

Yvon PESQUEUX

CNAM

Professeur titulaire de la Chaire « Développement des Systèmes d'Organisation »

292 rue Saint Martin

75 141 PARIS Cédex 03

France

Téléphone ++ 33 (0)1 40 27 21 63

FAX ++ 33 (0)1 40 27 26 55

E-mail yvon.pesqueux@cnam.fr

site web mip-ms.cnam.fr

De-institutionalizing the institution and institutionalizing the organization: the case of the supervision of banking activities

Introduction

The importance of management as a major reference addressed to societies is clearly raising the question of a de-institutionalization of the institution and, in mirror, of an institutionalization of the organization. Management should be considered as situated within an institutional frame, including its extension in terms of governance. It appears then as an object of institutionalization. This situation has to be analyzed in relation with the vague definition of the institution. It is necessary to explore the differences between institution and organization by drawing the outlines, which operate between both of these fields before applying this argumentation to the case of the supervision of banking activities.

Institution and organization

Let us recall, as an introduction, the outlines of a parallelism established between institution and organization. Both terms operate according to their focus. 'Institution' (i.e. 'established' institutions) is also understood as 'institutionalization' (i.e. the instituting modalities) just like 'organization' is also convenient for 'organizing'. In both cases (institution and organization), it is also a question of considering these two objects as places of authority, observation, evaluation

and judgment and places of evidence for their instruments (particularly the way through which power is managed)

Organization Science is founding the reference to an 'autonomous' field of knowledge and, under the argument of efficiency, towards an implicit recognition of the existence of a given sense of their functioning. It is the 'object' (organization) that constitutes the essence of this Science. Let us note that, with 'scientific management', labor has only been considered within organizations. It is interesting to point out that Organization Science fits with managerial perspectives and with the foundations of the Theory of Organizations in a logic at the same time reductionnist (by isolating an entity qualified as being an 'organization' for a better understanding) and prescriptive (to 'improve' its functioning). It is also generally like this with the institution.

Organization Science is based on the implicit postulate of a continuum between individual - group - community - company - organization - institution - State – society, reducing the set to a fragment, the organization, fragment then considered as relevant, management practices participating in this legitimization of the organization as the key notion to be associated with socialization.

Organization Science tends to stabilize a 'vague' notion, the 'organization', by sending back to an organizational utopia built on the myth of the 'live within' (institutions) instead of the 'live with' (institutions quite as other organizations). Just like for the organization, the institution is considered within this framework as an 'object' to be understood and as a given social 'shape'. Is there a difference of nature or a continuum between both 'objects'? To Organization Science would then correspond an 'Institution Science'?

The company (and its categories) would be the reference, organization and Organization Science being then susceptible to offer a scientific content to the understanding of what are institutions. Institutions are considered as being able to be studied through the concepts of an Organization Science, quite as institutions can be considered as offering a frame for the understanding of organizations. By extension, the State would also be an organization. But in a way, by adopting organizational patterns, the institution is losing its legal and political characteristics when organizations take the status of an institution. It is why it is then possible to speak about a 'de-institutionalization of the institutions' and about an 'institutionalization of the organization'. It is what P. Romelaer¹ points out when he comments J. G. March and J. P. Olsen's writings² when

¹ P. Romelaer, « Le gouvernement d'un pays comme métaphore du gouvernement d'une entreprise », in I. Huault (Ed.), *Institutions et gestion*, Vuibert, collection « FNEGE », Paris, 2004

they distinguish between an 'aggregative approach' from an 'integrative approach'. In an 'aggregative approach', institutions should reach an optimal allowance of resources to satisfy the different and potentially divergent interests of coalitions and other 'stakeholders'. Institutions should react in the short term. They have little remembrance of the past and few of the future. They propose the figure of 'the political entrepreneur' to manage them. In an 'integrative approach', institutions should create a community of members to recognize internalized shared values. These institutions strongly rest on the interpretation of the past and on a 'rooted' vision of the future. The institutional 'reality' is naturally a combination of both visions, but managerialism tends to privilege the first approach over the second one.

We have to retain that the meaning given to 'institution' is characterized by the fact that it is defined as something which participates in the realization of Common Good (like for hospitals), while the organization is realizing specific objectives in the context of efficiency (like for companies), emphasizing elements such as hierarchy, coordination and cohesion. H. Mintzberg³ invites us to consider such a vision. Organization Science ends on a hypostatization of the organization in an a-historical dimension, reducing the formal variety of organizations to an archetype of institutional and political nature. There would never have been other social relevant 'objects' than organizations! Institutionalizing the organization is based on the idea of imitating companies or to take their patterns as a blueprint despite their variety. Nevertheless, it is not so easy to find anything common in personal businesses, extension of the person, small and medium sized companies, extension of the family, the 'big' company and the multinational company. At the same time, when we speak about 'international organizations', no link is really established to organizations (or very partially for a particular understanding of their functioning). It is the case when we speak about the UN. The same applies to NGOs (non-governmental organizations).

Institutions and institutionalism

It is then question of speaking about a world where societies would be dissolved into their constituting organizations then considered as institutionalized organizations, which would allow to understand the society as an organization (or an organization of organizations). If the notion of organization can be applied to so dissimilar situations, it is necessary to try to introduce some clarifications by proposing a representation of what is an organization and what are its

² J. G. March & J. P. Olsen, *Rediscovering Institutions : The Organizational Basis of Politics*, Free Press & MacMillan, New-York, 1989

³ H. Mintzberg, *Voyage au centre des organisations*, Editions d'Organisation, Paris, 1990

constituents. It is how we can talk about 'institutionalization' of the organization. J. Rojot⁴ gives a definition of the institutionalization of organizations as "*the process by which the social processes, the obligations or the present come there to take the status of a rule in the way of thinking and in social action*". It is thus a question of knowing in what way and how the organization is institutionalized. And nevertheless, if we take U. Beck's argument given in *The Reinvention of Politics: Rethinking Modernity on the Global Social Order*⁵, the rising of a countervailing power to global forces is made through an opposition between institutions and organizations. With the organization, if it is question of institutionalization, we cannot talk of institutions but rather of a reproduction of organizations with same functioning modalities. U. Beck defines the institution as "*the implicit or basic rules, which preside over the exercise of power and dominion*" and, with organization, he mentions "*the particular actors having a certain number of members, financial resources and premises as well as a legal status*"⁶. And as J. Allouche and I. Huault⁷ point out, "*the concept of institution applied to Law, Economics or to Sociology in its institutionalist dimension does not cover neither the same empirical realities, nor the same theoretical foundations*".

For J. Bourricaud and R. Boudon, the institution concerns "*all the activities governed by stable and mutual anticipations*"⁸. For D. North, it is an indicative and structuring background. "*Institutions are rules of the game in a society or, more formally, they are the constraints conceived by the human being which shape the human interaction. Consequently, they structure the incentives in the human exchange, whether they are political, social or economical*"⁹.

While underlining the necessary distinction to be operated among institutions, institutionnalists and neo-institutionnalists, A. Desreumaux¹⁰ comments W. R. Scott's chronology¹¹ with:

- The first institutionnalists who are interested in the 'fundamental' institutions (constitutions, political, religious systems, without link with the organization) where we find:
 - In Economics, the critique of the conventional economic models (cf. Veblen),

⁴ J. Rojot, « Théorie des organisations », in Y. Simon & P. Joffre, *Encyclopédie de gestion*, Economica, Paris, 1997, p. 3363

⁵ U. Beck, *Pouvoir et contre-pouvoir à l'ère de la mondialisation*, Aubier-Flammarion, Paris, 2003

⁶ U. Beck, *op. cit.*, p. 27

⁷ J. Allouche & I. Huault, « Les ressources humaines : au-delà des instruments, les institutions », in *Encyclopédie des ressources humaines*, Vuibert, Paris, 2003

⁸ J. Bourricaud & R. Boudon, *Dictionnaire critique de la sociologie*, article « institution », PUF, Paris, 1981

⁹ D. North, *Institutions, Institutional Change and Economic Performance*, Cambridge University Press, Cambridge (Massachussets), 1990

¹⁰ A. Desreumaux reprend et commente la « Théorie néo-institutionnelle, management stratégique et dynamique des organisations », in I. Huault (Ed.), *Institutions et gestion*, Vuibert, collection « FNEGE », Paris, 2004

¹¹ W. R. Scott, *Institutions and Organizations*, Sage, Londres, 2001

- In Sociology, the traditional analysis of institutions (cf. Durkheim, Weber).
- The first texts connecting organizations and institutions (during the 40s) with:
 - The organization considered as an institution (cf. Selznick),
 - The structures which legitimize the existence of organizations (cf. Parsons),
 - The analysis of the nature of rationality in organizations (cf. Simon, March, Cyert).
- The neo-institutional theories (since the 70s) which include a variety of currents dealing with the meaning, the forms and the organizational fields in an institutional perspective and considering the market as an institution with:
 - In Economics, the will to develop an economic theory of institutions (transaction costs, property rights, agency, evolutionism) with, for example, Coase, Williamson, North, Nelson and Winter, etc.
 - In Sociology, a set of works resting on the ideas resulting from cognitive psychology, cultural studies, phenomenology and ethno-methodology. These writings emphasize more the cognitive frameworks than the normative ones. The attention is on the beliefs systems in the organizational environment (theoretical bases: Simon, Geertz, Berger and Luckman, Garfinkel etc., founding writings: Silverman, Meyer and Rowan, Zucker, DiMaggio and Powell, Meyer and Scott, etc.).

Today, these theories are often used against the methodological individualism of the economic tradition by emphasizing the importance of social levels. It is done for or against the utilitarianism of the neo-institutional economics by underlining the importance of the symbolic dimension just like the importance of the cognitive dimension and the representations, and also against the functional and mechanist comprehension of organization (for example reduced to mechanisms of coordination and control).

Beyond the market and the autonomy of the agent, the neo-institutional perspective allows an approach to the plurality of motives for organizational agents actions (beyond the only instrumental rationality) in a context where the institution is considered as the political, cultural 'environment', within the framework of a 'longer' temporal horizon. It is situated in contrast to the sociological analysis of organizations, which leaves institutions to focus on power and actors (cf. M. Crozier and E. Friedberg¹²) in so far as the institutionalist Sociology 'forgets' the actors in a holist perspective (cf. J. Meyer and B. Rowan¹³). It would offer a kind of institutional theory of the organizational environment. But let us point out the impasse, which is made on the

¹² M. Crozier & E. Friedberg, *L'acteur et le système*, Seuil, Paris, 1977

¹³ J. Meyer & B. Rowan, « Institutionalized Organizations: Formal Structure as Myth and Ceremony », *American Journal of Sociology*, vol. 83, pp. 340-363

political and anthropological dimension of the institution. The cultural embeddedness, which is in fact no more and no less than a revival of a culturalist hypothesis, is doing an impasse on the political dimension of ideology by forgetting the discussion of the idea of the omniscience attributed to directions. It also forgets the ritual and mythical dimensions of managerial logics. Such a double eclipse allows ignoring the conflict in the organization, and if there are some, to consider them as a 'disease' to be diagnosed and cured, diseases often 'contracted' from the outside. While the institutionalized State is strongly related with the question of the conflict (it is its attributed omniscience, which is supposed to reduce the conflict, the State being a 'conflict-solver'), neo-institutionalism is 'sociologizing' the theory of the conflict. In a way, it is substituting legitimacy (a 'soft' constraint in a way) to omniscience (a 'hard' constraint in a way) by referring to a 'weak' conception of the relations between the civil society and the political society to allow the development of a prescriptive representation of the organization to be applied to the institution.

The institution is characterized by the place given to omniscience, which refers to its nature. It is particularly the case of its mission and its modalities of realization in a perspective where the economic characteristics stay in the second plan, like for a hospital. The organization is characterized by the major importance given to efficiency. But the institution can be de-institutionalized while the organization does not undergo a 'de-organization' in a strict sense but changes (or disappears), by becoming an 'other' organization. The institutionalization does not necessarily end in an institution, as well as the 'organizing' does not necessarily end in an organization.

The institutionalization of the organization¹⁴ can operate on mentalities (for example with the representations of a dominant role of the company in the society), on discourses (for example with the way to speak of corporate social responsibility), on practices (for example specific corporate social responsibility practices), on institutions (for example those that participate in the managers' training, those that bring managerialism to the foreground as the ISO and those that legitimize the various 'associations' of corporate leaders like the Davos meetings), on myths and rites because of the beliefs related to the validation of management tools considered as necessities (for example quality certification), or because of specific organizational practices related to identity, culture and finally managerial knowledge (for example those of the understanding of corporate social responsibility).

¹⁴ A. Hatchuel, « Quel horizon pour les sciences de gestion ? Vers une théorie de l'action collective » in A. David & A. Hatchuel & R. Laufer (Eds.), *Les nouvelles fondations des sciences de gestion – Eléments d'épistémologie de la recherche en management*, Vuibert, collection « FNEGE », Paris, 2000

According to the institutionalization of the organization, it is necessary to distinguish:

- the intra-organizational level of the institutionalization with the theme of organizational routines;
- the inter-organizational level of the institutionalization which is a perspective of the self-institutionalization of the organization, 'private' standards of the organization being considered as legitimate in the public space; it is for example the case with quality standards; but this institutionalization is also an understanding of a relational logic in and with organization(s) which is neither that of the hierarchy, nor that of the coordination but that of the association, the cooperation, the collaboration; institutionalizing the organization would clear from criticisms the prescriptions, which advise organizations to take the same shape because they act within the framework of the same institutions. The institutionalization of organizations could then be considered as the reduction of the variety of forms and practices. This is why the institution considered like this could be close to ideology in the idea of *passage en force* of simplified modalities through the incantations made on these modalities because of the same institutional background.
- the supra-organizational level which is that of the institution strictly speaking in relation with omniscience and the non questionable aspect of a regulation in use.

Can the institution then be considered as a background by the organization, which would then be the foreground? Institutions would then 'act' for the institutionalization of the organization. The institution would serve *in fine* as a theory of the organizational environment as an understanding of a fuzzy hierarchy of figures of an 'over' socialization, the institution just like the organization being able to be considered as 'over' and as 'under' forms of socializing. The institution would allow escaping from a inter-actionist weightlessness without institutions (I. Huault¹⁵). The reference to the institution would answer one of the blind spots of the organization theories by offering a sort of support to a 'non contingent contingency', which allows speaking about the organization as such. And the institution is then mobilized in the same way than other frames, like scientific domains (for example philosophical, economical, sociological frames, etc.), or like abstract concepts (i.e. interaction, decision, social action etc.). The institution often serves as a foundation of interactionism, which would be otherwise unfounded. And it is there possible to remind the representation of the organization as an 'open system', 'open system' being considered as a 'more primitive' version of interactionism.

¹⁵ I. Huault (Ed.), *Institutions et gestion*, Vuibert, collection « FNEGE », Paris, 2004

Is there (or not) a dialectical tension between both notions? If it is not the case, it would correspond to a refusal to consider the existence of an orthogonality 'institutions – organizations' and this would downgrade the tension, which operates between Laws (public) and standards (private). To ignore the existence of a tension is then the expression of the will not to think the hedge 'public – private' activities.

Can the institutional reform (change) be thought like the organizational change and *vice versa*? There would be then more confusion between institution and organization.

The 'impossible' institutional foundation of the organization

To speak about organization indicates another 'object': the society. The question is then to know how to articulate the categories being able to allow the connection among individuals in its vocation to live in organizations in other ways than understanding life in society. It will always be one of Social Sciences interrogations when they want to study life in 'smaller' groups than societies. It is always the difficulty of Organization Science in its attempts to articulate with other Social Sciences.

Social Psychology is interested in the superiority given to the individual to explain its 'organizational behavior'. It is the case, for example, of the foundation and the practice of leadership. In this perspective, can organization be considered as a simple set of individuals within which it would be necessary to find a 'leader'?

Economics tries to propose an understanding of organizational logic for what they would become economically more successful than transactions on the market, considering the postulate of the methodological individualism, which refers to an agent pursuing his only self-interest and the market as an institution. This is why there would be an advantage, for the individual, to work within a collective rather than in an individualistic way, opportunism being the main reason of a collective action. Economics is considering organization at the same time as an unstable object (because of its variable scope due to calculations of individual agents who constitute its substance) and as a stable one (because there is a kind of 'durability' of the organization, mirroring in a way the 'durability' of individual interests as being better materialized within a collectivity). It is this 'durability', which constitutes the relevance of references made to organization.

This conception has several limits:

- the relations 'freedom – justice' considering the 'frictions' between an economic conception (focused on freedom) and a political conception (focused on justice) of the organized action, despite the existence of an 'institutional economics', name given to a corpus because its object aims at the explanation of the 'nature of the firm',
- the cognitive representations of uncertainty which depend on past experiences (for trust, for example),
- the belief in information and in expertise in terms of informed action associated to transactions. Thus, a contradictory game appears between the will to 'codify' knowledge stemming from information related to management processes and the will to create knowledge in a 'fatally' evolutionist context. This ends on the ellipse consisting of considering the information system as an element allowing to distinguish an 'archaic' organization from a modern organization, but also to consider the information system as being itself an organization.

The rationality of the firm, which is then considered as an organization, would not be any more than a nominal rationality towards 'impossible' principles of resources allocation considering the optimization of the interests of economic agents. This rationality is also considered as a procedural rationality towards a limited rationality: the performance does not result from an optimal calculation but from criteria of satisfaction. It is also a rationality of knowledge considering a hierarchy of levels (current decisions and adaptive efficiency, strategic decisions and structural efficiency, decisions related with identity and patrimonial efficiency). It is also a rationality of individual and collective behavior, where emotional phenomena such as motivation, equity, the need for cooperation, etc. have their importance. With this institutional perspective, we go out of the duality 'contract – constraint' to take into account the crystallization of a collective, everything should not be reduced to the optimization of profit. Appropriate rules within organizations are then considered as substantially incomplete and subject to the implicit and to the arbitrary powers of collectives, which can more or less express themselves according to circumstances. It then recognizes the vocation of the organization to reproduce itself as such in a functionalist and normative logic, which analyzes compromises in terms of coordination of contradictory interests and the search for an economic advantage, or in a logic, which recognizes the heterogeneous nature of tensions within organizations (i.e. of a commercial or industrial nature, etc.).

Anthropology is trying to explain the modalities of functioning of a 'natural group' seen as the elementary shape of life within societies. Can the organization then be considered as an elementary group or a set of elementary groups? It is from this perspective that comes, for

example, the idea that organizations could have a culture, rites, etc. To paraphrase M. Douglas¹⁶, understanding organizations is then to understand how organizations 'think'?. But the organization can neither be so easily considered as a 'total social fact' nor even as a social totality.

Sociology is interested in the understanding of life in society, without prescriptive aim, with subsets, which require the construction of concepts and specific methods and specific subthemes like, for example, with Sociology of organizations and Sociology of labor. Sociology of organizations aims at the analysis of what is specific, for example in the 'games' of powers because we do not necessarily find power where we would formally wait for it. A basic operator can have more important power than it appears. Sociology of labor examines all the compromises inherent to the working relation. It has produced the understanding of taylorism and the attempt of understanding post-taylorism today.

Other disciplines (as political sciences, etc.) can also be gathered to try to understand the behavior of individuals within organizations.

Organization has induced the development of managerial disciplines such as Organizational Behavior and Organization Theory, which propose an understanding of life in this very particular world. It will be for example, the question of implementing 'voluntary' cooperation (i.e. not by pressure). For their part, techniques of organization have a prescriptive vocation. Organization Science is generally based on a mostly fonctionnalist presupposition to find the 'best' possible adaptations of the human being considered only under the angle of their organizational life within organizational structure.

Speaking about the life of individuals in organization raises the question of the singularity of organizations, especially if we want, from it, to develop management tools, to prescribe 'better' practices, 'better' configurations according to the praxeology related with Organization Science. As such, an organization is neither an individual, nor a society. It is indeed a perspective 'in defect'.

In other words, can we consider (or not) the organization in continuity with the individuals, the groups, the communities, the companies, the institutions, the State, the societies?

¹⁶ M. Douglas, *How Institutions Think?*, Syracuse University Press, New-York, 1986

Proposing this set of terms indicates indeed several questions:

- Is the organization a set of individuals, possessing a 'behavior' compared to that of the individuals, particularly in terms of the pursuit of interests? This vision is restricted as far as it would be then question of 'preventing' individuals from achieving their interests before those of the organization.
- Is the organization a group or a set of groups? The 'elementary group' would then be a place of genesis of the leader, on the basis of the evidence of a leader and a hierarchy.
- Is the organization a community? There would then be a synonymy between both terms. But speaking of a community is to emphasize the identification aspect. The cohesion when speaking about organization, is emphasizing much more 'passive' processes of identification by considering the practices of coordination.
- Is the organization for the intellectual language what the company is for the common language? We could then suggest to hospitals, universities, municipalities, etc. to transpose purely and simply the organizational categories of the company. We could even wonder why they did not do so earlier! It is what is in use today with what which is qualified of 'managerialization' of the society. But these 'non economic' organizations raise the problem of their specificity. Since the XVth century, merchants have always managed the cities *à part*. The constraints of reliability (as in the case of hospitals), the official aspect (as in the case of justice, police or army) or the 'perpetual' aspect of their activity (as in the case of nuclear waste management) raise completely specific problems. Let us not forget the tradition (French or German, for example) of the public administration as a specific field of knowledge and practices.
- The organization is really not the institution, the political dimension of which should be pointed out. Under this dimension, the city, the hospital etc. existed far before that we began to speak of organizations. As M. Bonnafous-Boucher¹⁷ points out, "*the organization thought as an institution is pursuing under a different version its theorizing of the "opened system". It integrates a multitude of approaches and theories. We can ask about the inevitable confusion due to its theoretical multi-membership*".

The organization, a specific and singular field with an expansionist vocation

The connections 'individual – organization' are today considered as having to be managed considering the references to a field of appropriate knowledge, this consideration being an essential aspect of managers' training. These perspectives have been extremely effective in terms

¹⁷ M. Bonnafous-Boucher, *Anthropologie et gestion*, Economica, Paris, 2005

of political systems competition (the communist countries disappeared partially because of a 'lack' of organization), but allow also today to think that everything should have become 'organization'.

The search for permanent aspects in the interdependence 'organization – environment' ends on the elaboration just like the justification of the institutional program applied to organization of a 'non contingent contingency'. Under the motive of contingency, the same causes are producing the same effects according to the influence of given determinants. It goes on, for example, with the reflections made in terms of 'key factors of success'. And the allomorphic practices of organizations (i.e. contingent practices of the group they would establish) may be then considered as isomorphic practices (i.e. non contingent) and, in a way, as instituting the organization as well as the institution.

Organization Science is based on non-debatable consensus:

- The permanent adaptation of the organization by the mobilization of means towards the fulfillment of purposes, in the outlines of a progressive ideology (i.e. it goes better later than before), but without really having built a theory of time which allows to define the before and the later.
- That of a process, a combination of means towards purposes by agents whose political dimension is ignored.
- That of the interaction of the organization with other sub-systems through a rational reflection on the purposes attributed to the other sub-systems.
- The existence of logic of action, the repetition of which establishes the existence and the legitimate guarantee of their statement in the form of laws with "scientific" and institutional vocation.
- The organization being considered as the elementary agent of the economy and the society. This aspect justifies the existence of an economy of organizations and that of a society of organizations. The organization can then be considered as an institutionalization of economic connections between individuals in reference to a hierarchical structure (the organization) coming to reduce the deficit of the market "mechanisms".
- The organization seen as based on generative concepts (hierarchy, delegation, coordination, etc.) and / or on operators (with, for example, the trilogy 'strategy - structure – behavior').
- The organization is eternal and hegemonic because it is anachronistic, diachronic and synchronic at the same time. Anachronistic because it is 'out of' time, diachronic because of its influence on the world and synchronic because societies would dispose of organizations of their time, which, from an evolutionist perspective, could be relevant. The organization

possesses an ambiguous eternity because it raises the problem of knowing if there is a life outside organizations, that would end, according to S. Lahlou¹⁸, to ask the question to know "For what specie do we work?". The author suggests the question to know if we would not work for a new specie we would have created, that of the organizations and which would live independently and beyond us as human beings. Pursuing the goal of being what they are, quite as we persevere to be human beings, these organizations would live a life other than ours. They would constitute the only object of our decisions. The organization possesses a hegemonic eternity because speaking about the organization, is speaking about all social entities according to their categories. The organization would then become the canonical and instituting shape of the society.

The emergence and the value attributed to the evidence of the organization is correlated to the fact that social agents would need to lean on stable knowledge to act. It is in fact here, with the organization, that there would be an institutional project of conciliation 'technology – capitalism'. As M. Bonnafous-Boucher¹⁹ points out, "*capitalism requires that Technology leaves the domain of the craft manufacturing and that Science stops being speculative to go down on earth. It is what dedicates the Protestant Ethics and the spirit of capitalism*²⁰. It is not any more a question of opposing people of profession and people of knowledge, knowledge and power". With organizations, the fusion, which is organized between Science and Technology is establishing a continuance between scholars of the fundamental science and those of the applied science (the engineers). The laws discovered by the first and the devices invented by the second being in a sort of continuum made possible in a precise institutional place, the 'organization'. These forms of rationality are allowing to make tangible and effective organizations on a systematic way. And knowledge connected to this technology of power ends on the multiplication of "positive" researches connected to the development of techniques as well as researches on more social dimensions.

The case of the supervision of banking activities

Supervision is a part of the functioning in the banking sector today. A number of their procedures are common with those of external control and quality management practices. Dealing with the

¹⁸ S. Lahlou, « Pour quelle espèce travaillons-nous ? », *Ethique des Affaires* n°9, hiver 1997

¹⁹ M. Bonnafous Boucher, *Anthropologie et gestion – Les déconvenues épistémologiques de l'interdisciplinarité en théorie des organisations*, thèse de Sciences de Gestion, CNAM, 2003

²⁰ Max Weber, *L'Ethique protestante et l'esprit du capitalisme*, Agora Pocket n°6

supervision of banking activities is, in a symbolic way, dealing a licence to operate considered as a kind of accreditation.

The most generally advanced arguments for accreditation (AFNOR²¹) are:

- The establishment of a set of standards, whose implementation would be a factor of qualitative improvement,
- The implementation of norms would offer 'objective' elements of 'classification' among banks and would facilitate the exercise of a supervision,
- An audit made on the basis of an external control would then be possible (rather than a control made by peers like for a management education curriculum); such an auditing procedure would constitute its objectivity.

Such a rationale is based on the continuity assumed among companies, organizations and public institutions which is considered as the today's ideological basis for the development an 'efficient state', correlative of the 'liberal moment'²² (the period we live in and characterized by a 'de-institutionalization' of the state and an 'institutionalization' of the company). The 'de-institutionalization' is characterized by the end of the legitimation attributed to inspections made by public officers according to state rules (laws). The institutionalization is perpetuated by the assumptions of similarity of categories among the organizations, public or private.

The distinction between standards and laws

One of the key points of the 'liberal moment' is the passage of a legitimacy of social life in terms of the 'live in' (according to a given 'common good' legitimated by the modalities related to a representative democracy) to the 'live with' (according to the recognition of differentiated 'common goods' considered as a better expression of freedom than in the previous representative democracy and where the expertise in the way through which standards are built is considered as more relevant and efficient). It would explain the passage from a superiority given to laws to a superiority given to standards, standards being discussed in relation with the concerned social groups. These standards will serve as a reference for an external control made by auditors, experts of their field and, for what concerns us here, that of banking activities. The 'liberal moment' is correlative of a modification of the question of Politics and the transformation of the *Raison d'Etat* in a sort of 'Reason of companies' through the application of omniscient principles (non questionable because they are considered as 'principles') like transparency, accountability,

²¹ AFNOR, *NF EN ISO 9000*, AFNOR, Paris, 2000

²² Y. Pesqueux, *Gouvernance et privatisation*, PUF, Paris, 2007

etc. to all kinds of organizations, including banks, according to specific standards relevant for each kind of activity.

Let us remind that the 'Live in' is articulated with the concept of law considered in the context of its genesis (who emits laws?), that of its legitimization (the democratic vote), that of its application (State and its devices), giving the privilege to a political conception of the society. The 'live with' takes the individual as the expression of its freedom as its point of departure. It gives a supremacy to the society considered as a civil society i.e. a set of individuals eventually gathered into groups or communities affirming their interests, entering then in a dialectic tension with the previous conception. The concept of standard is there corresponding to the concept of law. A standard is a self-decree of rules by a social group independently of its political representativeness but because of its expertise. Standards are then going with the expression of interests in relation with specific agents in the general frame of a 'lean State', which is considered as fixing and securing the rules of the game for the expression of this personal freedom. Companies, banks and more generally organizations are then considered there as methodological individuals having vocation to express their interests and addressing their best practices to the civil society. It is a question then of referring to standards and reporting the more or less correspondence of their real situation according to these standards by exposing themselves to the judgment of an external control (considered as an 'impartial spectator' - Adam Smith, 1759, 1999²³) or a 'public watcher' in nowadays words). The figure of the expert (of technical order) is substituted to that of the wise person (of political order). The question of the 'live well' is substituted to that of the 'just' human being. The 'live well' is an expectation, which has mainly to be considered in relation with material aspects. It is legitimating the extension of some figures like auditors (of an auditing firm) to State bodies and the construction of the corresponding ideology. In particular, this shift takes the form of a disputation of the public legislator's omniscience having to give up the place to technical experts, considered as more justifiable because considered as more grounded. It is not only the omniscience but also the impartiality of State controllers (because they represent the *Raison d'Etat*), which has to be criticized and downgraded. External controllers whose legitimacy arises from their expertise in the name of the 'technical Reason' appear then better because of their independence. Another understanding given to the faculty to judge then appears. In front of the rigidity of law, downgraded by the categories of the efficiency because it constitutes a source of constraint, would answer the effective flexibility of a regulation by standards, considered in a positive way through what is

²³ A. Smith, *Théorie des sentiments moraux*, PUF, collection "Léviathan", Paris, 1999

called organizational learning and continuous improvement. In other words, it builds a 'progressive' ideology.

The supervision of banks considered as a concretization of the superiority given to standards

In relation with the effects of standards, supervision of banks can be better standardized if their agents²⁴ achieve on an acceptable consensus and control it effectively. The standardization is better reached if these agents are audited under the condition to have previously fixed rules of the game to guarantee an 'objectivity' of the judgment.

Law is an 'objective' rule because it specifies the conditions of the behavior in a society, with an 'universal' application on a territory and matched by penalties. S. Goyard-Fabre²⁵ notices that the appearance of the law, in its political meaning, is correlative of writing and the development of cities. This conventional order distinguishes the law of the city from the order of nature. But this positivist rationalism collides with the implicit ('the spirit of the laws') and in the confusion of the legal and the legitimate (let us quote the conflict between Antigone and Creon). It is why the comprehension of laws exceeds a formal rationalism.

If one of the principles of the law is its universal character (application for all in the same conditions, everywhere within its territory and in any circumstances), it collides with the problems of its application in concrete conditions. Today's criteria are coming to justify differences in implementation according to contingencies such as practical conditions, local situations, state of mind, degree of ability to react, capacity of self-organization, initiative, positive rights, etc. Banks are there considered as 'specific territories.

And the legitimacy given to specificities because of the central role today attributed to freedom is also what induces the gliding from the law towards standards. The question of the territorial adaptation of the law and its replacement by standards, correlatively to the 'liberal moment', incites to accept the idea of specific answers regarding the stakeholders' nature and their situations. It is there question, considering the legitimacy given to the notion of autonomy, of recognizing the existence of differentiated evolutions for different constituent of a society.

²⁴ This meaning of the word 'agent' has nothing to do with its use in the agency theory. It is related with a sociological meaning. The agent distinguishes itself from the actor, which is anchored in a sociology of power. The agent is characterized by its nature of autonomous subject but deals with heteronomous injunctions because of its free-will

²⁵ S. Goyard-Fabre, article "loi", *Dictionnaire de philosophie politique*, PUF, 1996, pp. 355-360

Normalization appears with the 'crisis of laws' in the context of a correlative deregulation. Standards are not an answer to a political demand but to specific interests. It is a 'pseudo-legislation' (which can ultimately be seen as propaganda, alibi, ideological justification, discursive practice) of a micro-political order and not independent of a kind of advertising and manipulation. Standardization corresponds to one of the structural characteristics of the capitalist system underlined by F. Braudel²⁶: the destruction of competition and, consequently, the defence of established 'hierarchies'. Maybe is it because of this motive that it is possible to explain why the most burning defenders of normalization of banking activities (rhetorically qualified as being a 'financial industry', may be also to induce the idea of reversibility) are often the most powerful agents of the sector. Standards will then easier defend their position under the name of a superiority attributed to the 'market'. They can also better communicate their superiority and it is what will force 'the others' to submit themselves more or less voluntarily to these standards and to deal with the difficulties of application.

Standards are applied to banking activities with 'obliged' standards, a model of governance. We now see, according to a 'global umbrella (Basel 3), the attempt of an americanization and the rising of a European alternative. It is a classic fact with standards. At the same moment, there are differences but also convergences from the both most powerful normative sources. The result is the regionalization of standards, and the banking activities audited according to one or two standards (and those having none...). They have got it by a choice mostly made on a geographic criteria or on the basis of an 'allegiance' to a given model because standard systems are engaged in a competition in developing or in transition countries. The 'chosen' standard is also a sign of membership and is building a communautarian identity. The standards are also marking the will to make cross-control after. They are all based on defined procedures defined to end on a measurable performance. The effect of the 'standardized' procedures on the professorial bodies and their activities is another key point. They will then tend to reproduce the system, which produced them. Through standards, banking activities are also codified ending on a quasi cartel. The governance of these activities is also cloned. The same self-references play there a great role in the way through which the external auditors formally evaluate the quality of the banking activities.

Standardization is indeed a 'self-standardization' by the agents of a given sector considered as appropriate for the construction of standards ('self-definition' of a set of standards and of the

²⁶ F. Braudel, *Civilisation matérielle, économie et capitalisme, XVème-XVIIIème siècle*, 3 volumes, Armand Colin, Paris, 1988

rules of the game of its implementation). It is then a 'self-decree' by the agents of a sector with the aim of defending acquired positions and of continuing to organize bargains calmly...

But standardization is also marking a transfer of legitimacy towards the organs of standardization and, in return, a justification of the disappearance of the organs of legislation. Standardization means including standards in the logic of a 'market' of interests. It is not a 'free' production, but also the consequence of the decline of the law that puts agents face to face, creating the necessity of an 'arbitration eye' in relation with an external control exercised on technical categories. Standards, their definition and the related external control, appear as an authority of regulation between social demands and as an answer to a demand, which cannot express itself on the market. But it is also the essential reference of the lobby, the exclusion of those who cannot express themselves. It is the expression of a balance of power.

The importance given to standards is more related with a 'normativity' than with anything else. The introduction of an external control becomes the 'regulator' of social demands, the legitimacy of the lobbying. Public authorities have been positioned regarding other organs of regulation (Basel 3, for example). These 'bodies of regulation' are the place of the legislation subcontracting turned into a regulation, their 'independence' being granted through a reference to an expertise. It is what explains the increasing role of standardization today, a standardization, which concerns everything and everybody with characteristics like expertise, flexibility, allowing to downgrade the supposed rigidity of the law. We meet this with quality management applicable to everything today but also with environmental management and the development of standards of sustainability, risk, etc. According to what happened with quality management, we are really living a passage from private standards (only applicable inside a specific organization and then contingent) to 'public' standards (applicable to every organizations of a given sector, even public or private, and then non-contingent). And nevertheless, an overproduction of standards tends to make organizational life 'impossible'. For example, the budgets of audit (and pre-audit consulting) have exploded, with the creation of dedicated services, external of what one can consider as a banking activity. It is the same thing with the reproduction of audits and the expansion of a more or less expensive consulting, consulting sold to these organization with the aim to reach the criteria. Both aspects are clear signs of what we called above 'de-institutionalizing' the State. We could even, in front of this explosion of standards and of the massive investments in time and resources to apply and control them, speak about the development of a 'liberal-bureaucracy'. 'Liberal-bureaucracy' is a situation where consumption of resources is made without real contribution except a certificate of conformity (or of

conformism?). The external control conducted under the postulate of efficiency can be then seen as a process of masking this 'liberal-bureaucracy'.

Audits and organizational learning

Audits are based, like other processes of accreditations, on the 'positive' argument of organizational learning. J.-P. Helfer, M. Kalika and J. Orsoni²⁷ define organizational learning as "*the stable modification following the perception and the resolution of a problem*". Organizational learning is linked with other ways of speaking about organizations, when they are, for example, seen as a set of competencies, which is a specific way of linking organizational learning with standards. But it is necessary to raise the question of a mythical aspect of organizational learning and the cynical ideological project it builds by allowing to distinguish between organizations (and / or their 'agents') which 'learn' from those which do not 'learn', justifying their disappearance with this argument. In a way, auditing by outsourcing of the 'figure of the Master' is made through a reference to standards, clearing the directions of these banking activities of several kinds of responsibility despite the constraint they exercise on individuals.

Organizational learning may be linked to organizational change in a 'socio-Darwinian' perspective and organizational learning appears as an adaptation in front of a set of standards. Authors having suggested organizational learning theories, for example C. Argyris²⁸, advance the concept of 'defensive routines', which indicates practices that avoid the agents to feel an embarrassment, a threat. These routines prevent them, at the same time, of accepting an evolution of the environment in which they are situated. It is what legitimizes reference to 'external' standards and the control of a correspondence between a specific real organizational situation and a set of standards. But the road is often shorter than it appears between conformity and conformism. Organizational learning should be then a learning of conformity and a learning of conformism. The supervising of banking activities is exactly facing this risk... and that of the elimination of those (banks or persons), which do not work according to these categories, killing then innovation.

Putting in the centre of organizational learning collective interpretations confirms the power of standards, reference for an arbitrage between personal opinions and organizational situations. The learning organization raises the question of what is an organizational knowledge, question also linked with set of standards because, as such, standards would be the reference of an expected

²⁷ J. P. Helfer, M. Kalika, J. Orsoni, *Management – stratégie et organisation*, Vuibert, Paris, 2000, pp. 359-370

²⁸ C. Argyris, *Knowledge in action*, InterEditions, Paris, 1995

knowledge to be acquired. The stress is put there on the importance of organizational capacities to create, to acquire or to transfer some knowledge from standards on organizational agents' representations. Their processes are giving an important place to an increasing formalization to build 'tracks', by forcing organizational agents to a learning of these standards. It is how we can underline the ambiguity of any project of certification and, among them, certification of management education curriculum.

Implementing standards is seen as promoting learning (Garvin²⁹) because of:

- Problem solving in groups (connected to the necessity of implementing standards) and its associated projects. This teamwork would allow the confrontation of opinions and the elaboration of common practices but also builds the risk of a variety reduction because of an expected conformity;
- The logic of a project of implementation, which is meeting the expectations put in the construction of 'excited' organizations, expectation so often carried today by managerial practices;
- Experience feedback on the basis of formalization through balances between successes and failures. For example, failure to get a validation for the safety of a given banking activity opens the possibility to be able to go back to a validation later and the illusion that anybody 'learns';
- Knowledge transfer from an organization to another, which is also factor of mimicry.

Organizational learning is based on two cognitive processes:

- An individual process (among persons strictly speaking or groups of individuals) on the basis of the loop of classic learning (signals - interpretations – answers) towards a standard.
- A collective process ending on a construction and on an acceptance of shared references made from codified representations and meetings around these representations, which is also the procedure chosen to operate the outsourcing of the 'figure of the Master' as it was quoted above.

Specific factors are highly-rated as favouring organizational learning (Ingham³⁰):

- External factors of environmental pressure expressed by leaders in the ideology of the 'managerial voluntarism', factors playing a great role today like in standards implementation and audit,
- Internal factors like organizational configurations (decentralization, projects, flexibility), the existence of a formal opened and successful information system, the recognition of the

²⁹ D. Garvin, "High rise has Learning Organization", *Harvard Business Review*, July - August, 1993, pp. 19-37

³⁰ M. Ingham, *La connaissance créatrice*, DeBoeck, Bruxelles, 1998

importance of an informal information system, the implication of the management, any elements being object of appreciations.

Experience feedback is also one of the important tools of organizational learning. It is often used in pre- and post- audit consulting, particularly in case of failures, in the aim of modifying representations of some actors, like elected members in Parliaments, governments.

Conclusion

To understand texts clarifying standards and control procedures is also an interesting adventure as far as it is possible to notice the use of 'cult' expressions such as culture (mostly managerial culture, because this culture is considered as an 'object' of these processes) or 'stakeholders'. The reference to the figure of a 'stakeholder' represented as aware, independent, calculating, indicates also the manipulation, which is there possible. Polishing narcissism, bringing to an emotional safety, assuring that you belong to your time, giving a sensation of power, immortality, authenticity, creativity... has become possible by communicating rather than by acting. And, as such, the 'track' is not secondary because we are dealing here with defending the outlines of a cartel, the behavior of which is classical: market sharing and fixation of the level of prices. This shape is masked by the figure of the 'stakeholder'. It is also no more than an act of conformity, social representations coming in correlation with the individualization of the act.

A bureaucracy, liberal or not, 'exhausts' its dynamic. So what can be said on that topic? Its concretizations have considerably burdened (and have not finished burdening) the procedural aspects of banking activities in a confusion between control and transgression. This aspect has a multiplier effect when it interacts with other procedural tensions (i.e. with accounting's perspectives). Of course, this burdening of the procedural side of things has engaged a tension with efficiency. And it is very probable that its dynamic will exhaust. This phenomenon is reinforced by a massive adoption of standards. From a 'micro' political outlook (with managerial methods), we have shifted to a 'macro' political vision, which is influencing the definition of the 'Common Good' by modifying the content of the *Raison d'Etat*. Moreover, public policies' instrumentation can also be trapped in the perspectives of a *gouvernementalité* (Foucault³¹). Following Michel Foucault's perspective, let us return to his term of '*gouvernementalité*' by reminding its meaning when this philosopher discussed its appearance during the 16th century. On the contrary to Machiavelli, Foucault dealt with power by stressing issues that have nothing to do

³¹ M. Foucault, *Dits et Ecrits*, Gallimard, Paris, Tome III, p. 655

with order and hierarchy but with conditioning or manipulating. And what conclusions can be drawn if this auditing process if we consider them as one of the current archetype of conditioning?