Resource Dependence Theory: Past and Future[•]

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Abstract

This article reviews the origins and primary arguments of Resource Dependence Theory and traces its influence on the subsequent literatures in multiple social science and professional disciplines, contrasting it with Emerson's power-dependence theory. Recent years have seen an upsurge in the theory's citations in the literature, which we attribute in part to Stanford's position of power in the network of academic exchange. We conclude with a review of some promising lines of recent research that extend and qualify Resource Dependence Theory's insights, and outline potentially fruitful areas of future research.

There must have been something in the air during the time of the Ford Administration, as a half-dozen of the enduring paradigms for the study of organizations emerged at roughly the same time—many of them at Stanford. A theoretical Cambrian explosion saw the major statements of transaction cost economics (Williamson, 1975), agency theory (Jensen and Meckling, 1976), new institutional theory (Meyer and Rowan, 1977), population ecology (Hannan and Freeman, 1977), and resource dependence theory (Aldrich and Pfeffer, 1976; Pfeffer and Salancik, 1978). Like other products of the mid-1970s, such as disco and polyester clothing, each of these approaches continues to exercise influence today, even as some of the core questions asked by organization theorists have changed (Davis, 2005). And the Cambrian analogy is appropriate, as all of these approaches except agency theory evolved in part from a common ancestor, Thompson's (1967) masterful synthesis *Organizations in Action*, and spread out in different directions to become (friendly) competitors. Of all these paradigms, resource dependence theory is perhaps the most comprehensive in the scope of its approach to organizations, combining an account of power within organizations with a theory of how organizations seek to manage their environments.

This chapter describes the basic elements of resource dependence theory and the empirical support for its account of organization-environment relations. We then provide evidence of the theory's ongoing influence across a number of social science fields, drawing on comprehensive data from the Social Science Citation Index, and contrast the citation career of *The External Control of Organizations* (Pfeffer and Salancik, 1978) with that of "Power-dependence relations," Emerson's (1962) classic statement of power and exchange. Our analysis shows that resource dependence theory has had an expansive influence that spread from management and sociology to education, health care, public policy, and other cognate

disciplines. When scholars study power in and around organizations, they are highly likely to draw on resource dependence theory. We next propose three alternative hypotheses for resource dependence theory's ongoing influence: it is empirically accurate; its imagery of power and conflict fit with the tenor of the times; and it benefited from Stanford's hegemony over doctoral education in organization studies. We close with some thoughts on exemplary recent work and suggestions on future directions.

What does resource dependence theory say?

Although the focus of this volume is on Stanford's contribution to organization studies, resource dependence owes as much to the University of Illinois as it does to Stanford, according to Pfeffer (2003). After receiving his BS and MS degrees from Carnegie-Mellon University, Jeff Pfeffer entered the doctoral program in organizational behavior at the Stanford Graduate School of Business and completed his PhD in under three years (a record subsequently bested only by William Ocasio, now at Northwestern). He went on to faculty positions first at the University of Illinois at Urbana-Champaign and then the University of California at Berkeley, returning to Stanford as a faculty member in 1979. Pfeffer's dissertation was a remarkable set of demonstrations of the importance of exchange and power relations in and around organizations, and his time at Illinois resulted in a flood of early publications arising from his dissertation (e.g., Pfeffer, 1972a, 1972b, 1972c). The fertile intellectual soil of Urbana-Champaign, coupled with Gerry Salancik's complementary micro orientation, allowed resource dependence theory to grow like a mighty stalk of corn. But to strain the simile to the breaking point, it is fair to say that the seeds for the theory were carried from Stanford and germinated by Jeff Pfeffer's dissertation committee, which included James Miller, Mike Hannan, Dick Scott, and Eugene Webb. Pfeffer credited Gene Webb in particular as an important and under-appreciated influence at Stanford, as

Gene had a talent for finding unobtrusive methods of studying organizational phenomena, which contrasted with the dominant survey-based approach of the time.

The External Control of Organizations, the 1978 book that consolidated the work between Jeff's initial time at Stanford and his subsequent move from Illinois to Berkeley, covered a lot of territory, from the internal power struggles among individuals and departments to industry-level dynamics. But the most widely-used aspects of the theory outlined in *External Control* analyze the sources and consequences of power in interorganizational relations: where power and dependence come from, and how those that run organizations use their power and manage their dependence**.** As Jeff Pfeffer put it in the revised edition of the book, "Resource dependence was originally developed to provide an alternative perspective to economic theories of mergers and board interlocks, and to understand precisely the type of interorganizational relations that have played such a large role in recent 'market failures'" (Pfeffer, 2003: xxv). The motivation of those running the organization was to ensure the organization's survival and to enhance their own autonomy, while also maintaining stability in the organization's exchange relations. These were the drivers behind many of the organization's observed actions. Moreover, when it came to explaining strategy, power often trumped profits, an insight distinctly at odds with the dominant economic approaches of the time.

There are three core ideas of the theory: (1) social context matters; (2) organizations have strategies to enhance their autonomy and pursue interests; and (3) power (not just rationality or efficiency) is important for understanding internal and external actions of organizations. The emphasis on power, and a careful articulation of the explicit repertoires of tactics available to organizations, is a hallmark of resource dependence theory that distinguishes it from other approaches, such as transaction cost economics. The basic story of exchange-based power in the

theory was derived from Emerson's (1962) parsimonious account: the power of A over B comes from control of resources that B values and that are not available elsewhere. In this account, power and dependence are simply the obverse of each other: B is dependent on A to the degree that A has power over B. Further, power is not zero-sum, as A and B can each have power over each other, making them *interdependent*. Concretely, to use a favorite example of transaction cost theorists, General Motors was dependent on Fisher Body for auto bodies because these were not readily available in volume elsewhere. At the same time, Fisher was dependent on GM because it was the predominant buyer of Fisher's products. Emerson's account of exchange-based power also found ready operationalization via the industry concentration data published by the Census Bureau and the industry input-output matrices published by Bureau of Economic Analysis, an approach artfully developed by Ron Burt in subsequent work (e.g., Burt, 1983, 1988).

Prior theorists had argued for the relevance of interorganizational power to strategy and structure (e.g., Thompson, 1967), but resource dependence theory added an elaborate catalog of organizational responses to interdependence that could inform empirical work. The basic theory might be summarized by a piece of advice to top managers: "Choose the least-constraining device to govern relations with your exchange partners that will allow you to minimize uncertainty and dependence and maximize your autonomy." The array of tactics described by the theory forms a continuum from least- to most-constraining. If dependence comes from relying on a sole-source supplier, then an obvious solution is to find and maintain alternatives. (This is, of course, standard practice in manufacturing.) Growing large in and of itself is also a potential source of advantage--particularly if one grows too big to fail, a tactic that has served several giant American financial institutions well recently. Large size might also allow an

organization to call on the government for reinforcement. For instance, when a large national real estate firm headquartered in Michigan faced an unwanted takeover bid from an out-of-state rival a few years ago, it was able to successfully call on the state legislature to pass legislation to prevent the takeover and thus (allegedly) save local jobs—including, of course, those of the company's own managers.

Other tactics require more-or-less coordinated efforts with other organizations, thereby entailing somewhat more constraint. The least entangling of these is to join associations or business groups. A somewhat more constraining choice is to form an alliance or joint venture with the source of one's constraint. Alliances "involve agreements between two or more organizations to pursue joint objectives through a coordination of activities or sharing of knowledge or resources" (Scott and Davis, 2007: 206-7) and can include joint research and development contracts, licensing and franchising agreements, shared manufacturing and marketing arrangements, minority investments, and equity swaps, among other possibilities. The prevalence of alliances has skyrocketed since the publication of *External Control*, as a range of formal and informal alternatives to vertical integration (that is, solutions that are neither market nor hierarchy, in transaction cost terms) have developed (Gulati, 2007). Early evidence suggested that joint ventures were most common in industries at intermediate levels of concentration (Pfeffer and Salancik, 1978: 152-61), which is where one would expect to see the greatest degree of "manageable interdependence."

A riskier strategy for managing dependence is to co-opt it. Drawing on Selznick's (1949) account of the Tennessee Valley Authority, the theory suggests that an organization can manage uncertainty by inviting a representative of the source of constraint onto its governing board, thus trading sovereignty for support. Firms might invite executives of constraining suppliers or major

customers onto their board to gain their support, or startups might add a venture capitalist to the board to maintain sources of funding, or corporations reliant on government contracts might invite former senators and cabinet members to join the board to gain contacts and signal legitimacy. The expectation is that having a representative serving on the board provides the source of constraint with a vested interest in the dependent organization's survival. For the first several years, board ties were probably "the most empirically examined form of intercorporate relation" from a resource dependence perspective (Pfeffer, 1987: 42), although the literature on alliances undoubtedly dwarfs all other domains at this point. The evidence on board ties, like that on joint ventures, primarily came from industry-level correlations showing that the prevalence of ties to competitors was related to the level of industry concentration (Pfeffer and Salancik, 1978), while inter-industry ties mapped onto the level of exchange-based constraint between the industries (Burt, 1983).

The most constraining method of managing dependence is to incorporate it within the organization's boundary through mergers and acquisitions. The prescription to absorb uncertainty that cannot otherwise be managed dates back to Thompson (1967), but Pfeffer was undoubtedly the person that pursued this idea most vigorously with empirical data. Mergers take three general forms: vertical (buying suppliers or buyers), horizontal (buying competitors), and diversifying or conglomerate mergers (buying organizations in a different domain). *External Control* argued that mergers—seen by those with an efficiency orientation as a means of reducing transaction costs, to the ultimate benefit of consumers—were actually a means of managing interdependence, and may provide little benefit to either consumers or shareholders. "We argue that vertical integration represents a method of extending organizational control over exchanges vital to its operation; that horizontal expansion represents a method for attaining

dominance to increase the organization's power in exchange relationships and to reduce uncertainty generated from competition; and that diversification represents a method for decreasing the organization's dependence on other, dominant organizations" (Pfeffer and Salancik, 1978: 114).

A distinctive feature of merger as a strategy of managing dependence is that the legality and prevalence of different kinds of mergers varied substantially over the course of the 20th century. Buying competitors was limited by the Sherman Act of 1890 and its subsequent interpretations, and other acquisition strategies were increasingly constrained during the decades prior to the Reagan Administration. Thus, by the 1960s and 1970s, the time period that resource dependence theory was developed, American firms were largely limited to diversification as a means of expansion (see Fligstein, 1990 for a brief history of antitrust and its effects on organizational strategies). During the 1980s, on the other hand, antitrust enforcement became substantially more relaxed, and industry deregulation in the 1990s led to waves of horizontal mergers in pharmaceuticals, defense, banking, and other industries.

Early studies at the industry level supported the basic predictions of resource dependence theory. Inter-industry mergers were more common among transaction partners, consistent with the idea that firm growth was oriented toward sources of constraint. Further, intra-industry mergers were most common at medium levels of concentration—the rationale being that highly concentrated industries were constrained from further consolidation by antitrust concerns (and firms in them could coordinate their actions implicitly), while firms in highly competitive industries would gain little leverage through integration (Pfeffer and Salancik, 1978). And for constrained firms without access to horizontal or vertical integration, diversification was a plausible tactic.

The sheer volume and diversity of empirical analyses summarized in *External Control* is surely an important reason for resource dependence theory's continuing influence. And it is hard to disagree with the basic notion that organizational strategies are often driven as much by power dynamics and managerial aggrandizement as by profit (or "shareholder value"), in light of the various financial scandals of the past decade. On the other hand, the evidence behind some of the specific claims of resource dependence theory is not always perfect. In particular, as "an alternative perspective to economic theories of mergers and board interlocks," resource dependence theory faces two limitations.

First, the analyses of mergers and interlocks were done at the industry level rather than the organizational level, which leaves their results susceptible to claims of an ecological fallacy. Robinson (1950) demonstrated that correlations at the group level need not apply at the individual level. His example compared levels of literacy and immigration: at the state level, having a higher proportion of immigrants was strongly positively related to the rate of literacy, while at the individual level the opposite was true (that is, immigrants had lower levels of literacy on average than native citizens). A more recent example might be the 2008 presidential election: well over 90% of African-American voters supported Barack Obama, yet the correlation between the percentage of a state that is black and the percentage of the state that voted for Obama was negative (–0.09), and five of the six states with the highest proportion of African-American residents (Mississippi, Louisiana, South Carolina, Georgia, and Alabama) voted heavily in favor of McCain. In other words, a relationship that holds in the aggregate (a state) need not be true for its constituents (individual voters), and vice versa.

Similarly, findings at the highly-aggregated industry level may say little about firm-level dynamics. A simple example suffices: Pfeffer and Salancik (1978: 166) report that "The amount

of competitor interlocking is positively related to the level of [industry] concentration and negatively related to the difference in concentration from an intermediate level," yet at the firm level there are zero true "competitor interlocks." Sharing directors among firms in the same industry has been illegal since the Clayton Act of 1914, and it is one of the easiest provisions to police, given that board memberships are public information. The apparent prevalence of "intra-industry" interlocking most likely reflects the highly aggregated nature of industry boundaries in the data: Zajac (1988) notes that SIC code 28 (Chemicals) included firms in such disparate industries as "Chemicals and Allied Products" (DuPont, Dow, Monsanto), "Drugs" (Merck, Lilly, Pfizer), "Soaps and Detergents" (Procter & Gamble, Colgate-Palmolive), "Perfumes and Cosmetics" (Avon, Revlon), and "Paint, Varnish, and Lacquers" (Sherwin-Williams, Insilco).

A second limitation to the empirical findings in *External Control* is the obverse of one of the theory's strengths. The reported empirical results documented that a parsimonious theory of power predicted a wide range of specific organizational actions, from who was put on the board to what kinds of acquisitions an organization engaged in. But organizational repertoires have evolved enormously, along with their environments. Organizations that diversified in the 1960s and 1970s were highly likely to be taken over and perhaps split up during the 1980s, as happened to nearly one-third of the 1980 Fortune 500. Relatively few firms diversified outside of a small set of industries (notably finance and media), and by the 1990s layoffs, spinoffs, and outsourcing had replaced growth and diversification as dominant organizational strategies (Davis et al., 1994). By the 1990s, evidence suggested that board interlocks never occurred within an industry, and were quite rare among major buyers and suppliers, or between corporations and their bankers—executives tended to find the idea of co-opting a supplier through a board seat to be a bad idea, given the board's legal duty of loyalty (Davis, 1996).

In spite of the changing prevalence of the types of mergers and interlocks described in resource dependence theory, it is clear that power and dependence relations among organizations, and the managerial lust for self-aggrandizement, had not gone away due to the advent of "shareholder value" (Pfeffer, 2003)—they had simply found new modes of expression, as shareholders in Enron, WorldCom, AIG, and Citigroup were to discover.

Tracing the influence of *The External Control of Organizations*

The usefulness of a given work is determined in part by the extent to which the ideas contained within it are subsequently utilized by others (Small, 1978). Citations, in particular, play an important role in the development of scholarly work and serve as a form of certification, ascribing merit to the claims made in a given publication. Though an admittedly imperfect means by which to assess the impact and importance of scholarly work, examining citation patterns provides one window through which we can quantify the importance that *External Control of Organizations* has had across academic disciplines. We collected annual citation counts of *External Control of Organizations* from the Social Science Citation Index (SSCI) database. Although SSCI has its own system of categorizing citations, this system does not, unfortunately, differentiate between sub-disciplines of business (e.g. there is no separate category for "Strategy"). In an effort to capture the influence of *External Control* more granularly, we created our own classification scheme, basing categories on the journal in which the article was published. Our classification scheme allowed us to examine in detail the influence that *External Control* has had across a variety of academic disciplines.

One of the major contributions of RDT was to bring issues of power to the forefront of organizational studies (Pfeffer, 2003); as such, we also analyzed the citation counts of Emerson's (1962) classic article, "Power-dependence relations," which took a more abstract approach to power among "actors" (broadly construed). As of July 2008, *External Control* had been cited

3,334 times over the 30 years since its publication, making it one of the most highly cited works ever in the study of organizations. "Power-dependence relations" was cited roughly 1,000 times over 46 years, 145 of which occurred prior to the publication of *External Control* in 1978. A total of 236 publications cite both works.

[Insert Figure 1 about here]

Figure 1 makes clear that *External Control*'s impact is derived not only from its influence in Management and other business fields, such as Marketing and Human Resources, but also in how its arguments and concepts have spread to other disciplines beyond management and sociology. Education and Healthcare, for instance, accounted for 116 and 154 of the total citations, respectively. Interestingly, over the past decade *External Control* has been cited as often in Healthcare journals as in Sociology journals. Additionally, there have been 191 total citations in Political Science and Public Policy journals, 40 percent of which are from this decade. This pattern of citations indicates a significant scholarly breadth in the impact of *External Control.* In comparison, the trend line in Figure 2 indicates there was a steady increase in citations to "Power-dependence relations" until around 1984, and since that time there have been a relatively constant number of total annual citations. Whereas *External Control* is most heavily cited in business disciplines, particularly in Management and Strategy, "Power-dependence relations" has received more of its attention in the core social science disciplines, particularly in journals of Sociology and Psychology, which account for 23 and 13 percent of its total citations respectively.

One explanation for this pattern is the relevant units of analysis in these different domains. Resource dependence theory works best for describing organizations, whereas Emerson's approach is more descriptive of individuals. Thus, if one needs to cite an authority for the claim that power matters (Stinchcombe's [1982] "small change" function), then those that focus on individuals (e.g. Psychology, Marketing) will cite Emerson, and those that focus on firms (e.g. Management, Strategy, Education, Healthcare) cite Pfeffer and Salancik.

[Insert Figure 2 about here]

On the other hand, there are 236 articles that cite both *External Control* and "Power-dependence relations." But there were only 14 citations of Emerson (1962) in Management journals between 1962 and 1978, and 102 citations after the publication of *External Control*. This suggests that *External Control* served to draw attention among management scholars to power-dependence relations both within and among organizations. And of the 222 citations of "Power-dependence relations" in management journals, nearly half also cite *External Control*. In other words, the two works are perhaps best thought of as complements rather than competitors. There is much less overlap in citations in Sociology and Psychology, however. This may be because management studies are more likely to cross levels of analysis, making interpersonal and firm dynamics relevant in the same study.

Trends in citations over time indicate two broad conclusions. First, *External Control* continues to influence organizational scholars in a range of diverse domains, from Management and Strategy to Healthcare and Education, indicating that its approach is broadly applicable across a range of organizational types. Second, within Sociology, *External Control*'s influence

has begun to taper over the past few years. This may be attributable to the rise of economic sociology as a friendly competitor to organization theory. With its focus on markets, networks, institutions, and identity, rather than on organizations as actors, economic sociology provides perhaps a less hospitable home for actor-oriented accounts of power and exchange, such as resource dependence theory.

What accounts for this pattern?

We propose three distinct hypotheses for the pattern of influence of resource dependence theory: (1) it was empirically accurate; (2) it fit with the social environment that researchers operated in; and (3) it reflected a kind of Stanford hegemony in which one university managed to foist its particular worldview off on the field, privileging its local products. We consider each of these hypotheses in turn.

Hypothesis 1: RDT was successful because it fit with the empirical world of its time. In the mid-1970s, big corporations seemed to control the world, fulfilling the prophecy set out by Berle and Means in 1932: "The rise of the modern corporation has brought a concentration of economic power which can compete on equal terms with the modern state . . . The future may see the economic organism, now typified by the corporation, not only on an equal plane with the state, but possibly even superseding it as the dominant form of social organization." Conglomerates in particular seemed destined to engulf and devour everything in their path. ("Engulf and Devour" was, of course, a snide sobriquet for Gulf & Western, one of the large conglomerates of the 1970s.) Their growth paths seemed to follow no clear logic other than empire-building for its own sake; certainly, the stock market provided a harsh judgment of their tactics, and their efficiency rationale was singularly unconvincing (Davis et al., 1994).

Resource dependence theory offered a parsimonious account for perplexing growth machines such as the modern conglomerate. Ultimately it was all about power. Take ITT, which had grown from an obscure Caribbean phone company to America's tenth-largest corporation in 1970 through a string of hundreds of acquisitions during the 1960s that included Sheraton hotels, the producer of Wonder Bread and Twinkies, Avis Rent-A-Car, various auto parts manufacturers, insurance companies, and a chain of vocational schools. What rational model of organizations could account for this crazy industrial archipelago? Certainly, Thompson's dictum to buffer the technical core would never predict using Wonder Bread as the proper material. And what theory of organizational boundaries would lump together the producer of Belgian phone directories with schools for auto mechanics? From the perspective of rationality and efficiency, ITT and its ilk (GE, Gulf & Western, Textron, LTV, Westinghouse, and many of the other largest corporations of the 1970s) were an aberration, whose size and diversity served no economic purpose. But power explained this and more—for instance, ITT's alleged role in the coup against the democratically-elected government of Salvador Allende in Chile in September 1973.

By this hypothesis, the popularity of resource dependence theory should wax and wane according to the prevalence of the tactics it described. As we noted in the previous section, thanks to the rise of so-called "shareholder capitalism," vertical integration has been largely replaced by alliances and outsourcing; competitive or co-opting interlocks are nearly non-existent in the US these days; and diversification is rare outside a handful of industries, and never approaches the brash approach of ITT. (ITT itself endured multiple rounds of restructurings and spinoffs in the 1980s and 1990s, and the remaining stub was acquired by Starwood Hotels in 1997.) Moreover, "size" as traditionally measured is no longer a source of

power. Consider that in 2005, GM had 335,000 employees and revenues of over $190 billion, whereas Google had $6 billion in revenues and fewer than 6000 employees. Which is more powerful? Which is more likely to have influence in Washington? (For comparison purposes, in early 2009 Google's market capitalization was over $100 billion, compared to GM's $2.25 billion.)

We therefore would expect to see the popularity of resource dependence theory wane with the rise of shareholder capitalism and the associated decline in the prevalence of the tactics favored by resource dependence theory: vertical integration, diversification, and board interlocks with constraining suppliers. Shareholder capitalism has its own repertoire of corporate tactics and privileges market-based measures over traditional indicators of size and power such as sales and employment. One might imagine that resource dependence theory would appear outmoded if the outcomes on which it focused became rare, yet this has not happened: the theory continues to have a broad influence among students of organizations across a variety of domains, and even shows signs of a revival. We must, then, look elsewhere for an explanation.

Hypothesis 2: RDT was successful because it fit with the social and scholarly environment of its time. It is perhaps not a coincidence that power-based accounts grew in dominance during the time of disillusion that followed the 1960s, just as functionalism was being mothballed in sociology. Who could take Parsons seriously with Nixon in the White House? Jeff Pfeffer attributes some of his thinking to the social environment at the time, with the advent of the civil rights, feminist, and antiwar movements providing daily evidence of power in action, and the illusion of benign governance shattered by the deceptions of Vietnam and Watergate. As Jane Wagner put it, "No matter how cynical you get, it's never enough to keep up."

The empirical implication would seem to be that the popularity of resource dependence theory should reflect the ambient cynicism in the world, perhaps with more functionalist approaches such as transaction cost economics or agency theory predominating when cynicism is low. As with the previous hypothesis, however, the prevalence of different theories seems hard to square with our predictions (although it is possible that the Bush Administration is responsible for the recent upsurge of work in resource dependence theory, as we describe below). Academic interest in power does not appear to track the salience of power relations in the real world, although a firm conclusion on this would need a more systematic test.

Hypothesis 3: RDT's popularity reflects Stanford hegemony. A third possibility is that the popularity of resource dependence theory reflects the dominance of Stanford University in controlling scarce resources in organization theory, and thus in compelling its dependents to adopt its worldview. That is, to the extent that Stanford affiliates control the supply of elite journal editors and reviewers, new faculty, and textbooks and other materials used in doctoral training, a Stanford view of which theories are worth studying and testing—and which can be ignored—will come to pervade the academic study of organizations. This Gramscian/Pfefferian hypothesis is an appealing one because it has excess empirical implications, applying not simply to resource dependence theory but to the other subjects of this volume. And, of course, it is a direct implication of resource dependence theory.

Stanford was a distinctive place during the 1960s and 1970s. The business school in particular seemed to take seriously the Ford Foundation and Carnegie Corporation reports of 1959 that chastised business schools in general for their low-caliber students, poorly-trained faculty, and weak research. The Carnegie report stated that "Much of the research at these

institutions is heavily weighted on the side of description; much of it centers on particular companies or local trade groups; much of it is undertaken because of its practical usefulness; very rarely is emphasis placed on developing analytical findings which can be fitted into a general system of principles and tested in a scientific manner." The Ford report further noted that "more significant research of ultimate value to business has come out of nonbusiness departments of the university" [e.g., psychology, mathematics, statistics, economics, and sociology] "than out of the business schools" (quoted in Daniel, 1998: 160). But Stanford's business school came to be singularly devoted to research firmly rooted in the social science disciplines, and embraced an interdisciplinary model of organization studies. Indeed, by the 1980s nearly all the faculty in Organizational Behavior were trained in psychology, sociology, or political science—except, of course, for Jeff Pfeffer. As other business schools adopted the approach to research characteristic of Stanford's business school, perhaps the folkways and values of that institution spread as well.

There are many signs of Stanford hegemony. Scanning the editorial boards of elite journals, for instance, reveals a disproportionate number of current Stanford faculty and graduates (e.g., the editor and three associate editors of one administrative journal we are familiar with are all Stanford fellow travelers). The past four chairs of the Organization and Management Theory division of the Academy of Management (Jerry Davis, Kim Elsbach, Willie Ocasio, and Henrich Greve) were all Stanford graduates. Coincidentally, recent winners of the OMT Distinguished Scholar Award include Woody Powell (2008), Steve Barley (2006), Joanne Martin (2005), and Kathy Eisenhardt (2002)—all Stanford faculty members, joining past winners Jim March, Dick Scott, Mike Hannan, and Jeff Pfeffer for a 29% Stanford market share of the award since its inception. And in the Organizations, Occupations & Work section of the

American Sociological Association, the best article award itself is titled the "W. Richard Scott Award for Distinguished Scholarship," in honor the man who had seemingly trained half the organizations faculty in America via Sociology 260.

It is a cliché that history is written by the victors. In this case, one of the most potent methods of maintaining Stanford's hegemony is the two books that collectively account for approximately every doctoral course in organization theory and are on every prelim study list in the country for organization studies: Pfeffer's *Organizations and Organization Theory* and Scott's *Organizations: Rational, Natural, and Open Systems*. Since their publication in the early 1980s, these two books have crystallized a particular view of organization theory and helped reproduce a canon in which, unsurprisingly, Stanford figures centrally. (Of course, this volume further reproduces this canon.) Independent of empirical validity or social context, Stanford-based theories of the mid-1970s benefitted from being canonized within the sandstone walls of the institution that Berkeley-based scholars call "the world's largest Taco Bell."

If this hypothesis is accurate, we should expect the influence of resource dependence theory to wax and wane with the market share of Stanford-associated textbooks, faculty, and journal control. But while a sudden drop in sales of the latest incarnation of Dick Scott's book (Scott and Davis, 2007) might be an interesting natural experiment, we cannot advocate it due to humanitarian objections (also known as "kid's tuition bills").

The revival of resource dependence theory

Jeff Pfeffer lamented the fact that resource dependence theory has been reduced to a "metaphorical statement about organizations" (2003: xvi). One explanation for this is the absence of empirical examination and clarification of the theory's basic premises. In the section that follows, we highlight some of the efforts taken to address this issue, which have led to a "recent renaissance of resource dependence theory" (Katila et al., 2008: 321).

Pfeffer and Salancik (1978) suggest that certain benefits accrue to firms through their board members: advice and expertise, access to resources, and legitimacy. Given the importance of corporate boards in obtaining these critical benefits, Pfeffer has called for additional work to test the predictions put forth by resource dependence and other theories concerning the determinants of the size and composition of boards (2003: xviii). In answering that call, Amy Hillman (2005) found that firms in heavily-regulated industries have more former politicians on their boards than firms in less-regulated industries, and further found some evidence that this is associated with higher levels of financial performance. She inferred that ex-politicians serve as conduits of information and offer access to important political resources that are extremely beneficial to firms operating in highly regulated environments, an interpretation highly consistent with resource dependence theory.

Additionally, Hillman and colleagues (2007) found that the presence of women on corporate boards is consistent with the predictions put forth by resource dependence theory. Specifically, large firms that face legitimacy pressures, companies operating in industries that are heavily dependent on female employees, and firms with ties to companies with female board members are likely to have women directors on their board. Thus, the composition of boards seemingly mirrors the environmental constraints faced by firms, giving some credence to the proposition that firms strategically select board members as a means to reduce uncertainty.

Resource dependence theory also argues that in situations of uncertainty, one strategy is to put representatives of competitors, key suppliers or customers on the board as a means of co-optation. As we argued earlier, and Jeff Pfeffer himself has admitted (2005: 450), the theory has not had much success in explaining patterns of corporate interlock behavior. The reconstitution of broken ties, for instance, shows at best limited support for resource dependence predictions

(e.g. Palmer, 1983). But the insight behind the co-optation hypothesis is still valid. Thus, Westphal and colleagues (2006) studied the reconstitution of friendship ties among board members to determine whether these individuals use informal links in lieu of formal board appointments. While companies may not place key suppliers, buyers or competitors on their board, the study shows that individual board members seek reconstitute broken friendship ties with members of these firms for instrumental reasons. This study extends resource dependence theory by showing that the proposed mechanisms motivating the hypotheses related to co-optation through board appointments are captured through less obtrusive means (i.e. friendship ties). In short, the diagnosis of the motivation was apt, but the outlet required modest tweaking of the theory.

External Control of Organizations focuses considerable attention on the ways in which firms become constrained by their environment and the strategies they can employ to manage these dependencies. Because the theory focuses upon the dependent firm, a natural question which arises is, "How do powerful firms exercise their influence and what tactics do they employ to avoid being co-opted by their dependents?" From this starting point, Casciaro and Piskorski (2005) reanalyze Pfeffer and Salancik's concept of interdependence. Pfeffer and Salancik argue that mutual dependence and power imbalance combine to create interdependence – a notion challenged by Casciaro and Piskorski. In a study on merger and acquisition activity, these authors argue that power imbalance and mutual dependence have *opposing* effects on the propensity for firms to engage in mergers and acquisitions. By separating and measuring power imbalance and mutual dependence independently, the authors find that power imbalance is an obstacle in M&A activity while mutual dependence drives M&A activity. Their argument is that

more powerful firms are less willing to enter into a merger with their dependents, lest they lose the advantages of being the power-holder in the relationship.

In a study of entrepreneurial ventures in US technology-based industries, Katila and colleagues (2008) examine the conditions under which entrepreneurial ventures are likely to be part of a corporate investment relationship. The fundamental tension for the entrepreneur underlying this decision is the tradeoff between access to resources and the potential of being taken advantage of in the relationship. Resource dependence research has focused primarily on the cooperative side of relationship formation while ignoring the potential that one party can be manipulated. Moreover, research has not investigated whether the propensity of being exploited influences the decision to enter into a relationship with another party. As such, Katila and colleagues (2008) find that new firms enter corporate investment relationships when (1) financial resource needs are high, (2) managerial resource needs are great, and (3) firms can defend themselves against resource misappropriation through defense mechanisms. The authors argue that resource dependence theory overlooks the competitive side of tie formation. But these findings show entrepreneurs consider resource needs and defense mechanisms simultaneously when considering relationship formation.

These and other recent contributions to resource dependence theory (e.g. Gulati & Sytch, 2007; Ozcan & Eisenhardt, 2009) suggest that there is currently a revival of interest in the theory and offer some clues on where the theory may be heading. One commonality among many of these studies is that they offer some challenge to the basic tenets put forth in *External Control*. Assumptions are being tested (Casciaro and Piskorski, 2005), alternative strategies are being offered (Westphal et al., 2006), and gaps in the theory are being filled (Katila et al., 2008).

While these works offer an excellent starting point, it seems there are numerous opportunities for scholarly contribution to RDT.

Conclusion

After an unfortunate period of dormancy, there is evidence that interest in resource dependence theory is on the rise. In some respects this is not surprising. The status of global affairs is markedly similar to the period in which Jeff Pfeffer conceptualized the theory -- economic crisis, dissatisfaction with political leadership, increased social activism -- all of which make issues of power and dependency more salient. It is an opportune time for revitalizing resource dependence theory for a different economy.

One of the challenges for resource dependence theory is that its prescriptions are intertwined with its theoretical predictions (Casciaro and Piskorski, 2005). The prescriptions that arise from *External Control* undoubtedly require modification today--tactics like co-opting suppliers by putting them on the board, or diversifying, probably would do most firms more harm than good. But the underlying theoretical approach of diagnosing the sources of power and dependence and predicting when and in what direction organizations are likely to respond still yields great insight into organizational behavior. Thus, the most useful future work will address one or both of these issues: updating the sources of power and dependence, and cataloging the new set of available tactics for managing dependence. We conclude with some suggestions regarding where to look.

Three master trends that have altered the profiles of power and dependence, and the methods of managing the organization's environment, are the ubiquity of information and communication technologies (ICTs), the rise of finance, and globalization in trade. ICTs (computers, the Internet, mobile telephony) can lower transaction costs by making information about prices and alternatives more readily available, generically lowering dependence among

buyers and suppliers able to develop alternatives more readily. It has also altered power relations within firms, as "internal suppliers" (e.g., human resource or IT departments) find that they face potential outside competitors. Fidelity can do payroll and benefits management; UPS can do assembly and logistics; IDEO can do design. As a result, there has been an explosion of outsourcing, which is not limited to business: families with a fast internet connection and Skype find that they can use offshore vendors to file their taxes, edit their wedding videos, plan their family reunions, and tutor their children (Davis, 2009). Maintaining alternatives has perhaps never been easier; on the other hand, establishing a long-lasting monopoly is increasingly difficult (cf. Alta Vista, AT&T).

Finance has altered power relations within firms by privileging one particular constituency (shareholders), changing metrics of performance (shareholder value), and re-orienting pay and human resource practices (to promote increases in share price). It has also ushered in a stunning array of new tactics for managing dependence, from the creation of investor relations offices (to deal with equity analysts and institutional investors) to the expansive use of exotic off-balance-sheet entities to disguise the financial shape of the organization. As the example of Google suggested, the size that gets a firm power today is market capitalization, not sales or employees, which creates rather different power dynamics.

Finally, globalization has changed the range of potential competitors and the possible outlets for expansion, as well as the typical forms of organization. Adam Smith's pin factory today would undoubtedly be organized as a global supply chain spanning three continents and a half-dozen vendors, with the "original equipment manufacturer" responsible primarily for brand management and licensing its intellectual property from a subsidiary based in Bermuda. Globalization has also put multinational corporations (which includes nearly every US firm

outside the retail, banking, and utility industries) into the international relations business, as they now face European administrators that want to regulate them, sovereign wealth funds that want to invest in them, foreign suppliers that want to compete with them, and social movements that want to hold them responsible for the labor practices of their suppliers and the human rights abuses of the governments running the countries where they operate. Firms can now manage legal uncertainty by choosing their preferred "legal vendor" (e.g., Miami-based Royal Caribbean Cruises is incorporated in Liberia for tax purposes), but new forms of uncertainty have a way of finding firms (e.g., the revival of the Alien Tort Claims Act, created in the late 18th century to prosecute pirates but now used by foreign nationals to sue multinationals in US courts).

Resource dependence theory is rightly regarded as a seminal contribution to organization theory, and a proud Stanford product. Events in the 30 years since *External Control* was first published have altered both the sources of organizational power and dependence and the means of their management. But as long as power plays a part in the conduct of organizational life, resource dependence theory will continue to provide insight.

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Figure 1. Annual citation counts for *External Control of Organizations*, 1978-2007.

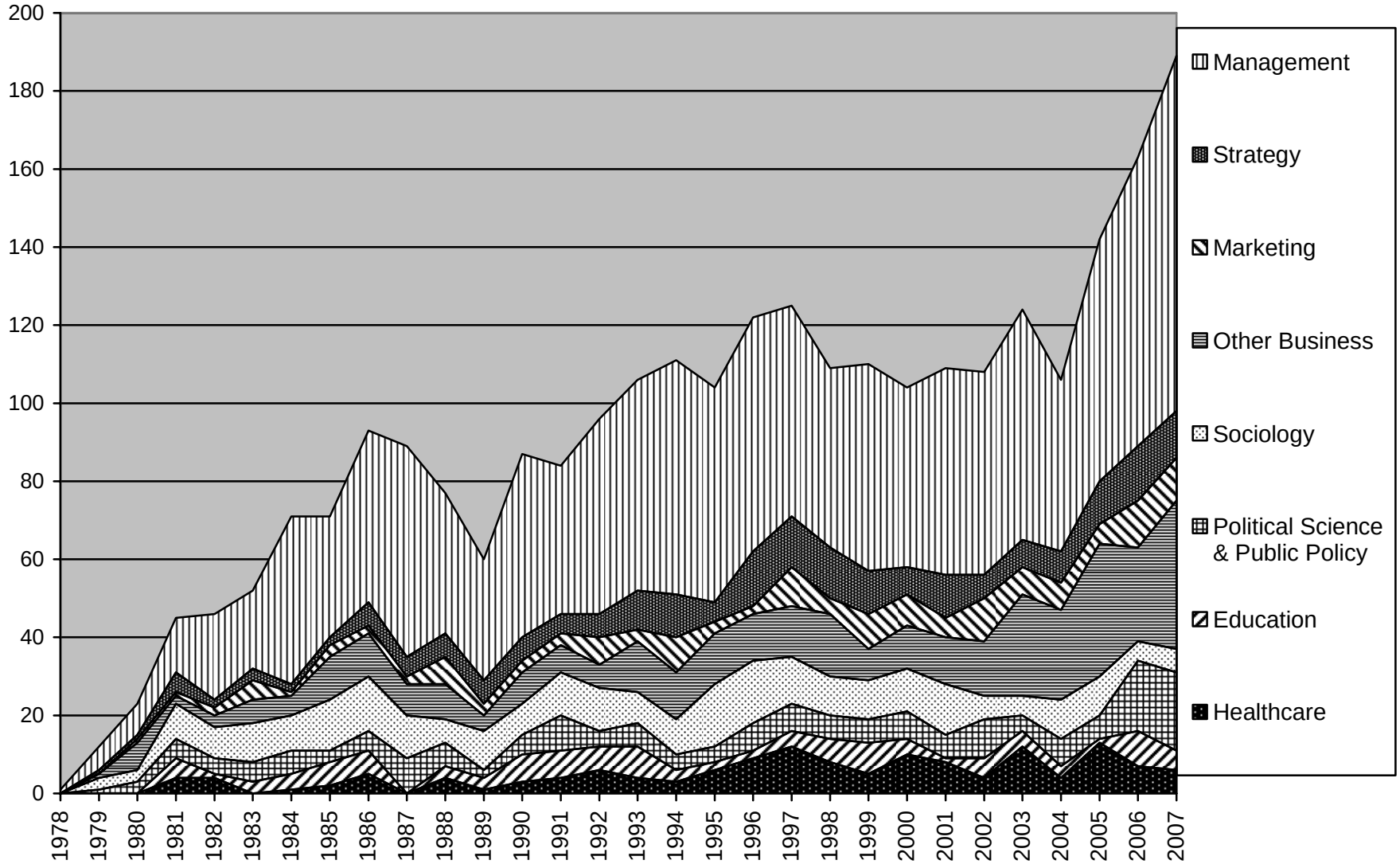

Figure 2. Annual citation counts for *Power-dependence relations*, 1962-2007.