and laissez faire policy that left industrial development to the industrialists themselves, opting for the former and investing in a path to bring about its creation. That path involved high set-up costs, not to mention adaptive expectations, entailing negotiating the proposal within government and the civil service and then selling the idea to the media, to industrialists, to members of the coalition parties and to party faithful. It entailed recruiting the Authority members and establishing the IDA as an administrative body in advance of any legislation passing through the Oireachtas², itself a large investment should the initiative have failed in its passage through the legislative process at any of the formal veto points. It entailed drafting legislation and steering passage of same through the legislative process, with succeeding stages dependent on passage of preceding stages first. Indeed, in proposing legislation to the Oireachtas, government had to be sure that it would have the support of its own members to ensure safe passage, whatever about the position taken by the opposition.

Phase II – From Relative Openness to Lock-in: Building the IDA (1950 to 1970)

Thus, even before coming to the Oireachtas, there were already significant start-up costs and expectations as to what the IDA would achieve. Such was the investment that, on returning to power in 1951 once again, rather than abolish the IDA as it had threatened to do, Fianna

¹ Political party formed in 1926 with a republican ethos. Translated as ‘Soldiers of Destiny’.

² The Irish legislature, which comprises the Dáil (lower house of parliament) and the Seanad (senate).

Fáil refocused the IDA instead on industrial development, taking away the administrative role that was properly seen to rest with civil servants and freeing it to focus on promoting industrial development. Following this move, the IDA had become established as part of the nascent industrial development institutional landscape.

The IDA represented layering, in the sense that the protectionist institutional matrix was left in place, and this layer, while an attempt to improve matters, represented learning effects and further investment, by way of coordination effects and adaptive expectations, in making protectionism work. Thus, from 1932, there was built an interdependent institutional matrix in support of protectionism, resulting in quite substantial complementarities, with institutional arrangements mutually reinforcing each other. In essence, institutional arrangements constituted a stable equilibrium, its resilience being such that institutional continuity conditioned change and exhibited strong tendencies towards only incremental adjustment (Pierson, 2004).

A critical feature of path dependent processes is the relative ‘openness’ or ‘permissiveness’ of early stages in a sequence compared with the relatively ‘closed’ or ‘coercive’ nature of later stages (Abbott, 1997; Mahoney, 2001). Initially, the IDA favored protectionism to encourage indigenous industrial development. However, through experience on the ground, the IDA’s view gradually changed to seeing export-led industrialization as the only way to develop the Irish economy and foreign investment as a source for such industrialization, resulting in its recommendation that the restrictions on foreign capital be eased (Walsh, 1983, cited in Girvin, 1989: 180-181). The government, in extending the remit of the IDA, began to actively encourage foreign investment to fill gaps where indigenous industry had failed to seize opportunities. Subsequently, further modifications were made to facilitate foreign investment, with industrial policy moving from a focus on import-substitution and indigenous industry to encouraging exports and foreign investment. Thus, reflective of learning effects, coordination effects and adaptive expectations, we see a growing shift in policy, itself requiring the investment of political capital in articulating, supporting and institutionalizing that shift.

Following North (1990: 98-99), therefore, the continuity of protectionism was not inevitable given that the mechanisms of reproduction were subsequently eroded over the course of the reactive process that paved the way for the emergence of a new equilibrium. Throughout the late 1940s and the 1950s, the decreasing returns to the protectionist path, when combined with the effects of population movement, began to erode the mechanisms of reproduction that generated its continuity. While government sought to bolster protectionism

with mechanisms that included new state organizations (e.g., the IDA, 1949; C6ras Tr6acht6ala Teoranta (Irish Trade Board), 1951; An Foras Tionscail (Industry Board), 1952) and incentives (e.g., capital and training grants, tax relief on exports) to promote industrial development, this was insufficient to address the decreasing returns. Of interest is that institutional responses in support of protectionism, to include the nascent IDA, proved plastic enough to fit with an outward-looking reactive process and institutional matrix developing in parallel, a process driven by the need to deal with new conditions, which included increasing moves towards free trade and mobile investment capital internationally.

With the rules of the game changing through the 1950s, government was becoming more frustrated with protectionism in the face of increasing inefficiencies. Despite efforts at actively encouraging industrial development and the development of exports, the inefficiencies of the protectionist path were proving immune to such incremental change. It was only with the government's path-breaking *Programme for Economic Expansion* (Department of Finance, 1958) that all of these moves were pulled together into a coherent policy of outward-looking economic development, underpinned by industrial development that embraced export-oriented, foreign direct investment (FDI). In marking a critical juncture, this program represented a significant, path-shifting investment on the part of government in a highly visible policy that effectively sounded the death knell for protectionism.

Essentially, the move towards a more outward-looking economic development policy entailed considerable start-up costs, particularly political and particularly for Fianna F6ail, which had preached protectionism for three decades. Representing a fundamental shift in policy, government had to both divest itself of protectionism and embrace a more open policy that included accepting foreign investment as a vehicle through which to achieve both industrial and economic development. Further, it meant government investing in promoting this highly visible policy change, investing in the creation of new meaning around the new policy and investing in its implementation. It meant considerable start-up costs for the civil service in reorienting itself away from managing protectionism to putting in place new institutions to manage a more open economy. It also meant investing in engagement with ongoing moves internationally towards freer trade and the changes such engagement would require, such as the development of complementary policies, the negotiation and signing of treaties, and the implementation of these treaties. Further, it meant investment in the development, promotion and implementation of successor economic development plans that built on, and so reinforced, the path established by the critical juncture. Equally, these

investments were not just monetary, but they were also in reorienting the collective mindset, disengaging it from the policy of the past and engaging it with the policy of the future.

The government's main objective in terms of industrial policy was to create the conditions necessary for private enterprise to drive industrial development. Thus, in terms of adaptive expectations, we see it explicitly expressed as part of government policy that protection is increasingly untenable in a world that is sensed to be moving towards free trade and in opposition to an industrial development policy that both welcomes foreign participation and is export-oriented. This new approach to economic development established the path to be followed and, it is in line with this critical juncture, that moves along the path of export-led industrialization and economic cooperation with Europe were subsequently made.

The policy change favoring free trade reinforced the IDA's efforts in positioning itself as the focal organization to attract FDI, effectively turning it into an investment promotion agency, with coordination effects and adaptive expectations seeing increases in the organization's scope and resources through the success of its efforts. In the years immediately following, and illustrative of learning effects, coordination effects and adaptive expectations, the IDA invested in marketing campaigns and opened offices in the US and Europe, which garnered foreign investment for the country, such investment garnering further funding for the IDA to facilitate its work, each move reinforcing further moves along the burgeoning path of FDI as a means of achieving industrial development. In terms of complimentary institutional developments, besides the financial incentives machinery, other legislative moves complemented and facilitated the IDA's work, particularly in the area of taxation. Through the 1950s and 1960s, the IDA gradually built the country's reputation as a base for manufacturing industry and its reputation and identity as the country's industrial development organization. This period acted as the 'pilot stage' in attracting new industries to the country, albeit the pilot provided much of the manufacturing sector's diversification and growth (O'Neill, 1972: 44).

The IDA's success met with operational limitations, however. As matters stood, the IDA operated within the tight constraints of the civil service bureaucracy, with no control over the assignment or withdrawal of its staff, nor over its structure. On the one hand, the IDA was being asked to play an increasingly demanding, key role in the country's economic development, while being handicapped on the other through not having the operational autonomy to deliver on that role. To bring about change, the IDA engaged US consultants Arthur D. Little (Little, 1967a, b) to assist it in a major reappraisal of Ireland's industrial

development apparatus. The review concluded that achieving full employment rested on encouraging foreign firms to establish operations in the country, requiring more than just charging the IDA with the undertaking; the IDA would also need far greater resources than were given it, in addition to the capacity and flexibility to control its own operations.

Phase III – Lock-in: Consolidating the IDA (1970 to 1982)

On foot of the Little (1967a, b), National Industrial Economic Council (1968) and Public Services Organisation Review Group (1969) reviews, and by way of lock-in, new legislation, enacted in 1969, streamlined agencies dealing with industrial development and concentrated the expertise within an expanded IDA having full control over its own internal operations. It gave the IDA the status of a state-sponsored organization having national responsibility for the furtherance of industrial development, in addition to consolidating decision-making power concerning industrial development within the organization. Government maintained overall control through its power to appoint the IDA's members, its broad responsibility for setting industrial policy and its broad control over the organization's budget. Additionally, government pro-actively legitimized the IDA's role and position, making it clear through the reorganization legislation that both industrial development and the IDA's central role in it represented a vital, long-term program for Ireland to which it was committed.

Having invested considerable set-up costs in re-creating the IDA, in terms of, for example, consultants reports, political capital, legislation and dissolution of agencies, the new IDA came into being as a state-sponsored body on April 1st, 1970. From enactment of the establishing legislation there followed considerable investment in a highly specific asset, namely an autonomous industrial development organization, which entailed physical specificity (e.g., the IDA as an industrial development organization, industrial development legislation, policies and programs, party political platforms on industrial development, all of which involved design characteristics particular to industrial development), human specificity (e.g., the IDA's specialized knowledge of the industrial development environment resulting from learning-by-doing, and its special relationships with various actors resulting from repeated interactions with these actors) and dedicated assets, where the value of all assets derived from continuance of industrial development to which they were applied (Pierson, 2004).

Now vested with the formulation and implementation of national and regional industrial policy and freed from the shackles of the civil service to manage its own affairs, the IDA put in place systems, structures and institutional arrangements that have persisted over

time. Re-creating the IDA entailed introducing a new organization structure and meeting its expanded mandate saw the organization engage in a major recruitment drive. In seeing industrial development as a 'cooperative process', requiring the participation of a range of development organizations, the IDA from early on saw value in building contacts throughout the country and devoted significant staff resources to managing them through representations of key personnel on a range of main boards, committees and organizations. It also decided to carry out many of its executive functions through committees, with delegated grant giving powers, on which other interests participated, e.g., the Confederation of Irish Industry, the Irish Export Board, research institutes, universities and government departments.

The new IDA also invested in creating a Janus-faced organization, with one face managing the needs of and relationship with industry and the other face managing the needs of and relationship with government, very much placing the IDA itself in the position of a coordinating mechanism, the benefits of its activities being enhanced through coordinating with the activities of both government and industrial investors. Having the ear of government, the IDA was active in generating further complementarities with other policy areas, such as education and physical infrastructure. As the increasingly credible experts, the IDA was in the unique position of being able to say to government what was needed to facilitate and encourage industrial development and the delivery of new jobs, such that government listened and acted accordingly. Arguably, the IDA was able to use its position to generate increasing complementarities thereby increasing its value and reinforcing its own position.

Building on the learning since promotional activity commenced in 1955, the new IDA adopted a more intensive and focused method of promotion encompassing a more selective approach, direct marketing, advertising and public relations. For the IDA, this research-based promotional program proved an effective tool in targeting its limited resources at foreign companies that were looking to expand abroad and that met Ireland's industrial development needs (IDA Annual Report, 1971/72: 20). In effect, and revealing learning effects and adaptive expectations in refining a strategy it had pursued since the 1960s, the IDA went about attracting leading companies in the field, a strategy that contributed to increasing returns in the spatial location of production (Arthur, 1994; Krugman, 1991). These companies, in turn, attracted suppliers, skilled labor, specialized services and appropriate infrastructure, and contributed to the development of social networks, which facilitated the exchange of information and expertise. Further, the presence of these companies and the concentration of these factors contributed to Ireland's attractiveness for other firms in the

sector, in effect, acting like magnets and influencing the locational decisions and investments of these other companies.

Thus, working from within the constrained choice-set presented by the chosen path to achieving industrial development, namely the active sourcing of foreign investment to create sustainable jobs (McLoughlin, 1972: 35), the IDA, on the back of a strong planning process and cognizant of its limited resources, prioritized industrial sectors and targeted leading companies that the organization expected would deliver a high national economic and social benefit into the future. In essence, and building on the learning gained from its earlier promotional efforts in using leading companies to attract others, coordination effects and adaptive expectations came into play in adopting this selective, targeted approach, with success over time reinforcing the approach such that it became self-fulfilling. That is, the approach delivered investment and jobs, which reinforced continued investment in the approach, which delivered further investment and jobs as agglomeration effects came into play, with the winning companies attracting investment from others in the sector, this positive feedback itself reinforcing the value of the IDA as an industrial development organization, especially when set against the poor performance of indigenous industry.

By way of delivering results for government, and also by way of focusing the organization on its mandate, the IDA instituted a highly quantified approach new to state agencies at the time, namely annual targets for the creation of jobs, which were made public in advance and subsequently reported on so that the organization could be seen to be performing in delivering results (MacSharry and White, 2000: 194). These highly visible performance measures served to reinforce the chosen path to industrial development, with achievement of targets being evidence to government and the public that the IDA were delivering results, which encouraged continued investment in the IDA, in turn delivering on targets and so on. Such were the coordination effects afforded by the IDA in terms of job creation that, in tandem with learning effects and adaptive expectations, the organization's requests for exchequer funding, for both incentives and administration, were invariably looked upon favorably.

In terms of program development (e.g., Re-equipment and Modernization, Product and Process Development, Service Industries, Project Identification, Enterprise Development), the IDA's programs are illustrative of the learning-by-doing that occurred over time and that served to consolidate its position as the national industrial development organization. All are indicative of its capacity to learn and to innovate, in the process ensuring its continued relevance as the focal point in coordinating industrial development

policy formulation and implementation. Effectively, over time, the IDA developed programs suited to the particular industrial development challenges it faced, illustrating that a significant amount of learning-by-doing had occurred in the increasingly complex industrial development system.

While the 1950s and 1960s were about building and consolidating the IDA's identity, credibility and legitimacy, following the lock-in that consolidated the IDA as a state-sponsored body, the 1970s was a period of building the organizational form and further consolidating the organization's credibility and legitimacy. The decade was capped by a progress report (IDA Annual Report, 1979: 3-4) citing a litany of achievements, including an expanded, autonomous organization employing almost 700 highly skilled staff, client company investment of £2.7bn (compared to £130m in the 1960s) for a total grant commitment of £831m and job approvals of 192,000 (compared to 45,500 for the 1960s), with 99,000 in domestic industry. To all intents and purposes, it appeared as though the significant investment of resources in the IDA, allied with its own learning and the increased coordination of policies and activities to fit with its interests, was delivering according to expectations, this positive feedback reinforcing the IDA as an organizational form. However, from the relative glory of the 1970s, the IDA moved to more challenging times in the 1980s.

Phase IV – Reactive Process: From State-Sponsored Super-Agency to Agency Focused on FDI (1982-1994)

From a path dependence perspective, the story moves from one of lock-in to a reactive process that culminates in a path-breaking event leading to the reorganization of the IDA. According to Wickham (1983), Ireland's success in attracting FDI lay in the very particular situation of the IDA. As has already been noted, the organization was effectively the sole industrial development body in the country: it had, to this point, remained unchallenged by any power center either in the country or outside it; it was shielded from political interference that would have impacted both policy formulation and implementation; its 'discretionary' decision-making was suited to dealing with private enterprise; and it was in a position to legitimate itself to all stakeholders as fulfilling an important national task.

Though Wickham's observation points to success with foreign investment, concerns gradually emerged throughout the 1970s about an over-reliance on such investment and its tenuous links with the economy, not to mention a dualistic industrial structure and the influence of external interests on national sovereignty (e.g., Cooper and Whelan, 1973; Jacobsen, 1978; Kennedy and Dowling, 1975; Long, 1976; *The Economist*, 1977). These

concerns led the National Economic and Social Council (NESC) to commission a five-part review to ensure that government industrial policy was suited to creating an internationally competitive industrial base in Ireland.

One of the reviews, *Telesis* (1982), had the greatest impact of all in regard to the IDA and to industrial development policy. Having experienced a decade of relative glory through the 1970s, *Telesis* brought the IDA's legitimacy into question at a time when the country was experiencing the effects of a global recession, a poor foreign investment climate, mounting domestic economic problems and increasing unemployment (IDA Annual Reports, 1980-83; MacSharry and White, 2000; *Telesis*, 1982).

In assessing Ireland's then industrial policy, *Telesis* was complimentary on a number of fronts. It considered that the country had a clearly articulated, very advanced, extensive and consistent industrial policy, with inventive and energetic state agencies devising programs to deliver on policy goals. With particular reference to the IDA, the review observed that it had succeeded in developing what was arguably the most dynamic, active, efficient and effective organization of its kind in the world, with a well-earned reputation as the leading organization in the field.

However, the review also noted weaknesses in industrial policy had contributed to weaknesses in the country's industrial structure, thus limiting the success of the country's industrial development. The review's main criticism was that industrial development had largely depended on FDI, while indigenous industry languished. It criticized the practice of creating and counting job approvals over the creation and counting of actual jobs delivered, commenting that, while there was value politically to government and motivationally to the IDA in touting job approval targets, the gap between approval and reality had the effect of creating expectations in the general population that were then not met. And from a governance perspective, it noted that, legally, government departments were responsible for determining strategy with the IDA responsible for strategy implementation, whereas the reality was that the IDA formulated strategy in line with its job creation mandate, while government departments were both lacking in staff numbers and information sufficient to formulate strategy and oversee the implementation of this strategy by the IDA.

The overall impact of *Telesis* was to refine both the IDA and industrial development policy. Changes were bounded and incremental, with the IDA still very much the lead industrial development organization. The outcome of *Telesis* and the debate it engendered was the setting of an adjusted course, building on past success and reflecting the lessons learned from experience gained to that point. In many respects, given the complexity of the

problems it confronted, i.e., a worsening fiscal crisis and increasing unemployment, government relied heavily on the pre-existing industrial development policy and organizational framework, adjusting at the margins to accommodate the demands of the situation (Pierson, 1993). The above tallies with Hall's (1989: 11) proposition that 'prior experience with related policies' is such that 'states will be predisposed towards policies with which they already have some favourable experience.'

While the exogenous shocks of the early 1980s engendered an industrial policy debate, the result was on-path responses entailing layering onto the existing industrial development institution. The IDA remained the focal organization, foreign investment remained an important source for jobs and greater attention was now to be paid to indigenous industry, with the IDA and government coalescing around this on-path response through their collective effort at articulating an industrial development policy that validated the approach taken over the preceding decades and that acknowledged the learning accruing that facilitated incremental change. It was not a case that the IDA had not been doing anything with indigenous industry; rather, collective learning suggested it needed to invest more into what it was already doing.

With Telesis still very much in the background, the late 1980s witnessed a number of threats to the IDA in terms of its position as the central industrial development organization (MacSharry and White, 2000: 212), while the early 1990s witnessed yet another review of industrial policy with major ramifications for the IDA (Department of Enterprise, 1993; Industrial Policy Review Group, 1992). Representing a critical juncture, the outcome of the review saw the Department of Industry and Commerce reclaim the role of determining industrial policy and of supervising its implementation from the IDA, which was split into three separate organizations.

Thus it was that the policy refocus recommended from Telesis onwards found subsequent expression in the formal recreation of the IDA as three separate, autonomous bodies in January, 1994, each with its own board and its own distinct mission and goals. All three agencies operate within a framework which facilitates cooperation and mutual support, with Forfás, the umbrella agency, focusing on policy, Forbairt (now Enterprise Ireland) charged with promoting indigenous industry and IDA-Ireland responsible for attracting FDI to Ireland.

From the relative success of the 1970s, the IDA entered the 1980s under a cloud created by the Telesis (1982) review, which was exacerbated by the poor economic and jobs climate throughout the decade. The lock-in that marked the 1970s gave way to a reactive

process that saw both questioning of the IDA and the mechanisms generating its continuity, finding subsequent expression in the path-breaking event that brought about recreation of the IDA.

From a path dependence perspective, arguably, the change to the IDA as an industrial development organization remains within the bounds of the FDI path being pursued since the 1950s. What has transpired in the interim is that much policy learning and organizational learning has ensued, such that the state continued to invest in refining its industrial development policy and the institutional and organizational arrangements established in support of that policy. The IDA of 1955 has continued on through to the IDA-Ireland of today, in terms of its sole focus on promoting internationally mobile investment by foreign interests in Ireland. The IDA that emerged from the late 1960s incorporating indigenous along with foreign industry was subsequently renegotiated in the early 1990s, such that the organizational structure that existed internally was externalized through the creation of separate agencies out of the existing divisional structure.

IN CONCLUSION... A PATH DEPENDENCE PICTURE OF ORGANIZATIONAL EMERGENCE AND EVOLUTION

Taking all of the above together, what emerges is a path dependence picture of the IDA's creation within the context of a protectionist path, and subsequent production and reproduction within the context of a free trade path. We see the critical junctures marking the turn to protectionism and then to free trade, in addition to the critical juncture marking the IDA's establishment, then its focus on development of new industry and re-focus on FDI, followed by its lock-in as a super-agency with national responsibility for all aspects of industrial development policy and implementation, and, most recently, the path-breaking event that saw it re-focused on FDI, with its responsibility for policy development and indigenous industry centered in separate, new agencies.

Post-critical junctures, positive feedback mechanisms come into play to produce and reproduce the chosen path, culminating in lock-in. We see such large set-up costs and investment going into the IDA, producing and reproducing an increasingly specific industrial development asset. Tremendous amounts of learning by doing has occurred in what has increasingly become a complex system, with the IDA developing strategies suited to the particular institutional matrix it has confronted. We see widespread coordination effects, with particular courses of action encouraged, and others discouraged, given the anticipated actions of others within the industrial development sphere. We see growing complementarity

between the outward-looking policy of economic development and the IDA as the increasingly focal organization delivering on the country's industrial development. Coevolving over an extended period of time, the interactions between the two have created densely linked institutional matrices (North, 1990). However, we also see that the IDA's path has not continued indefinitely, but was disturbed. The reactive process that began with the Telesis review and culminated in the re-creation of the IDA as three separate agencies reflected ongoing debate over the needs of foreign and indigenous investors, the scope of industrial policy and the division and location of policy development and policy implementation responsibility.

In the final analysis, from relatively contingent and unpredictable beginnings have coevolved both an institution and an organizational form. In the case of the IDA, both the forces for structural persistence and those of reactive processes have contributed to producing and reproducing an increasingly fine-tuned, specific asset, an organizational form that, *ex ante*, could not have been predicted when it was first established. In other words, telling the story of the IDA from a path dependence perspective allows for engagement with history and process, in so doing maintaining an opening toward organizational *forming* in organizational theorizing and research.

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Figure 1: Analytic Structure of Path-dependent Explanation – adapted from Sydow, Schreyögg and Koch (2009: 692) and Mahoney (2001: 113).

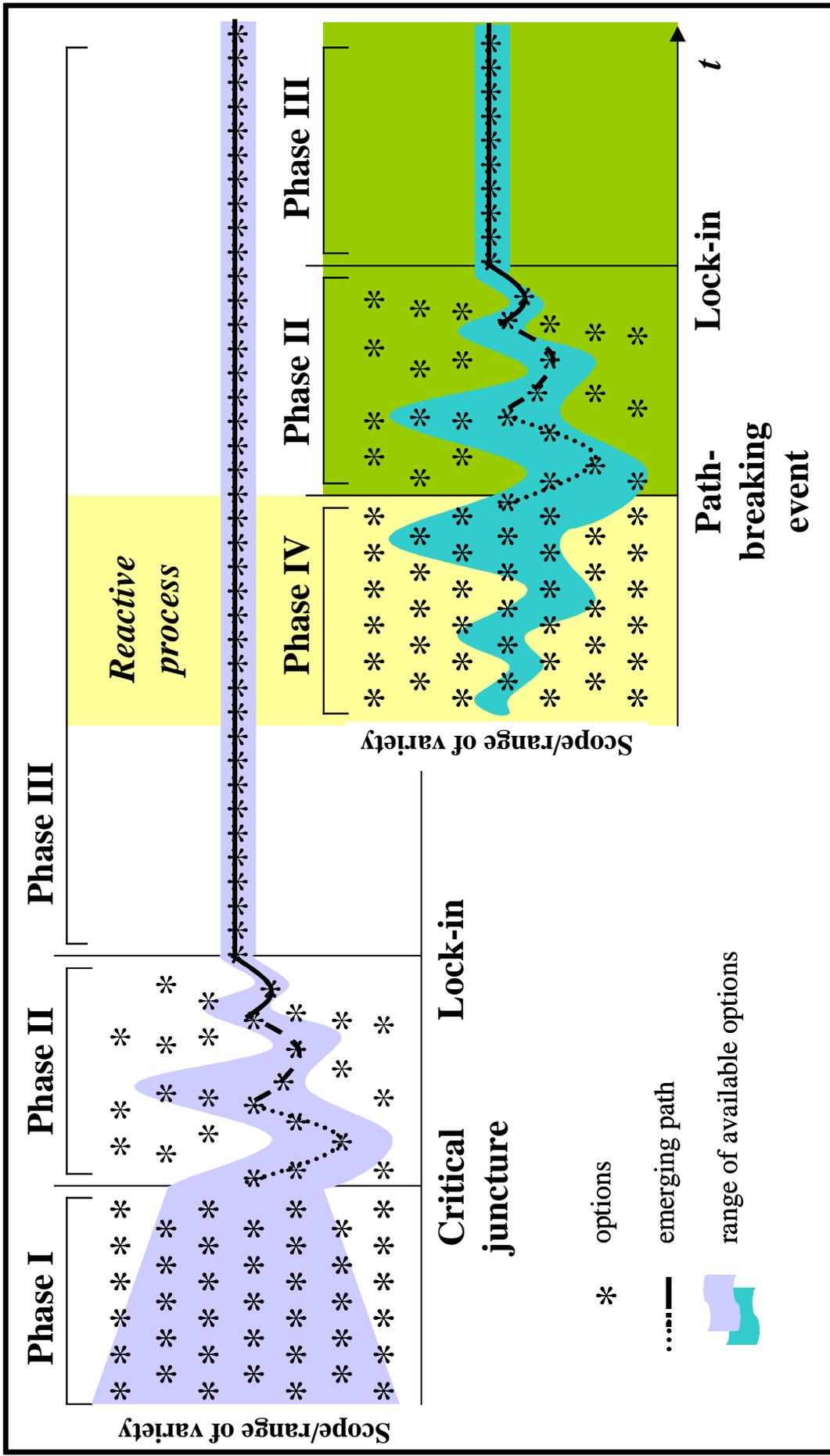


Figure 2 – Sample ETHNO output showing associations between a series of events.

