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Introduction

Managerial discretion is the latitude of action afforded to a manager. This literature, classically focused at the executive level, reconciles population ecology's assertion that executives ultimately have little influence over firm-level outcomes and strategic choice theory's assertion that executives make strategic decisions and thus have considerable influence over firm-level outcomes. Though generally viewed in the management literature as an opportunity for executives to positively affect performance and increase value, the literature in finance and economics argues that managerial discretion represents a cost to shareholders from potential opportunism or other self-serving behaviors. Within the management literature, scholars posit three categories (i.e., forces) that constrain or enable executives: (1) the task environment (i.e., industry-level factors), (2) the internal organization (i.e., firm-level factors), and (3) managerial characteristics (i.e., individual-level factors). Recently, a fourth category, national institutions (i.e., country-level factors), was added to the managerial discretion model. While the managerial discretion literature has typically focused on upper echelons, scholars are increasing their examination of mid-level managers' discretion since many of the construct's enabling and constraining factors are also relevant for managers who are subordinate to senior executives. The potential for issue selling and strategic planning activities by mid-level managers to influence executives' perceived discretion is an example of phenomena studied by scholars attempting to improve our understanding of discretion afforded to mid-level managers.

Historical and Theoretical Foundation

While Hambrick and Finkelstein 1987 developed the seminal managerial discretion model employed by management scholars, the concept was considered by management theorists for many years prior to their model's publication. March and Simon 1958 argued that executives engage in rational human choice and that, because of executives' limited cognitive capacities relative to the complexities of the problems faced by individuals and organizations, simplifying processes are required to capture the main features of problems facing their organizations. Additionally, executives' bounded rationality and aspiration levels, combined with implications of organizations existing as social institutions, influence executives' decisions and their organizations' actions. Thompson 1967 argues that executives may be constrained by powerful external forces, narrowing the range of options they can legitimately pursue, while Pfeffer 1977 argues that executive behavior is subject to pressures to conform to the expectations of peers, subordinates, and superiors. These works laid the foundation for the managerial discretion model and its primary argument—that executive decision-making is enabled and constrained by a variety of forces. Thus, Hambrick and Finkelstein 1987 posits that managerial discretion acts as a conduit between two opposing organizational theories: population ecology and strategic choice. Supporting population ecology, Hannan and Freeman 1977 contends that organizations are inertial and are limited by internal and external pressures. Executives are constrained by organizational rigidities, including nontransferable assets, sunk costs, firm age and history, and power dynamics. Hannan and Freeman 1984 expands on this position by arguing that firms are structurally inertial because of isomorphic adaptation to their environment. Population ecologists conclude that executives matter very little, since it is rare that they succeed in making substantial strategic or structural changes. Child 1972, however, argues that managers have agency and choose strategies that shape organizational outcomes. Scholars such as Child, who support the strategic choice perspective, argue that executives matter a great deal because they determine long-term goals and objectives and can initiate courses of action (e.g., strategic change, diversification, acquisitions, and divestitures) to pursue their organizations' missions and objectives. Extending this logic to the environment in which firms operate, strategic choice theory suggests that decisions are made through internal and external relationships and involve pro-action as well as reaction. Indeed, Child 1972 postulates that executives, as well as others within a dominant coalition, can make a "strategic choice" to implement structural change, determine the industry or market segment where their firms compete, and alter performance standards.

Child, J. "Organizational Structure, Environment and Performance: The Role of Strategic Choice." ***Sociology*** **6. 1 (1972): 1–22.**

Theorizes the role of strategic choice within the organization. Executives, as part of the dominant coalition, can choose activities to improve operational effectiveness and favorable environments for distributing goods and services. Furthermore, demand for goods and services is created by the dominant coalition's ability to integrate activities associated with operational effectiveness and market efficiency.

Hambrick, D. C., and Sydney Finkelstein. "Managerial Discretion: A Bridge between Polar Views of Organizational Outcomes." ***Research in Organizational Behavior*** **9 (1987): 369–406.**

The seminal article on managerial discretion. Integrates the opposing views that executives minimally impact firms (i.e., population ecology theory) and that executives substantially impact firms (i.e., strategic choice theory). Establishes three forces (task environment, internal organization, and managerial characteristics) that enable or constrain discretion. Provides an eight-category typology of discretion in which executives have greater and reduced effectiveness due to enabling and constraining factors.

Hannan, M. T., and John Freeman. "The Population Ecology of Organizations." ***American Journal of Sociology*** **82. 5 (1977): 929–964.**

Organizational forms are isomorphic in that they operate within the same environment and attempt to adapt toward the optimal organizational form. Isomorphism occurs because nonoptimal forms are selected out or organizational decision-makers make adjustments based on learned optimal responses. Competitive mechanisms are a major determinant of organizational form, as competitive processes involve trying to attain limiting resources, contesting for geographic or functional territories, and increased similarity from repetitive responses.

Hannan, M. T., and John Freeman. "Structural Inertia and Organizational Change." ***American Sociological Review*** **49.2 (1984): 149–164.**

Clarifies the meaning of structural inertia within population ecology theory. Structural inertia is an outcome of the selection process and increases with firm age and size. Complexity further increases structural inertia due to the risk and length of time associated with reorientation.

March, J. G., and Herbert Simon. ***Organizations*****. Oxford: Wiley, 1958.**

Establishes modern organizational theory. Among their many propositions, the authors apply the term "bounded rationality" to describe executives' limited comprehension of all information related to most decisions. Executives attempt to overcome their limitations by employing simplifying processes that capture the main features of problems facing their organizations. Mature and previously successful organizations rely excessively on established methods and are further limited by powerful internal stakeholders.

Pfeffer, J. "The Ambiguity of Leadership." ***Academy of Management Review*** **2.1 (1977): 104–112.**

An intriguing article that raises doubts about leadership in organizations. Pfeffer argues that it is questionable whether leadership affects organizational performance and that leader selection often involves irrelevant criteria. Pfeffer further asserts that leaders may have minimal effect because of homogeneity of acceptable leadership styles, constraints on discretion and behavior, and their ability to influence only a few aspects of organizational performance.

Thompson, J. D. ***Organizations in Action: Social Science Bases of Administrative Theory*****. New York: Routledge, 1967.**

Extends previous theory by arguing that, during uncertainty, organizations' behavior and actions vary based on resources (specifically, technologies) and the organizations' task environments. One of Thompson's many arguments is that executives are constrained by powerful external forces and subsequently have a limited set of actions that they can pursue while retaining legitimacy.