

*For Joy—who constructs and tends institutions of
value to many of us*

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**INSTITUTIONS and
ORGANIZATIONS**
Ideas and Interests

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the case with the theoretical literature. I have given more coverage to the neoinstitutional sociological studies but have included examples of the wider range of work.

Chapters 5 through 8 present the empirical review. Surveying empirical studies also provides an opportunity to illustrate and further clarify differences in theoretical conceptions. Chapter 5 concentrates on studies concerning the construction of institutional frameworks at diverse levels, ranging from the interpersonal to the international. Chapter 6 examines institutionalization processes more generally, emphasizing the variety of mechanisms involved, both in maintaining and diffusing institutional ideas. Chapter 7 concentrates on the ways in which institutional processes relate to individual organizations, attending to variation in both the unity and complexity of institutional frameworks, as well as to the attributes and strategies of organizations. Chapter 8 assays the concept of organization field, emphasizing its value for pursuing a wide variety of issues regarding the coevolution of organizations and their institutional environments. In chapter 9, I adopt a more individual voice, presenting my personal judgments about the distinctive features associated with an institutional perspective, and ending with a cautionary note.

1

Early Institutionalists

No attempt is made here to provide a comprehensive or thorough review of early institutional theory, but to completely neglect these ideas and arguments would be inexcusable. Although much of this work differs from today's institutional agenda, all contemporary scholars draw inspiration from the efforts of the pioneers. In examining this early work, it is important to recognize that contemporary students bring their own interests and concerns to the reading of these texts. As Alexander (1983: vol. 1, 119) observes: "'Reading' is an important part of any theoretical strategy, and if the work in question is in any way open to varied interpretation then it certainly will be so interpreted." Conflicting interpretations are even more likely when the theorists in question change their views over time—so that, for example, there appears to be an "early" Durkheim and a "late" one—or when, like Weber, they simultaneously express contradictory or ambivalent views. Somewhat arbitrarily, I sort the work into disciplinary categories—although, as soon becomes apparent, greater divisions often exist within than between disciplinary camps—and briefly review leading contributors to institutional thought from the late 19th to the mid-20th centuries in economics, political science, and sociology.

❖ EARLY INSTITUTIONAL THEORY IN ECONOMICS

It is well at the outset to acknowledge the lack of logical coherence in the strands of work to be examined. In many respects, the "old" institutional economics bears a stronger intellectual kinship with the "new" institutional approaches advanced by sociologists and organizational scholars than to the "new" institutional economics. Conversely, the new institutional economics is more indebted to the critics of old institutional economics than to their early namesakes. The earliest institutional arguments arose in Germany and Austria in the late 19th century as one by-product of the famous *Methodenstreit*: the debate over scientific method in the social sciences. Drawing energy and inspiration from the earlier Romantic Movement as well as from the ideas of Kant and Hegel, a collection of economists challenged the conventional canon that economics could be reduced to a set of universal laws. Led by Gustav Schmoller (1900–1904), this Historical School insisted that economic processes operated within a social framework that was in turn shaped by a set of cultural and historical forces. Historical and comparative research was required to discern the distinctive properties of particular economic systems. Moreover, Schmoller and his associates called for economics to eschew its simplistic assumptions regarding "economic man" and embrace more realistic models of human behavior.

The principal defender of the classical approach in this debate was Carl Menger (1883/1981), the Viennese economist who insisted on the utility of simplifying assumptions and the value of developing economic principles that were both abstract and timeless. Rather than denying the importance of broader societal institutional forces, Menger argued that institutions were themselves social phenomena in need of theoretical explanation. It is for this reason that Langlois (1986a: 5) suggested that Menger "has perhaps more claim to be the patron saint of the new institutional economics than has any of the original institutionalists."

As with many intellectual debates, the warring factions sharpened and perfected their arguments, but neither succeeded in convincing the other. Attempts at reconciliation and synthesis occurred only among scholars of a later generation—principally in the work of Weber, to be discussed later.

Many of the ideas of the Historical School were embraced and further developed by American institutional economists, a number of whom were trained in Germany. An earlier cohort working in the mid-19th century did not receive much attention. However, by the

turn of the century, three institutional economists had become quite influential: Thorstein Veblen, John Commons, and Wesley Mitchell. Although there were important differences in their views, all three criticized conventional economic models for their unrealistic assumptions and inattention to historical change.

Veblen was highly critical of the underlying economic assumptions regarding individual behavior: He ridiculed "the hedonistic conception of man as that of a lightning calculator of pleasures and pain" (Veblen 1898: 389). Instead, Veblen insisted that much behavior was governed by habit and convention. "Not only is the individual's conduct edged about and directed by his habitual relations to his fellows in the group, but these relations, being of an institutional character, vary as the institutional scene varies" (Veblen 1909: 245). Indeed, Veblen (1919: 239) defined institutions as "settled habits of thought common to the generality of man."

Commons (1924: 7) similarly challenged the conventional emphasis on individual choice behavior, suggesting that a more appropriate unit of economic analysis was the "transaction," a concept borrowed from legal analysis. "The *transaction* is two or more wills giving, taking, persuading, coercing, defrauding, commanding, obeying, competing, governing, in a world of scarcity, mechanisms and rules of conduct" (italics added). The "rules of conduct" to which Commons alluded are social institutions. Institutional rules were necessary to define the limits within which individuals and firms could pursue their objectives (Commons 1950/1970).

To Commons, the institutions existing at a specific time represent nothing more than imperfect and pragmatic solutions to reconcile past conflicts; they are solutions that consist of a set of rights and duties, an authority for enforcing them, and some degree of adherence to collective norms of prudent reasonable behavior. (Van de Ven 1993: 142)

All three institutional economists emphasized the importance of change and were critical of their colleagues for not making its examination central to their work. Veblen embraced an evolutionary perspective and insisted that a valid economics would emphasize the role of technological change and trace the changing phases of the economy. Commons likewise stressed the centrality of change, viewing the economy as "a moving, changing process" (Commons 1924: 376). Mitchell believed that conventional economics was a hindrance to understanding the nature of the business cycle, and he devoted much energy to

studying economic change. Like most institutionalists (except for some varieties of rational choice scholars), he was reluctant to embrace an assumption of economic equilibrium. As one of the founders of the National Bureau of Economic Research and chair of the committee that published the voluminous report, *Recent Social Trends* (President's Research Committee on Social Trends 1934), Mitchell pioneered in the collection of empirical data on the operation of the economy, insisting that economic principles should be grounded in facts as opposed to abstract, deductive theories.

The American institutionalists were influenced not only by the German Historical School, but also by the home-grown philosophy of pragmatism as espoused by Dewey, James, and others. Their work reflected a suspicion of abstract, universal principles; an interest in solving practical problems; and an awareness of the role of chance events and historical contingencies (see chap. 3).

Jacoby (1990) argues that the approaches offered by the early institutionalists departed from those adopted by their mainstream, neoclassical colleagues in four important respects:

- *Indeterminacy vs. determinacy.* Although the orthodox model assumed "perfect competition and unique equilibria, the institutionalists pointed to pervasive market power and to indeterminacy even under competition" (Jacoby 1990: 318).
- *Endogenous vs. exogenous determination of preferences.* Neoclassical theorists posited individual preferences or wants, whereas institutionalists argued that such preferences were shaped by social institutions whose operation should be the subject of economic analysis.
- *Behavioral realism vs. simplifying assumptions.* Institutional theorists argued that economists should utilize more pragmatic and psychologically realistic models of economic motivation rather than subscribe to naive utilitarian assumptions.
- *Diachronic vs. synchronic analysis.* Rather than assuming the "timeless and placeless" assumptions of the neoclassical theorists, institutionalists insisted that economists should ascertain "how the economy acquired its features and the conditions that cause these features to vary over time and place" (Jacoby 1990: 320).¹

Regardless of whether they were correct in their accusations and assertions, the early institutional economists did not prevail: Neoclassical theory was victorious and continues its dominance up to

the present time. Prior to the rise of the new institutional economics in the 1970s, only a few economists attempted to carry forward the institutionalists' agenda, the best known of whom are J. A. Schumpeter, Karl Polanyi, John Kenneth Galbraith, and Gunnar Myrdal (see Swedberg 1991). Arguably, the subfields of economics most affected by the legacy of the institutional theorists are those of labor economics, the field in which Commons specialized; industrial relations, which focuses on broader social and political factors affecting economic structures and processes; and the economics of industry, which examines the varying configurations of industrial structures and their effects on the strategies and performance of individual firms.

Why was the impact of the early institutionalists blunted? Modern-day commentators offer several explanations. The German Historical School no doubt overemphasized the uniqueness of different economic systems and underemphasized the value of analytic theory. Even sympathetic critics acknowledge that Veblen exhibited "an explicit hostility to intellectual 'symmetry and system-building'" (Hodgson 1996: 211) and that Commons' arguments were hampered by his "idiosyncratic terminology and unsystematic style of reasoning" (Vanberg 1989: 343). But a more serious shortcoming was the tendency for the work to degenerate into naive empiricism and historicism. Emphasizing the importance of the particular, of time, place, and historical circumstance, institutional analysis came more and more to underline "the value of largely descriptive work on the nature and function of politico-economic institutions" (Hodgson 1991: 211).

Here then we have the principal reason that the godfather of the "new" institutional economics, Ronald Coase (1983: 230), so cavalierly dismissed the "old" institutional economics: "Without a theory they had nothing to pass on except a mass of descriptive material waiting for a theory, or a fire."

The battle between the particular and the general, between the temporal and the timeless, is one that contemporary institutional theorists continue to confront.

❖ EARLY INSTITUTIONAL THEORY IN POLITICAL SCIENCE

Institutional approaches dominated political science in both Europe and America during the latter half of the 19th and the first two decades of the 20th centuries. I concentrate on the American scene. As carried out by such leading practitioners as J. W. Burgess (1902), Woodrow Wilson (1889), and W. W. Willoughby (1896, 1904), institutional analysis

was grounded in constitutional law and moral philosophy. In the heavy tomes produced by these scholars, careful attention was given to the legal framework and administrative arrangements characterizing particular governance (primarily nation-state) structures. Much of the work involved painstaking historical examination of the origins, controversies, and compromises producing specific regimes; some analyses were explicitly comparative, detailing how central problems or functions were variously managed by diverse governance mechanisms. But the underlying tone of the work was normative: "in the mainstream of political science, description was overshadowed by moral philosophy" (Simon 1991: 57).

As depicted by Bill and Hardgrave (1981; see also Peters 1999), the institutional school that developed at the turn of the century exhibited several defining features. First, it was preoccupied with formal structures and legal systems. "Emphasis was placed upon the organized and evident institutions of government, and studies concentrated almost exclusively upon constitutions, cabinets, parliaments, courts, and bureaucracies" (Bill and Hardgrave 1981: 3).

Second, the approach emphasized detailed accounts of particular political systems, resulting in "configurative description"—intricate descriptive accounts of interlinked rules, rights, and procedures (Bill and Hardgrave 1981: 3). Third, the approach was conservative in the sense that it emphasized origins but not ongoing change. "Political institutions were examined in terms of an evolutionary development which found fulfillment in the immediate present. But while these institutions had a past, they apparently had no future" (Bill and Hardgrave 1981: 6). They were regarded as completed products. Fourth, the work was largely nontheoretical, primary attention being given to historical reconstruction of specific institutional forms. Finally, the tone of these studies was more that associated with moral philosophy and less that of empirical science. These scholars devoted more attention to the explication of normative principles than to the formulation of testable propositions.

Although he acknowledged many of the same characteristics, Eckstein (1963) also insists that these early institutionalists ushered in the first crude form of positivism in political science. Unlike their own predecessors, primarily "historicists" who focused their interest on abstracted political systems derived from philosophical principles, they were looking at the real world—at hard facts. Indeed

Primitive, unadulterated positivism insists upon hard facts, indubitable and incontrovertible facts, as well as facts that speak for

themselves—and what facts of politics are harder, as well as more self-explanatory than the facts found in formal legal codes? (Eckstein 1963: 10)

In addition, these students attended to the real world in yet another sense: They placed great emphasis on formal political institutions, on charters, legal codes, and administrative rules, in part because "the nineteenth century was a great age of constitution-making" (Eckstein 1963: 10).

Beginning in the mid-1930s and continuing through the 1960s, the institutional perspective was challenged and largely supplanted by the behavioralist approach (not to be confused with "behaviorism" in psychology), which attempted to sever the tie to moral philosophy and rebuild political science as a theoretically guided, empirical science (see Easton 1965). More important for our concerns, the behavioralist persuasion diverted attention away from institutional structures to political behavior.

Behaviorists argued that, in order to understand politics and explain political outcomes, analysts should focus not on the formal attributes of government institutions but instead on informal distributions of power, attitudes and political behavior. (Helen and Steinmo 1992: 4)

Students of politics focused attention on voting behavior, party formation, and public opinion. Moreover, this reductionist shift in emphasis from rules and structures to behavior was accompanied by a more utilitarian orientation, viewing action as "the product of calculated self-interest," and taking an instrumentalist view of politics regarding the "allocation of resources as the central concern of political life" (March and Olsen 1984: 735). To study politics was to study "Who Gets What, When, and How?" (Lasswell 1936).

These theoretical strands associated with behaviorism were reinforced and deepened by the "rational revolution" arising in the 1970s and 1980s. As I discuss in later chapters, the rational choice approach—based on the application of economic assumptions to political behavior—brought about fundamental changes in political science. Peters (1999) suggests that the attributes characterizing both movements, behavioral and rational, include: (1) an emphasis on more rigorous and deductive theory and methodology; (2) a bias against normative, prescriptive approaches; (3) methodological individualism—the assumptions that individuals are the only actors and that they are motivated by individual

utility maximization; and (4) "inputism," a focus on societal inputs to the political system (e.g., votes, interest group pressures, money) to the exclusion of attention to the internal workings of the system—the institutional political structures—as they may affect outcomes.

The "new institutionalism" in political science developed in reaction to the excesses of the behavioralist revolution, although one major variant employs rational choice approaches to account for the building and maintenance of institutions. Current institutionalists do not call for a return to "configurational history," but do seek to reestablish the importance of normative frameworks and rule systems in guiding, constraining, and empowering social and political behavior.

❖ EARLY INSTITUTIONAL THEORY IN SOCIOLOGY

Attention to institutions by sociologists has been more constant than that exhibited by either economists or political scientists. Although there are a number of different discernable strands with their distinctive vocabularies and emphases, we also observe continuity from the early work of Spencer and Sumner through Davis to the recent work of Friedland and Alford; from Cooley and Park through Hughes to the contemporary analyses of Freidson and Abbott; from the early efforts of Marx, Durkheim, and Weber through Parsons to DiMaggio and Powell; and from the early work on the social sources of mind and self in Mead and Schutz to the emphasis on cognitive processes and knowledge systems in Berger and Luckmann and in Meyer and Rowan.

Spencer and Sumner

Without question, the most influential conception of institutions pervading mainstream sociology throughout the 20th century has its origins in the work of Herbert Spencer. Spencer (1876, 1896, 1910) viewed society as an organic system evolving through time. Adaptation of the system to its context was achieved via the functions of specialized "organs" structured as institutional subsystems. Spencer devoted the main body of his work to a comparative study of these institutions, attempting to draw generalizations from comparing and contrasting their operation in different societies.

Spencer's general conceptions were embraced and amplified by William Graham Sumner (1906) in his major treatise, *Folkways*. Teeming with ethnographic and historical materials, the book generated numerous

hypotheses concerning the origins, persistence, and change of folkways and mores (albeit many of these have a strong biopsychological basis). For Sumner (1906: 53), "an institution consists of a concept (idea, notion, doctrine, interest) and a structure." The "concept" defines the purposes or functions of the institution, whereas the "structure" embodies the idea of the institution and furnishes the instrumentalities through which the idea is put into action. Societal evolution progresses from individual activities to folkways, to mores, to full-fledged institutions. Such institutions are "creative"—evolving slowly through instinctive efforts over long periods of time—although institutions can also be "enacted"—the products of rational intention and invention.

Later generations of sociologists discarded the strong biological/evolutionary analogies and functional arguments devised by Spencer and Sumner, but nevertheless recognized the centrality of institutions as a sociological focus. Thus, in his influential mid-century text, *Human Society*, Kingsley Davis (1949: 71) defined institutions as "a set of interwoven folkways, mores and laws built around one or more functions," adding that, in his opinion, "the concept of institutions seems better than any other to convey the notion of segments or parts of the normative order." Every major sociological text and curriculum of the last 100 years has reflected on not only the important distinction of levels (e.g., individuals, groups, communities, societies), but also the functional division of social life into spheres or arenas—such as kinship, stratification, politics, economics, and religion—governed by varying normative systems. The conception of institutions as functionally specialized arenas persists in contemporary notions of organization "field" or "sector" (DiMaggio and Powell 1983; Scott and Meyer 1983; see chaps. 3 and 8) and is strongly reflected in the work of Friedland and Alford (1991), who stress the role of multiple, differentiated, and partially conflicting institutional spheres in producing social change.

Cooley and Hughes

Cooley and his followers emphasized the interdependence of individuals and institutions, of self and social structure. Although the great institutions—"language, government, the church, laws and customs of property and of the family"—appear to be independent and external to behavior, they are developed and preserved through interactions among individuals and exist "as a habit of mind and of action, largely unconscious because largely common to all the group. . . . The individual is always cause as well as effect of the institution" (Cooley 1902/1956: 313–314).

Hughes shared and developed this interdependent model. Deftly defining institutions as an "establishment of relative permanence of a distinctly social sort" (Hughes 1936: 180), he identified their essential elements as:

- (1) a set of mores or formal rules, or both, which can be fulfilled only by
- (2) people acting collectively, in established complementary capacities or offices. The first element represents consistency; the second concert or organization. (Hughes 1939: 297)

Although institutions represent continuity and persistence, they exist only to the extent that they are carried forward by individuals: "Institutions exist in the integrated and standardized behavior of individuals" (Hughes 1939: 319). In most of his writing, Hughes directed attention to the institutional structures surrounding and supporting work activities: in particular, to occupations and professions. His studies and essays are laced with insights on the myriad ways in which the institutional interacts with the individual—creating identities, shaping the life course ("careers"), providing a "license" to perform otherwise forbidden tasks, and a rationale to account for the inevitable mistakes that occur when one is performing complex work (see Hughes 1958).²

Empirical work developing these insights has focused more on occupations—in particular, professions—than on organizations as institutional systems constraining and empowering individual participants (see e.g., Abbott 1988; Becker 1982; Freidson 1970). However, a number of studies examined "strong" organizational contexts, such as mental hospitals and medical schools (Becker et al. 1961; Goffman 1961). These studies emphasized "the microprocesses by which individuals attempt to limit the power of institutions," identifying "the cracks, the loopholes in social structures" that enable patients, students, or other subordinate participants to construct meaningful selves and obtain some freedom even when confronting these "total institutions" (Fine and Ducharme 1995: 125, 126).

As a sociologist studying occupations, Abbott (1992) perceives an unbroken (Midwest/Chicago) tradition linking contemporary with earlier work and wondered what was so "new" about the new institutionalism in sociology. The institutional tradition has indeed been carried forward in an uninterrupted fashion by the Chicago school studying occupations and the sociology of work, but this was much less the case for research on organizations. Over a substantial period during its development, from the 1920s to the 1970s, the sociology of

organizations largely lost sight of, defocalized, and gave insufficient attention to the institutional moorings of organizations.

Marx, Durkheim, Weber, and Parsons

The European tradition in institutional analysis was spearheaded by Karl Marx, whose influence permeated economics and political science, as well as sociology. Although Marx inspired a diverse array of theories and political movements, the work of primary importance to institutional theory involved his struggle with, and reinterpretation of, Hegel, the great German idealist philosopher. Hegel viewed history as the self-realization through time of abstract ideas or "spirit" (*Geist*). This self-creative spirit is reflected in the objective world, which most of us mistakenly take to be the true reality. It is the task of man to overcome this alienated state in which the world appears to be other than spirit (Hegel 1807/1967; Tucker 1972). Marx famously turned Hegel's arguments upside down.

For Marx, the materialist world is the true one, and the alienation we experience occurs because humankind is estranged from itself in existing political and economic structures. Marx, working in the early decades of the Industrial Revolution, saw the key realm as economic: Productive activity had been transformed into involuntary "labor." Under a capitalist system, work was no longer an expression of creative productivity, but alienated labor. The nature and meaning of work and work relations were seen to be transformed by structures of oppression and exploitation. These structures—involving the accompanying beliefs, norms, and power relations—are the product of human ideas and activities, but appear to be external and objective to their participants. Ideas and ideologies reflect and attempt to justify material reality, not the other way around (Marx 1844/1972; Marx 1845–1846/1972). Thus, in important (but historically specific) respects, Marx gave early expression to the social construction of reality.

The other two major European figures involved in establishing sociological variants of institutional analysis were Durkheim and Weber. The French sociologist Emile Durkheim was preoccupied with understanding the changing bases of social order that accompanied the Industrial Revolution, but, as previously noted, he appears to have modified his views over time. His early classic, *The Division of Labor in Society* (1893/1949), differentiated between the "mechanical" solidarity based on shared religious and cultural beliefs that integrated traditional societies and the newly emerging "organic" solidarity associated

with an advanced division of labor. Initially, Durkheim viewed this new collective order as "based on the belief that action was rational and that order could be successfully negotiated in an individualistic way"—social order as "the unintended aggregate of individual self-interest" (Alexander 1983: 131, 134). However, his revised arguments led him away from an instrumentalist, individualist explanation to a focus on collective, normative frameworks that supply "the noncontractual elements" of contract (Durkheim 1893/1949: book 1, chap. 7).

Durkheim's mature formulation emphasizes the pivotal role played by symbolic systems—systems of belief and "collective representations"—shared cognitive frames, and schemas that, if not explicitly religious, have a moral or spiritual character.

There is something eternal in religion which is destined to survive all the particular symbols in which religious thought has successively enveloped itself. There can be no society which does not feel the need of upholding and reaffirming at regular intervals, the collective sentiments and the collective ideas which make its unity and its personality. (Durkheim 1912/1961: 474–475)

These systems, although a product of human interaction, are experienced by individuals as objective. Although subjectively formed, they become "crystallized." They are, in Durkheim's (1901/1950) terms, "social facts": phenomena perceived by the individual to be both "external" [to that person] and "coercive" [backed by sanctions]. As is the case with religious systems, ritual and ceremonies play a vital role in expressing and reinforcing belief. Rituals and ceremonies enact beliefs. They "act entirely upon the mind and upon it alone" (Durkheim 1912/1961: 420) so that, to the extent that these activities have an impact on situations, it is through their effects on beliefs held about these situations.

These symbolic systems—systems of knowledge, belief, and "moral authority"—are, for Durkheim, social institutions.

Institutions, Durkheim writes, are a product of joint activity and association, the effect of which is to "fix" to "institute" outside us certain initially subjective and individual ways of acting and judging. Institutions, then, are the "crystallizations" of Durkheim's earlier writing. (Alexander 1983, vol. 2: 259)

The third major European figure contributing to institutional theory was Max Weber. As I note in more detail in chapter 2, more

contemporary analysts of institutions lay claim to Weber as their guiding genius than to any other early theorist. Although Weber did not explicitly employ the concept of "institution," his work is permeated with a concern for understanding the ways in which cultural rules—ranging in nature from customary mores to legally defined constitutions or rule systems—define social structures and govern social behavior, including economic structures and behavior. For example, his justly famous typology of administrative systems—traditional, charismatic, and rational-legal—represents three types of authority systems differing primarily in the kinds of belief or cultural systems that legitimate the exercise of authority (see Bendix 1960; Dornbusch and Scott, 1975, chap. 2; Weber 1924/1968: 215).

There remains much controversy as to how to characterize Weber's theoretical stance because he stood at the crossroads of three major debates raging at the turn of the 19th and 20th centuries: first, that between those who viewed the social sciences as a natural science and those who argued that it was rather a cultural science (the *Methodenstreit*); second, between idealist arguments associated with Durkheim and the materialist emphasis of Marx; and third, between the institutionalist Historical School of economics and the neoclassical interest in developing general theory. More so than any other figure of his time, he wrestled with and attempted to reconcile these apparently conflicting ideas.

Weber argued that the social sciences differ fundamentally from the natural sciences in that, in the former but not the latter, both the researcher and the object of study attach meaning to events. For Weber (1924/1968: 4), action is social "when and in so far as the acting individual attaches a subjective meaning to his behavior." Individuals do not mechanically respond to stimuli; they first interpret them and then determine their response. Researchers cannot expect to understand social behavior without taking into account the meanings that mediate social action. Weber employed his interpretive approach to attempt a synthesis in which both the material conditions and interests stressed by materialists—such as Marx—and the idealist values—emphasized by Durkheim—combined to motivate and guide action (see Alexander 1983, vol. 2; see also chap. 3, this volume). In developing his *Wirtschaftssoziologie* (economic sociology), Weber embraced the institutionalist arguments that economics needs to be historically informed and comparative in its approach, but at the same time he sided with Menger and the classicists in supporting the value of theoretical models that allowed one to abstract from specific, historically embedded systems, in order to formulate and evaluate general arguments. Weber believed that economic sociology

could bridge the chasm by attending to both historical circumstance and the development of analytic theory (Swedberg 1991, 1998). Weber suggested that by abstracting from the specificity and complexity of concrete events, researchers could create "ideal types" to guide and inform comparative studies. If researchers were careful not to mistake the ideal types for reality—for example, to insist that individuals under all conditions would behave as rational "economic men"—such models could provide useful maps to guide analysis and increase understanding of the real world (Weber 1904-1918/1949). More precisely, "Weber views rational behavior as evolving historically, or, to phrase it differently, to Weber—unlike to today's economists—rational behavior is a variable, not an assumption" (Swedberg 1998: 36).

The American sociologist Talcott Parsons also attempted to synthesize the arguments of major early theorists, in particular, Durkheim, Weber, and Freud, in constructing his voluntaristic theory of action (see Parsons, 1937, 1951). Parsons was the most influential social theorist in sociology throughout the mid-20th century, although he is much less in vogue today.³ Like Weber, he attempted to reconcile a subjective and an objective approach to social action by emphasizing that normative frameworks existed independently of a given social actor, whereas analysts needed to take into account the "orientation" of actors to them. A system of action was said to be institutionalized to the extent that actors in an ongoing relation oriented their actions to a common set of normative standards and value patterns. As such a normative system becomes internalized, "conformity with it becomes a need-disposition in the actor's own personality structure" (1951: 37). In this sense, institutionalized action is motivated by "moral" rather than instrumental concerns: "the primary motive for obedience to an institutional norm lies in the moral authority it exercises over the individual" (Parsons 1934/1990: 326). The actor conforms because of his or her belief in a value standard, not out of expediency or self-interest.

Viewed more objectively, from the standpoint of the social analyst, institutions are appropriately seen as a system of norms that "regulate the relations of individuals to each other," that define "what the relations of individuals ought to be" (Parsons 1934/1990: 327). Also, implicitly following the lead of Spencer and Sumner, Parsons developed his own abstract typology of norms oriented to the solution of the four generic system problems: adaptation, goal attainment, integration, and latency (maintenance of cultural patterns) (see Parsons 1951; Parsons, Bales, and Shils 1953).

Contemporary theorists note several kinds of limitations with Parsons' formulation. Alexander (1983: 242) concluded that, although

Parsons attempted to develop a multidimensional view of social action, his conception of institutionalization put too much weight on cultural patterns, overemphasizing the "control exerted by values over conditions." The importance of interests and instrumental action and rational choice was underemphasized. DiMaggio and Powell (1991) praised Parsons for the contribution he made to the "microfoundations" of institutional theory in his attempt to understand the ways in which culture influences behavior. But they complained that his conception of culture failed to stress its existence as "an object of orientation existing outside the individual." Instead, following Freud, Parsons viewed culture as acting primarily as "an internalized element of the personality system"—thus giving too much weight to a subjective in contrast to an objective view. Additionally, they argued that Parsons' analysis of culture neglected its cognitive dimensions in favor of its evaluative components: Culture was limited to "value-orientations" (DiMaggio and Powell 1991: 17). Each of these emphases drew Parsons away from examining the interplay of the instrumental and the normative in social action.

Mead, Schutz, Bourdieu, Berger, and Luckmann

George Herbert Mead, like Cooley, emphasized the interdependence of self and society, but gave particular attention to the role played by symbolic systems in creating both the human and the social. Meaning is created in interaction as gestures, particularly vocal gestures (language), call out the same response in self as in other. Self arises in interaction as an individual "takes on the attitudes of the other" in arriving at a self-conception (Mead 1934).

Working at about the same time as Mead, but in Vienna, Alfred Schutz also examined in detail the ways in which common meanings are constructed through interactions by individuals. However, Schutz also explored the wider "structure of the social world," noting the great variety of social relations in which we become involved. In addition to intimate, face-to-face, "Thou" and "We" relations with persons thought to be similar to ourselves, we engage in multiple "They" relations with others known only indirectly and impersonally. Such relations are only possible to the extent that we develop an "ideal type" conception that enables us to deal with these others as needed (e.g., to mail a letter or to stand beside someone in an elevator). These relations are based on typifications of the other and taken-for-granted assumptions as to the way the interaction will proceed. In this sense, the meanings are highly institutionalized (Schutz 1932/1967).

Moving closer to the present, the French scholar Pierre Bourdieu (1971, 1973) endeavored to combine the insights of Marx and Durkheim by examining the ways in which class interests express themselves in symbolic struggles: the power of some groups to impose their knowledge frameworks and conceptions of social reality on others. Bourdieu's work reached and began to influence organizational scholars about a decade later (see DiMaggio 1979). In particular, Bourdieu's concept of "field" (a social arena) was usefully appropriated by DiMaggio and Powell (1983) to better situate the locus of institutional processes shaping organizations (see chaps. 2, 3, and 8).

Peter Berger and Thomas Luckmann, working in the United States, also provided a critical link between earlier work and that of later organizational scholars. Influenced by the work of Mead, but even more by that of Schutz,⁴ Berger and Luckmann (1967: 15) redirected the sociology of knowledge away from its earlier concerns with epistemological issues or a focus on intellectual history to more mainstream sociological concerns, insisting that: "The sociology of knowledge must concern itself with everything that passes for 'knowledge' in society." The concern is not with the validity of this knowledge, but with its production, with "the social creation of reality." Berger and Luckmann argue that social reality is a human construction, a product of social interaction. They underscore this position in their attention to language (systems of symbols) and cognition mediated by social processes as crucial to the ways in which actions are produced, repeated, and come to evoke stable, similar meanings in the self and other. They define this process as one of *institutionalization*. In contrast to Durkheim and Parsons, Berger and Luckmann emphasized the creation of shared knowledge and belief systems rather than the production of rules and norms. Cognitive frameworks are stressed over normative systems. A focus on the centrality of cognitive systems forms the foundation for the sociological version of the new institutionalism in organizations (see chap. 2).

❖ CONCLUDING COMMENT

This brief review attempts to identify some of the varying interests and emphases of the early institutional theorists—formulations developed between 1880 and the mid-20th century. As we will see, in numerous ways these theorists anticipated distinctions and insights rediscovered by later analysts. Contemporary economists—with the notable exception of economic historians—have rejected the approaches promoted by the German Historical School, but some strands of the new

institutionalism in economics reflect the interests of Menger and the Austrian School. Contemporary political scientists have left behind the moral-philosophical roots of their institutional forebears, but a lively subset has rediscovered an interest in the historical and comparative study of political systems. An even larger collection of political scientists has adapted rational choice models devised by economists to better explain the emergence and functioning of political institutions.

Contemporary sociologists continue to pursue and refine the ideas of their numerous and varied predecessors. Some continue to examine the diverse institutional spheres that make up society; others examine the ways in which individuals are empowered and constrained by shared normative systems, and still others explore the ways in which symbolic systems—cultural rules and schemas—shape and support social life.

Although there is continuity, there is also change and perhaps even progress. Most of the early work on institutions shared a common limitation: Little attention was accorded to organizations.⁵ Some theorists focused their analyses on wider institutional structures—on constitutions and political systems, language and legal systems, and kinship and religious structures—whereas others emphasized the emergence of common meanings and normative frameworks out of localized social interaction. Few, however, treated organizations as institutional forms or directed attention to the ways in which wider institutions shaped collections of organizations.

Theorists in the 1940s and 1950s began to recognize the existence and importance of particular collectivities—individual organizations—entities distinguishable from both broader social institutions, on the one hand, and the behavior of individuals, on the other hand. Later developments in the 1970s and 1980s called attention to the significance of organizational forms and organizational fields, and the recognition that each of these levels has stimulated much fruitful development of institutional theory and research.

❖ NOTES

1. These generalizations—particularly the first and the fourth—are less applicable to the Austrian branch of economics led by Menger and Hayek. These theorists, while insisting on the importance of theory and of simplifying assumptions, were interested in understanding economic change and so were sympathetic to a more evolutionary approach and the study of economic processes (see Langlois 1986a). Their ideas fueled the development of evolutionary economics (see chap. 2).

2. It is interesting to note the ways in which the ideas of Cooley and Hughes anticipated the later work of Berger and Luckmann and of Giddens, developments discussed in subsequent chapters.

3. Canic (1992) argued that Parsons strategically selected these European predecessors—rather than American institutional scholars, such as Veblen and Mitchell, and his own teachers (Hamilton and Ayres), who shared their interests—because of the tarnished reputation of these institutional economists at the time when Parsons was constructing his theory of action. There is a politics to selecting intellectual forebears that helps to explain why it is that some previous work is “drawn upon, while other work is overlooked.”

Ironically, in a parallel fashion, Hall (1992) accused sociological neoinstitutionalists of failing to acknowledge the influence of Parsons (whose reputation until recently has been on the wane) as an important intellectual predecessor.

4. Berger (1992) reports that he and Luckmann were both junior members of the graduate faculty of the New School for Social Research (now the New School University) in the early 1960s. Berger recalls:

We found ourselves in the lucky situation of being in the company of a small but lively group of young colleagues and graduate students who broadly shared a theoretical orientation, the one that all of us had learned from our teacher Alfred Schutz. One of Schutz's unrealized projects had been to formulate a new theoretical foundation for the sociology of knowledge in terms of his blend of phenomenology and Weberian theory. We intended to realize this project (1992: 1).

5. An essay by Znaniecki (1945) in an influential review volume edited by Gurwitsch and Moore is an exception to this generalization. Taking off from Spencer and Sumner's definition of institution, Znaniecki (1945: 208) proposed that research on institutions should focus on “the comparative study of those many and diverse organized groups or associations, small and large, simple and complex” that provide the forms and carry out the specialized purposes of a given institutional arena. This approach anticipates by more than 25 years the concept of organizational field that emerged in the early 1980s (see chaps. 3, 4, and 8), but did not stimulate visible interest or related work at the time.

2

Institutional Theory Meets Organization Studies



Although, as we have seen, institutions were identified and analyzed quite early by social scientists, organizations, as distinctive types of social forms, did not become a focus of study until relatively recently. March (1965) dates the origins of organization studies to the period 1937–1947, noting the appearance of the influential publications of Gullick and Urwick (1937), Barnard (1938), Roethlisberger and Dickson (1939), and Simon (1945/1997). Sociologists entered just at the end of this period (e.g., Merton et al. 1952; Selznick 1949).

This chapter reviews work connecting organizations and institutional arguments beginning in the 1940s and continuing until the emergence of the “new” institutional approaches in the 1970s. Three streams of work are identifiable among early theorists of organizations. The first was stimulated by the translation into English of Weber's (1906–1924/1946, 1924/1947) work on bureaucracy, which aroused much interest among a collection of sociologists at Columbia University.¹ Talcott Parsons, the reigning American sociological theorist of his time, at Harvard became a second early conduit both as a translator of Weber and because he was encouraged to apply his own “cultural-institutional” theory to organizations by James D. Thompson. Thompson, the founding

editor of *Administrative Science Quarterly*, a new interdisciplinary journal devoted to research on organizations, invited Parsons to prepare an article for the inaugural issue in 1956. Third, Herbert Simon's pioneering work at the Carnegie Institute of Technology (now Carnegie-Mellon University) on organizational decision making was expanded, in collaboration with James G. March, into an influential statement of the nature of rationality in organizations.

This early work, carried out during the 1950s, which first connected institutions and organizations, is reviewed in the first section of this chapter. Then, in the following section, I consider the emergence of a complex set of new ideas, during the 1960s and 1970s, that provided the basis for the more recent, somewhat novel, conception of institutions: work that laid the foundations of neoinstitutional organization theory. As in chapter 1, this chapter is organized roughly by disciplinary emphases.

❖ INSTITUTIONS AND ORGANIZATIONS: EARLY APPROACHES

The Columbia School: Merton's and Selznick's Institutional Models

Shortly after selections from Weber's seminal writings on bureaucracy were translated into English during the late 1940s, a collection of scholars at Columbia University, under the leadership of Robert K. Merton, revived interest in bureaucracy and bureaucratization and its sources and consequences for behavior in organizations (Merton et al. 1952).² It is generally acknowledged that a series of empirical studies of diverse organizations carried out by Merton's students—Selznick (1949) of the Tennessee Valley Authority (TVA), Gouldner (1954) of a gypsum plant and mine, Blau (1955) of a federal and a state bureau, and Lipset, Trow, and Coleman (1956) of a typographical union—were instrumental in establishing organizations as a distinctive arena of study (see Scott and Davis 2007: 9). What is less widely recognized is Merton's influence on Selznick's institutional theory of organizations.

Merton: Rules Trump Instrumentalism

As described in the following, Merton's (1936) early work on "unanticipated consequences of purposive action" was helpful to Selznick, but his analysis of bureaucratic behavior was even more directly influential. Although Merton (1940/1957: 199) did not employ

the term institutionalization in his well-known essay, "Bureaucratic Structure and Personality," he provided a lucid discussion of processes within organizations leading officials to orient their actions around rules even "to the point where primary concern with conformity to the rules interferes with the achievement of the purposes of the organization."

Merton depicted the multiple forces within bureaucracy producing discipline and orienting officials to a valued normative order. The strength of these pressures is such that officials are prone to follow the rules to the point of rigidity, formalism, and even ritualism. Stimulated by the arguments of Durkheim and Hughes (and Parsons), Merton (1940/1957: 202) spelled out his version of institutional processes within organizations:

There may ensue, in particular vocations and in particular types of organization, the process of sanctification. . . . (T)hrough sentiment-formation, emotional dependence upon bureaucratic symbols and status, and affective involvement in spheres of competence and authority, there develop prerogatives involving attitudes of moral legitimacy which are established as values in their own right, and are no longer viewed as merely technical means for expediting administration.

Selznick: Means Become Infused With Value

The leading early figure in the institutional analysis of organizations is Philip Selznick, whose conception of institutional processes was strongly influenced by Merton's work.³ His views have evolved throughout the corpus of his writings. From the beginning, Selznick (1948: 25) was intent on distinguishing between organization as "the structural expression of rational action"—as a mechanistic instrument designed to achieve specified goals—and organization viewed as an adaptive, organic system affected by the social characteristics of its participants as well as by the varied pressures imposed by its environment. "Organizations," created as instrumental mechanisms to achieve specific goals, to a variable extent and over time, are transformed into "institutions."

In his earliest formulation, Selznick borrowed heavily on Merton's (1936) analysis of "the unanticipated consequences of purposive social action." Whereas some consequences of our actions occur as planned, others are unanticipated; social actions are not context-free, but are constrained, and their outcomes are shaped by the setting in which they occur. Especially significant are the constraints on action that arise from

commitments enforced by institutionalization. . . . Because organizations are social systems, goals or procedures tend to achieve an established, value-impregnated status. We say that they become institutionalized. (Selznick 1949: 256–257)

In his later work on leadership, Selznick (1957: 16–17; italics original) elaborated on his views:

Institutionalization is a process. It is something that happens to an organization over time, reflecting the organization's own distinctive history; the people who have been in it, the groups it embodies and the vested interests they have created, and the way it has adapted to its environment. . . . In what is perhaps its most significant meaning, "to institutionalize" is to *infuse with value* beyond the technical requirements of the task at hand.

As organizations become infused with value, they are no longer regarded as expendable tools; participants want to see that they are preserved. By embodying a particular set of values, the organization acquires a "character structure," a distinctive identity. Maintaining the organization is no longer simply an instrumental matter of keeping the machinery working, but becomes a struggle to preserve a set of unique values. A vital role of leadership for Selznick, echoing Chester Barnard's (1938) influential message in *The Functions of the Executive*, is to define and defend these values.

In addition to viewing institutionalization as a process, as something "that happens to the organization over time," Selznick also treated institutionalization as a variable: Organizations with more precisely defined goals or with better developed technologies are less subject to institutionalization than those with diffuse goals and weak technologies (Selznick 1957). Organizations vary in their degree of institutionalization.

Contrasting Selznick's conception with Merton's, both emphasized quite similar processes of value commitments to procedures extending beyond instrumental utilities. However, Selznick focused on commitments distinctive to the developing character of a specific organization, whereas Merton stressed commitments associated with characteristics of bureaucratic (rational-legal) organizations generally. Selznick's approach calls for depicting a "natural history" of a specific organization, a description of the processes by which, over time, it develops its distinctive structures, capabilities, and liabilities. He studied the evolution of the TVA, noting how its original structures and goals were

transformed over time by the commitments of its participants and the requirements imposed by powerful constituencies in its environment (Selznick 1949; see also chap. 4). Selznick's students conducted similar case studies of the transformation of organizational goals, such as occurred in the Women's Christian Temperance Union (WCTU) (Gusfield 1955), a community college (Clark 1960), a voluntary hospital (Perrow 1961), and the YMCA (Zald and Denton 1963). In all of these studies, the official goals of the organization are shown to differ from—to mask—the "real" objectives, which had been transformed in interaction with interests both within and external to the organization. As Perrow (1986: 159) noted, Selznick's institutional school tends to produce an "expose" view of organizations: Organizations are not the rational creatures they pretend to be, but vehicles for embodying (sometimes surreptitious) values.

Another of Selznick's students, Arthur Stinchcombe (1968: 107), built on Selznick's formulation, making more explicit the role of agency and power. Stinchcombe defined an *institution* as "a structure in which powerful people are committed to some value or interest," emphasizing that values are preserved and interests are protected only if those holding them possess and retain power. Institutionalization connotes stability over time, and Stinchcombe's analysis attempts to identify the ways in which power holders are able to preserve their power. He asserts: "By selection, socialization, controlling conditions of incumbency and hero worship, succeeding generations of power-holders tend to regenerate the same institutions" (Stinchcombe 1968: 111).

Merton and Selznick laid the basis for a process model of institutions; Merton described processes operating in all or most bureaucratic organizations conducting officials toward overconformity, whereas Selznick focused on processes within particular organizations giving rise to a distinctive set of value commitments. Stinchcombe stressed the role of power and elaborated on the mechanisms utilized by powerful actors to perpetuate their interests and commitments.

Parsons' Institutional Approach

Talcott Parsons applied his general "cultural-institutional" arguments to organizations primarily by examining the relation between an organization and its environment—the ways in which the value system of an organization is legitimated by its connections to "the main institutional patterns" in "different functional contexts" (Parsons 1960a: 20). Although in most of his writing, as noted in chapter 1, Parsons stressed the "subjective" dimension of institutions, whereby individual

actors internalize shared norms so they become the basis for the individual's action, in his analysis of organizations he shifted attention to what he termed the "objective" dimension: "a system of norms defining what the relations of individuals [or organizations] ought to be" (Parsons 1934/1990: 327).

Parsons (1960a: 21) argued that these wider normative structures within societies serve to legitimate the existence of organizations, but, "more specifically, they legitimize the main functional patterns of operation which are necessary to implement the values." Schools, for example, receive legitimacy in a society to the extent that their goals are connected to wider cultural values, such as training and education, and to the degree that they conform in their structures and procedures to established "patterns of operation" specified for educational organizations. Note that in some respects this argument replicates at the organizational level Parsons' discussion of institutionalization at the individual level because it focuses on the individual unit's—whether a person's or an organization's—orientation to a normative system. Organizations operating in different functional sectors are legitimated by differing values, exhibit different adaptive patterns, and are governed by different codes and normative frameworks. Moreover, value systems are stratified within a society such that organizations serving more highly esteemed values are thought to be more legitimate and are expected to receive a disproportionate share of societal resources (Parsons 1953).⁴

Parsons finds yet another use for the concept of institution. He argues that organizations tend to become differentiated vertically into three somewhat distinctive levels or layers: the *technical*, concerned with production activities; the *managerial*, concerned with control and coordination activities, procurement of resources, and disposal of products; and the *institutional*, concerned with relating the organization to the norms and conventions of the community and society. Every organization is a subsystem of "a wider social system which is the source of the 'meaning,' legitimation, or higher-level support which makes the implementation of the organization's goals possible" (Parsons 1960b: 63–64). Parsons' typology of organizational levels was subsequently embraced by Thompson (1967/2003) and has been widely employed.⁵

Unlike Selznick's formulation, Parsons' theoretical work on organizations did not stimulate much empirical research. A few students, such as Georgopoulos (1972), employed Parsons' general conceptual scheme and described the importance of institutional underpinnings

for specific types of organizations, but in general Parsons' insights were not so much built upon as rediscovered by later theorists.

The Carnegie School

Political scientist Herbert Simon developed his theory of administrative behavior to counteract and correct conventional economic theories that made heroic, unreasonable assumptions about individual rationality. Although Simon retained the assumption that value premises (preferences) are beyond the analyst's purview (are exogenous), he challenged the assumption that actors have complete knowledge of means and their consequences. He was among the first theorists to link the limits of individual cognitive capacity with the features of organizational structure. In his classic book, *Administrative Behavior* (1945/1997), Simon described how organizational structures work to simplify and support decision making of individuals in organizations, allowing them to achieve higher levels of consistent, albeit "boundedly rational," behavior than would otherwise be possible. In accepting organizational membership, individuals are expected to adopt organizational value premises as a guide for their decisions; factual premises—beliefs about means-ends connections—are also commonly supplied to participants in the form of organizational rules, procedures, and routines (Simon 1945/1997: chap. 5). Behavior is rational in organizations because choices are constrained and individuals are guided by rules.

Together with March, Simon developed his arguments concerning the ways in which organizations shape the behavior of participants by developing "performance programs" to guide routine behavior and "search programs" to follow when confronting unusual tasks. March and Simon (1958: 141–142) argued that, in many circumstances, "search and choice processes are very much abridged. . . . Most behavior, and particularly most behavior in organizations, is governed by performance programs"—preset routines that provide guidance to individuals confronted by recurring demands. Such routines greatly reduce the discretion of most participants so that they make fewer choices and are more circumscribed in the choices they do make. Value assumptions, cognitive frames, and rules and routines are the ingredients that conduce individuals to behave rationally. Indeed, "the rational individual is, and must be, an organized and institutionalized individual" (Simon 1945/1997: 111).

March and Simon's arguments, albeit among the earliest, remain among the most influential and clearest statements of the microfeatures

and functions of neoinstitutional forms (see DiMaggio and Powell 1991: 15–26).

❖ FOUNDATIONS OF NEOINSTITUTIONAL THEORY

We have arrived at the point in our history when the ideas that have come to be recognized as “neoinstitutional” theory appeared. Although they do not represent a sharp break with the past, there are new emphases and insights. In the following discussion, I review the proximate sources and founding conceptions linking neoinstitutional theory to organizational analysis in economics, political science, and sociology. Then, in chapter 3, I attempt a more analytic synthesis of current conceptual approaches, noting areas of consensus and dispute.

Neoinstitutional Theory in Economics

Many diverse lines of work contribute to the mixture of ideas fueling neoinstitutional theory in economics. It is instructive and rather ironic that the newer economic work “reflects less the ideas of the early institutionalists than it does those of their opponents” (Langlois 1986a: 2). Most neoinstitutional economists do not seek to replace orthodox economic theory with the study of multiple and diverse institutional conditions, but rather to develop an economic theory of institutions.

In his useful review, Langlois (1986a) incorporated within neoinstitutional economics the contributions of Simon (discussed above), a focus on transaction cost and property rights inspired by Coase (1937) (with a slight nod to Commons), the modern Austrian School as influenced by Hayek (1948), the work of Schumpeter on innovation (1926/1961), and evolutionary theory as developed by Nelson and Winter (1982). Three more or less common themes underlie and link these contributions (see Knudsen 1993; Langlois 1986a):

1. A broader conception of the economic agent is embraced, replacing the assumption of maximizing within a set of known alternatives.

How broad a view is taken varies greatly among the identified schools. In his work on transaction costs, Williamson embraces Simon’s conception of “bounded” rationality, whereas the Austrian and evolutionary theorists utilize an even more expansive view that includes

rule-based or “procedural” rationality (behavior is rational if specified procedures are followed, irrespective of outcome).

2. A focus on the study of economic processes rather than on the purely logical study of equilibrium states and a recognition that economic systems evolve over time, reflecting, in part, learning by the agents.

Conventional economics devotes the lion’s share of its resources to the study of various types of economic systems that have attained an equilibrium (stable and well-coordinated behavior), but little to the question of how a state of equilibrium came into being or comes apart. Ad hoc “stories” are generated about how stability may have been achieved, but are only “tacked on” to the formal model (see Knudsen 1993). Neoinstitutional economists are interested in developing and testing these process arguments. Rather than treating institutions mainly as exogenous variables affecting economic behavior, the newer scholarship considers how institutions affecting economic transactions arise, are maintained, and are transformed. Game theorists have also become interested in these questions, asking how norms or rules emerge as actors interact to devise “treaties” or regimes to deal with conflicts.

3. The coordination of economic activity is not simply a matter of market-mediated transactions, but involves many other types of institutional structures that are important topics of study.

In addition to the role of governmental systems, the most important of these institutional structures are those embedded in organizations.

It is not possible here to consider in detail all of the specific approaches associated with these themes (for reviews, see Hodgson 1993, 1994; Mäki, Gustafsson, and Knudsen 1993; Silverman 2002; Zajac and Westphal 2002), but two of the more influential contributions are briefly described.

Transaction Cost Economics

One branch of neoinstitutional economics is concerned with the rule and governance systems that develop to regulate or manage economic exchanges. These systems occur at many levels, from macroregimes at the international level to understandings governing microexchanges between individuals. Accounting for the emergence and change of trading regimes among societies has been of primary

interest to economic historians (e.g., North 1990), industry systems have been examined by industrial organization economists (e.g., Stigler 1968), and studies of the sources of organizational forms are being conducted by a growing set of organizational economists (see Milgrom and Roberts 1992). Although all of this work is properly regarded as institutional economics, it is the latter work, focusing on firm-level structures, that is especially identified with the new institutionalism in economics.

By consensus, the pioneer theorist inaugurating this approach was Ronald Coase (1937), whose article, "The Nature of the Firm," asks why some economic exchanges are carried out within firms under a governance structure involving rules and hierarchical enforcement mechanisms, rather than being directly subject to the price mechanism in markets. Coase (1937: 389) suggested that the reason must be that "there is a cost of using the price mechanism," namely "the costs of negotiating and concluding a separate contract for each exchange transaction which takes place in a market." It is because of these *transaction costs* that firms arise.

This insight lay fallow—in Coase's (1972: 69) own words, his article was "much cited and little used"—until it was resurrected in the 1970s by Oliver Williamson, who pursued its development by both conditionalizing and elaborating it. Williamson argued that transaction costs increase as a function of two paired conditions: when individual rationality, which is "bounded" (cognitively limited), is confronted by heightened complexity and uncertainty, and when opportunism—some actors' propensity to lie and cheat—is coupled with the absence of alternative exchange partners. Under such conditions, exchanges are likely to be removed from the market and brought within an organizational framework or, if already inside an organization, to stimulate the development of more elaborate controls (Williamson 1975, 1985). Williamson extended Coase's arguments by pushing them beyond the market versus firm comparison to consider a wide variety of alternative "governance systems" ranging from markets, to hybrid organizational forms, such as franchising or alliance arrangements, to various types of hierarchical structures, such as unified firms and multi-divisional corporations (Williamson 1985, 1991)⁶ In this approach, Williamson built on the previous work of Barnard (1938), who emphasized adaptation as a central problem facing organizations; Simon (1945/1997), with his conception of bounded rationality and organizational strategies for supporting decision making; and Chandler (1962), with his focus on matching a firm's structure to its strategy (Williamson 2005).

Thus, the Williamson (1991: 269) variant of new institutional economics focuses primarily on the mesoanalytic questions of "the comparative efficacy with which alternative generic forms of governance—markets, hybrids, hierarchies—economize on transactions costs," rather than on the more macroquestions regarding the origins and effects of the "institutional rules of the game: customs, laws, politics"—the latter issues being left to economic historians and sociologists (see also Williamson 1994, 2005).

Although Williamson stretched conventional economics to take seriously the effects of varying institutional contexts or governance structures on economic behavior, unlike earlier economic institutionalists, he remained firmly within the neoclassical tradition. Hodgson (1994: 70) underlines the point:

Like the work of other new institutionalists, Williamson's is constructed in atomistic and individualistic terms because its elemental conceptual building block is the given, "opportunistic" individual. He does not consider the possibility that the preference functions of the individual may be molded by circumstances, such as the structure and culture of the firm, or that this phenomenon may be significant in analyzing or understanding such institutions. (p. 70)

In addition, Williamson showed little interest in the processes by which varying governance structures arise or are transformed. His explanation of structure is more often constructed as a functionalist one, "explaining" the choice of a given form by pointing to its consequences (Knudsen 1993; see also chap. 5).

In contrast, other economists, such as Douglass North, developed approaches that incorporate assumptions much more similar to those embraced by the turn-of-the-century economic institutionalists. As noted, North (1989, 1990) focused on a higher level of analysis, examining the origins of cultural, political, and legal frameworks and their effects on economic forms and processes. As an economic historian, his focus is on development and change, rather than on comparative statics (see also chap. 5). Although he attends to transaction costs in his analysis of economic systems, he is more prone to treat them as dependent variables—subject to the effects of wider institutional frameworks—than as independent variables to explain differences among actors' choice of governance mechanisms (see Hirsch and Lounsbury 1996).

Whereas Williamson (1994: 79) focuses attention on organizations as institutional forms—governance systems devised to reduce transaction

costs—that must take into account “background conditions” such as property rights, laws, norms, and conventions, North (1990: 5) directs attention to these wider institutional frameworks—societal “rules of the game”—and views organizations as “players” who are attempting to devise strategies to win the game.

Evolutionary Economics

A second, important addition to neoinstitutional economic theory was developed by Nelson and Winter (1982; Winter 1964). Their evolutionary economics distantly echoes the interests of Veblen, but is more solidly based on Schumpeter’s (1934) ideas on innovation and Alchian’s (1950) arguments that economic agents such as firms are subject to adaptation and selection processes (Winter 2005). Nelson and Winter embraced an evolutionary theory of the firm analogous to biological models, in which a firm’s “routines” are argued to be the equivalent of genes in a plant or an animal. Routines—or “capabilities”—are made up of both the conscious and tacit knowledge and skills held by participants who carry out organizational tasks. To survive, a firm must be able to reproduce and modify its routines in the face of changing situations.

Nelson and Winter (1982) locate their arguments at the industry or organizational population level of analysis to develop a theory of economic change processes. Their concern is to examine the ways in which competitive processes operate among firms so that those whose routines are best adapted to current conditions flourish, whereas those with less adequate routines falter. A dynamic model of accumulating knowledge and capabilities is developed to displace the static model of orthodox economics. Firms are viewed as historical entities, their routines being “the result of an endogenous, experience-based learning process” (Knudsen 1995: 203). Moreover,

It is quite inappropriate to conceive of firm behavior in terms of deliberate choice from a broad menu of alternatives that some external observer considers to be “available” opportunities for the organization. The menu is not broad, but narrow and idiosyncratic; it is built into the firm’s routines, and most of the “choosing” is also accomplished automatically by those routines. (Nelson and Winter 1982: 134)

Nelson and Winter did not employ the term *institution* in their arguments, but it is quite clear that their conception of organizational routines can be treated as one mode of institutionalized behavior. Implicitly, as Langlois (1986a: 19) suggests, their view of institution

is one of “regularities of behavior understandable in terms of rules, norms, and routines.” Nelson and Winter embrace a much broader conception of factors shaping behavior and structure in organizations than do transaction cost economists. Also, their approach strongly favors a process orientation rather than one of comparative statics.

In summary, there are important differences among contemporary institutional economists in the nature of their assumptions and the focus of their analytic attention. However, it is unquestionably the case that the new institutional economics is dominated currently by scholars who cling to the neoclassical core of the discipline while struggling to broaden its boundaries.

Neoinstitutional Theory in Political Science

As described in chapter 1, neoinstitutionalism in political science may be viewed, at least in part, as a reaction to the behavioralist emphasis that dominated the field up through the mid-20th century. Resembling, to some extent, the situation in economics, the new institutionalists in political science and political sociology have grouped themselves into two quite distinct camps: historical and rational choice theorists.⁷ The two perspectives differ along several dimensions.

Historical Institutionalism

The historical institutionalists, in many respects, harken back to the turn-of-the-century institutional scholars, who devoted themselves to the detailed analysis of regimes and governance mechanisms, but also reflect the influence of Weber and his comparative approach. Members of this camp include March and Olsen (1984, 1989), Katzenstein (1978), Krasner (1988), Hall (1986), Skocpol (1985), and Zysman (1983). Institutions are viewed as including “both formal structures and informal rules and procedures that structure conduct” (Thelen and Steinmo 1992: 2). These scholars began by focusing attention on the state, examining the ways in which these structures shape the character and outcomes of conflicts by the ways in which they distribute power among actors and shape actors’ conceptions of their interests (Hall and Taylor 1996). They emphasize that political institutions are not entirely derivative from other social structures such as class, but have independent effects on social phenomena (Evans, Rueschmeyer, and Skocpol 1985); that social arrangements are not only or even primarily the result of aggregating individual choices and actions; that many structures and outcomes are not those planned or intended, but the consequence of unanticipated effects and constrained

choice; and that history is not usually "efficient"—a process "that moves rapidly to a unique solution" (March and Olsen 1984: 737)—but one that is much more indeterminate and context-dependent.

The historical group takes a social-constructionist position that assumes "that capabilities and preferences, that is, the very nature of the actors, cannot be understood except as part of some larger institutional framework" (Krasner 1988: 72; see also chap. 3). Individual preferences are not stable and often result from rather than precede or determine choices. Institutions construct actors and define their available modes of action; they constrain behavior, but they also empower it. Analysis from this perspective is aimed at providing a detailed account of the specifics of institutional forms because they are expected to exert strong effects on individual behavior: structuring agendas, attention, preferences, and modes of acting.

These analysts attempt to show that political systems are not neutral arenas within which "external" interests compete, but rather complex forms and forums that generate independent interests and advantages and whose rules and procedures exert important effects on whatever business is being transacted. In accounting for the origins of these structures, the approach is primarily that of historical reconstruction. Although individuals build these structures, there is no assurance that they will produce what they intend. Current choices and possibilities are constrained and conditioned by past choices (see e.g., Ertman 1996; Karl 1997; Skowronek 1982). Once institutions are established, they have a "continuing effect on subsequent decision-making and institution-building episodes" (Campbell 2004: 25).

These insights have been derived from and applied to a wide variety of political systems, including private associations, nation-states, international organizations, and regimes such as monetary and trade agreements (e.g., Finnemore 1993; Keohane 1989; Schmitter and Lehmrbruch 1982; Skowronek 1982). Critics point out that the work is too often historicist, focusing too much on the details of a single, complex case.

Rational Choice Theory

The second camp consists of the rational choice theorists (also termed *positive* theory) and includes such scholars as Moe, Shepsle, and Weingast. These analysts view institutions as governance or rule systems, but argue that they represent deliberately constructed edifices established by individuals seeking to promote or protect their interests. The approach represents an extension of the neoinstitutional work in economics—including the transaction cost approach of Williamson and

the work of agency theorists such as Alchian and Demsetz (1972)—and its application to the study of political systems. Tullock (1976: 5), an early advocate of importing economic models to explain political behavior, argued that "Voters and customers are essentially the same people. Mr. Smith buys and votes; he is the same man in the supermarket and the voting booth" (see also Buchanan and Tullock 1962). Moe (1984: 750) enumerates the major elements making up the paradigm adopted from the economists as including:

the contractual nature of organizations; markets vs. hierarchies, transactions costs, the rationality of structure, individualistic explanation, and economic methods of analysis. Standard neoclassical notions—optimization, marginality, equilibrium—are often central to work in this new tradition.

Political theorists recognize that economic models developed to account for economic organizations require modification if they are to be applied to political systems (Pierson 2004: 30–48). However, they also insist that many of the basic questions are parallel, including: Why do public organizations exist? How are we to account for their varying forms and governance mechanisms? How can elected political officials, as "principals," control their bureaucratic "agents"? What are the effects of political institutions on political and social behavior? What are the mechanisms by which politicians secure their power positions? As Peters (1999: 45) observes, "Within this approach institutions are conceptualized largely as sets of positive (inducements) and negative (rules) motivations for individuals, with individual utility maximization providing the dynamic for behavior within the models."

Rational choice theorists recognize that, "in the reality of politics social choices are not chaotic. They are quite stable." They are stable because "of the distinctive role that institutions play" (Moe 1990a: 216). Many early scholars argued that much of the stability observed in the law-making process could be explained by the ways in which the rules of procedure and committee structures of legislatures structured the choices available to members (Ferejohn and Fiorina 1975; Riker 1980). Thus, the task becomes to understand the role of institutions and, "more fundamentally, to determine where these institutions come from in the first place" (Moe 1990a: 216). The general argument embraced by these theorists is that "economic organizations and institutions are explained in the same way: they are structures that emerge and take the specific form they do because they solve collective-action problems and thereby facilitate gains from trade" (Moe 1990a: 217–218).

Theorists disagree as to what is distinctive about political institutions. Weingast (1989) argued that politics differs from markets in that, in the former, actors cannot simply engage in market exchange, but must make decisions under some framework such as majority rule. Shepsle (1989) suggested that the most important task of political systems is to "get property rights right": to establish rule systems that promote efficient economic organizations. Moe (1990a: 221) argued that political decisions are distinctive in that they are "fundamentally about the exercise of public authority," which entails access to unique coercive powers. Pierson (2004: 38) added that politics is "a far, far murkier environment" than the economic realm, lacking "the measuring rod of price" and entailing the pursuit of often incommensurable goals with opaque processes. These and related researchers have attempted to account for the distinctive powers and influential procedures of congressional committees (Shepsle and Weingast 1987) and the performance (including the ineffectiveness) of some governmental bureaucracies (Moe 1990a, 1990b) as rational solutions to collective problems (see chap. 5). Hall and Taylor (1996: 945) observe that one of the principal contributions of this approach has been to draw our attention to the crucial "role of strategic interaction in the determination of political outcomes" and to provide a set of tools for understanding how institutions structure such interactions.

An important arena of application for both historical and rational choice theorists has been that of international relations. Rational models view nation-states as self-interested actors attempting to maximize their own advantage in dealing with other nations. Rules are accepted when they lower the transaction costs of a participant and/or decrease the overall level of uncertainty (Hasenclever, Mayer, and Rittberger 1997; Rittberger 1993). By contrast, historical institutionalists, such as Krasner (1983) and Keohane (1989), emphasize the important independent effects of the emergence of cooperative norms among participating nations. In addition, as Keohane (1989: 382) pointed out, "institutions do not merely reflect the preferences and power of the units constituting them; the institutions themselves shape those preferences and that power" (see also Kahn and Zald 1990). As an advocate of a historical perspective, Pierson (2004: 108) identifies some of the limitations of the "institutional design" perspective embraced by rational choice economists and political scientists:

Actors may be instrumental and farsighted but have such multiple and diverse goals that institutional functioning cannot easily be

derived from the preference of designers. Alternatively, actors may not be instrumental in the sense implied by this framework. Or they may be instrumental, but not farsighted. Perhaps, most important, they may in fact have a single, instrumental goal and be farsighted, but major institutional effects may be unintended. Finally, actors may make rational design choices, but change in broader social environments and/or in the character of these actors themselves [e.g., their preferences] may markedly worsen the fit between actors and institutional arrangements after they are chosen.

In summary, although both historical institutionalists and rational choice theorists agree on the importance of institutions in political life, important differences in assumptions and perspectives remain. Rational choice theorists are more likely to stress the microfoundations of institutions, asking how institutions are devised to solve collective action problems experienced by individuals. In contrast, historical institutionalists are more likely to emphasize a macroperspective, tracing the evolution of an institutional form and asking how it affects individual preferences and behavior. Preferences are more likely to be treated by rational choice theorists as stable properties of actors, whereas for historical institutionalists preferences are seen to be more problematic, emergent from the situation (endogenous), and context-specific. The two camps are attracted to different sets of problems. Historical institutionalists "begin with empirical puzzles that emerge from observed events or comparisons," whereas rational choice theorists are more likely to be attracted to "situations in which observed behavior appears to deviate from what the general theory predicts" (Thelen 1999: 374). Finally, rational choice theorists give central place to the concept of equilibria and view institutions as central mechanisms in sustaining this condition, whereas historical institutionalists—like their 19th-century counterparts—are more interested in historical change than in equilibrium—the factors producing political and economic change broadly viewed as "structured institutional change" (see Orren and Skowronek 1994).

Thelen (1999) cites evidence of convergence in the perspectives of the two camps in recent years, and Scharpf (1997) suggests that each approach is incomplete and proposed that, in the long run, they can be combined into a more complete explanation. At the present time, however, they remain relatively distinct approaches, more independent than overlapping in perspective and assumptions and more competitive than cooperative in demeanor.

Neoinstitutional Theory in Sociology

Sociological scholars have ranged rather widely in assembling the principal ingredients making up neoinstitutional approaches to organizational sociology. They have drawn on developments in cognitive and cultural theory in the neighboring disciplines of psychology and anthropology, as well as their home-grown subdiscipline, ethnomethodology.

Theoretical Roots

Cognitive Theory. Simon's work on decision making in organizations paralleled developments in social psychology, as this field of study—both its psychological and sociological sides—experienced the “cognitive revolution.” During the 1940s and 1950s, the stimulus–response (S–R) approach was revised to include attention to the participation of an active organism (S–O–R) that mediated between the provocation and reaction (see Lewin 1951). Early research concentrated on how the state of the organism, as defined by various motivational and emotional variables, affected perception, selective attention, and memory. An early concern with “hot” cognition (e.g., anger or fear) began to be superseded by attention to the effects of “cool” factors (e.g., attention and background assumptions) influencing everyday information-processing and problem-solving behaviors.

The idea of the human organism as an information processor became popular. The mind came to be viewed by many as a computerlike apparatus that registered the incoming information and then subjected it to a variety of transformations before ordering a response. (Markus and Zajonc 1985: 141)

The question became, what types of “software” provide the programs and transformation rules for these processes? Such factors ranged from the functioning of the brain and nervous system to the structure of individual cognitive processes. Early social theorists, like Durkheim, insisted that “the framework of the intelligence” was entirely provided by the forms of the society into which an individual was born: Social and cultural forms determine mental models (“collective representations”). This argument, with variations, has been echoed and elaborated by Mead, Parsons, and Bourdieu, among numerous others, up to the present time (Bergesen 2004). However, a large and growing body of psychological theory and research suggests that, rather than providing a blank slate, humans (e.g., unsocialized infants) come equipped with a number of fundamental mental capabilities, such

as conceptions of space, number, cause-and-effect relations, and recognition of categories (see Gopnik, Melzoff, and Kuhl 1999, Mehler and Dupoux 1994). In a related development, Chomsky (1986) convinced most linguists that “the principles of language [syntax] are not learned but part of our bio-endowment” (Bergesen 2000: 73).⁸

Yet another debate concerns whether individual thought processes follow a logical axis involving an abstract reasoning (“computational”) model or a “pattern-recognition” (“connectionist”) model—the noting of similarities and differences in the situations encountered. The latter approach appears to be both more consistent with studies of human learning (Edelman and Tonini 1992) and better suited to explaining the ways in which socioeconomic actors cope with the kinds of uncertainties they encounter (North 2005: 27).

Psychologists have long vacillated between positions that regard individuals as basically competent, rational beings and views emphasizing cognitive biases and limitations. The general impact of recent cognitive theory and research has been to emphasize the shortcomings of individuals as information processors and decision makers. Tversky and Kahneman (1974) pioneered in the identification of a number of specific types of biases likely to cause mistakes in assessing information and reaching conclusions. These and related problems were generalized by Nisbett and Ross (1980: 31) into two common sources of inferential error: (a) a tendency to overutilize simplistic strategies and fail to employ the logical and statistical rules that guide scientific analysis, and (b) a “tendency to attribute behavior exclusively to the actor’s dispositions and to ignore powerful situational determinants of the behavior.”

Although their views have stressed the intellectual limitations of individuals, cognitive psychologists have recognized that individuals actively participate in perceiving, interpreting, and making sense of their world. By contrast, until fairly recently, sociologists have tended to give primacy to the effects of contextual factors, viewing individuals as more passive, prone to conform to the demands of their social systems and roles. “Identity theory” has emerged as a corrective to this oversocialized view by giving renewed attention to an active and reflexive self that creates, sustains, and changes social structures (see Burke and Reitzes 1981; Rosenberg 1979; Stryker 1980). Similar issues are addressed by “structuration theory,” which is discussed in chapter 4.

Culture Theory. These advances by advocates of the “nature” persuasion have forced some retreats by, but have by no means defeated, the “nurture” advocates. Irrespective of capacities and predispositions on the part of individual human actors, all scholars agree that learning

occurs in a social context. The groundwork was laid by Franz Boas (1982), a cultural anthropologist working at the turn of the 20th century, who, "by stressing the plasticity of human culture . . . expanded human nature into an infinity of possibilities rather than a prison of constraints" (Ridley 2003: 202). One of the important developments in cultural theory involved a shift away from a more diffuse definition of *culture* as encompassing the entire way of life of a people to focus on its semiotic functions. Worthy successors to Boas, such as Alfred Kroeber and Clyde Kluckhohn (1952), carried this tradition forward, concluding that, "Culture consists of explicit and implicit patterns of historically derived and selected ideas and their embodiment in institutions, practices, and artifacts." Their more eloquent protégé, Clifford Geertz (1973: 5, 12) elaborated on the message:

Believing, with Max Weber, that man is a social animal suspended in webs of significance he himself has spun, I take culture to be these webs. . . . Culture consists of socially established structures of meaning.

Donald (1991) proposed a coevolutionary view, in which the cognitive capacities of our species and the cultures we have developed have advanced in complementary ways. Advancing a "cognitive classification of culture," Donald suggested that human culture has progressed from:

- an *episodic* one, in which lives were experienced as "a series of concrete episodes," to
- a *mnemonic* one, resting on visuomotor skills that produced conscious, intentional, representational acts (e.g., tool-making, coordinated hunting), to
- the use of language, which supports a *mythic* culture enabling an oral-narrative system and allowing the creation of more comprehensive models of the nature of the world and our place in it, to
- a *theoretic* culture, involving written language and other forms of symbolic representation (maps, musical notation, architectural drawings), that allows for their externalization in media (books, films, computer memory) that can be preserved, corrected, and transmitted over time and space.

Note that the emergence of theoretic culture supports new types of human enterprise, including the development of the sciences, numerous theoreticians, and a wide range of professions specializing in the production, evaluation, and dissemination of various types of knowledge.

Each of these levels or phases represents not only advances in the complexity of culture, but, simultaneously, improvement in cognitive capacity to the point where some scholars propose that

Genes are very far from being fixed in their actions. Instead, they are devices for extracting information from the environment. Every minute, every second, the pattern of genes being expressed in your brain changes, often in direct or indirect response to events outside the body. Genes are the mechanisms of experience. (Ridley 2003: 248)

All culture theorists underline the importance of symbolic systems in the ordering of social life, but a growing number also recognize that such systems embody not only content, but also affect. The meanings embedded in systems are emotional as well as substantive. It is no doubt in recognition of this fact that de Tocqueville (1835–1840/1969: 279), the justly famous student of American character and culture, referred to the cultural mores guiding its citizens as the "habits of the heart" (see also Bellah et al. 1985). As D'Andrade (1984: 99) points out, "ideas, feelings, and intentions are all activated by symbols and are thus part of the meaning of symbols." Sociologist David Heise (1979) went even further to assert that the meanings of settings, actors, and behaviors, indeed, of any social category, are primarily affective (see also Thoits 1989). Almost any type of stimulus evokes some sort of affective response, and many types of symbolic expressions—thanks, apologies, and curses—specifically refer to feelings. Much of the motivation that propels action in any situation comes from the feelings evoked by the shifting patterns of meanings.

A limitation long present in the approach to culture taken by many sociologists is the assumption that culture is subordinate in interest and importance to social structure. The distinction between social structure, made up of the "relational system of interaction among individuals and collectivities" and culture, made up "transmitted and created content and patterns of values, ideas, and other symbolic-meaningful systems" of symbolic and normative systems, is one of long standing (Kroeber and Parsons 1958: 583). Although useful, sociologists have tended to privilege social structure over symbolic systems in their accounts of behavior. The new cultural arguments stress the independent effects of cultural systems.

Symbolic systems vary in the extent to which they exhibit uniformity and promote consistency of action. All too often it is assumed that cultures are stable and constraining. However, more recent work

stresses that culture can enable change. For example, Swidler (1986: 277–278) argued that in “settled” times “culture accounts for continuities . . . organizing and anchoring patterns of action,” whereas in times of change, culture functions more like a ‘tool kit,’ providing repertoires “from which actors select different pieces for constructing lines of action.”⁹

Phenomenology and Ethnomethodology. Phenomenology, which began as a branch of philosophy, was incorporated into social science by scholars such as Schutz and Berger, who “stressed the in-depth exploration of the meanings associated with symbols” (Wuthnow 1987: 42). These scholars clearly embraced a view of culture as primarily a semiotic system. They also distanced themselves from the prevailing focus on shared norms and values, as exemplified in the work of Durkheim and Parsons, to emphasize shared knowledge and belief systems. Behavior is shaped not only by attention to rules and the operation of norms, but also by common definitions of the situation and shared strategies of action. As noted in chapter 1, attention to cognitive frames and cultural frameworks, rather than normative systems, is one of the major distinguishing marks of neoinstitutional theory in sociology (see DiMaggio and Powell 1991: 15–18).

Corresponding to the changing conceptions of culture, in particular, the *theoretic* mode to use Donald’s terminology, another important shift in emphasis involves the recognition that symbols exist not only as internalized beliefs, but also as external frameworks. Much work in sociology (e.g., symbolic interactionism and survey methodologies) treats beliefs as primarily internalized and subjective. By contrast, the types of data preferred by the new cultural scholars “are more readily observable kinds of behavior”—such as verbal utterances, rituals, codified bodies of knowledge and cultural artifacts—“rather than [those] locked away in people’s private ruminations” (Wuthnow 1987: 56). Such approaches direct attention away from the internalized, subjective nature of culture and treat symbols as external, objective phenomena.¹⁰ This emphasis is particularly apparent in Berger and Luckmann’s (1967: 60–61) conceptualization of the construction of common meaning systems. They stressed three moments or phases:

- *externalization*—the production, in social interaction, of symbolic structures whose meaning comes to be shared by the participants;
- *objectification*—the process by which this production “comes to confront him as a facticity outside of himself,” as something “out there,” as a reality experienced in common with others; and

- *internalization*—the process by which the objectified world is “retrojected into consciousness in the course of socialization.”

As noted in chapter 1, Berger and Luckmann (1967: 58) defined this three-phase process as one of “institutionalization.” Institutions are symbolic systems that are “experienced as possessing a reality of their own, a reality that confronts the individual as an external and coercive fact.” A more recent manifestation of this recognition of the importance of culture as an external symbolic framework is a concern with the “production of culture”—an examination of the ways in which cultural items are produced, distributed, selected, and institutionalized (see Becker 1982; Caves 2000; Griswold 1992; Hirsch 1972; Lampel, Shansie, and Lant 2006).

Closely related to phenomenology is the subfield of *ethnomethodology*. In an attempt to combat the prevalent models of social order advanced by Parsons and others, Harold Garfinkel (1974) coined the term “ethnomethodology,” corresponding to usage in cultural anthropology, to refer to the “commonsense knowledge” of how to operate within some social arena as developed and acquired by its participants. *Ethno-* stresses the local, indigenous production of meaning, and *-methodology* stresses that the knowledge involves distinctions and rules necessary for carrying on the work at hand.

Researchers within this tradition have primarily studied behavior in work settings or that of other types of actors, such as jurors, engaged in some collective task. The questions posed by these researchers are: How do such individuals “make sense” of the situations they confront? How do they collectively construct the rules and procedures that allow them to cope with everyday demands? Detailed participant observation studies have been conducted—in police stations, welfare agencies, and psychiatric clinics, among other sites—to elicit these shared meanings (see Cicourel 1968; Garfinkel 1967; Zimmerman 1969).

As DiMaggio and Powell (1991: 20) emphasize, ethnomethodologists challenged and supplemented Parsons’ model by stressing the cognitive, rather than the evaluative-normative, components of behavior, and they questioned the neoclassical economic model of rational decision making by emphasizing the tacit, routine nature of “choice” in organizational settings.

These then were the mix of ideas and themes that came together beginning in the 1960s to seed the development of neoinstitutional theory in sociology. Although, as noted, some of these ideas were being developed in and applied to organizations by ethnomethodologists, they did not penetrate the mainstream of organizational studies until the 1970s.

Neoinstitutional Theory and Organizations: Founding Conceptions

An important early attempt to introduce neoinstitutional arguments to the study of organizations was made by David Silverman (1971), who proposed an "action" theory of organization. Silverman attacked prevailing models of organization, including contingency arguments and Parsons' and Selznick's structural-functional views, as being overly concerned with stability, order, and system maintenance. Drawing on the work of Durkheim, Schutz, Berger and Luckmann, and Goffman, Silverman proposed a phenomenological view of organizations that focuses attention on meaning systems and the ways in which they are constructed and reconstructed in social action. Silverman (1971: 141) contrasted his action approach with the prevailing "systems" view:

The systems approach tends to regard behaviour as a reflection of the characteristics of a social system containing a series of impersonal processes which are external to actors and constrain them. In emphasizing that action derives from the meanings that men attach to their own and each other's actions, the Action frame of references argues that man is constrained by the way in which he socially constructs his reality.

Adopting the insights of Durkheim, Silverman (1971: 19) argued that meanings operate not only in the minds of individuals, but are also objective "social facts" residing in social institutions. The environments of organizations need to be conceptualized not only as a supply house of resources and target of outputs, but also as a "source of meanings for the members of organizations."

Silverman's critique and attempted redirection of organizational theory had more impact in European than U.S. circles (see Burrell and Morgan 1979; Salaman 1978).¹¹ Another European social theorist, Pierre Bourdieu, employed a general conception of "social field" to refer to social arenas governed by distinctive values and approaches. Bourdieu emphasized the contested nature of social fields and the role of power in resolving these contests (see chap. 8). Fields can be examined as social phenomena external to any particular actor, but also exist as subjective, internalized mental elements. In his analysis of social structures, Bourdieu (1977: 95) placed great importance on the internalization of cultural rules. His concept of *habitus* refers to the existence of a "system of lasting and transposable dispositions which, integrating past experiences, functions at every moment as a matrix of perceptions,

appreciations and actions," allowing individuals to structure their behavior within situations (see also Bourdieu and Wacquant 1992: 94–149). Bourdieu's work was also much more influential in Europe than the United States until recently.

A subsequent effort to introduce the new institutional arguments into organizational sociology proved to be much more successful. Two seminal articles appearing in the same year introduced neoinstitutional theory into the sociological study of organizations. Articles by Meyer and Rowan (1977) and Zucker (1977), like Silverman's work, built primarily on Durkheim's and, especially, Berger and Luckmann's conception of institutions.

John Meyer and Brian Rowan (1977) embraced the view of institutions as complexes of cultural rules. However, in their formulation, not any and all cultural rules are supportive of organizations. Following Berger's lead (see Berger, Berger, and Kellner 1973), Meyer and Rowan stressed the importance of beliefs that are "rationalized"—formulated in ways that specify the design of rulelike procedures to attain specific objectives. The engines of rationalization include the professions, nation-states, and mass media, whose efforts support the development of larger numbers and more types of organizations. Organizations are not simply the product of increasing technical sophistication, as long argued, or even of increasingly complex relational patterns, but result from the increasing rationalization of cultural rules, which provide an independent basis for their construction. Meyer and Rowan emphasized the impact on organizational forms of changes in the wider institutional environment.

While Meyer and Rowan developed the macroside of the argument, Lynne Zucker (a student of Meyer) emphasized the microfoundations of institutions (see Zucker 1991). She stressed the power of cognitive beliefs to anchor behavior: "social knowledge, once institutionalized exists as a fact, as part of objective reality, and can be transmitted directly on that basis" (Zucker 1977: 726).

Other influential contributions soon thereafter, by DiMaggio and Powell (1983) and Meyer and Scott (1983b), elaborated on the macro (environmental) perspective, which has become the dominant emphasis in sociological work. DiMaggio and Powell distinguished three important mechanisms—coercive, mimetic, and normative—by which institutional effects are diffused through a field of organizations and emphasized structural isomorphism (similarity) as an important consequence of both competitive and institutional processes. Meyer and Scott proposed that all organizations are shaped by both technical and institutional forces, but that some types of organizations were more

strongly influenced by one than the other. Both sets of authors identified the organization "field" or sector as a new level of analysis particularly suited to the study of institutional processes. Organizational fields help to bound the environments within which institutional processes operate (see chaps. 4 and 8).

This early work ushering in "the new institutionalism in organizational analysis" (Powell and DiMaggio 1991) has continued to fuel and guide an expanding set of studies with applications to new problems and fields of inquiry—from studies of micromobilization to globalization processes. Like pioneering work in any arena, it has had an "imprinting" effect on much of the subsequent development of the field. However, such influence has both its positive and negative sides. As I discuss in subsequent chapters, although the pioneering statements provided valuable insights to pursue, they also contained flawed or limiting assumptions that are still in the process of being corrected.

Also active among sociologists is a set of investigators embracing a rational choice approach to social institutions. Their assumptions and approaches are quite similar to those already described as operating in economics and political science. Although their numbers and influence are considerably smaller in sociology than in these other disciplines, they include a number of prominent sociologists, including Coleman (1990), Hechter (1987; see also Hechter, Opp, and Wippler 1990), and Nee (1998). As Coleman (1994: 167) noted, these theorists embrace the "principle of actor maximization"—some in the stronger sense, others in the weaker, bounded rationality sense—as the "source of deductive power of rational choice theory." However, unlike neoclassical economics, they replace the "assumption of a perfect market with social structures, sometimes regarded as endogenous, and other times as exogenous, which carries individual actions into systemic outcomes." At least some of these analysts allow for the effects of "context-bound rationality within which individual interests and group norms develop" (Brinton and Nee 1998: xv).

❖ CONCLUDING COMMENT

Beginning in the 1950s, with the emergence of organizations as a recognized field of study, scholars began to connect institutional arguments to the structure and behavior of organizations. These approaches both built on and departed from the work of earlier institutional theorists. Institutional arguments began to be connected to organizational studies through the work of Merton and his students,

particularly Selznick, as well as the efforts of Parsons, and Simon and March.

The work that has come to be labeled *neoinstitutional theory* assumes quite varied guises across the social sciences. The main thrust of economic approaches embraces orthodox or slightly broadened rationality assumptions and seeks to apply economic arguments to account for the existence of organizations and institutions. Williamson's development of transaction cost analysis exemplifies this approach to organizations. Political science remains split into two factions: the one applying rational choice economic models to political systems, and the other embracing a historical view of the nature of institutions, emphasizing their broad effects in constructing interests and actors.

Neoinstitutional approaches in sociology build on a loosely constructed framework of ideas stemming from cognitive psychology, cultural studies, phenomenology, and ethnomethodology. The newer conceptual models emphasize cognitive over normative frameworks and have focused primary attention on the effects of cultural belief systems operating in the environments of organizations rather than on intraorganizational processes.

In the next chapter, I shift from a historical to an analytic approach. I begin with an attempt to develop an integrated model of institutions—drawing on and encompassing much of the contemporary work of the type just reviewed. I then identify several dimensions along which contemporary theories differ as they consider the relation of institutions as they relate to organizations.

❖ NOTES

1. Related work stimulated by Weber was also carried out at this time by Reinhard Bendix, an exile from Nazi Germany. As a young assistant professor at the University of California, Berkeley, Bendix applied Weber's historical-comparative approach to the study of work and authority systems in two matched pairs of societies: England and the United States, and Russia and East Germany. In many respects, his study of diverse managerial ideologies, *Work and Authority in Industry* (Bendix, 1956/2001), was much more in accord with Weberian insights than most other efforts at this time that invoked Weber's name (see Guillén 2001a, 2001b).

2. Translations of some of Weber's important essays were made by Hans H. Gerth and C. Wright Mills (Weber 1906–1924/1946), who were both at Columbia University and connected to the circle of scholars gathered around Merton. The other important early translators were A. M. Henderson and Talcott Parsons (1924/1947).

3. In addition to his mentor, Merton, Selznick was also clearly influenced by the work of Robert Michels (1915/1949), a contemporary of Max Weber, who first examined the ways in which some members of organizations become more concerned with preserving the organization even at the cost of sacrificing its original goals. Michels observed this process in his study of the Social Democratic Party in Germany, which came to power, but at the sacrifice of its original goals. He gloomily concluded: "Thus from a means, organization become an end" (Michels 1915/1949: 390).
4. Values are expressions of goals or, more precisely, the criteria employed in selecting goals; norms are the generalized rules governing behavior that specify appropriate means for pursuing goals.
5. Parsons (1960b: 65–66) noted that the "points of articulation" between the three system levels are characterized by "a qualitative break in the simple continuity of line authority" because "the functions at each level are qualitatively different." His discussion thus anticipated the recognition by later analysts that some structural elements are "loosely coupled" or "decoupled" (see Meyer and Rowan 1977; Weick 1976).
6. A related line of theory and research, *agency theory*, also addresses the proper design of control structures to deal with the motivation and control of "agents"—those hired to assist the "principal"—the person expected to be the prime beneficiary of the collective work (see Alchian and Demsetz 1972; Jensen and Meckling 1976; Pratt and Zeckhauser 1985). Dealing with a problem common to all organizations, this approach focuses on the design of appropriate control and incentive systems to manage various kinds of work.
7. Peters (1999) identified six institutional perspectives existing within political science, including normative, rational choice, historical, empirical, international, and societal. This typology, in my view, gives too much weight to differences in methodology and/or topic. In a useful review, Hall and Taylor (1996) identified three "new institutionalisms": historical, rational choice, and sociological.
8. Paradoxically, as Chomsky has shown, an innate, hard-wired language capacity provides the basis for a "generative grammar" capable of rich and flexible language usage (Bergesen 2000, 2005).
9. Informative reviews of cultural sociology are provided by Wuthnow et al. (1984), Wuthnow (1987), and DiMaggio (1990, 1997).
10. It is for this reason that phenomenologists such as Schutz and Bellah define themselves as "symbolic realists."
11. In his subsequent work, Silverman (1972; Silverman and Jones 1976) shifted his focus toward a more micro, ethnomethodological emphasis, examining the multiple meanings and rationalities associated with participants' phenomenological accounts of their common situation (see Reed 1985).

3

Crafting an Analytic Framework I

Three Pillars of Institutions



To an institutionalist, knowledge of what has gone before is vital information. The ideas and insights of our predecessors provide the context for current efforts and the platform on which we necessarily craft our own contributions. However, as should be clear even from my brief review, the concepts and arguments advanced by our predecessors have been strikingly diverse, resting on varied assumptions and privileging differing causal processes. A number of theorists have proposed that we can clarify the arguments by boiling them down to a few dominant paradigms (see e.g., Campbell 2004; Hall and Taylor 1996). However, as Campbell observed, these "schools" exhibit as many similarities as differences. Hence, my own approach to bringing some order into the discussion is to propose a broad definition of institutions that can encompass a variety of arguments and then attempt to identify the key analytic elements that give rise to the most important differences observed and debates encountered. This chapter and the next identify and elucidate the three analytical elements that comprise institutions. Each element is important and, sometimes, one or another