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RE(DIS)COVERING ORGANIZATIONAL FORMING: THE CASE OF IRELAND'S INDUSTRIAL DEVELOPMENT AUTHORITY

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

ABSTRACT

Organizational form, as an issue, has been the focus of attention since Weber's formulation of the ideal-type bureaucracy. For organizational scholars, the very concept of form is at the heart of organization studies, such that "[w]here new organizational forms come from is one of the central questions of organizational theory" (Rao, 1998: 912). The Weberian "ideal type," with its focus on the ontological possibility of identifying form, represents the inaugural moment in organization theory. Since that moment, and based on the need to say what is "organization" as the condition for having "organization theory," it is a requirement of organization theories that they address "knowledge about organization" based on a boundary-making condition, no matter whether it is through contingencies, legitimization, evolution or cost-reduction.

As such, much organizational theorizing views form as something already formed, as an essence, with the attention focused on what constitutes form. Said differently, all that dominant theoretical perspectives are able to do is to address form by way of classification, without accounting for the process of forming, which does nothing but to reiterate that the only way to think about form is through ontological reification privileging classifying schemes. By problematizing the focus on "form" I take issue with the largely ahistorical and aprocessual character of much organizational theorizing. With this as my point of departure, I argue for knowing the organizational as an ongoing process – i.e., "forming" over knowing "organizational form" by way of classification.

Considering the above, therefore, a number of questions arise: does history end once we have classified?; does *forming* continue to happen once we have classified?; what about a way to theorize *forming*?; how to understand *forming* over form? More broadly, "can we think any other way" (Calás & Smircich, 2003: 49), such that we do not become enmeshed in, and continue to reproduce, the problems we encounter when engaging with largely aprocessual and ahistorical theoretical lenses? These questions lead me to the more processually and historically sensitive lens of path dependence theory. Through the contributions of path dependence theory, and with Ireland's Industrial Development Authority as empirical example, my paper seeks to address the concerns in the literature with regard to process, history and new ways of theorizing and studying organizational form(ing), in so doing maintaining an opening toward organizational *forming* in organizational theorizing and research.

INTRODUCTION

In taking issue with the largely ahistorical and aprocessual character of much organizational theorizing, this paper seeks to depart from knowing the organizational by way of classification and move towards knowing the organizational as an ongoing process. For example, extant theoretical perspectives (such as structural contingency theory, transaction cost theory, institutional theory, population ecology), which operate at the macro organizational level, treat organizational form as an essence, as a durable, tangible and relatively undeniable structure, which exists as an empirical entity. Taken as a given 'out there', each approach equates form with, and classifies form as, a set of essential and identifiable characteristics that constitutes the organizational, the particular mix of characteristics serving to distinguish one form from another. Central to each approach, therefore, is the development of classification schemes and the construction and maintenance of boundaries, not just to render forms distinct and identifiable, but also to distinguish each theoretical view from the others.

Recognizing calls for more processual and historically informed organizational theorizing, 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. 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).

Re-inserting process and history into studying the organizational, through the lens of path dependence, offers an approach to move out of some of the organizational literature's current limitations. In the sections that follow, I reflect on the position afforded history in the study of the organizational, which brings me on to path dependence theory itself. Having outlined the

tenets of the theory, I then move on to telling an organizational *forming* story, namely that of Ireland's Industrial Development Authority (see also Donnelly, 2007, forthcoming).

REINSERTING HISTORY INTO 'THE ORGANIZATIONAL'

While there have been calls to develop more historically informed organizational theory, in turn facilitating a more process oriented and more contingent/less deterministic approach, this does not mean breaking with modernity, for mainstream modernist history is no less foundational, rational, essentialist, logocentric or concerned with the notion of progress. With faith in reason, the modernist historian's unquestioned task has been to dig into the past, to investigate it, to discover a past reality and reconstruct it scientifically, to find the 'one line running through history' (Ankersmit, 1989: 153). Claiming authority for historical knowledge (White, 1995), the goal has been 'uniformization of the past' through integration, synthesis and totality (Ankersmit, 1989: 153). Critiques of history in this fashion have, nonetheless, increasingly appeared (e.g., Lukacs, 2002), including those such as Üsdiken and Kieser (2004) who argue that use of history in organization studies are not all the same and can be demarcated according to how history is treated in relation to the social scientific perspective that has come to dominate the field.

The Suppletarist Position

Theorizing within the suppletarist position ranges from the timeless to limiting the value of history to add context for developing or testing generalizable theories (Kieser, 1994; Üsdiken and Kieser, 2004; Zald, 1990, 1993). As a useful check for ideas (Goldman, 1994), therefore, history becomes, substantively, an object of theoretical frames seeking to analyze and explain past events (Lawrence, 1984) and/or methodologically, an object of theory development and hypothesis generation (Goodman and Kruger, 1988). Claiming, for example, that

organizational ecology and institutional theory already incorporate history into their analyses, Goldman (1994: 623) goes on to assert that assimilating history into organization theory is only possible if it is acknowledged that ‘insofar as theory refers to principles of organization that transcend time and space, historical and comparative (that is international and/or multicultural) data can test the generalisability and utility of a theory’.

With the exception of contingency theories, and their largely cross-sectional (in contrast to longitudinal) research focus, other organizational theories – transaction cost, institutional and ecological theories – each accommodate a historical take that could be considered supplementarist (Clark and Rowlinson, 2004). However, such an accommodation is limited for, as Baum (1996: 107) notes, ‘no theory can be general, precise, and realistic at the same time’. Hence, with realism (and precision) as the trade-off for generality, history becomes subordinated to contributing to the theory-driven scientific enterprise substantively, i.e., through its potential for confirming and refining general theories, and/or methodologically, i.e., as an aid in selecting variables and in generating hypotheses within a theoretical context.

The Integrationist Position

In a criticism that can also be applied to mainstream organizational theory in general, Kieser (1994: 612) notes that sociologists, in favoring grand theories that bother little with historical details that disconfirm their theories, would be seen by many historians ‘as people who state the obvious in an abstract jargon, lack any sense of differences in culture or time, squeeze phenomena into rigid categories and, to top it all, declare these activities as “scientific”’. Given the inferior position they accord history, Kieser (1994) calls for the abandonment of models that are conceptualized separately from that which is to be explained, in favor of analyses that are more interpretive and inductive, i.e., integrationist. For those of an integrationist position, the

concern is with activating the potential of history to enrich organization studies through both employing and challenging its social scientific counterpart: ‘Ultimately, the issue is how do we *combine* a positivistic programme of theoretical and empirical cumulation with the enriching possibilities of the humanities’ (Zald, 1993: 516, emphasis in original). In similar vein, Kieser (1994: 619) proffers that ‘[h]istorical analyses do not replace existing organization theory; they enrich our understanding of present-day organizations by reconstructing the human acts which created them in the course of history.’

Thus, an integrationist position recognizes that the organizational has been shaped by past events and that its course of development has been influenced by the broader context. More specifically, an integrationist position entails interest in ‘processes of organisational change, development of organisational forms and variations across societal settings, path dependencies and continuities in organisational ideas and practices’ (Üsdiken and Kieser, 2004: 323).

PATH DEPENDENCE AS INTEGRATIONIST POSITION

Recognizing calls for more processual and historically informed theorizing, path dependence theory (Arthur, 1988, 1989, 1990, 1994; David, 1985, 1987, 1994, 1997, 1999, 2001) offers a way of articulating the institutional as an ongoing dynamic over more dominant ways of thinking and knowing that are more static. 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, path dependence refers to dynamic processes involving irreversibilities, which generate multiple possible outcomes depending on the particular sequence in which events unfold. The path dependence

approach holds that a historical path of choices has the character of a 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. As noted by David (2001: 23), “the core content of the concept of path dependence as a dynamic property refers to the idea of history as an irreversible branching process.” Thus, preceding steps in a particular direction induce further movement in the same direction, thereby making the possibility of switching to some other previously credible alternative more difficult. “In an increasing returns process, the probability of further steps along the same path increases with each move down that path. This is because the *relative* benefits of the current activity compared with other possible options increase over time” (Pierson, 2000: 252, emphasis in original).

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 institutional void just by looking at the characteristics and expected effects of the alternatives, but also by taking into account how much each alternative deviates from current institutional arrangements that have developed in time. An outcome thus depends on the contingent starting point and specific course of a historical decision-making process.

From its roots in economics, path dependence has branched out to become a key concept in studying institutional evolution over the past decade (Crouch & Farrell, 2002). North (1990)

proposed transforming the approach in such a way that it could be applied in an institutional context, noting that all the features identified in investigations of increasing returns in technology can equally apply to institutions, although with somewhat different characteristics, and that institutions are subject to considerable increasing returns. In situations of complex social interdependence, new institutions commonly require high fixed or start-up costs, and they entail significant learning effects, coordination effects, and adaptive expectations. By and large, established institutions engender powerful incentives that buttress their own stability (David, 1994).

North (1990) stresses that positive feedback applies not just to single institutions, but that institutional arrangements also produce corresponding organizational forms, which in turn may induce the development of new complementary institutions. Path-dependent processes will frequently be most marked not at the level of discrete organizations or institutions, but at a more macro level that comprises arrangements of corresponding organizations and institutions (Pierson & Skocpol, 2002).

For social scientists interested in paths of development, the key issue is often what North (1990: 95) calls “the interdependent web of an institutional matrix”, a matrix that “produces massive increasing returns”. As North (1990: 3) sees it, institutions, broadly defined as “the rules of the game in a society or, more formally, ... the humanly devised constraints that shape human interaction”, account for the anomaly of enduring difference in economic performance. Once in place, institutions are difficult to alter, and they have an enormous impact on the potential for producing sustained economic growth. Individuals and organizations become accustomed to existing institutions and when institutions do not encourage economic productivity, growth, if any, is unlikely.

Social scientists, therefore, 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.

INCORPORATING HISTORY AND PROCESS

Through the concept of path dependence, there is now the possibility to move beyond ahistorical and aprocessual organizational theorizing. In the opinion of Hirsch and Gillespie (2001: 87), 'Path dependence deserves credit for bringing history back into analysis [...] stimulating economists and other social scientists to address the limitations of their largely ahistorical models.' It seeks to assess how process, sequence and temporality can be best incorporated into explanation, the focus of the researcher being on particular outcomes, temporal sequencing and the unfolding of processes over time.

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. Mahoney (2001:112) elaborates these characteristics into an analytic structure based on his view that path dependence refers ‘to a specific type of explanation that unfolds through a series of sequential stages’, as shown in Figure 1.

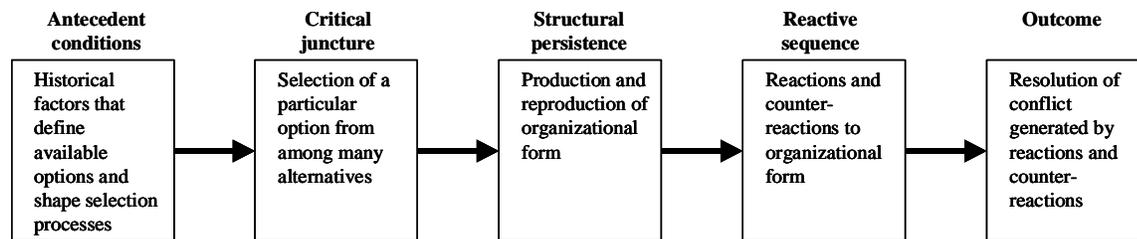


Figure 1 – Analytic structure of path-dependent explanation (adapted from Mahoney, 2001: 113).

In the course of pre-critical junctures, when antecedent conditions are at play, at least two alternatives are open for selection and potential processes influencing the choice made at the critical juncture become active. The choice is consequential because it leads to the creation of a pattern that endures over time, nudging history down tracks that then, through the stubborn persistence of subsequent continuities, become increasingly difficult to reverse. It is here that positive feedback processes become active, with 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), along with layering (Thelen, 2003), coming into play and contributing to structural persistence. To these mechanisms can be added those of veto points, or rules that make pre-existing arrangements hard to reverse, and asset specificity (Pierson, 2004), the latter providing additional force to the mechanisms of coordination effects and adaptive expectations. 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 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 structural persistence, such that over time it becomes difficult, if not impossible, to reverse direction.

The continued existence of an institution over time activates a sequence of causally linked events that, when activated, materialize separately from the institutional factors that originally produced it. In such reactive sequences, which comprise chains of events that are both temporally ordered and causally connected, the final event in the sequence is the outcome of interest. With each event within the chain a reaction to temporally antecedent events, and thus dependent on prior events, the overall chain of events can be viewed as a path culminating in the outcome. A reactive sequence is often set in motion by an initial challenge to the existing institution, with counter-reactions to this opposition then driving ensuing events in the sequence. Reactive sequences are normally marked by properties of reaction and counter-response as institutional patterns put in place during critical juncture periods are resisted or supported. Although such resistance may not lead to the transformation of these institutions, it can trigger an independent process that includes events leading to a result of interest. The tensions of a reactive sequence usually yield more stable final outcomes, which involve the development of new institutional patterns. While such outcomes suggest fairly stable equilibrium points, they will inevitably become displaced by new periods of discontinuity signaling the end of a particular critical juncture and possibly the start of a new one.

FORMING IRELAND'S INDUSTRIAL DEVELOPMENT AUTHORITY

Taking path dependence as lens, we now move on to trace the creation and (re)production of Ireland's Industrial Development Authority (IDA hereafter). The story that unfolds takes as its starting point the country's turn to protectionism following the general election of 1932, charting the increasing investment by successive Governments in the machinery of protection and the creation of the Authority 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 emergence of the Authority as the pre-eminent agency of state dealing with industrial development and its re-creation as a state-sponsored organization. Throughout the course of time, the story traces the growing commitment to the Authority in terms of political, institutional and monetary resources, with the Authority 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 Authority in the early 1980s and culminates in the Authority being split into separate agencies in 1994.

Emerging within Protectionism: Creating the IDA

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 the party advocating protectionism winning five successive general elections and remaining in power for almost two decades (see Figure 2 below).

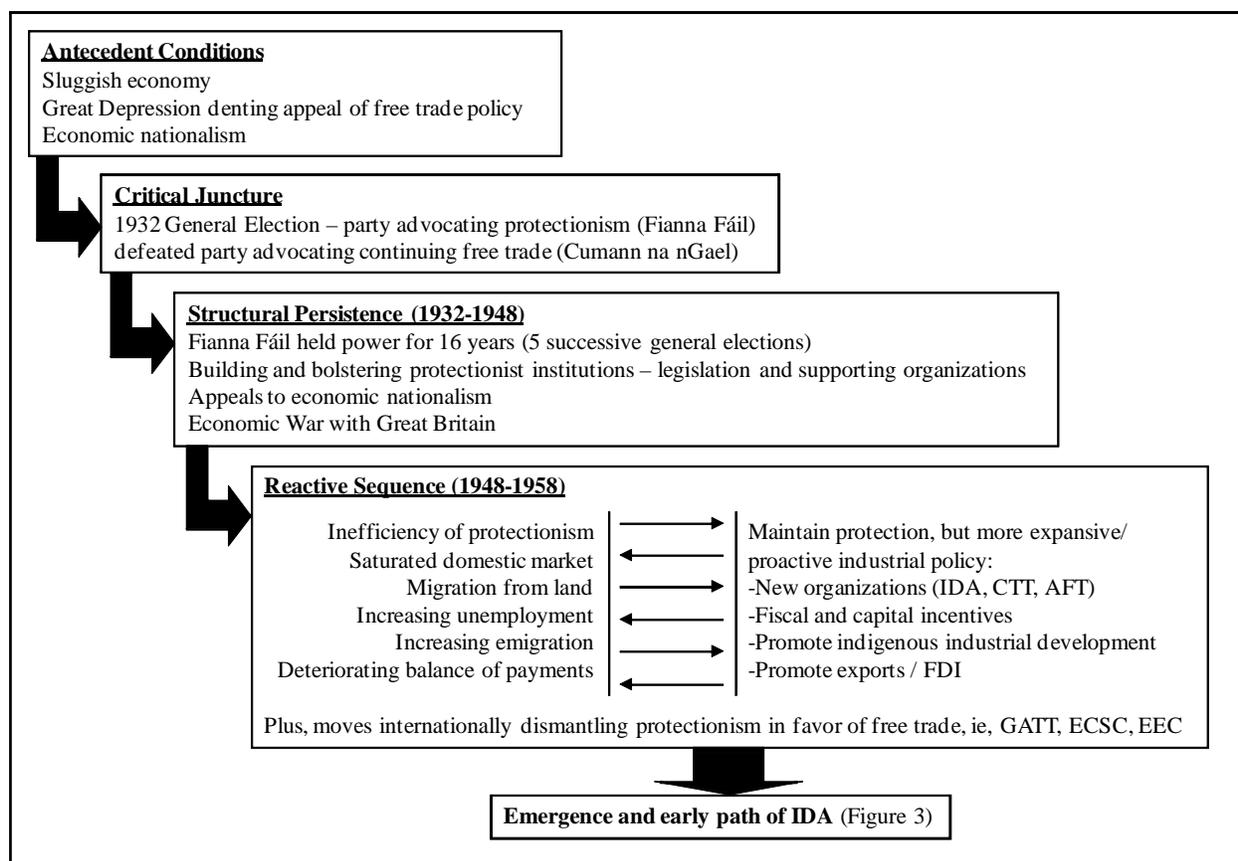


Figure 2: The protectionist path, 1932-1958.

As it was, the party in government invested significant political capital in protectionism as the means to achieving economic independence, appealing to economic nationalism and engaging in an economic war with the UK. Additionally, the government set about building the protectionist machine through passing legislation and establishing appropriate organizations. Through layering (Thelen, 2003), legislation and supporting organizations were added to partially re-negotiate elements of the machine, while at the same time strengthening it in the process. These various legislative moves also exhibit learning effects, as can be seen in the adaptations made to various pieces of legislation constituting the machine. The investment in these legislative and organizational assets, which were specific to protectionism, added to the

resilience of the institution and deepened the equilibrium established by the turn to self-sufficiency. Further, coordination effects and adaptive expectations were evident in the support for this infrastructure, not just by government, but also by industrialists.

By the late 1940s, 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 government sought to combat its ills through engaging a more proactive industrial policy centered in a new organization, the Industrial Development Authority (IDA). In establishing the IDA in 1949, the government chose between establishing an autonomous body and the existing civil service arrangements, opting for the former and investing in a path to bring about its creation (see Figure 3 below). 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 Authority as an administrative body in advance of any legislation passing through the Oireachtas¹, 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 bringing a Bill 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.

Thus, even before coming to the Oireachtas, there were already significant start-up costs and expectations as to what the Authority would achieve. Such was the investment that, on

¹ Legislature, which comprises the Dáil (lower house of parliament) and the Seanad (senate).

returning to power in 1951 once again, rather than abolish the Authority as it had threatened to do, the party that had built protectionism refocused the IDA instead on industrial development, taking away the administrative role that was properly seen to rest with civil servants and freeing the Authority to focus on promoting industrial development. Following this critical juncture, the Authority had become established as part of the nascent industrial development institutional landscape.

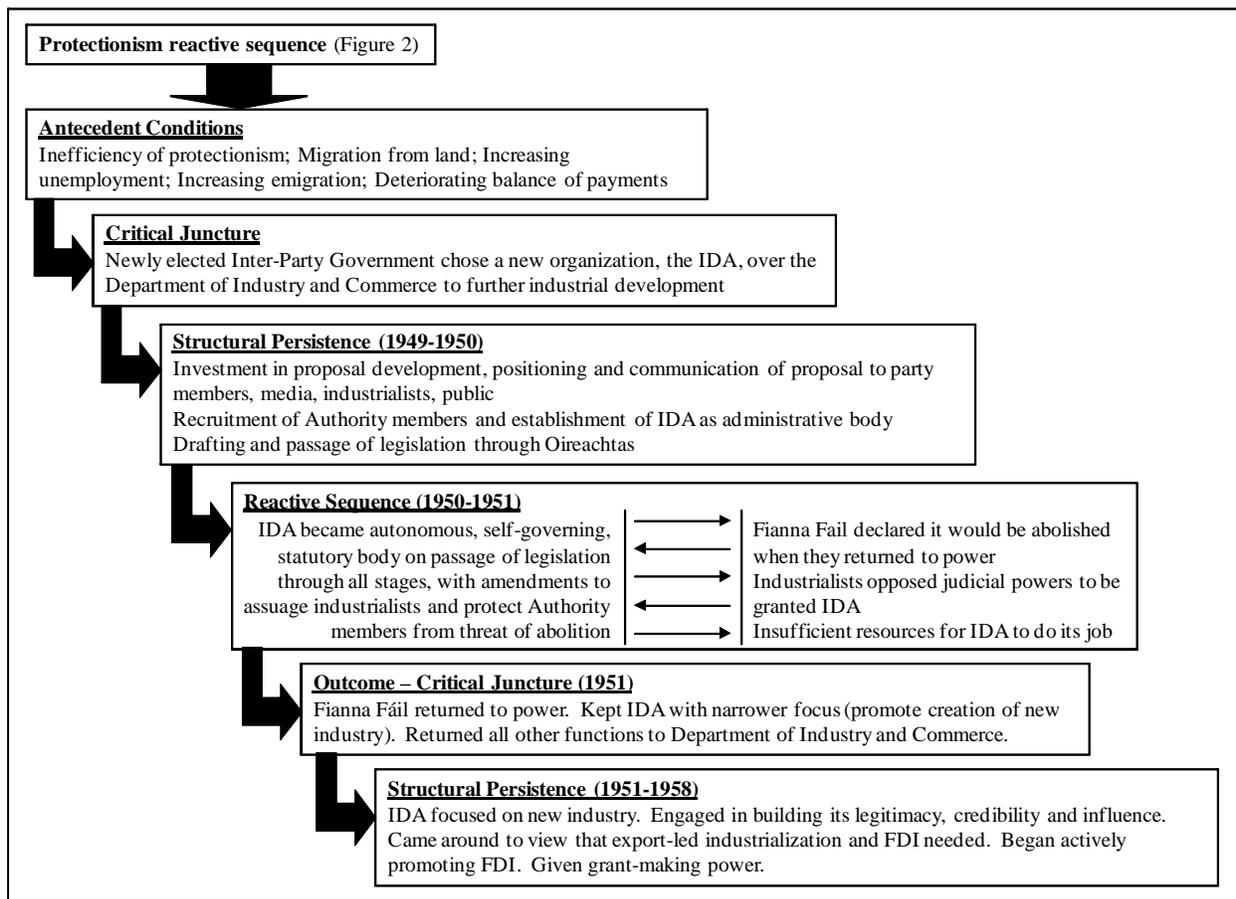


Figure 3: The IDA's early path.

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). This can be seen in the sequence that emerged in reaction to protectionism, where new conditions were overwhelming the specific mechanisms that previously reproduced the protectionist path. Tentative moves were being made towards an outward-looking orientation, albeit not in any concerted or coordinated fashion at the outset and from within the definite confines of protectionism. Initially, the IDA favored protectionism to encourage indigenous industrial development. However, through experience on the ground, the Authority’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 sequence that paved the way for the emergence of a new equilibrium. As we see, 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 and incentives 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 sequence and institutional matrix developing in parallel, a sequence driven by the need to deal with new conditions, which included increasing moves towards free trade and mobile investment capital internationally.

Changing Policy: From Protectionism to Free Trade

As has already been seen, the rules of the game were changing through the 1950s and the 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 *Programme for Economic Expansion* (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 (see Figure 4 below).

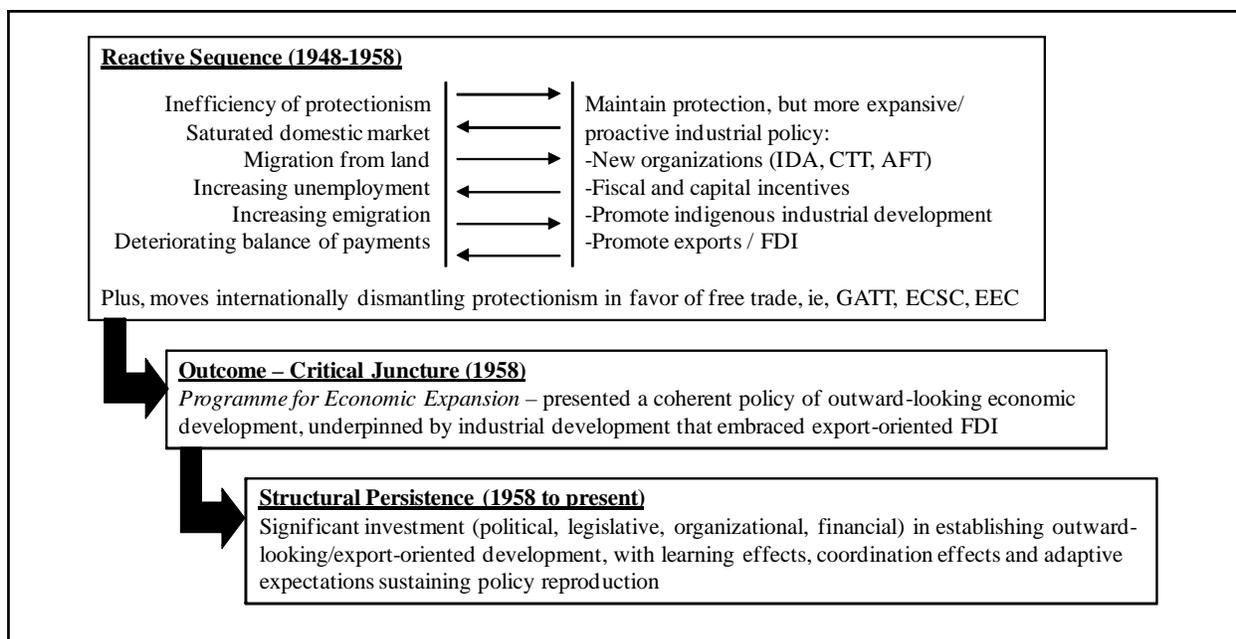


Figure 4: Reorienting the path from protectionism to outward-looking economic development

Essentially, the move towards a more outward-looking economic development policy entailed considerable start-up costs, particularly political and particularly for the party in government, 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.

From a policy learning perspective (Pierson, 1993), Ireland's story of economic development is illustrative of policy constituting "important rules of the game, influencing the allocation of economic and political resources, modifying the costs and benefits associated with alternative...strategies, and consequently altering ensuing" development (Pierson, 1993: 596). While government shaped the outward-looking economic development policy, following Pierson (1993), this policy can be seen to have subsequently produced politics, with the policy serving to shape politics. This being so, economic development policy can be seen to have produced resources and incentives (e.g., the IDA, the need to create jobs) for government, with positive feedback (e.g., jobs created) influencing continued investment in the policy. Such policy feedback facilitated the expansion in scope and scale of economic development, with economic development policy shaping industrial development policy, which, in turn, shaped later developments and served to reinforce the path taken.

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. It was within this context that the IDA was reproduced.

From Minor Statutory Body to Major State-Sponsored Agency: Building the IDA

The policy change favoring free trade also marked a critical juncture for the IDA (see Figure 5 below) in focusing its efforts and positioning it as the focal organization in attracting 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, 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 Authority's success met with operational limitations, however. As matters stood, the Authority 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 Authority engaged US consultants Arthur D. Little (1967a, b) to assist it in a major reappraisal of the state’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.

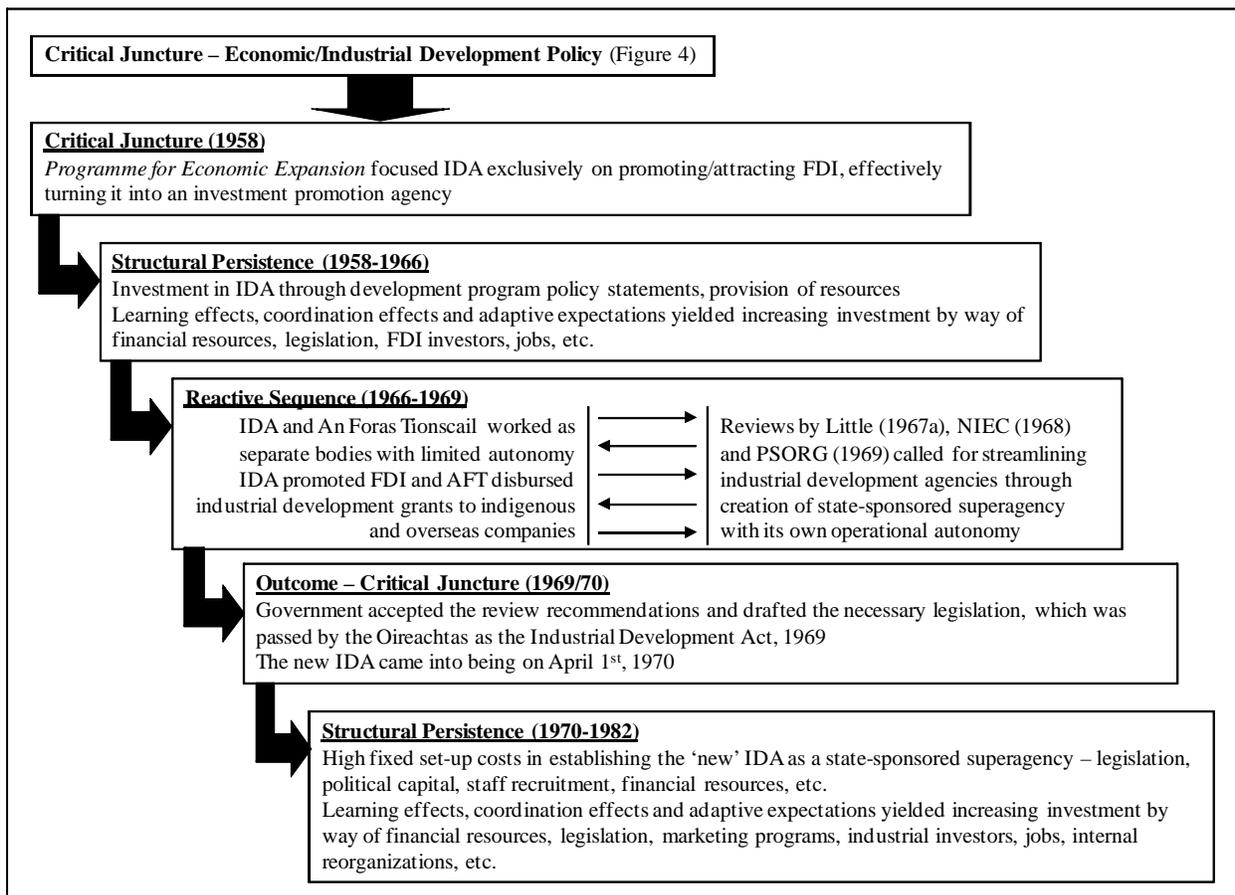


Figure 5 – IDA path from minor statutory body to major state-sponsored super-agency.

On foot of the Little (1967a, b), the National Industrial Economic Council (1968) and the Public Services Organisation Review Group (1969) reviews, and by way of critical juncture, 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 Authority 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 Authority. Government maintained overall control through its power to appoint the Authority's members, its broad responsibility for setting industrial policy and its broad control over the Authority's budget. Additionally, government pro-actively legitimized the Authority'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 Authority 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. The new IDA 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 stability.

Building on the experience gained 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, 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 Authority 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 & White, 2000: 194). Such 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), its programs are illustrative of the learning-by-doing that occurred over time and that served to consolidate the IDA's 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 Authority's identity, credibility and legitimacy, following the critical juncture that created the 'new' IDA super-agency, the 1970s was a period of building the organizational form and further consolidating the IDA'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.

Back to the Future: From State-Sponsored Super-Agency to Agency Focused on FDI

From a path dependence perspective, the story moves from one of structural persistence to a reactive sequence that culminates in a critical juncture 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.

While Wickham's observation points to success with foreign investment, the same success was not achieved with domestic industry. Having experienced a decade of relative glory through the 1970s, the organization's legitimacy came into question on foot of the Telesis (1982) review and 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 & White, 2000; Telesis, 1982).

While reliance on foreign investment had found general acceptance and largely went unquestioned, concerns nonetheless 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 & Whelan, 1973; *Economist*, 1977; Jacobsen, 1978; Kennedy & Dowling, 1975; Long, 1976). These concerns led the National Economic and Social Council (NESCC) 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. In assessing the state's then industrial policy, Telesis was complimentary on 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 and other development agencies 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 relevant agencies.

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 & White, 2000: 212), while the early 1990s witnessed yet another review of industrial policy with major ramifications for the IDA (*Employment Through Enterprise*, 1993; Industrial Policy Review Group, 1992). Representing another 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 structural persistence that marked the 1970s gave way to a reactive sequence that saw both questioning of the IDA and self-reinforcing mechanisms generating increasing returns to continuing with the IDA, finding subsequent expression in the critical juncture that brought about recreation of the IDA (see Figure 6 below).

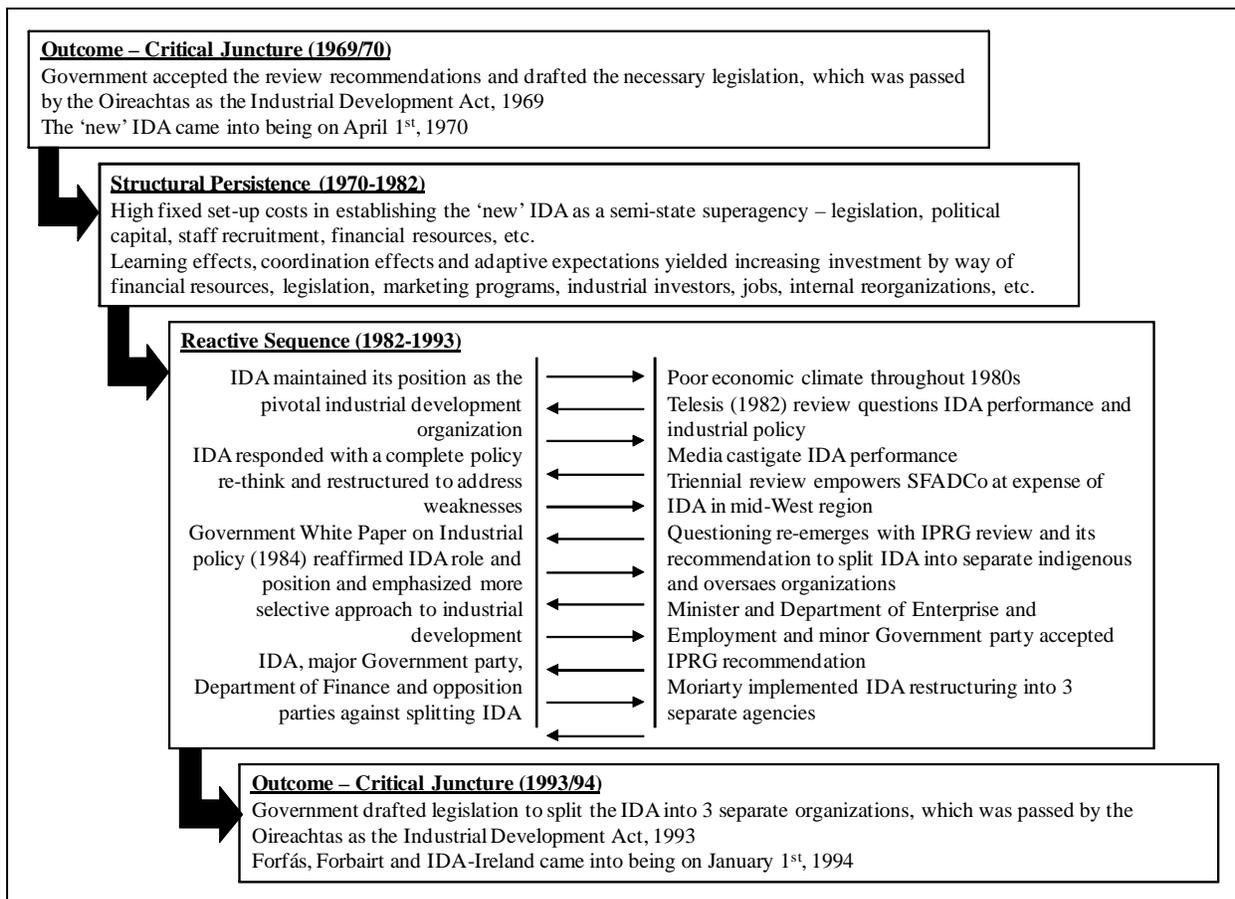


Figure 6: IDA path from industrial development super-agency to agency focused on FDI.

From a path dependence perspective, arguably, the change to the IDA as an industrial development organization remains within the bounds of the path being pursued since the critical

juncture of 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, albeit losing its ‘authority’ in the process². 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.

Today, IDA-Ireland (2008) points to over 1,000 foreign companies operating in Ireland, representing direct employment of 135,000 and accounting for 25 per cent of GDP and over 80 per cent of exports. The organization boasts of an ICT sector of over 220 foreign companies, with five of the world’s top ten having a substantial base in the country, with some 40,000 employed in the sector, and accounts for over €50 billion in exports. In the pharmaceutical sector, the 83 facilities employ some 17,000 people directly, thirteen of the top fifteen companies in the world have significant operations in the country, six of the top ten (and 12 of the top 25) selling drugs in the world are produced in the country making Ireland one of the world’s largest exporters of pharmaceuticals, with exports topping €30 billion. The 130 companies in the medical technologies sector, 15 of which are in the world’s top 25, employ over 26,000 and achieve annual, largely export, sales in excess of €6 billion, such that this sector is comparable in scale to the largest clusters globally in Minnesota and Massachusetts. The organization is also

² Personal interview with Padraic White on May 9th, 2006. Mr. White joined the IDA in 1969 and rose to become Managing Director in 1981, serving in that position until 1990.

active in attracting and retaining FDI in the international financial services, engineering, international services, consumer products, chemicals and biometrics sectors.

IN CONCLUSION... A PATH DEPENDENCE PICTURE OF ORGANIZATIONAL FORM(ING)

Thus, 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 junctures marking the IDA's establishment, then its focus on development of new industry and re-focus on FDI, followed by its re-creation as a super-agency with national responsibility for all aspects of industrial development policy and implementation, and most recently its re-focus 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 structural persistence. We see large set-up costs and ongoing investment, initially in protectionism and subsequently in a policy geared towards free trade, e.g., policy statements, policy documents, legislation, new institutions and organizations, ongoing commitment of resources (financial, political, legislative), etc. We see the knowledge gained in the operation of both policy regimes contributing to positive feedback in their continued use, such feedback incurring continued investment aimed at greater efficiency and effectiveness, for example, in the fine-tuning of legislation and the establishment of complementary organizations. Increased use of each policy regime encouraged investment in linked and complementary activities, in turn making each regime more attractive. And adaptive expectations drove continued investment in

both policy regimes to reduce uncertainties, whereby the greater the expectation that policy would continue in force the greater actions would be adapted to realize those expectations. The self-fulfilling character of expectations contributed to the policy winning broader acceptance and increased the dynamic of coordination effects.

We also 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 paths have not continued indefinitely, as was the case with protectionism and with the IDA itself. A reactive sequence emerged in response to the growing disquiet with protectionism, which culminated in the outcome or critical juncture that saw the outward-looking economic development policy take its place. The initial fortunes of the IDA played out within this reactive sequence. Its establishment attracted the threat of abolition by the opposition and it became bogged down in managing protectionism to the detriment of promoting industrial development. However, the outcome or critical juncture was favorable to the IDA in setting it on its path as an industrial development organization through removing it of its bureaucratic burden administering the protectionist machine. The critical juncture that saw the

organization's role re-focused to attract FDI was influenced by the reactive sequence at the broader level of economic policy. The subsequent reactive sequence that resulted in the re-creation of the IDA as a semi-state super-agency was a response to the perceived and real inefficiencies of having multiple state agencies dealing with industrial investment and doing so from within the operational confines of the civil service. And the reactive sequence 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 sequences 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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