MORAL IMAGINATION IN ORGANIZATIONAL PROBLEM-SOLVING: AN INSTITUTIONAL PERSPECTIVE

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Abstract: This essay responds to Patricia Werhane's 1994 Ruffin Lecture address, "Moral Imagination and the Search for Ethical Decision-making in Management," using institutional theory as an analytical framework to explore conditions that either inhibit or promote moral imagination in organizational problem-solving. Implications of the analysis for managing organizational change and for business ethics theory development are proposed.

At the 1994 Ruffin Lectures in Business Ethics, Patricia Werhane initiated a dialogue on the topic of "Moral Imagination and the Search for Ethical Decision-making in Management." The concept is intriguing and evokes the question: How can organizations promote moral imagination in the business decision-making process? Here I attempt to answer that question by analyzing the institutional factors that encourage or inhibit moral imagination in organizational problem-solving. I propose a conceptual framework to guide this analysis and discuss how the framework can be applied to study and execute organizational change. First, I review key themes from Werhane's address.

Moral imagination is defined as: *The ability to imaginatively discern various possibilities for acting within a given situation to envision the potential help and harm that are likely to result from a given action* (Johnson, 1993, p. 202). Werhane, integrating ideas from Adam Smith, Immanuel Kant and contemporary philosophers, builds on this definition by conceptualizing moral imagination as a three stage process of approaching moral decisions.

The first stage, ***reproductive imagination***, involves attaining awareness of the contextual factors that affect perception of a moral problem:"

> "(a) Awareness of one's context, (b) Awareness of the script or schema functioning in that context, and (c) Awareness of possible moral conflicts or dilemmas that might arise in that context, that is, dilemmas created at least in part by the dominating script" (Werhane, 1994, pp. 21-22).

The second stage, ***productive imagination***, consists of reframing the problem from different perspectives:

> "Revamping one's schema to take into account new possibilities within the scope of one's situation and/or within one's role" (Werhane, 1994, p. 22).

The third stage, ***creative imagination*** entails developing morally acceptable alternatives to solve the problem:

"(a) The ability to envision and actualize possibilities that are not context-dependent but are encouraged by or project a fresh schema, and/or (b) The ability to envision possibilities that other reasonable persons could envision, and (c) Evaluation: Envisioning how to morally justify actualizing these possibilities and/or how to evaluate both the status quo and these newly formulated possible outcomes" (Werhane, 1994, p. 22).

Applying the preceding definition to business decision-making, moral imagination would therefore entail (a) Becoming aware of the social, economic, organizational or personal factors that affect perception of a business problem, and understanding how these might conflict, (b) Reframing the problem from various perspectives to understand the potential impact of different solutions, (c) Developing alternatives to solve the problem that can be morally justified by others outside the firm.

Central to this concept of moral imagination is the importance of questioning prevailing organizational problem-solving scripts. ***Script***, an important construct in both cognitive and social psychology, is defined here as: *A cognitive framework for understanding information and events that provides guidance for appropriate behavior in specific situations, thus serving as a bridge between cognition and action* (see Gioa, 1992). In the specific instance of managerial decision-making, Werhane's analysis suggests that much unethical business practice arises from the manager's insufficient motivation to question deeply ingrained business problem-solving scripts that routinely ignore potentially harmful social consequences: In essence, from the failure of moral imagination.

To make her point, Werhane describes how managers—locked into fixed ways of viewing organizational problems—become unable to either envision the moral ramifications of the issues at stake, or to conceptualize alternative solutions to the problems they confront. Such failure of moral imagination, she argues, is not only characteristic of many business decisions but has also contributed to a catalogue of corporate misdeeds. Her illustrations include ignoring the dangerous Pinto gas tank defects at Ford Motor Company in the 1970s, the epidemic of illegal trading practices on Wall Street in the 1980s, as well as price-fixing and rampant government fraud at General Electric Corporation in the 1990s—all cases in which the prevailing organizational decision-making environment tacitly discouraged managers from examining the social and moral implications of their actions.

An important dimension of Werhane's argument is that conceptual rigidity in organizational problem-solving is often systemically promoted and sustained. She describes, at the outset of her paper, the role that dominant scripts and conceptual schemes play in framing a decision or problem: how "some individuals and institutions are trapped in a framework of history, organization, culture and tradition...a framework that they often allow to drive their decision-making to preclude taking into account moral concerns" (p. 3). Elaborating further on this idea, she continues:

"Our conceptual schemes function in a variety of ways. In selecting, focusing, framing, organizing, and ordering what we experience, they bracket and leave out data, and emotional and motivational foci taint or color experience.

> These conceptual schemes are constantly under the influence of new social and cultural stimuli, hence they are subject to change. Now and again, however, our perspectives become narrow, microscopic or even fantasy-driven, or a particular point of view becomes ingrained so that one begins to adopt only that perspective" (1994, p. 9).

Werhane's explanation emphasizes the constricting aspects of organizational problem-solving scripts, implying that moral imagination not only requires breaking out of these scripts but cannot even be considered imaginative unless it "explores a wide range of possibilities, including, most critically, new possible conceptual schemes" (p. 19). In fact, she argues that the "most critical function" of moral imagination is to "disengage us from the perspective with which we are dealing with a situation so that we will be able to consider new possibilities" (p. 20).

Werhane suggests that moral imagination requires maintaining a distance from the particular point of view that characterizes the institutional or regulatory framework in which one is operating. And she contends (p. 33) that:

> "Moral judgements are the result of a delicate balance of context, evaluation, the projection of moral minimums and the presence or absence of moral imagination. The process takes into account context and tradition, a disengaged view from somewhere, and minimum moral standards.... The lynch-pin of this process is a highly developed moral imagination that perceives the nuances of a situation, challenges the framework or scheme in which the event is embedded and imagines how that might be different."

Werhane then concludes her address with an example of moral imagination in practice: The case of a failing neighborhood bank which—as the result of the imaginative actions of new investors—recovered to become a prosperous enterprise that provided new economic opportunities to local constituents and contributed to community development.

When all elements of Werhane's analysis are added together, the reader emerges with the sense that a central component of ethical decision-making in management is the individual's motivation to challenge existing problem-solving norms. If this is true, what are the personal and situational factors that encourage such motivation? Clearly the individual's own moral values and conceptual skills would be critical elements of the equation, as would practices and procedures in a given firm (see Trevino, 1986; 1990).

This paper, however, will focus on an equally important contributor to moral imagination in management: The institutional context of business decision-making.

Using the analytical framework of institutional theory, I argue here that in order for moral imagination to enter the everyday practice of managerial decision-making, an institutional re-orientation to moral problem-solving must take place across the business spectrum. While individual and organizational factors can promote the exercise of moral imagination, they are not sufficient to integrate moral imagination into the process of business decision-making. Instead, an alternative script for business problem-solving must evolve at the institutional level—one that validates (a) Challenging existing decision-making norms, and (b) Considering the social or moral implications of managerial actions.

Although it may appear counter-intuitive to suggest "a script for challenging scripts," as I advocate here, research on the history of institutional change has shown that this is precisely the necessary catalyst required for any substantive social transformation to occur (Fligstein, 1990; March and Olsen, 1990; North, 1990; Scott and Meyer, 1994). The emergence of Christianity from Judaism, the radical re-orientation of the visual arts from representational to abstract in early 20th century Europe, the re-definition of sexual mores in 1960s America, urban graffiti in contemporary cities around the globe: All are examples of rule-breaking, in itself, becoming a behavioral norm.

As Katz and Kahn (1978) noted in their now classic theory of organizations, social systems can only endure when individual variability is modified to a manageable degree. Institutionalizing behavioral norms is a particularly effective way of modifying such variability. I therefore argue here that in order to cultivate moral imagination in business decision-making without sacrificing the behavioral consistency required for organizational survival, "challenging existing decision-making norms" and "considering the social or moral implications of managerial actions" must become institutionalized as ways to approach organizational problem-solving.

To explore how this goal could be accomplished, I begin by summarizing some central themes from institutional theory, introducing the concept of ***institutional innovation***, and proposing a framework for understanding and guiding the innovation process. Next I examine how this framework can be applied to innovation in business decision-making and illustrate how it can be used to assess the viability of integrating moral imagination into the process of organizational problem-solving. To conclude, I discuss implications of the analysis for managing organizational change and for theory development in the business ethics field.

Institutions and Institutional Change

Institutional theories to explain organizational action have emerged, with different emphases, from several social science disciplines—most notably sociology, political science and economics. Of these, the sociological perspective, stressing the impact of values, beliefs, and symbolic meaning systems on organizational activity, has particularly interesting implications for studying moral conduct in private enterprise (see Scott and Meyer, 1994). Therefore, while several strains of institutional theory have recently appeared in the organizational literature, it is the sociological perspective I apply here, and to which I refer throughout the essay.

Definitions and Terms

Within the sociological tradition, ***Institutions*** themselves are defined as: *Established systems of meaning and patterns of behavior that emerge to accomplish important social tasks* (see Jepperson, 1991; Meyer, et al. 1994; Scott, 1994a, 1994b). These tasks include communication, education, production, distribution, maintenance, governance, and so forth (see Katz and Kahn, 1978; Wood, 1994).

Institutional arrangements are: *The specific practices and procedures that reveal the cognitive and normative characteristics of a given institution* (Powell and DiMaggio, 1991; Scott, 1994a, 1994b). *Cognitive characteristics* include *representational rules* which entail "shared logics or modes of reasoning that help to create shared understandings" (Scott, 1994a, p. 67), as well as *constitutive rules* that "define the nature of actors and their capacity for action" (Scott, 1994a, p. 61). For example:

> "widely held beliefs and taken for granted assumptions that provide a framework for every day routines, as well as the more specialized and codified values and beliefs systems (of) various professional and scientific bodies engaged in elaborating our cultural knowledge base" (Scott, 1994b, p. 81).

Normative characteristics encompass both *normative rules*, stipulating social expectations for behavior, and *enforcement procedures*—oversight, assessment, punishment and reward (Scott, 1994a, p. 65). These include:

> "traditional mores and informally sanctioned social obligations of the type found in all societies; they also include the more explicit rulings of legislatures and courts, as well as the specialized surveillance and enforcement mechanisms of the regulatory agencies and the police" (Scott, 1994, p. 81).

Institutionalization, in this essay, refers to: *the process by which institutional arrangements are reproduced until they become embedded in social system routine* (see DiMaggio, 1988; Jepperson, 1991; Meyer, et al., 1994; Scott, 1994a). Institutionalization processes occur at three levels: The intra-organizational level, the organization field level and the societal level. Scott (1994a, pp. 70-71) maintains that:

> "the application of institutional arguments to organizations occurs...most appropriately and powerfully neither at the level of the entire society nor at the level of individual organizations but at the level of the organizational field...communities of organizations that participate in the same meaning systems, are defined by similar symbolic processes and are subject to common regulatory processes."

These would include, for instance, the fields of business, education, or government, as well as subsets of these fields—industries in the case of business, universities in the case of education, state legislatures in the case of government, etc. In this essay, I direct my analysis toward the organizational field that encompasses bureaucratically structured American corporations.

Institutional innovation, the central focus of this paper, refers to: *The process of forming new institutional arrangements—creating and diffusing new practices, procedures or expectations for appropriate behavior within a given organizational field* (see DiMaggio, 1988; Scott, 1994a, 1994b). Here I explore innovation with respect to organizational problem-solving, within the business field identified above.

Institutional Innovation: The IDEA Framework

Much has been written by institutional theorists about how new institutions and institutional arrangements emerge (DiMaggio, 1988; Fligstein, 1990; Gioa, 1992; Jepperson, 1991; North, 1990; Powell, 1991; Scott, 1994a, 1994b; Scott and Meyer, 1994a; 1994b; Strang and Meyer, 1994; Zucker, 1988). The perspective taken here is initially derived from DiMaggio's (1988) notion that new institutions arise when organized actors with sufficient resources instigate an institutionalization project in response to particular environmental demands. Combining this with other theories of institutional and organizational change, I propose a conceptual framework for understanding, studying and evaluating the institutional innovation process at the organizational field level.

As I will show, this framework can provide guidance to organizational researchers exploring the process of social system change, as well as to those attempting to assess the viability of introducing new organizational practices or procedures. Moreover, since the organizational adoption of new behaviors can be improved when change agents understand the institutional foundations of existing organizational forms (DiMaggio and Powell, 1991), the framework can also be useful to managers directly involved in change activities.

The framework I propose here conceptualizes institutional innovation proceeding in four key phases: *(1) Introduction, (2) Diffusion, (3) Evaluation*, and *(4) Adoption*—each with a context and a process component. The ***context component*** reflects the situational factors present during each phase. The ***process component*** reflects the behavior of the actors involved. By examining how both context and process issues affect institutional innovation, the viability of new institutional arrangements can be assessed.

Noel Tichy's (1983) model for managing strategic change guides analysis of the context component. According to Tichy, executing any kind of social system change involves managing and balancing political, technical and cultural concerns. ***Political*** concerns pertain to the formulation of goals and the allocation of power and resources. ***Technical*** concerns refer to any logistical, structural or mechanical factors that affect the process being studied. ***Cultural*** concerns involve the impact of values and beliefs. For each phase of innovation, these factors can be examined to assess whether they contribute bridges or barriers to the successful completion of that phase.

The work of several other theorists offers guidance for analyzing the process component. The first phase, "introduction," entails leaders in a given organizational field creating new institutional arrangements to govern behavior in that field: usually in response to some important environmental events (see DiMaggio, 1988; Fligstein, 1990). The second, "diffusion," pertains to the spread of these new arrangements to potential adopting organizations in the field (see Strang and Meyer, 1994). The third, "evaluation," involves both leaders and adopters judging the success with which the new arrangements meet environmental demands relative to previous institutional arrangements (see Kotter and Heskett, 1992; Schlesinger, et al, 1992). The fourth phase, "adoption," occurs as the new arrangements become firmly entrenched as accepted norms for the field (see DiMaggio, 1988; North, 1990; Gioa, 1992; Jepperson, 1991; Scott, 1994a).

Conditions for Successful Innovation

Although four distinct phases for the process are identified here, it is important to note that institutional innovation is a dynamic rather than a static event. The characteristics of the introduction agents, the adopters, and the extant situation continually interact with one another and with the characteristics of the new arrangements themselves to predict the success of the innovation effort. The three main context and process requirements for success during each phase are described accordingly (see Figure 1).

Introduction. For the introduction phase of innovation to succeed, the first context requirement is political: Researchers have observed that leaders of the innovation process must possess sufficient power and resources to realize their objectives (DiMaggio, 1988). In the technical arena, the existence of new technologies has been consistently found to encourage new roles and routines (Tichy, 1983). Moreover, additional studies have shown that when cultural values and beliefs are in transition, the social system is more receptive to alternative institutional arrangements (Scott, 1994b).

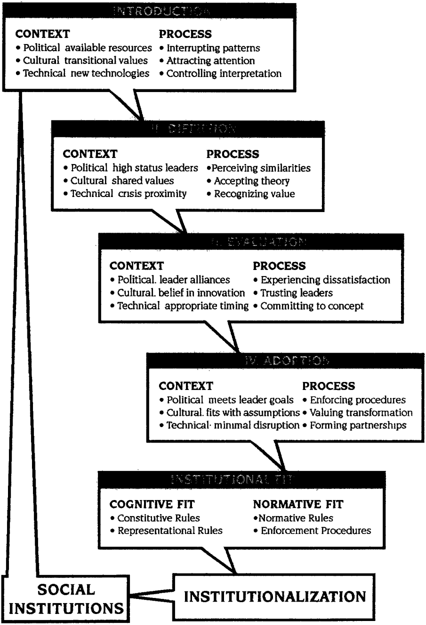
With regard to process requirements for success in the introduction phase, studies conducted independently by DiMaggio (1988) and Fligstein (1990) revealed that actions of powerholders in a given organizational field are critical to the progress of an introduction effort. These researchers noted that the way powerholders assessed environmental demands and interrupted existing patterns of responding to these demands had a significant impact on how the introduction phase proceeded. Furthermore, they were able to attract attention to the new arrangements they proposed, and to control interpretation of new rules and scripts by developing organizational practices and procedures to clearly communicate their expectations. While individuals and groups outside the field's central locus of influence can also introduce innovation, both DiMaggio and Fligstein conclude that the introduction of new arrangements can not proceed successfully without the active involvement of those in positions of power.

Diffusion. In the second phase of the innovation process, the diffusion phase, powerholder interest and agency take a secondary role to contextual factors and adopter behavior. Strang and Meyer's (1994) research suggests that the flow of social practices between organizations in a given field depends on a number of contingencies outside the powerholder's control. Their analysis identified several conditions that encourage diffusion of new institutional arrangements, which, I suggest, can also be understood in context and process terms.

In the context arena, the status of leaders in the innovation effort emerges as a central political concern: Diffusion is more likely to proceed successfully when the leader's status is high. A critical technical element for successful diffusion is close proximity of the innovation to a previous crisis or failure. And commonality of values among introduction agents and adopters increases probability of success along the cultural dimension (see Strang and Meyer, 1994).

With regard to process, Strang and Meyer (1994) note that successful diffusion of new arrangements is more dependent on behavior of adopters than of leaders: (a) Adopters must perceive a personal similarity to introduction agents, (b) Adopters

Figure 1· **Institutional Innovation Model**



must accept the theoretical orientations of introduction agents, and (c) Adopters must recognize the value or usefulness of the arrangements being introduced. The interaction phenomena noted above, involving characteristics of leaders, adopters, situations and new arrangements can be observed quite clearly during this phase.

Evaluation. Once new institutional arrangements have been diffused throughout an organizational field, their effectiveness in meeting environmental demands is evaluated. This evaluation involves both introduction agents and adopters comparing the new arrangements with those replaced. The likelihood of a positive evaluation of new organizational forms and practices is enhanced by a number of factors.

In terms of context, an important political factor that increases the probability of positive evaluation is the existence of alliances among introduction agents. Extensive observations of organizational change projects documented by Schlesinger et al. (1992) have shown that when several leaders in the field share similar goals, there is less likelihood that these goals will be undermined by the political actions of those who disagree. On the technical level, Scott's (1994b) comprehensive review of studies grounded in institutional theory showed the importance of timing an innovation for evaluation outcomes. Positive evaluations, for instance, occur more frequently when new arrangements are introduced during a dynamic period in the field, since receptiveness to innovation in general will be high. And in the cultural domain, a general belief in the value of innovation—observed by North (1990) in most market economies—also encourages a positive evaluation of new institutional arrangements.

In the process arena, both adopter and leader behaviors contribute to a successful evaluation phase. First, as studies of organizational transformation efforts have shown, dissatisfaction among adopters with previous institutional arrangements contributes substantially to success (Schlesinger, et al, 1992). Second, Scott's (1994a) review of research in this area documented strong findings that the level of adopter confidence in introduction agents also predicts a favorable evaluation (Scott, 1994a). Third, as Schlesinger, et al. (1992) observed in their studies of organizational change, introduction agents who believe strongly in the long-term value of a new arrangement often direct attention away from its potential flaws—further increasing the likelihood of a positive evaluation.

Adoption. The final phase of innovation, the adoption phase, determines whether new arrangements will pass through the organizational field as a fad or whether they will become entrenched characteristics of that field. Again both context and process issues are involved in successful completion of this phase.

Beginning with context concerns, studies by both Dimaggio (1988) and Fligstein (1990) showed that—from a political perspective—when new arrangements appeared to facilitate the goals of other powerholders in the field, they were more likely to be widely adopted. On a technical level, Jepperson's (1991) research documented that the absence of any collective action or environmental shock to disrupt the institutionalization process also encourages adoption. And, in terms of cultural factors, studies of organizational change have shown that adoption is more likely to occur when new arrangements resonate comfortably with fundamental assumptions in the field (see Gioia, 1992; Schlesinger et al, 1992; Scott's 1994a).

In the process domain of adoption, leader enforcement plays an important role in whether or not adoption will occur. North (1990) observed that leaders must adequately enforce measures linking theory and practice throughout the organizational field—measures such as punishments, rewards, rules, regulations and so forth. Strang and Meyer's (1994) research has shown that adoption success is also enhanced when adopters demonstrate a history of receptiveness to innovation over time. Finally, as Schlesinger's, et al. (1992) investigations have shown, leader/adopter partnership activities in implementing the new arrangements also contribute to their successful adoption.

Once such conditions are in place, the institutional innovation process is complete—for the time being. While the new arrangements may not accomplish every stated goal to perfection, a subsequent innovation project would have to be initiated to transform these now-established characteristics of the field. Given the nature of social institutions, however, this would certainly be expected—as illustrated by the following discussion of innovation in business decision-making.

Innovation in Business Decision-Making: Integrating Moral Imagination into Organizational Problem-Solving

Institutional innovation is typically instigated in response to changing environmental demands and therefore requires exploration within a historical context (see Scott, 1994b). Over the course of the last century, business decision-making norms have evolved against a background of social, economic, political and technological changes of unprecedented scope—all of which have caused managerial decision-making requirements to becoming increasingly complex (Scott and Meyer, 1994).

Ideas about the form and purpose of the American corporation have undergone a number of transformations, and among the most dramatically changed ideas are those concerning the social functions and moral obligations of the business enterprise. Once expected simply to generate a profit and serve the interests of owners, managers of American corporations are now required to respond to a growing number of constituents and justify their actions according to new standards for organizational responsibility (see Donaldson and Preston, 1995; Etzioni, 1988; Kotter and Heskett, 1992; Paine, 1994; Stone, 1975; Wood, 1994; Walton, 1967). As a result, the U.S. is witnessing a surge of innovation in terms of how business managers approach the decision-making process, including new perspectives on how to address social and moral considerations.

An examination of current environmental demands on American corporations suggests that important social and economic objectives can be served by managerial efforts to integrate moral imagination into organizational problem-solving processes. I argue here that this goal can be facilitated by an institutional analysis of the bridges and barriers to innovation in business decision-making.

Applying the conceptual framework introduced above, I show how such analysis would proceed.

Recall that moral imagination in business decision-making involves three key activities: (a) Becoming aware of the social, economic, organizational or personal factors that affect perception of a business problem and understanding how these might conflict, (b) Reframing the problem from various perspectives to understand the potential impact of different solutions, and (c) Developing alternatives to solve the problem that can be morally justified by others outside the firm. Moreover, I have argued that in order for this process to become integrated into the everyday practice of managerial decision-making, an alternative problem-solving script must be generally accepted in the field—a script that prompts decision-makers to both challenge existing problem-solving norms and consider the social and moral implications of their actions.

Conditions for implementing such a script can be assessed by treating moral imagination as an institutional innovation and applying the IDEA framework in analysis. By examining how both context and process issues affect innovation in business decision-making, the viability of integrating moral imagination into organizational problem-solving can be determined.

Introduction Phase

Both context and process components in the current American business environment hold promise for the successful introduction of organizational practices that promote decision-making innovation in general, and encourage moral imagination in particular. Not only are decision makers searching for new ways to address organizational problem-solving tasks (see Kanter, 1995), but growing public concern about the social and moral implications of business activity have increased managerial awareness of these issues overall (see Kuhn and Shriver, 1991; Post, 1996).

Context Components. From a political perspective, interest in both issues has been demonstrated by leaders of America's most powerful corporations. Executives of firms such as American Express, ConAgra, General Electric and Xerox are exploring new administrative concepts such as organizational creativity, organizational learning, flexible organizational forms and so forth (see Kanter, 1995; Kotter and Heskett, 1992). Moreover, leaders of other major corporations—Levi-Strauss, IBM, Merck, Eli Lilly, Johnson and Johnson, Martin Marietta, and Honeywell, for example—have demonstrated a strategic focus on non-economic as well as economic concerns. Important non-economic themes include maintaining stakeholder responsibility (Donaldson and Preston, 1995), promoting managerial integrity (Paine, 1994), building long-term trust-based relationships (Hosmer, 1995), implementing organizational policies to promote ethical practices (Trevino, 1990), creating formal ethics positions (Hoffman and Petry, 1995), and making a commitment to address community problems (Vidaver-Cohen, 1995b; Hanson, 1992; Kuhn and Shriver, 1991; Post, 1996).

On the technical level, the information age has ushered in a flood of new technologies that clearly invite decision-making innovation, generating new demands for creative problem-solving as well as new moral issues to address. Bureaucratic top-down decision-making strategies that may have served America well in the industrial era have proven increasingly inadequate when much of the latest technical expertise exists at the lower levels of the firm (Kanter, 1995; Schlesinger, et al, 1992). Furthermore, these new technologies, with their great potential for misuse and abuse, have produced unprecedented moral dilemmas for American companies—dilemmas involving privacy rights, disclosure, massive-scale fraud and theft, etc. that can only be resolved through imaginative alternative problem-solving strategies (see Wood, 1994).

In the cultural domain, there is little doubt that American values today are in transition. The social protest movements of the 1960' and 1970s, followed by ensuing legislation to address environmental, civil rights and consumer concerns, have forced business managers to assume greater responsibility for the consequences of their actions (Wood, 1994; Kuhn and Shriver, 1991; Post, 1996). Furthermore, an increasingly multicultural workforce and economic globalization have introduced new values and beliefs into the American business community that require managers to find new ways to address organizational problems (Adler, 1991; Kanter, 1995). Organizational practices that promote moral imagination—encouraging decision-maker's awareness of how cultural concerns affect their choices, prompting them to analyze these choices from multiple perspectives and compelling them to envision alternative ways to address these new concerns—can clearly facilitate this goal.

Process Components. The actions of many American business leaders—taken in response to the political, technical, and cultural concerns mentioned above—also predict a successful introduction of moral imagination into organizational problem-solving. As evident in a number of the examples cited, leaders of major firms have been able to interrupt well-established management patterns such as centralized top-down decision-making (see Kanter, 1995; Kotter and Heskett, 1992) and complacency with regard to social and moral responsibility (see Post, 1996, Wood, 1994). They have also been able to attract attention to ways their firms have addressed social and moral considerations—publicizing their decisions in the popular press, forming alliances with other concerned organizations, participating in academic case studies and so forth (see Hoffman and Petry, 1995; Kanter, 1995; Kotter and Heskett, 1992; Trevino, 1990). Finally, these leaders have succeeded in controlling interpretation of new arrangements within their own firms—encouraging change through implementing alternative goal setting practices, transforming reward systems, and developing new strategies for allocating resources and task support (see Vidaver-Cohen, 1992, 1995a; Kotter and Heskett, 1992; Trevino, 1990).

The preceding analysis suggests a favorable environment for introducing moral imagination into organizational problem-solving: Influential business leaders are actively challenging existing decision-making norms and placing new emphasis on the social and moral implications of managerial actions. However, an analysis of conditions for such innovation in the diffusion phase reveals a less encouraging prognosis.

Diffusion Phase

Context Components. Beginning with the context components of the diffusion phase—although political and technical conditions appear conducive to successful diffusion of moral imagination practices, cultural conditions do not. For instance, as noted above, the fact that executives in high status companies are both challenging current decision-making norms and encouraging businesses to consider social and moral concerns in their daily operations yields a supportive political environment for diffusion. From a technical perspective, as well, American business has faced a number of recent crises to encourage diffusion of both ideas. The drop in America's global economic power relative to that of other nations stimulates interest in challenging previous decision-making norms (see Adler, 1991; Kanter, 1995; Kotter and Heskett, 1992). Moreover, growing public disillusionment with moral lapses at the apex of American society clearly supports increased private-sector attention to social and moral concerns (see Post, 1996; Wood, 1994).

Yet the principal cultural condition for successful diffusion of new arrangements—commonality of values among introduction agents and adopters—is clearly lacking in the U.S. business community. Although business professionals might profess belief in challenging the status quo or in emphasizing social and moral considerations in their decisions, an underlying resistance to these values persists in many sectors of corporate America (see Wood, 1994). Certainly, great differences between industries are evident in this regard (Baucus and Near, 1991). Differences according to organizational age and size, resource availability, geographic location, union representation, demographics, and level in the corporate hierarchy can also be observed (see Vidaver-Cohen, 1992; Schlesinger, et al. 1992; Trevino, 1990; Victor and Cullen, 1988; Wood, 1994). Such variation in values poses a significant obstacle to the successful diffusion of moral imagination throughout the business field.

Process Components. Incompatibility in core values is also reflected in the process components of the diffusion phase. Here too, barriers to moral imagination appear to exist. As a function of the difference criteria noted above, potential adopters may not, for instance, perceive their own similarities to introduction agents. Moreover, they may also reject decision-making innovation for theoretical reasons: Although growing numbers of American business leaders genuinely subscribe to concepts such as employee empowerment, cultural flexibility, stakeholder responsibility, community involvement, or internal ethics initiatives, a substantial contingent remains loyal to the traditional principles of organizational bureaucracy, ownership prerogative, public/private sector independence, demand-side accountability and so forth (see Post, 1996; Williamson, 1985; Wood, 1994). Because of such theoretical differences, potential adopters may also fail to recognize the usefulness of either challenging decision-making norms or focusing on social and moral considerations. Therefore, this analysis predicts diffusion of moral imagination throughout the American business community to be problematic.

Evaluation Phase

While a similar duality might be expected in the evaluation phase, here the prognosis for moral imagination appears more promising. The central question in this phase is whether or not new arrangements meet environmental demands better than past arrangements. In this case, both context and process analyses predict a generally favorable evaluation of moral imagination in business decision-making.

Context. Recall that the essential political condition for positive evaluation of new institutional arrangements is the existence of alliances among introduction agents. With regard to concern for social and moral considerations in business decision-making, this condition is certainly in place. The Conference Board, the Ethics Officers Association, Businesses for Social Responsibility and related groups all claim membership from among America's top corporations. Although obviously not all corporate leaders participate in such associations, the existence of a strong contingent of like-minded executives reduces the probability that their objectives will be easily undermined by antagonists with opposing views.

From a technical perspective, researchers have observed that during periods of dynamism—when an organizational field is experiencing change on a number of levels—positive evaluation of new arrangements, by both leaders and adopters, is more likely than during stable periods when the field is less primed for innovation (see Schlesinger, et al. 1992). Economic globalization, new technologies, demographic transitions, changing government regulations and the movement away from manufacturing toward a service economy in the U.S. are clear indications of a dynamic business scene. New strategies for organizational problem-solving—such as moral imagination—would therefore be expected to receive positive evaluations due to the obvious environmental demand for new decision-making strategies in business overall.

In the cultural domain, researchers have observed new institutional arrangements evaluated more positively in social systems that value innovation in general than in those bound to tradition (North, 1990). Certainly, the United States has been characterized throughout its history as an innovation-oriented society and innovation is considered an important American business strength (Adler, 1991; Hofstede, 1980; Kanter, 1995; Kotter and Heskett, 1992). These observations suggest that new approaches to organizational problem-solving—such as those that challenge existing decision-making norms or consider non-economic issues as relevant business concerns—would probably be evaluated more positively by U.S. executives than by managers in highly tradition-bound societies.

Process Components. From a process perspective, a positive evaluation of moral imagination by the business community appears less certain. Despite generally high confidence among potential adopters in the well-respected companies that promote such decision-making innovation, adopter dissatisfaction with existing decision-making approaches—another important criterion for positive evaluation—is inconsistent. While managers in industries strongly affected by globalization, regulation or demographic change are likely to be dissatisfied with traditional problem-solving strategies, managers in less turbulent industries may be relatively content with the status quo, particularly with the standard formula of excluding social or moral concerns from the business decision-making equation (see Baucus and Near, 1991). On the other hand, when these managers function in their role as consumers guarding their family's welfare, a strong enough level of dissatisfaction might emerge that could translate into the organizational setting and encourage the positive evaluation of moral imagination as a problem-solving innovation.

The final process factor involved in the evaluation phase is introduction agents' belief in the long-term value of the new arrangements. The vocal support of many corporate leaders for the concepts implicit in moral imagination suggests that such belief may indeed exist, as does the apparent acceptance by these leaders of a certain compatibility between ethical and economic objectives (see Donaldson and Preston, 1995; Kotter and Heskett, 1992). However, do these appearances truly reflect reality?

Lingering inconsistency between rhetoric and action has been documented as a central obstacle to developing an enduring business ethic for American enterprise (see Vidaver-Cohen, 1992; Trevino, 1990). It thus presents a significant barrier to positive evaluation of any ethics-related innovations, including application of moral imagination in organizational decision-making. Therefore, the probability that members of adopting firms would positively evaluate innovations such as moral imagination would depend largely on the behavioral consistency of executives in firms introducing the approach. Extensive research on moral conduct in business over the last three decades has repeatedly demonstrated that in order for employees to accept ethics-related initiatives, espoused belief must be reflected in formal organizational policies and procedures, and—most importantly—in the actions of top management. In the absence of such consistency, researchers have found that ethics initiatives are almost certain to fail (see Andrews, 1989; Arlow and Ulrich, 1988; Baumhart, 1961; Brenner and Molander, 1977; Clinard, 1983; Clinard and Yeager, 1980; Vidaver-Cohen, 1992; Moore, 1992; Paine, 1994; Passas, 1990; Trevino, 1990).

Adoption Phase

The final phase of the IDEA framework seeks to answer the central question in institutional innovation analysis: "Is this just a fad?" Answering this question requires assessing whether the fundamental elements of moral imagination—challenging existing decision-making norms and considering social and moral implications of managerial actions—are likely to become entrenched characteristics of American business decision-making. Again, the prognosis appears mixed.

Context Components. On a political level, the IDEA framework suggests that adoption of new arrangements is likely to proceed successfully when an innovation facilitates objectives of powerholders in the field (DiMaggio, 1988; Fligstein, 1990). Theoretically one could argue—as many business scholars have done—that, over the long term, American companies would clearly benefit from organizational problem-solving practices that promote challenge to existing norms, as well as consideration of social and moral concerns. Such an approach would, in theory, enable them to compete more effectively in the global marketplace, to earn the trust of stakeholders, to be more responsive to changing environmental demands, and so forth (see Etzioni, 1988; Jones, 1995; Kanter, 1995; Kuhn and Shriver, 1991). However, proving these theories requires research over time. And in the short range, it may be unclear to leaders in many U.S. industries that such a perspective would indeed serve their interests (see Wood, 1994).

The success of the adoption phase in the case of moral imagination will therefore depend on whether a majority of America's leading companies can accept a long-term point of view. Although such perspectives are being promoted by top executives and organizational scholars, as well as in leading U.S. business schools, they clash with the reality of short-term performance measurement on which much of the U.S. economy is based (see Etzioni, 1988; Wood, 1994). Unless these measures change, the successful adoption of moral imagination practices appears tenuous.

This assessment leads directly to an analysis of the cultural component of the adoption phase. As other researchers have observed, field-wide adoption of new institutional arrangements is more likely to occur when the assumptions implicit in these arrangements resonate comfortably with other fundamental assumptions in the field (see Gioa, 1992; Scott, 1994a). In the case of moral imagination, a relatively good fit is evident with the notion of challenging existing decision-making norms, as well as with the importance of innovation in the history of American business. Although some managers always resist the idea of innovation, particularly in more established industries, an historical analysis of commerce in this country shows the most successful firms willing to take intelligent risks (Schlesinger, et al., 1992).

However, the idea of considering social and moral implications of managerial actions clearly conflicts with the classic notion of limiting business responsibility to wealth creation (see Friedman, 1962). Although this concept of responsibility is changing somewhat in response to environmental demands, such arguments are deeply entrenched in the American capitalist system and have articulate proponents among managers and scholars alike. Moreover, the traditional model of business responsibility is accompanied by a history, in the U.S., of elevated social status for business professionals (Wood, 1994). Together these factors pose formidable obstacles for any change that would threaten the status quo.

On the technical level, researchers have found that certain types of collective action or environmental shock can seriously disrupt the process of adopting new institutional arrangements (Jepperson, 1991). In the case of moral imagination, such disruption is already occurring in the form of concerted congressional efforts to abolish governmental ethics committees and to roll back painfully-acquired ecological, civil rights, and workplace safety laws (Gleckman, 1995; Hammond, 1996; Nussbaum, 1995). Moreover, shock to the business system as a function of social, economic, or political factors can take place at any time and can cause an abrupt halt to the adoption of any alternative approaches to organizational problem-solving, particularly those that have only tentative support.

Process Components. Finally, adoption of moral imagination in American firms depends ultimately on effective leader enforcement, adopter history of receptiveness to innovation, and leader/adopter partnership in implementation (see North, 1990; Schlesinger, et al, 1992; Strang and Meyer, 1994).

Within their own companies, field leaders must effectively enforce new practices and procedures that encourage decision-makers to challenge existing norms and to consider the social and moral implications of their actions. These could include, on a formal level:

(a) Focusing corporate strategy toward consideration of multiple stakeholder interests as well as long-term rather than short-term goals, (b) Training in social role-taking, ethical decision-making and conflict resolution, (c) Implementing incentive systems to reward morally imaginative decisions, (d) Providing adequate task and social support for meeting managerial expectations, and (e) Imposing unequivocal sanctions for failing to do so (see Vidaver-Cohen, 1995a; Trevino, 1990). There is evidence that such changes are occurring in the companies mentioned earlier (see Kanter, 1995; Kotter and Heskett, 1992; Paine, 1994). Moreover, documentation of these efforts by business scholars and the popular press encourages other firms to initiate similar practices.

Because American firms demonstrate an historical receptiveness to decision-making innovation, promise exists for the adoption of moral imagination in organizational problem-solving. However, as noted above, many firms have shown less receptiveness to considering social and moral issues than to other types of innovation.

In terms of leader/adopter partnership for integrating moral imagination into organizational problem-solving, collaboration definitely exists between larger and smaller firms in associations such as Business for Social Responsibility, the Conference Board and the Ethics Officers Association. Partnerships are also evolving between corporations and business schools to establish new educational requirements, and between business and community groups to address social problems from homelessness to crime control (see Vidaver-Cohen, 1995b; Forlani, 1994; Hanson, 1992; Kanter, 1995; Post, 1996; Post and Waddock, 1989; Waddock and Boyle, 1994, 1995). The long-term success of these partnerships will be crucial to whether or not moral imagination will ultimately be adopted into the decision-making patterns of American business executives.

Viability of Moral Imagination as an Institutional Innovation

In applying the innovation analysis framework thus far, I have tried to illuminate some key bridges and barriers managers might encounter when trying to integrate moral imagination into organizational problem-solving. The analysis suggests that although significant obstacles to such efforts exist, these can be overcome by genuine commitment to the concept among leaders of America's top corporations, as well as by effective implementation of organizational practices and procedures to convey this commitment. To conclude the analysis I take a closer look at the fit between moral imagination and some central institutional characteristics of the American corporation. Summarizing again the key stages of moral imagination in managerial decision-making, they are: (a) Becoming aware of the social, economic, organizational or personal factors that affect perception of a business problem, and understanding how these might conflict, (b) Reframing the problem from various perspectives to understand the potential impact of different solutions, and (c) Developing alternatives to solve the problem that can be morally justified by others outside the firm.

Cognitive Characteristics. Recall from the preceding discussion that an institution's cognitive characteristics include representational rules—"taken for granted assumptions that provide a framework for everyday routines" (Scott, 1994b, p. 81), and constitutive rules that "define the nature of actors and their capacity for action" (Scott, 1994a, p. 61).

Do the representational and constitutive rules characterizing moral imagination fit with those that typically characterize American business? In terms of representational rules, at this point, the answer is: Yes and no.

It is, by now, taken for granted in successful U.S. corporations and among business educators that organizational survival depends on recognizing the multiple non-economic factors that affect business decision-making. Companies that refuse to acknowledge this requirement find themselves struggling to remain viable in today's economy (see Kanter, 1995; Kotter and Heskett, 1992; Kuhn and Shriver, 1991; Post, 1996). Moreover, it is also taken for granted in business circles that classic models of bureaucratic management may not offer the most functional approach in today's dynamic and turbulent business environment. Instead, a variety of decision-making approaches, management styles, and organizational structures characterize the American business landscape (Schlesinger, et al. 1992). The idea of looking at organizational problems from multiple stakeholder perspectives is also theoretically accepted in the American business scene, although practical implementation of this approach remains problematic (Donaldson and Preston, 1995).

Not at all taken-for-granted, however, is the notion that solutions to business problems must be morally justifiable to others outside the firm. Decision-makers may be willing, for instance, to consider various perspectives in the problem-solving process, but few accept a moral duty to serve any interests other than those of owners or management (Freeman and Gilbert, 1988).

The constitutive rules characterizing moral imagination, however, fit more closely with existing business scripts. Implicit in the idea of moral imagination is flexibility—the importance of being able to step outside one's formal role in order to evaluate a problem and develop solutions (Werhane, 1994). Certainly, the notion of breaking established role boundaries has become commonplace in American business. In many companies, employees at all levels are invited to participate in decision-making and managers occasionally assume an employee role to assess practices and procedures. Meanwhile, job rotation, flex-time and job sharing are becoming the norm rather than the exception in many firms (see Kanter, 1995; Schlesinger, et al. 1992). New positions are also being formed to address non-economic concerns: Ethics officers, ombudsmen, ethics committees, task forces, and so forth (see Vidaver-Cohen, 1992; Trevino, 1990). Moreover, American companies are responding to issues of workforce diversity and globalization by implementing cross-cultural educational programs to promote interpersonal understanding and encourage cultural flexibility (Adler, 1991). Although certain industries and organizations would clearly be less inclined to redefine role requirements than others, the concept of flexibility in roles and duties has, by this point, come to be generally accepted in the American business scene.

Normative Characteristics. Recall that normative characteristics encompass both normative rules—stipulating social expectations for behavior, and enforcement procedures—oversight, assessment, punishment and reward (Scott, 1994a, p. 65). In the normative, as in the cognitive arena, a partial fit is evident between moral imagination and the currently institutionalized characteristics of American business overall.

Beginning with an analysis of normative rules, key expectations embedded in the concept of moral imagination appear to be: (a) Business decision-makers should attempt to understand the various influences on their behavior and should try to examine how these might conflict, (b) In order to select the best solutions to organizational problems, decision-makers should reframe these problems from the perspectives of all those who might be affected by the decision, and (c) Solutions to organizational problems should be morally justified to others outside the firm.

A reasonable degree of fit with standard expectations for business conduct occurs along the (a) and (b) dimensions, although clearly this fit depends once more upon the specific organization or industry. Through the way executives in leading companies manage organizational goal-setting practices, structure reward systems, and allocate resources, they convey expectations that decision-makers should focus on the means of solving problems, as well as on the ends (see Vidaver-Cohen, 1995a). Moreover, American managers today are expected to understand their own motivations and value conflicts when making decisions, as well as to look at organizational problems from multiple stakeholder and cultural perspectives (see Adler, 1991; Freeman and Gilbert, 1988; Kanter, 1995; Kotter and Heskett, 1992). However, a lack of fit can be observed along the (c) dimension. Although considering the social and moral consequences of managerial decisions has become an accepted practice in many leading firms, most executives hesitate when it comes to demanding that decision-makers morally justify their choices from all perspectives involved (see Wood, 1994).

In terms of enforcement procedures, an ambivalent fit can also be observed. While no direct enforcements are specified in the moral imagination concept, it is clear that in order to integrate moral imagination into organizational problem-solving practices, executives would have to develop unambiguous guidelines, policies, and support structures to encourage decision-makers to challenge existing decision-making norms and consider the social and moral implications of their actions. Public pressure, the growth of governmental oversight agencies and the advent of the 1991 Federal Sentencing Guidelines for organizations have, to some degree, encouraged the latter—prompting America's larger firms to perform ethics audits, implement ethics education programs, develop conduct codes, hire ombudsmen and instigate whistle-blower hotlines (see Paine, 1994).

However, in many cases enforcement is weak and inconsistent: Ethics officers have no real power or status in the firm, ethics education programs are superficial, conduct codes are vague or poorly distributed, ombudsmen are politically allied with management, or whistle-blower hotlines lack confidentiality (see Vidaver-Cohen, 1992; Trevino, 1990). Such inconsistency may deal a terminal blow to the success of managerial efforts to encourage moral imagination in business decision-making. Moreover, recent congressional movements to reduce legislative control over business activity may disrupt much of the progress that has already occurred.

Summary

To summarize the main points presented above: The analysis indicates reasonable potential for moral imagination to become institutionalized into the everyday practice of managerial decision-making. A re-orientation to organizational problem-solving is occurring in many leading U.S. firms, indicating promise for the successful introduction and positive evaluation of such an innovation. Moreover, the cognitive and normative characteristics of moral imagination resonate comfortably with certain important—and accepted—developments in the practice of management.

However, significant obstacles remain toward the successful diffusion and adoption of these ideas. Reluctance to challenge existing decision-making norms and uncertainty about the value of considering non-economic concerns is reflected in resistance to these concepts throughout the American business community. Many executives reject the assumptions implicit in moral imagination, and even among those who accept these ideas, many more refuse to implement the enforcements necessary for these concepts to become institutionally embedded.

By directing attention to the institutional factors that facilitate or inhibit efforts to integrate moral imagination into organizational problem solving, I have tried to offer a model for to managers and researchers concerned with overcoming these difficulties. The pessimist would deem their success unlikely. The optimist would say it can be done.

Implications of the Institutional Perspective

The preceding analysis suggests several implications for managing organizational change and for business ethics theory and research. The institutional perspective, with its emphasis on historical context, can answer some important questions about the evolution of a firm's relationship to its environment—an issue often neglected by both practitioners and academics when addressing ethics-related concerns. By doing so, the institutional perspective can advance both the theory and practice of management.

Implications for Managing Change

Managers attempting to encourage ethical business practices through transforming organizational policies and procedures encounter frequent obstacles in their efforts (see Vidaver-Cohen, 1992; Trevino, 1990). While clearly some of these obstacles occur at the individual or organizational levels—personal disagreement with change objectives or impediments generated by longstanding values and practices in the firm—I argue here that institutional factors are often at the root of both individual and organizational resistance. Therefore, successfully executing organizational change requires a clear understanding of institutional factors and their effects. By combining the four-phase model of institutional innovation with an analysis of existing institutional arrangements characterizing the field of the target firm, the analytical framework proposed in this essay can be used by change agents to gain such understanding.

The framework can also assist organizational change efforts in other ways. First, it can help managers assess the institutional determinants of a firm's readiness for change apart from other contextual factors that might affect the transformation process. Second, it can focus attention toward the specific conditions that would either facilitate or discourage the desired change. Third, it can be used by managers to interpret the outcomes of previous transformation efforts, and to justify the form and structure of future change. Such information can contribute in an important way to accurate organizational diagnosis and hence, to appropriate and effective intervention.

Implications for Business Ethics Theory and Research

In addition to facilitating organizational transformation efforts, institutional analysis also suggests interesting directions for business ethics theory and research. The field of business ethics has progressively evolved from exclusive focus on the individual, to consideration of how contextual factors affect moral conduct in the firm, to a growing understanding of how individual and contextual variables interact (Frederick, 1992). Examining these issues from an institutional perspective can add additional richness to future research by filling in certain theoretical gaps concerning the relationship between the organization and its environment.

While this essay focuses on the relationship between institutional context and moral imagination in organizational problem-solving, the analytical framework introduced here can be applied to explore other areas of concern to business ethics scholars: how business relates to government, local community and other organizations; how firms define their obligations to employees, customers and other stakeholders; how business values and practices vary between industries, nations, and so forth. In each instance, institutional factors contribute to the evolution of distinct values and norms, and in each case, a comprehensive picture of the situation would benefit greatly from understanding the institutional context in which that situation has developed over time.

An institutional perspective can also be used to frame research questions and theory about why individuals apply different moral standards in different contexts; why, in certain industries, methods of handling moral concerns are particularly resistant to change; why certain types of organizational interventions to encourage ethical practices achieve only limited success, etc. Furthermore, institutional arguments can be applied to analyze cases of corporate misconduct, such as those cited in Patricia Werhane's address, as well as to examine instances of morally exemplary business behavior. In fact, since embedded norms, systemic values and implicit understandings are so central to the study of business ethics, institutional analysis can substantially enhance our understanding of virtually all central issues in the field.

Conclusion

In this essay I have attempted to answer one aspect of the question: How can organizations promote moral imagination in the business decision-making process? Approaching the question from an institutional perspective, I have discussed how key institutional factors might affect managerial efforts to integrate moral imagination into organizational problem-solving and have suggested an analytical framework with which to guide theory development, research and managing organizational change related to these concerns.

I have chosen to focus on the institutional bridges and barriers to such an effort rather than on individual and organizational factors, since these have been addressed extensively in the management, business ethics and criminological literatures (see Brief, et al., 1995; Clinard, 1983; Clinard and Yeager, 1980; Passas, 1988, 1990; Trevino, 1986, 1990; Trevino and McCabe, 1994; Trevino and Victor, 1992; Trevino and Youngblood, 1990; Vaughan, 1983; Vidaver-Cohen, 1992, 1993, 1995a, 1995c). Moreover, few diagnostic tools for institutional analysis have been systematically applied to either assess an organization's readiness for change in the moral domain, or to explain and predict organizational behavior in this area.

Needless to say, despite favorable institutional conditions for introducing moral imagination or any other decision-making intervention, individuals or organizational systems that resist transformation can undermine the entire effort (see Vidaver-Cohen, 1995a; Trevino, 1990). The infinite variety of such resistance and the "messy realities" of organizational life must—obviously—be considered when attempting to apply an institutionally-focused diagnostic model such as that proposed here. However, I would argue that individual and organizational obstacles to change can be more easily overcome than institutional obstacles. And understanding institutional obstacles can illuminate additional sources of individual or organizational resistance.

Werhane maintains that "most institutions...are not without moral sensibilities or values. Rather they lack a sense of the variety of possibilities and moral consequences of their decisions, the ability to imagine a wide range of possible issues,...consequences and solutions" (1994, pp 2-3). Through the analysis presented in this essay—examining the institutional context of moral imagination—I have tried to shed some light on this problem and how it might be addressed.

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