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This article explores how psychological theories can be used to explain organizational action. It starts by noting that many macro actions may in fact be micro behavior in disguise. It is argued that psychological models are relevant when individuals are able to influence organizational action, when individual-level processes mediate organizational actions, and when theories of human behavior serve as a metaphor for the action of organizations. Once these arguments are posed, how micro research might actually be applied to macro problems is then discussed and specific examples of such "macro-psychological research" are provided.

Shortly after I started my first academic job, a graduate student named Eugene Swajkowski came to me with the idea of doing some research on organizational crime. I knew absolutely nothing about the topic, so I asked some naive questions such as "Do you want to study shoplifting or embezzlement?" He said he wanted to study corporate crimes such as when the entire organization violates the law. The subject sounded interesting to me. So we did the usual things, like conduct a literature search (of which there was not much), construct measures (we used anti-trust and Federal Trade Commission violations), code and analyze data. Everything came out as predicted. Therefore, as a confident young faculty member, I told Gene that this was a "sure publication." The problem was that I did not even know where we should send the paper.

My colleagues assured me that the American Sociological Review would be the best outlet for this kind of work. So, being trained primarily by psychologists, I conscientiously reread books by James D. Thompson, Peter Blau, and Richard Scott. I had it all down pat — all the vocabulary, the style of data presentation, the throw-away references to famous sociologists. I sent the paper off and waited 4 months. When the letter from the journal arrived, I anxiously pulled the reviews

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from the envelope. The opening line from the first reviewer read, "This paper has a curiously non-sociological flavor."

In a sense, this paper is my chance to get even. It is an effort to demonstrate why psychologists *can* make a contribution to what has traditionally been the sociological study of organizations.

A Land Divided

In the 1960's and 1970's organizational research was considered to be an interdisciplinary field with theoretical inputs from anthropology, psychology, sociology, political science and economics. Since then, as the field has grown and prospered, it has increasingly become a set of specialty topics. Psychologists and those trained in micro organizational behavior have taken issues such as job attitudes, work motivation, absenteeism, turnover, and stress as their purview. Sociologists and those trained in macro organizational behavior have, in turn, laid claim to issues such as organizational structure, power, strategy, and environment. This micro-macro split has also become institutionalized. There are now separate divisions of the American Psychological Association and the American Sociological Association that deal with organizations, and within the Academy of Management, a more applied interdisciplinary organization, separate divisions have become host to micro and macro researchers. At present, not only do experienced academics readily identify themselves as micro versus macro researchers, but graduate students take on this delineation from the outset of their academic careers, choosing up sides in the hunt for data and interpretation of theory. Unfortunately, this division has taken its toll on research. Organizational behavior has moved from a vibrant interdisciplinary field to at least two highly bounded areas of study.

One goal of this article is to try to slow down or reverse what has been an almost centrifugal march in both the micro and macro directions. To do this, I will show how a number of organizational actions can be explained by psychological processes. In an accompanying piece, Pfeffer has noted how sociological processes can explain several aspects of micro organizational behavior. Perhaps these two articles will be seen as raids upon each other's camp to enlarge the territory of one's own subdiscipline. Alternatively, I would like to think of this endeavor as an expansion of common ground — the broadening of a neutral zone where multiple perspectives can be brought to bear on similar issues, with the ultimate goal of returning organizational behavior to the interdisciplinary field it once was.

Using Micro Models to Explain Macro Actions

To demonstrate how psychological models can be used to explain organizational action I will outline three alternative explanations of macro organizational behavior. I will start with the most radical: that macro actions may in fact be micro behavior. Then, I will move to two weaker forms of the argument: that micro theories may either explain the processes now implicit in macro models or serve as useful metaphors for organization-level theory. Once these arguments have been posed, I will provide some examples of how we might profitably conduct psychological research on the actions of organizations.

When Individuals are Disguised as Organizations

We have all received letters from companies relating the following sorts of bad news: "It is not company policy to give refunds," or "Your qualifications do not meet the firm's current needs," or "The organization's current priorities unfortunately prevent it from participating in your worthy research project." In each of these instances it is likely that, if we probe the organizational action, we will find an individual decision maker behind the scene. The person in charge (often a lower level person acting autonomously) does not like complainers who want refunds, does not want to hire us, or does not want to be bothered by our valuable research project. In each of these instances, individual and organizational behavior are not just parallel; they are the same thing. Organizational actions can therefore be individual behavior under the cloak of a larger, more impersonal entity.

If organizational actions are actually individual behavior, then psychological theories are obviously useful as explanatory concepts. They are especially relevant when individuals are given a great deal of discretion in their dealings with outside constituencies. For example, a commodities trader for General Mills, a buyer for Macy's, or an admissions officer at Stanford may each represent the organization and function without close supervision by others. One may of course argue that when an external crisis hits, perhaps in the forms of financial cutbacks or scandal, the representative's autonomy will be restricted (Staw, Sandelands, & Dutton, 1981). However, by noting this exception one is also implicitly recognizing that the general rule is that they are given relative autonomy.

Another ready argument against using psychological theory to explain the behavior of organizational actors is that their behavior is not really autonomous. Individuals may be socialized to the point that they are acting as full agents of the corporation (Kanter, 1977). They may have absorbed the organization's goals as their own and are simply seeking benefits for the larger system. I do not disagree with this position. Instead, I would argue that even when this is true, psychological theories still apply. Just as in the case of altruistic behavior, where one seeks benefits for another with whom one identifies closely (Batson et al., 1983) or when one acts against an outgroup to demonstrate loyalty to one's own ingroup (Campbell, 1975), psychological theories are useful. In performing their organizational roles, individuals may sometimes behave altruistically so that the institution's interests are furthered, even at the expense of the individual's own interests (Staw, 1983). More often, however, behavior may be determined by a confluence of loyalties, where individual and organizational interests sometimes coincide, sometimes conflict, and at other times are irrelevant to each other. In such a complex world variations of motivation theory, role theory, agency theory, and identity theory would likely provide as many research leads as conventional sociological theories of organizational action.

When Individuals Sway Organizations

Sometimes individuals are not the mere agents of organizations, but instead exert control over them. At the extreme would be a very small, one-person business where organizational action is a direct extension of individual behavior. Consider also a newly founded organization. Here, an individual has expressed his or her ingenuity in the form of entrepreneurial activity, and the way the new business is organized and managed can be expected to be a product of the founder's ideas and predilections. Certainly the type of market one is in, the availability of external role models, and prevailing social norms can all influence how the business is initially organized (Aldrich & Mueller, 1982). However, there is usually enough ambiguity in the environment and equifinality in the structuring of organizations for the individual to come shining through. Thus, it should come as no surprise that Schein (1983) argues that the founder of a firm is the major instigator of its culture. At first, personal preferences are translated into the management of a few employees in ways that are comfortable to the founder. Then, as a firm grows the management style of the founder is likely to become embodied into the culture of the firm, as reflected in its symbols, procedures, and formal structure. Even after the departure of the founder, the legacy of the culture he or she began may endure. Just as the vestiges of an arbitrary norm can persist in small groups over time and changes in membership (Jacobs & Campbell, 1961; Zucker, 1977), one would expect that the modes of internal operation and strategies of dealing with the environment would likely persist in organizations.

Besides founding an enterprise, individuals may also influence organizations through leadership (Kets de Vries & Miller, 1986). The greatest effects would be expected in small firms, because here a CEO's preferences are more directly translatable into organizational action, without the dilution and buffering created by middle management. One might also expect that CEO's would have a greater effect on younger firms (even if the executive is not the founder) than on firms with older and more established cultures. This, in fact, is exactly what Miller and Dröge (1986) found in their research on personality and organizational structure. They showed that the need for achievement of CEO's was a significant predictor of organizational formalization, integration, and centralization, and that these relationships were strongest in smaller and younger firms.

One need not be a CEO to influence organizational action, however. Middle level executives also influence the extent and manner by which organizational policies are enacted. For example, it has long been known that political appointees heading U.S. governmental agencies have a difficult time implementing policies that either threaten the security of middle level bureaucrats or violate long-held goals of the agency. The civil service employees can simply stall in order to "outlive" the political appointee, who is likely to leave after the next national election. In private industry, the same logic can prevail. CEO's proposing radical organizational changes will often meet resistance from those who are asked to do the changing. And as Mechanic (1962) noted long ago, even those lower in the hierarchy have more power than we usually realize. Because it is the employees who complete the product or execute the service, the organization is highly dependent on their efforts to perform in the marketplace (Bower & Schneider, 1988).

Obviously, as one descends the organizational ladder the influence of any single individual decreases. Yet most jobs do entail a degree of discretion, when rules and procedures do not adequately specify behavior; and they also involve some autonomy, where one needs to act without another's supervision. Thus, much of organizational behavior can be viewed as the collection of efforts by a set of quasi-independent actors. At one extreme, when the organization employs a set of professionals, the product of the organization consists of an amalgam of individual behaviors. In universities, for example, each professor conducts courses in a nearly independent manner, and the educational process is an additive product of these individualized efforts. At the other extreme lie machine-like bureaucracies and factories where individuals function as an extension of collective rules and programmed behavior. Fortunately, the success of the Japanese in introducing discretion into the factory floor has had a dramatic impact on our view of doing business in even these highly constrained settings. Being able to stop the assembly line, conduct one's own quality control studies, and redesign various factory operations mean that individuals, even at the lowest level in the organization, can have a direct influence on the product of the organization.

Micro Mediators of Macro Behavior

So far I have argued that at least a portion of what we normally think of as macro-organizational behavior is really individual behavior in disguise. There are, of course, degrees of truth to this assertion, depending on whether individuals act as founders, autonomous agents, or functionaries who are constrained by the structure and rules of the firm. Given the extent of possible individual influence, does this mean that we should trace all organizational actions to their individual originators? Is there not some rationale to macro-level explanations of organizational life?

As things now stand, each branch of the social sciences has its own view of reality and its own corner on the truth. For example, an economic theory of organizations may explain the actions of the firm with only a small set of market variables. Knowing the general economic cycle can help predict the profitability of the firm, its capital expenditures, and changes in employment levels. Likewise, sociological theories of the structure and design of the firm may help predict the actions of the organization in its environment and perhaps even the success of the firm. But such macro models do not necessarily constitute an end in themselves. Just because a significant amount of variance is explained is not reason enough to stop the process of inquiry.

As an example of the merits of reductionism, consider the study of organizational demography (Pfeffer, 1983). The chief premise of this literature is that it is possible to predict organizational outcomes (e.g., the turnover of the employees or work group performance) by knowing the distribution of employees on certain demographic variables (e.g., age, sex, educational background, tenure in the organization). Moreover, in this sociological formulation it is not the demographic characteristic, per se, that is driving the predictions, but the "relational" aspect of the demographic characteristics of the social group. Thus, organizational demography speaks to the consequences of having certain tenure distributions in the firm or skewness in the distribution of women and minorities in the organization.

A common finding in the organizational demography literature is that homogeneous units outperform or are somehow superior to those that are more heterogeneous (O'Reilly & Flatt, 1989; Wagner, Pfeffer, & O'Reilly, 1984). Yet, without knowing the mediating processes involved, we can only guess as to why such effects may occur. Demographic researchers have argued that conflict increases as diversity increases, but seldom is conflict directly measured (see O'Reilly, Caldwell, & Barnett, 1989, for an exception). As a result, we do not know what forms of diversity can create conflict, nor whether this conflict is task or interpersonally based. We also do not know exactly what triggers such difficulties. Is it the lack of commonly held work values, or simply the fact that dissimilar people generally are less likely to be friends than those who are similar? Such questions require the probing of psychological mechanisms underlying macroscopic effects.

By understanding the psychology of demographic variables, one can gain some theoretical power over the problem of interpersonal relations. By knowing why demographic effects have occurred, one is better able to construct a more general theory of social relations at work and perhaps even know when diversity can and cannot help performance. That is not to deny that it is possible to have a sociological model that examines relational variables and their consequences on collective outcomes (i.e., a macro-level theory). However, when one puts psychological flesh on this kind of structural model, the persuasiveness of the basic theory can be increased. With reductionism, each empirical study can become a double test of theory (at both the sociological and psychological levels), requiring data to be consistent across two levels of analysis.

Understanding the psychological dynamics of a macro theory can also make that theory more useful. Lewin's dictum that "there is nothing more practical than a good theory" has by now become a cliché. Yet, anything that increases our understanding of a theoretical process means that we can better know when and where a theory is applicable, how to revise it, and when to ignore it. For example, if we accept the research finding that heterogeneity of work units leads to increased turnover, should we then endeavor to reduce the heterogeneity of the workforce? One reasonable response is that we should do nothing until we know more about the meaning of such heterogeneity. In terms of tenure heterogeneity, for example, do people not get along with people who are of different ages, or does a bimodal or skewed distribution of tenure simply index some other characteristic of organizations? Organizations that have experienced punctuations in employment and hiring levels may have also experienced radical (and conflict-producing) changes in policy, growth, and culture. Thus, the demography of the organization may be a result rather than a cause of conflict.

By understanding more about when or why heterogeneity can cause interpersonal difficulties, we can better design ameliorative programs. With proper intervention we might be able to cope more effectively with the costs of heterogeneity (e.g., learning how to improve communication or reduce hostility) and tap its potential benefits (e.g., a broadening of information and perspective). In this way, we can better adapt to the increase in workforce heterogeneity that will occur in the decade ahead.

In summary, reductionism is not just a way to pick up additional variance missed by macroscopic models. Psychological theories can strengthen and add theoretical substance to macro models by providing the underlying rationale or missing process mechanism. This conclusion does not deny the utility of macro models, but simply recognizes them as an interim solution.

There is no logical limit to the process of reductionism. One could, for example, try to explain the strategic actions of a firm by the psychophysiology of its employees. Though at first blush this may sound like an almost absurd assertion, it could actually be an interesting lead. Connections could be made between chemical bases of aggression in CEO's and the merger/acquisition behavior of their firms, or perhaps between the physiology of workers and their efforts. The question is one of cost and feasibility for such reductionistic research, rather than whether it is a legitimate enterprise to undertake.

I would argue strongly against caveats that sociological explanations *should not* be reduced to the psychological level or that psychological processes cannot be moderating processes in macro-level theory. No doubt, one can construct a highly useful and cost-effective theory at the macro or economic level, just as reinforcement theory has prospered without delving into the psycho-dynamics of the individual. But, as we have seen with the recent merger of goal-setting with reinforcement approaches (e.g., Bandura, 1977, 1986), major advances can also be made by a willingness to move down a level in theoretical explanation — to embrace the call of reductionism.

Micro as a Metaphor for Macro

To this point I have made two arguments for the micro explanation of macro behavior. The strongest or most radical idea is that many macro actions are in fact individual behaviors in disguise. A somewhat weaker position is that it is important to understand the micro mediators of organizational action. A third, even more compromising position, is that micro theory can serve as a useful metaphor for organization-level theory. In making this latter argument, one can admit that real relationships and processes occur at the macro level, but their explanation may still be improved by resorting to psychological theory.

To see how micro metaphors can aid macro theory, one need only scan the horizon of current organizational sociology. There are glaring parallels between macro and micro models. For example, most versions of structural contingency theory (e.g., Lawrence & Lorsh, 1967; Thompson, 1967; Woodward, 1965) imply that there is some impetus toward efficiency of organization or energy minimization. Resource dependence theory (Pfeffer & Salancik, 1978) likewise posits that organizations strive to minimize sources of external control and uncertainty. These models are quite parallel to those of goal-setting, control theory, and expectancy theory — formulations that note how people locomote toward valued end-states — as well as models of personal control and reactance that emphasize motives toward freedom and choice. Consider also institutional theory's central hypotheses that organizations attempt to manage their public image in order to secure external support and legitimacy, and that they readily model their operations after those of other institutions rather than seek the most efficient response (Meyer & Rowan, 1977; Meyer & Scott, 1983). Such reasoning is not too distant from psychological theories of impression management (Schlenker, 1980), social identification (Markus & Wurf, 1987), and modeling (Bandura, 1977).

I have tried reading several of the classics of organization theory (e.g., Pfeffer & Salancik, 1978; Thompson, 1967) and have simply inserted the word *individual* whenever *organization* appears. Not much of the meaning is lost. Why is this so? Why are there such close parallels between micro and macro theories?

Some system theorists (e.g., Miller, 1978) have noted that all social entities have similar properties and predilections. Others, such as economists, might argue that because organizations are basically utility maximizing entities, they will share many behavioral tendencies with self-interested individuals. Finally, it is simply possible that, because organizations are largely populated by individuals, personal predilections are likely to aggregate in determining organizational actions.

My own position is that it is immaterial *why* organizations tend to look or behave like individuals. Because they do, we should therefore use individual psychology as a helpful analogy in organizational theorizing. Many sociologists, I would argue, are already implicitly using psychological concepts in their macro models — almost in a sense asking, "what would I do if I were an organization?" So why not use psychological concepts to their fullest extent? Dress up like an organization and capitalize on the perspective it brings.

Developing a Macro Organizational Psychology[1]

If one were conscientiously to pursue individual explanations of organizational action, where would the most advantageous openings lie? Although it might be theoretically appealing to understand all the dynamics of individual and interpersonal behavior in an organization, this would not likely yield cost-effective insights to organizational actions. A more lucrative source of research would be the study of key organizational decision makers, such as the CEO and the set of top executives in a firm. Current macro theory commonly dubs this collection of policy makers as the "dominant coalition," depersonalizing them into a sociological entity. However, because it is possible to identify key actors in important organizational decisions, psychological research can be applied to these individuals in order to explain organizational actions.

Miller and Dröge (1986) have already shown how personality theory can be applied to the CEO in predicting the structure of organizations. They found that the chief executive's need for achievement could explain how centralized and formalized was the structure of the organization. This research could, of course, be extended to include other personality dimensions as predictors of structure as well as the internal management of the firm. It would not be surprising, for example, to find that executives who are low in interpersonal trust and have difficulty in dealing with others may also tend to use a system of supervision that emphasizes quantitative reports rather than "hands-on" interaction. Likewise, the more suspicious (perhaps even paranoid) is the CEO, the greater the emphasis will be on centralized control rather than employee empowerment (Kets de Vries, 1980). Most broadly, one could hypothesize a direct linkage between the personality profile of the CEO (or set of top managers) and the cultural profile of the organiza-

[1]Robert Sutton should be credited with the origination of this term.

tion (O'Reilly, Caldwell, & Chatman, 1991). With such research we could find that firms that have aggressive, competitive, or power-oriented CEO's have instituted these same values in the culture of the organization.

In terms of external organizational actions, we may also find that it is possible to use the personality of leaders to predict the behavioral tendencies of the firm. Take for instance the categorization scheme developed by Miles and Snow (1978) in which firms are depicted as "prospectors," "analyzers," "reactors," or "defenders." Some obvious predictions are that firms that work to develop new products and stay ahead of the market ("prospectors") have CEO's that are creative and risk-taking, whereas companies that try to defend their market niche ("defenders") have CEO's that are more passive or cautious. Some tentative support for this notion can be gleaned from the work of Miller, Kets de Vries, and Toulouse (1982). They found that CEO's who scored higher on Rotter's (1966) locus of control measure were likely to lead organizations that innovated in terms of product technology and new product introduction. That is, those CEO's who believed they could exert control over events in their lives ("internals" on the I/E scale) headed the most risk-taking and dynamic organizations. These results were correlational and not causal. But, as one might predict, the smaller the firm and the longer the CEO's tenure, the stronger were the relationships between locus of control and innovation.

In relating dispositional characteristics of managers to organizational characteristics and actions, several often implicit issues must be confronted. The first is how to choose the proper personality dimensions for research. Should we concentrate on the major or most commonly studied aspects of personality and examine their consequences at the macro level? Despite the promising results of Miller, Kets de Vries and Toulouse (1982) and Miller and Dröge (1986), I think this is a dangerous route to take. My fear is that many low correlations will be found, without enough impact to warrant a shift in resources to this kind of macro-psychological research. Even if we follow the precepts of modern personality research in gathering multiple measures of personality as well as the behavior to be explained (Weiss & Adler, 1984), I would not be surprised if robust and consistent results are not found. The problem is that most personality measures have been designed to predict individual behavior over an array of family and school situations rather than framed in terms of organizational life. Thus, stronger predictions are likely to be obtained by tailoring dispositional measures to the organizational setting (e.g., instead of using a general scale of competitiveness, one could assess the importance of career advancement and of being the highest paid in one's industry). In addition to grounding measures to the situation, we may also benefit by making our scales more behaviorally based. For example, instead of using an abstract moral reasoning scale (Kohlberg, 1976) to predict legal violations, one might simply use an index of prior infractions (the number of prior speeding and parking tickets) as a proxy for the disposition to break the law. One might note that leaders (such as sports coaches) who have previously been suspected or charged with violations are more likely to head organizations that will be charged with violations in the future, even if they change jobs or organizations.

Besides assessing the disposition of key individuals in the firm and calculating their effects on organizational action, we might also generalize the entire notion of behavioral disposition to the organization level. Here we would treat organizations *as if* they were living, breathing entities with predictable behavioral tendencies. In essence, this is already being done in various categorical schemes, such as Miles and Snow's depiction of the firm's market orientation (i.e., prospector vs. defender). It is also an implicit assumption in the population ecology literature, where it is hypothesized that organizations pursue a given market strategy at birth and that this tendency persists over time (Hannan & Freeman, 1977). Though rarely measured, what apparently underlies the death of firms is their assumed inflexibility to meet changing market conditions — in other words, their strong dispositions to behave consistently over time.

Openly positing that organizations have dispositions makes salient several research routes. The classification of organizations (McKelvey, 1983) looks more interesting as a way of sorting various behavioral tendencies of firms. The study of how particular types of organizations do under differing environmental conditions takes on added urgency (Pennings, in press). And questions such as the mutability of organizations over various stages in their lifespan (cf., Tushman & Romanelli, 1985) become more important with a dispositional approach to organizations.

Using Psychological Processes

Another high yield approach to understanding organizational action may be to examine the psychological processes of managers. If top managers are responsible for organizational decisions, then any universalistic tendency or psychological bias is likely to affect the decisions that are produced by organizations. As an example, consider the well known fact that most people suffer from an overconfidence bias (Einhorn & Hogarth, 1981), believing that they will not be involved in an accident, illness, or some sort of loss. Except for depressives, most people are also perennial optimists, seeing the world in fairly rosy terms (Taylor & Brown, 1988), believing that they have control over the events and vicissitudes of their lives (Langer, 1975). There is, of course, little reason to believe that managers are immune to these tendencies. Thus, we might expect excess risk-taking on the part of organizations, unless specific structures or procedures are present to brake these tendencies.

The list of psychological biases that can potentially affect organizational decision making is large. Bazerman (1990) has described some of the likely effects of decision heuristics, such as representativeness, framing, availability, anchoring, hindsight bias and overconfidence. In addition, one area of psychological research that has already made explicit claims to explaining organization-level action is the escalation of commitment (Brockner & Rubin, 1985; Staw & Ross, 1987). Here the tendency of individuals to become overcommitted to losing courses of action (to throw good money after bad) has been applied to organizations' tendency to persist in losing projects and products.

The list of psychological processes affecting top management behavior need not be limited to decision biases. Any human process such as stereotyping, modeling, or cognitive consistency can be used to understand a general behavioral tendency on the part of managers. Parallel processes at the macro level might include the tendency to view competition in zero-sum terms, the blind adoption of other firms' practices, and the tendency to base strategy on the organization's past actions rather than on future opportunities. The critical question for organizations is not whether psychological tendencies exist, but whether we can expect them to affect additively the resultant actions, policies, or decisions of the organization.

Moving From Micro to Macro

It is reasonable, I believe, to posit that many rather universalistic tendencies on the part of individuals will aggregate into organization-level behavior. As research on group polarization has shown (Lamm & Myers, 1978), if most individuals share a particular bias or opinion, then decisions coming from the larger entity may be even more extreme. In task groups, for example, deviants from a skewed distribution of opinion are likely to censor themselves (or be censored by others), and the bulk of group discussion will probably be supportive of the majority position. Within organizations, there are additional forces for homogeneity. As Schneider (1987) has so adeptly noted, the attraction of individuals to the organization, the socializing of people in the organization, and the attrition of individuals over time can all contribute to the homogeneity of firms. Thus, if most managers suffer from a particular bias or psychological tendency, it will likely be incorporated into the behavioral profile reinforced within the firm. The organization may, for example, select for those who are optimistic or high in the illusion of control, allow such individuals to assume power, and then weigh these individuals' opinions more heavily than those with minority viewpoints or perspectives (Nemeth & Staw, 1989).

The fact that there are shared psychological biases does not mean that the organization is inevitably locked-in to the foibles of the human mind. As shown in the behavioral decision-making literature (Fischhoff, 1982), people can be trained to counteract some of their inherent biases or cognitive shortcomings. In addition, organizations can be structured to prevent people from acting fully on their own tendencies or to stop these tendencies from aggregating into organizational actions. As an example of the latter procedure, some banks have tried to counteract the common problem of overcommitment to losing courses of action. By setting up work-out groups, these banks have effectively taken troubled loans away from the original lending officers so that a fresh perspective can be provided on the situation. The effort has been one of converting the individual tendency to "save" a project or recoup past losses (a retrospective form of rationality) to an organization-level emphasis on maximizing potential future returns (a more prospective form of rationality).

Multi-Level Processes

Although I have described how psychological tendencies can be responsible for organizational action, the relationship between micro and macro processes may be both complicated and self-sustaining. Again I will use escalation research as an example.

Early studies in the escalation area (e.g., Staw, 1976; Tegar, 1981) examined the effect of self-justification motives on the commitment of resources to a losing course of action. Analogous research has applied decision biases such as the tendency to be influenced by sunk cost (Arkes & Blumer, 1985) and negative framing (Tversky & Kahneman, 1981) to decision situations involving losses. Although nearly all of the escalation literature has been at the individual level, attempting to sort out various theoretical explanations of resource allocation behavior, there has also been a more recent inquiry into the organizational dynamics of escalation.

Staw and Ross (1987) traced escalation across different levels of analysis. They noted that projects are generally initiated by individual administrators who see bright promise in a new product or venture. However, when negative or mixed results start to appear, these same administrators may try to defend the endeavor to both themselves and others. Downplaying adversity and believing that "success is around the corner" are common reactions of those who are responsible for a losing course of action. Yet, an escalation episode rarely ends with this kind of individual rationalization. After a project has been implemented by the organization, it often takes on political overtones, with defenders mobilizing to defend their interests in the venture. In the end, a project or product can become so absorbed into the goals, purposes, and politics of an organization that it is an institutionalized part of the firm.

Discontinuing an institutionalized venture is extremely difficult. Witness Pan American Airlines' actions as they have undergone a slow, steady decline over the past two decades. As revenues fell and losses mounted, Pan Am first sold its profitable Intercontinental Hotel chain. As losses continued, the valuable Pan Am building in New York was put up for sale. Then, when business again soured, the profitable Asian routes were sold to United Airlines. Now Pan Am is in bankruptcy proceedings with competitors bidding for the remainder of its routes. Though it would have seemed heretical at the time, a more sensible leadership might have decided to sell the *airline* and keep the money-making hotel and real-estate subsidiaries. This kind of prospective rationality is unlikely, however, when there is an institutionalized form of escalation — when the political core of the firm is dependent on the continuation of a given course of action and it is almost unthinkable to imagine the organization in another line of business.

Longitudinal case studies of escalation (e.g., Ross & Staw, 1986) have delineated some important linkages between psychological processes and organizational actions over time. But, escalation is not the only arena where such cross-level effects are likely to operate. Take, for example, the hypotheses that people are subject to optimistic biases and illusions of control. A direct translation of these psychological tendencies to the organizational level would mean that companies generally overestimate their performance and their prowess in the market place. Yet, one must also realize that a high degree of confidence might also positively contribute to an action orientation on the part of organizations. Thus, some psychological tendencies can have dual or complex effects on organization-level behavior.

To illustrate such dual consequences, consider the area of new product innovation. Here a certain amount of bravado is necessary to push a risky product through to the marketplace. Without some (perhaps illusory) beliefs of control and a set of very positive (perhaps unrealistic) expectations, little energy may be expended on new ventures. However, as has been pointed out in the innovation literature (Amabile, 1988; Kanter, 1988), some filtering of projects is necessary to sort the good ideas from the absurd, as well as difficult goals from the impossible. Thus, innovative firms have found that it is important both to stimulate a diversity of ideas and to filter these varied ideas into a few viable projects (Staw, 1990). To do this, some organizations foster a dialectic in which opposing views are aired fully before irrevocable commitments are made. In addition, organizations may supply seed money for many speculative ventures, but require that an increasingly difficult set of hurdles be surmounted as greater levels of resources are expended. Such structural devices avoid squashing the energy to push new ideas, but instead harness this energy in productive directions. Hence, illusions of control and overoptimism may not always lead to organizational folly, as one might expect from a direct translation of these psychological effects to the organizational level. On the contrary, innovative firms may be exactly those entitites that have best learned to channel these psychological tendencies into appropriate organization-level actions.

Conclusion

This article started with the observation that organizational research has evolved over the past two decades into two separate and identifiable fields — those of micro and macro organizational behavior. In order to slow this movement and help restore some of the interdisiplinary vigor lost by the field, I have outlined ways in which psychological theories can enrich our understanding of organizational action. I have argued that psychological models can be relevant when individual behaviors influence organizational action, when individual-level processes mediate organizational actions, and when theories of human behavior serve as a metaphor for the action of organizations. Following these arguments, I have shown how micro research might actually be applied to macro problems. Examples of this kind of "macro-psychological research" included the effects of leadership characteristics on organizational culture, the consequences of individual decision biases for organizational decision making, how individual tendencies to become overcommitted aggregate into organizational escalation, and how overconfidence and illusory control tendencies can be harnessed by innovative organizations. Of course, these examples are only the tip of a largely unexplored terrain. Dressing up as an organization, I would argue, can be a highly productive enterprise. Its pursuit may not only shed new light on macro research topics, but also help the field of organizational behavior move back to the interdisciplinary field it once was.

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