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INSTITUTIONAL THEORIES OF ORGANIZATION

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INSTITUTIONAL THEORIES OF ORGANIZATION

Institutional theories of organizations provide a rich, complex view of organizations. In these theories, organizations are influenced by normative pressures, sometimes arising from external sources such as the state, other times arising from within the organization itself. Under some conditions, these pressures lead the organization to be guided by legitimated elements, from standard operating procedures to professional certification and state requirement, which often have the effect of directing attention away from task performance. Adoption of these legitimated elements, leading to isomorphism with the institutional environment, increases the probability of survival. Institutional theories of organization have spread rapidly, a testimony to the power of the imaginative ideas developed in theoretical and empirical work. As rigor increases, with better specification of indicators and models, it is likely to attract the attention of an even larger number of organizational researchers.

Institutional theory is inherently difficult to explicate, because it taps taken-for-granted assumptions at the core of social action. The main goal of this review, then, is to make institutional theory more accessible. The review begins with a brief summary of the two current theoretical approaches to institutionalization in organizations, moves to identification of indicators of central concepts, and then progresses to a review of empirical research. It concludes with two short sections, one on points of intersection with other theories of organization, the other on the "new institutionalism" in economics and political science.

CENTRAL CONCEPTS AND INDICATORS OF INSTITUTIONALIZATION

Defining Principles

What is the meaning of *institutional*? Two defining elements are shared by the theoretical approaches to institutionalization in organizations (most explicit in Zucker 1977:728): (a) a rule-like, social fact quality of an organized pattern of action (exterior), and (b) an embedding in formal structures, such as formal aspects of organizations that are not tied to particular actors or situations (nonpersonal/objective).

Contemporary institutional theories of organization attempt to avoid earlier conceptions that were tautological (e.g. persistence both defines and empirically indicates what is institutionalized), purely descriptive (e.g. “family institution”), or untestable (e.g. internalization explanations). They do so in part by treating institutionalization as a variable, and by separating its causes from the major consequence: “establishment of relative permanence of a distinctly social sort” (Hughes 1936:180; see also Rose 1968).

Both approaches identify two defining processes (DiMaggio & Powell 1983:150): (a) imitative or mimetic, adopting others’ successful elements when uncertain about alternatives, and (b) normative transmission of social facts, generally from external sources such as the professions. A third defining process, coercive, is central to state legitimation in the environment-as-institution approach, but it is explicitly considered deinstitutionalizing in the organization-as-institution approach, since any use of sanctions indicates that other attractive alternatives exist.

Four other defining principles diverge significantly: motif, source, locus, and outcome of institutionalization. As outlined in Table 1 and reflected in the discussion below, there are two distinct theoretical approaches: Environment as institution assumes that the basic process is *reproduction* or copying of system-wide (or sector-wide; see below) social facts on the organizational level, while organization as institution assumes that the central process is *generation* (meaning creation of new cultural elements) at the organization level. In this latter approach, reproduction is a consequence of institutionalization, not a cause.

ENVIRONMENT AS INSTITUTION Institutional environments obtain their defining power from “rationalization” and from accompanying state elaboration. These environments are constructed as one consequence of a much wider “state project,” related to expansion of state jurisdiction (Thomas & Meyer 1984:469). This “statist” view conceives of the collective normative order, including the professions and widespread agreements shared by members of organizational fields, as linked to a broad conception of the state (Thomas et

Table 1 Major points of theoretical divergence

Theoretical approach	Environment as institution	Organization as institution
Motif	Reproductive	Generative
Source	Growth of state	Small groups & imitation of other organizations
Locus	Outside organization State linked	Internal process Similar organizations
Outcomes	(1) Decoupling from technical core (2) Inefficiency	(1) Stability (2) Efficiency contingent on alternatives

al 1987, less clear in DiMaggio & Powell 1983). Conformity of organizations to the collective normative order increases the flow of societal resources and enhances “long-run survival prospects” (Meyer & Rowan 1977:252).

Institutional elements invariably come from outside the organization. These elements cause change in organizations, but the impetus for action is unclear because the organization is in an “iron cage” (but see DiMaggio 1987). When organizations respond to external institutional pressure (or possibly only to coercive pressure as in DiMaggio & Powell 1983), they protect their technical activities through decoupling elements of structure from other activities and from each other, thus reducing their efficiency (Meyer & Rowan 1977:357, Weick 1976, Selznick 1949). In contrast, in line with predictions from economic theory, firms that operate in the technical sector “succeed to the extent that they develop efficient production activities and effective coordination structures” (Scott & Meyer 1983:141). But efficiency and success do not necessarily covary in institutional theory:

Organizational conformity to the institutional environment simultaneously increases positive evaluation, resource flows, and therefore survival chances, *and* reduces efficiency.

In this view, the social becomes mythical and implicitly dysfunctional in strict task performance terms, while the technical remains real and rational (Meyer & Rowan 1977:356–57). Institutionalized organizations serve many important legitimating functions, but the core tasks are not performed as well as they would be in a market-oriented organization, and basic organizational objectives are also often deflected (Selznick 1957, reviewed in Perrow 1986:159–64).

Three defining principles, then, are: (a) Institutional processes stem from

overarching rationalization, a zeitgeist-like world-wide phenomenon, that fuels growth of the state; (b) institutions are commonly state-linked and invariably external to the organization; and (c) institutionalization produces task-related inefficiency, hence decoupling of internal structure. Refer to Table 1. Institutional processes are constrained and systematic.

ORGANIZATION AS INSTITUTION *Implemented* institutional elements commonly arise from within the organization itself or from imitation of other similar organizations (Zucker 1977:728, 1983; Tolbert & Zucker 1983; Tolbert 1985), not from power or coercive processes located in the state or elsewhere. Use of sanctions implies availability of attractive alternatives, and it tends to deinstitutionalize.

Borrowing from ethnomethodology (Garfinkel 1967, Schutz 1962), the argument can be made that acts and structures embedded in organizations (where the "routines" and roles are highly formalized and have continuity over time) are more readily institutionalized than those embedded in alternative informal social coordination structures (Zucker 1977:728–29, 1983:16–18). Hence organizations are important sources of institutionalization of new action. Already institutionalized elements can "infect" other elements in a contagion of legitimacy. For example, universities can create new departments, simultaneously creating new structures, new knowledge that is defined as expert, and new sets of categories to which individuals are allocated. It is paradoxical that:

Because institutional elements (structures, actions, roles) are authorized to legitimate other elements, institutionalized aspects are simultaneously highly stable *and* responsible for creating new institutional elements (Zucker 1987b).

Institutional elements are easily transmitted to newcomers, are maintained over long periods of time without further justification or elaboration, and are highly resistant to change (Zucker 1977, 1983, 1987b; also Nelson & Winter 1982: Ch. 5)¹. The resulting stability increases effectiveness when it is linked to goals of the organization by creating "routines" that reduce search and evaluation costs. But stability decreases effectiveness if more efficient ways of organizing are ignored, often because they are literally not perceived (Zucker 1977:728; implicit in conceptual "blockbusting", Adams 1979:Ch. 4).

Three defining principles, then, are: (a) Institutional elements arise primarily from small group or organization-level processes; (b) formalized

¹Not all elements of organizations, nor all types of organizations, are equally institutionalized. Habits must be distinguished from institutional elements, perhaps by resistance to change. Also, routines are static, while some institutional elements are always in the process of decreasing in institutionalization and others are simultaneously increasing.

organizational structure and process tend to be both highly institutionalized and a source of new institutionalization; and (c) institutionalization increases stability, creating routines that enhance organizational performance except when more efficient alternatives are ignored. Refer again to Table 1. Institutional order is negotiated and emergent, never systematically controlled.

Indicators of Institutionalization

Construction of indicators can be avoided by assuming institutional status and then studying institutional properties (Meyer 1977, Kamens 1977). This is a useful heuristic device when focus is on elaboration of structure within institutionalized systems, but differences in degree of institutionalization across the same system are obscured. For example, methods and content of instruction itself are not highly institutionalized (Rowan 1982), while use of a common grading system is.

Because of the "social fact" quality, indicators of institutionalization are more indirect than, say, measures of resource dependence. Table 2 groups the indicators under institutional environment, degree of institutionalization, and consequences or outcomes of the institutional process. Conceptually, the first two are independent variables, with consequences dependent. In fact, the empirical work examines the theory piecemeal, seldom testing the causal predictions (but see laboratory experiments by Zucker 1977 and Thomas et al 1987, and field studies by Zucker et al 1986, Dobbin et al 1987, and Meyer et al 1987).

Indicators of "institutional environment" in Table 2 reflect pressures generated external to the organization, such as those created by the state via law and regulation or by the professions, based on their widespread authority. Unaccredited hospitals are unlikely to attract top physicians and are barred from receiving state funds (Zucker & Taka 1986); industries that cannot use patents to protect innovations from imitation have lower financial returns (Hirsch 1975). There are two principal problems with indicators of the institutional environment. First, they are often global and thus invariant across organizations, requiring a comparative approach. Second, the power or authority is often translated into control over resource flow to the organization, making it difficult to distinguish institutional from resource dependence explanations (see Pfeffer 1982:Ch. 6 & 7, and discussion at the end of this chapter).

Changes in degree of institutionalization in the second section of Table 2 are often indicated by changes in language, shifting toward the more routine and positive. For example, justification of civil service reform changed from reforming city governments plagued by bossism and corruption to a required aspect of modern, efficient government structures (Tolbert & Zucker 1983:Tbl. 1). In a similar way, payoffs to prevent unfriendly takeovers of

Table 2 Indicators proposed for tests of institutional theory and competing interpretations

Indicator	Reference	Competing interpretation
<u>Institutional Environment</u>		
1. Outside elements subverting goals	Selznick 1949 Clark 1956 & 1960 Zald & Denton 1963	Relative power
2. Passage of law	Rowan 1982:Fig. 1, 2, 3 Tolbert & Zucker 1983:Fig. Zucker et al 1986:Tbl. 1	Resource dependence
3. Professionalism	Rowan 1982:Fig. 1, 2, 3 Powell 1985 & 1987	Authority & control
4. Regulation #; federal contracts in firms	Hirsch 1974 Scott & Meyer 1983 Dobbin et al 1987:Tbl. 2	Resource dependence
<u>Degree of institutionalization</u>		
1. Linguistic shorthand	Zucker 1983:Tbl. 12 Hirsch 1986:Tbl. 3	Frequency of use
2. Certainty of accuracy/judgment	Zucker 1977:Tbl. 4	Information differential
3. Change in content or rationale	Tolbert & Zucker 1983:Tbl. 1 Armour & Teece 1978 M. Meyer et al 1985:Tbl. 5.2	Political shifts or competitive advantage
<u>Consequences of institutionalization</u>		
1. Maintenance; low failure rates	Zucker 1977:Tbl. 5 & 1983:Tbl. 5 Rowan 1982:Tbl. 2 Dobbin et al 1987:Fig 2 & 3	Power of organizations & elites
2. Resistance to change; reduce action	Zucker 1977:Tbl. 7 Zelditch & Walker 1984 Thomas et al 1986:Tbl. 1	Sanctioning; Information differential
3. Isomorphism	DiMaggio & Powell 1983 & 1984 Tolbert 1985 & 1987:Tbl. 3 J. Meyer et al 1987:Tbl. 3	Simple imitation; Population ecology
4. Centralization; evaluation in network	Kamens & Lunde 1987:Tbl. 4 Hinings & Greenwood 1987 Zucker 1986b & 1981:Tbl. 1	Resource dependence
5. Decoupling; loose coupling	Weick 1976 Meyer & Rowan 1977	Lack of commitment to element
6. Allocative power; Authorized to legitimate	J. Meyer 1977 Zucker 1983:Tbl. 10 Zucker 1987a	Value structure

corporations were shifted from illegal “blackmail” to “greenmail” (Hirsch 1986:Appendix).

Recently, research on causes of institutionalization has been eclipsed by study of its consequences or outcomes. The traditional concern with stability and resistance to change, reflected in Table 2, is often extended beyond the institutional element to the organization as a whole; this predicts: (a) low rates of organizational failure, i.e. probability of survival increases when the organization is embedded in the institutional environment (Meyer & Rowan 1977, Scott & Meyer 1983), and (b) an organizational structure closed to change from the environment except when first formed or during reorganization (Stinchcombe 1965:154–160; Meyer & Brown 1977:Table 1; Williamson & Swanson 1966:Table 4.3.A).

In institutionalized contexts, organizations are pressured to become increasingly similar, sometimes because of environmental constraint (Meyer & Rowan 1977, DiMaggio & Powell 1983), sometimes because of network ties with other organizations that make changing any one element difficult without altering other interconnected elements (Zucker 1986b). For example, if a college wishes to abandon grading practices and to give written comments instead, then graduate and professional schools have to agree to make admission decisions based on the written comments, without grades, for the change to be viable.²

Other consequences stem from the power that institutional elements have to create social categories that become redefined as fact. Allocation to them alters life chances and perceptions by actors, and it defines conceivable alternative lines of action (classic work on this problem in Durkheim & Mauss 1903:8, 66, 81; Sapir 1931:578). Educational systems expand the existing set of categories by, for example, creating the role “physician,” and its reciprocal role, “patient” (Meyer 1977:73). These new categories may be more or less integrated with earlier categories, e.g. by giving families major roles in allocating personnel to firms (Zucker 1983:30–33, Udy 1962, Hall 1977).

Indicators similar to those listed in Table 2 are used to measure institutionalization in the empirical studies reviewed below.

REVIEW OF EMPIRICAL RESEARCH

Research is roughly categorized along three dimensions describing the *source* of institutionalization: the wider institutional environment, other organizations, and internal organizational structure.

Institutional Environment

What defines the institutional environment? Two somewhat different definitions have been proposed. In the first definition, “positions, policies,

²This example was drawn from lectures by Morris Zelditch, Jr., in an introductory sociology course in which he illustrated concepts developed by the impenetrable Nadel (1953).

programs, and procedures of modern organization . . . are manifestations of powerful institutional rules which function as highly rationalized myths” (Meyer & Rowan 1977:343), not explainable by direct task contingencies (Selznick 1957; Scott & Meyer 1983). Thus, organizations become a passive “audience” for institutional knowledge (Meyer 1983), because the rules are formed in the state or even world system, external and hierarchically superior to the organization (Thomas & Meyer 1984, Meyer & Hannan 1979). Hence, the institutional environment is *not* reducible to the “effects generated by the networks of social behavior and relationship which compose and surround a given organization” (Meyer & Rowan 1977:341).

It is just this network conception that is picked up in the second definition (DiMaggio & Powell 1983:148): “By organizational field, we mean those organizations that, in the aggregate, constitute a recognized area of institutional life . . .,” defined in terms of increased density of interaction, information flows, and membership identification. This structuration of fields also generally includes domination and hierarchy (DiMaggio & Powell 1983; on analysis via block modeling, see DiMaggio 1986:347–58). The state is but one source among many, though an unusually powerful one (DiMaggio 1983).

Much as do “populations” in ecological approaches to organizations, fields or sectors also differ on a large number of factors, making it difficult to construct abstract divisions. Though the majority of ties may be with other organizations in the same “field,” the most important institutionalization may occur along lines that crosscut fields. Objective personnel procedures and formation of personnel departments represent just two examples (Baron et al 1986). Also, even similar enterprises, such as professional, nonprofit organizations, can function in dramatically different fields. For example, in academic publishing, social networks and close exchange are critical to the on-going task activities, but editors are simultaneously shielded from undue outside influence (Powell 1985), while in public television exchange is formal, but the influence of external funders penetrates the internal operating structure (Powell 1987).

In one of the most systematic studies, art museums were shown to be more likely to share similar structures—in terms of allocation of staff and budgets among administrative and artistic functions—if they were subject to strong institutional pressures (DiMaggio & Powell 1984). These positions are part of the core technology, and hence DiMaggio & Powell (1984:24) conclude that not “all structural effects of institutional pressures can be easily decoupled from core activities.” In a preliminary report of their research, based on a sample of 111 museums, they found: (a) size, age, and funding of museums reduced the variation among museums in allocation of staff and personnel, and (b) variation was greater in specialist museums (drawing intensively on

different revenue sources) than among generalist museums (drawing from a wide range of revenue sources).

AGENCY AND INSTITUTIONAL INTERPENETRATION The process leading particular actors, including the state, to exert pressure is underspecified (DiMaggio 1987). It may rest on relevance of interest and usable power (Selznick 1949), on the need for continual reproduction in the face of constant erosion of institutions (Zucker 1987b, DiMaggio 1987), or on the concerted efforts of "institutional entrepreneurs" who make use of personal resources to build or rebuild institutional structure (DiMaggio 1987).

When the institutional project is successful, why are some organizations interpenetrated by the institutional environment, while others are not? Three answers rest on differences between organizations: internal goals and values, legitimacy of external control, and relative control or power of the organization. First, organizations championing "precarious" values, those not widely shared, are more likely to have their goals subverted (Clark 1956:333, 1960:156). Such goal displacement is negatively evaluated when the original goals promoted the public welfare (Selznick 1949, Zald & Denton 1963, Zald & Ash 1966, Wamsley 1969, Nonet 1969). Subverting goals such as water or air pollution would probably be viewed more positively (e.g. Jaccoby & Steinbruner 1973, Ackerman & Hassler 1981).

Second, organizations may seek legitimation of their activities through active control or shaping of the institutional environment (Dowling & Pfeffer 1975, Pfeffer & Salancik 1978:Ch. 8) in order to gain access to societal resources, thus insuring their long-term survival (Scott & Meyer 1983). Public organizations, or firms with strong ties to the public sector via contracts, are likely to adopt innovations required or supported by government policy voluntarily and to reject those prohibited (Hinings & Greenwood 1987, Dobbin et al 1987).

Third, the relative power of the organization has an independent effect on compliance: The extent of an organization's continuing control over its own boundaries determines the amount of environmental penetration, institutional or otherwise (Meyer & Zucker 1986). Firms, with greater power than public organizations, use boundary units, contracting, or incorporating parts of the environment in internal hierarchies as means of reducing the effects on task performance of such environmental forces as suppliers and regulatory agencies (Thompson 1967:Ch. 3, Thompson & McEwen 1958, Williamson 1975). Owners generally exercise power to prevent other interested parties, including workers or community members, from influencing any internal decision-making, such as new products or investments. But owners typically have low nonpecuniary interests in the firm (except under special circumstances, as in the family firm), so their incentives to maintain boundaries decrease markedly

if the firm becomes unprofitable, showing negative returns compared to alternative investments. For example, workers, community members, and even the state are often able to cancel or alter decisions about firm bankruptcy or liquidation (see Nelson 1981:69–71). Unlike public organizations, this seldom represents a willing embrace by the owners of the institutional environment for legitimating or survival purposes; rather, owners receiving low returns from firm operations are simply less interested in protecting it from outside interference (Meyer & Zucker 1986).

The concept “institutional environment” provides important insights concerning the organization/environment interface. Recent work has gone one step further and defined an institutional-technical continuum along which aspects of the environment can be arrayed.

INSTITUTIONAL VERSUS TECHNICAL In Selznick’s classic statement, to “institutionalize is to *infuse with value* beyond the technical requirements of the task at hand” (Selznick 1957:16–17), thus invariably impeding effective task performance and subverting the goals of the organization. This insight suggests a fundamental opposition between task and institutional elements, both internally and in the environment (Meyer et al 1981).

Organizations that function in institutional environments must “acquire types of personnel and . . . develop structural arrangements and production processes that *conform to the specifications of that sector*” (Scott & Meyer 1983:141, emphases added). Institutional environments are hierarchical (or “vertical”), with centralized decision-making, especially in funding as compared to programmatic decisions (Scott & Meyer 1983:143–44). While centralized funding may strengthen legitimate control over structure (inferred from the intersection of Propositions 4, 8, and 17, Scott & Meyer 1983:141–49), it is not necessary for sectoral effects. For example, substantial bureaucratic elaboration and convergence in education occurs *without* centralization of funding (Meyer et al 1987:Table 5).

Institutionalized fields limit the direction and content of change, causing “an inexorable push toward homogenization” (DiMaggio & Powell 1983:148). For example, when measured by coefficients of variation, educational structures in 48 states converge dramatically over a 40-year time span (Meyer et al 1987:Tables 3 and 5): the ratio of superintendents to districts decreased variability across states from 1.05 to .29 and state education agency staffs from 1.43 to .80.

While the institutional/technical dichotomy is an appealing one, both types of environments often impinge on a single organization (recognized in Scott & Meyer 1983, Scott 1987:125–34; see also Powell 1987, Hirsch 1975). Empirically, even private sector organizations are affected by institutional pressures (Tolbert 1985:2): “It is not the case that some organizations are constrained by their institutional environments, while others are not; rather

there are different expectations for different types of organizations". Still, even those critical of the institutional perspective in general have noted the heuristic value of the technical-institutional distinction (Perrow 1985:152).

Other Organizations As Source

Moving away from the state as the primary source of institutional elements, other organizations—most not state-linked—diffuse both administrative and technological innovations, some of which become institutional elements. Also, interorganizational ties can produce institutional elements (reviewed in Turk 1985), but as in the case of institutional environments, it is difficult to separate the institutional and resource dependence arguments (Glasberg & Schwartz 1983, Pfeffer 1973). Some kinds of ties, such as those with regulatory bodies, professional associations, and financial and "business service" intermediaries, are more clearly independent of resource flows and institutionally define alternative structures, lines of action, and acceptable outcomes of transactions (e.g. Benson 1975, Zald 1978).

Two aspects of the basis for adoption of an innovation are related to institutionalization. One is the linkage between the innovation and organizational reputation (Zucker 1986b). If an innovation directly affects reputation, then it is more likely to diffuse rapidly, to be retained by the organization, and to increase the likelihood of continued organizational survival (Zucker 1987c). The other aspect is the replacement of independent evaluation of the innovation with uncritical acceptance based on its legitimacy (Tolbert & Zucker 1983).³ Early adopters constitute a "template" for change (Hinings et al 1986). Initially, the adoption can be predicted on a "rational" basis as a needed change, related to specific organizational characteristics, but as diffusion continues the explanatory power of the variables decreases significantly: the percentage of foreign born population and the size of the city predict the adoption of civil service reform by city governments in the period from 1885 to 1914, but not from 1915 to 1934 (Tolbert & Zucker 1983:Table 2). In a similar way, task demands measured as budget complexity predict the growth of city finance agencies from 1907 to 1932, but not from 1933 to 1975 (Meyer et al 1985:Table 5.2). Also the size of a firm declines significantly as a predictor of adoption of specialized personnel units and job evaluation systems between 1935 and 1946 (Baron et al 1986:Table 8). Other supportive findings include patterns of adoption of new organizational management structure and corporate organization (Fligstein 1985, Armour & Teece 1978).

³For both technical and administrative innovations, evaluation is difficult and costly, increasing reliance on returns from innovation received by similar organizations. This is tricky, since many innovations are correlated, not causally related, to high performance. Other reasons for adoption, such as reputation, also need to be explicitly considered. Effects on organizational survival depend on such details of the adoption decision (Zucker 1986b).

While interorganizational ties in general can lead to institutionalization, intermediaries in particular both generate and institutionalize new “social facts” by reducing reliance on particular actors such as managers or boundary personnel; thus they increase the “objectivity” of interaction among organizations: Firms seldom borrow from each other; they borrow from banks that lend out funds deposited by other firms. Property is exchanged not on a literal handshake, but through an escrow account. A real estate agency rents excess office space of one firm to another firm, yet another agency arranges a merger, and so on. Intermediaries smooth transactions via a quasi-insurance of completion without opportunism or malfeasance by focusing on the transaction itself and remaining indifferent to the outcome (Zucker 1986a:60–65). This tends to reduce the importance of both dyadic trust relations (but see Macaulay 1963:63–64, Arrow 1974:23) and the “immediate social context” (but see Granovetter 1985:485, Baker 1984:783–4).⁴ Since intermediaries “manufacture” trust as a commodity and market it, the actual transaction cost increases, since it often substitutes for “free” trust generated by kin ties or ethnic group membership (contrast Zucker 1986a:61–65, especially footnote 8, and Brewer 1981 with Williamson 1975, 1979, 1981).

Internal Organizational Structure As Source

In the research reviewed so far, institutional elements are uniformly generated *external* to the “target” organization. These elements operate independent of the individual—even if perceived as unfair and not supported by the person, the individual will still behave *as if* he/she supported them (Zelditch & Walker 1984, Thomas et al 1987, see also Kurke 1987).

But if within-group processes are a priori restricted from institutional creation, then institutional theory creates an “oversocialized” view of individual behavior that presents serious theoretical obstacles: (a) Creation of new social order is rendered problematic since the only elements that are institutional are external, in an infinite regression to God or, more commonly, the state; (b) the solution to individual choice problems between multiple

⁴Trust reflects information concerning the likelihood that the exchange will be completed in good faith. It requires repeated transactions, social similarities (e.g. ethnic identity) that are thought to indicate reliability, or formal structures, often using third parties or extensive socialization, that serve as quasi-insurance of the exchange (Zucker 1986a). Information at each level may be mutually supportive, or may actually undermine trust production (for a more extended discussion see Zucker 1987b). At the level of individual exchange, formal mechanisms may undermine trust (Arrow 1974:23): Trust is “not a commodity that can be bought very easily. If you have to buy it, you already have some doubts about what you’ve bought.” At the level of formal rules, if an individual violates, for example, secrecy and impartiality in personnel review processes, there is a simultaneous decrease in trust in the formal system (and increase in cynicism about its value), and increase in interpersonal trust of the violator, because he/she is seen as acting in the interest of the person informed.

social realities, containing context-specific rules, is not provided; and (c) on-going social relationships have little effect on behavior, creating social atomization and thus a widening gap between the institutional environment and the social world unfolding internally in the organization (Selznick 1949, 1957; Meyer & Rowan 1977). These obstacles have been acknowledged in a piecemeal way in institutional analysis, and partial solutions have been suggested. The role of the individual—atomistically creating social order as an “institutional entrepreneur”—has been asserted (DiMaggio 1987); the definition shifts that accompany changes in social contexts have been experimentally shown to alter relevance of rules (Zucker 1980, Alexander & Wiley 1981, see also Schutz 1970), and the importance of the embeddedness of individual action in social relations has been argued forcefully (Granovetter 1985:484).

However, the role of highly institutionalized elements *within* the group—formal positions coupled with continuity of position independent of occupant—in the creation of new social facts has been largely ignored.⁵ Though the “Great Man” theory of historical change has been abandoned, the “Great Collective” theory has not yet fully emerged (but see Mann 1973 and Gamson 1975 for independent treatments of the importance of collective action). Recognition of organizations as the preeminent collective actor has been relegated to a footnote in most recent theorizing and research, despite empirical evidence of significant increase in the importance of organizational actors as compared to individual actors in modern social systems (Coleman 1974, Burt 1975, Zucker 1983). As part of this process, formal organizations, previously characterized as untrustworthy and ephemeral, come to be entrusted with central societal tasks such as regulation of investment markets (Davis 1965), organizing labor (McNeill 1887), or borrowing and lending money (Miller 1927, Southworth 1928, Cagan 1969).

Also, organizational categories now define societal position, so that, for example, occupation is used to measure social mobility (Featherman et al 1975). As early as the seventeenth century, occupations determined stratification in new, isolated communities (Diamond 1958). This reversed the traditional use of broad societal categories, such as family background, to determine organizational position in preindustrial societies (Udy 1962). Further organizational elaboration has created an intricate structure of interrelated

⁵Individuals are also interconnected via networks of relationships, both inside the organization and independent of organization boundaries. To the extent that these networks overlap (see Travers & Milgram 1969 for proof that they generally do), they tend to be stable to maintain their coherence, resisting change unless all interconnected elements can be changed simultaneously as in a hierarchical or power centralized system (Zucker 1986b, Marsden 1983). Both internal organization and network coherence and interconnectedness, then, act paradoxically to maintain the existing structure and related actions and simultaneously to encourage change in it.

supports: Educational organizations credential workers by assigning them to occupations (Collins 1971, Meyer & Rowan 1978); further refinement in these categories occurs at the level of individual firms by assigning job titles in internal labor markets (Doeringer & Piore 1971).

Within an organization, there may be many settings and many individual workers who perform tasks repetitively. Under these conditions, social definition of tasks *within* the organization often transforms them from piecemeal performances into “routines” (Nelson & Winter 1982:Ch. 5)⁶. But some routines will be simple habits, easily changed when better techniques become known, while other will be taken-for-granted elements that resist change. In general, organizational routines increase institutionalization within a given organization as a function of (Zucker 1987b): (a) the degree of explicit codification in the form of work rules, formal promotion hierarchies, and other types of formalization of the specific routine; (b) the length of the history of the structure/task; and (c) the degree of embeddedness in a network of structures/tasks (see Nadel 1953), such that change in one part would make inevitable changes in other structures/tasks with which it is interdependent (e.g. long-linked technologies in serial interdependence, as described by Thompson 1967:15–16; and many professional tasks: Zucker 1986b, 1987a,d). These processes are more likely in the presence of some diffusion from the task or institutional environment; however, internal organizational processes predominate because of extensive buffering of outside effects (Thompson 1967) and because of an imperfect ability to imitate (Nelson & Winter 1982:123–25). Also, the role of managers in creating and maintaining the more institutionalized of these routines is substantial (Pfeffer 1981).

One empirical study provides some convincing evidence on the importance of internal organizational sources of structure, especially when the environment is heterogeneous (Tolbert 1987). It examined socialization of new organizational members in law firms, critical to the ability of the firm to continue task routines largely unchanged. Internal socialization mechanisms included: the number of times associates were formally reviewed in their first year, the number of times they were reviewed per year after their first year, whether or not the firm reported the provision of special training programs for associates, and whether or not associates were given feedback on their progress toward partnership in the firm at specified times. As the proportion

⁶The process of creating routines is largely independent of skill level, much more directly related to the degree of institutionalization. As institutionalization increases, the extent to which all “competent” members of the system (e.g. social system, craft or professional subsystem) are expected to share the skill increases. The skill level is “low” only because almost everyone in the society can do it, such as drive a delivery car for a drug store. The actual skills are fairly complex, but in fact no one except the economist—and driver’s training school—treats it that way (see Machlup 1946:534). Knowledge of routines is much more widespread than is suggested in revision of classic theories of skills and production sets (see Friedman 1953:22; Nelson & Winter 1982:Ch. 4).

of new members selected from the same law school as the older associates of the firm increased, the reliance on internal formal socialization mechanisms significantly decreased. Homogeneity of environment, then, decreased elaboration of internal organizational structure, contradicting the environment-as-institution approach, while heterogeneity—reflecting institutional dissensus—increased structure (contra Benson 1975, Rowan 1982). Internal task routines were thus maintained.

COMPETITIVE TESTS OF INSTITUTIONAL THEORY

In most of the research, institutional ideas are explicitly tested against global “rational” perspectives, but because of the definitional thicket that makes a clean test impossible, no further review is attempted here. Instead, two other areas of current competitive tests, resource dependence and population ecology, are examined.

Resource Dependence

Most studies use degree of control by the state, via law, regulation, or resource flow, as the measure of the degree of institutionalization. This makes it difficult to distinguish institutional from resource dependency explanations, since compliance with governmental edict depends on organizational dependence on the state in one form or another; noncompliance thus risks disruption in funding (Zald 1978, DiMaggio 1983). Passing new laws provides one such example (Tolbert & Zucker 1983:Figure, Zucker et al 1986). But even the use of subtle pressure is commonly associated with resource flows, as when schools are encouraged to apply for grants that provide special programs for disadvantaged pupils, or local governments are encouraged by central authorities who control funding to adopt a radically different mode of organizing, as they were in England and Wales (Hinings et al 1986).⁷

In a clever test between institutional and resource dependency explanations, Tolbert disentangled dependency and structure in a study of higher education by demonstrating that it is “only when dependency relations are not institutionalized that increasing dependence is strongly associated with the development of separate administrative offices to manage them” (1985:11). Moving from one institutional “niche” to another was found to affect heavily the creation of administrative offices (Tolbert 1985): (a) Public and private

⁷How can resource dependence be made a less plausible counter-explanation? One way is to construct separate measures of environmental pressure, often tied to resource dependence, and institutional status, for example, documenting that the same “fact” alters in social content over time: Content analysis of contemporaneous reports shows a shift from anticorruption to efficient government as the motive for civil service reform (see Tolbert & Zucker 1983, Table 1). Another way is to document the independent role of groups not directly influencing resource flow, such as professional associations (Hinings & Greenwood 1987). But when the effects of such associations cannot be fully separated from those of other organizations that do control resources, resource dependence is an equally compelling (and more parsimonious) explanation.

institutions had distinct administrative offices that reflected their relative dependence on public or private sources of funding; (b) increases in funding of the type “traditionally” associated with private or public institutions did not alter the pattern of administrative offices; however, (c) increases in funding of the type associated with nontraditional sources predicted creation of new administrative offices, strongest when resource flows came to public institutions from private sources. Hence, the strongest institutional response in this case was toward the private sector, not toward the state. Most important, since only changes in funding from nontraditional sources produced an institutional response, a straight resource dependence explanation is ruled out.

Population Ecology

Research in the population ecology framework has tended to atomize organizations, generally looking at the effects of a handful of variables on foundings and “deaths” of similar organizations grouped into industries by the economists (Mansfield 1962:Table 1) and into “populations” by the sociologists (Hannan & Freeman 1977, Freeman 1982). In most of the work, measures of the task environment that immediately affects the organization, both in time and in proximate location, predominate. Institutional variables, such as regulation, legislative change, and political turmoil have not been included until recently in population ecology models. At the same time, the institutional model can be faulted for not examining empirically the predictions of enhanced survival. Unlike the conflict with resource dependency predictions, it was expected that the population ecology and institutional models would supplement each other (Carroll & Huo 1986, Zucker & Taka 1986).

In a study of newspaper organizations from 1870 to 1980, a wide array of task-related variables and institutional (here, political and broad economic cycle) variables were assembled (Carroll & Huo 1986). There are two significant findings for the institutional/population ecology interface: (a) Institutional variables, principally political turmoil, affect founding and death rates of newspapers, while task variables for the most part do not (Tables 1–4); and (b) using data on performance of four newspapers, task variables appear to affect performance strongly, while institutional variables do not (compare Tables 5 and 6).

In a study of all general surgical hospitals in California over a much shorter time period (1959–1979) but with more complete information, no evidence of the sharp discontinuity between institutional (here, legislative change and accreditation), and task environmental effects were found (Zucker 1986c, Zucker & Taka 1986). While the most consistent effects on exits or “deaths” of hospital organizations were institutional (number of accreditations decreased the likelihood of exit; passage of MediCal reform legislation increased it), these effects differed dramatically by hospital type. County

(public) showed strong institutional effects, and private, for-profit hospitals showed both institutional effects *and* task effects. County population density decreased the likelihood of exit, and personnel staffing costs increased it. Estimated separately, performance (occupancy rate) was about equally affected by institutional and task variables. With performance data for all hospitals in the sample, it was possible to enter the performance measure into the organizational survival analysis. The higher the performance, the lower was the exit rate, a finding strong and consistent across all types except county (public) hospitals. Thus, a tight coupling between performance and survival was found, heavily conditioned by institutional variables in all types of hospitals, especially county, and by task variables in private, for-profit hospitals.

THE NEW INSTITUTIONALISM IN ECONOMICS AND POLITICAL SCIENCE

Until recently, most work in economics and political science has treated organizations as black boxes that simply reflect aggregate interlocking individual choices (see especially Leibenstein 1966, Niskanen 1971). However, a new stream of work concerned with explaining action as the output of institutions rather than individuals has emerged. As in sociology, the initial focus has been on a rather diffuse set of processes, including law or rules (Levi 1981; North 1986b), contracts, government administration (Skrowronek 1982), regulation, hierarchies (Williamson 1975, Padgett 1981), professional codes, and social norms (Akerlof 1980). Even psychology, in recent work on social dilemmas, moves closer to an institutional perspective: It is rules, leadership, even trust that account for the individual willingness to forego self-interest and contribute to the common good (Brewer 1981, Kramer & Brewer 1984, Messick et al 1983, Yamagishi 1986).

Recent reviews in political science (March & Olsen 1984) and in economics (North 1986a) reflect emergence of explanations based on institutions "behaving" as actors in their own right. In economics, theorists grapple with the constraints that institutions place on the choices that individuals make, and little emphasis is placed on the character of the institutional structure. Instead, there is great interest in enforcement mechanisms that ensure individual compliance to institutional edicts (North 1986b; see also radically different solutions in Darby & Karni 1973 and Akerlof 1983). The current emphasis on social control has a natural but largely unexploited relation to psychological research on social dilemmas (see above). In political science, there seems to be more concern with the character of institutional structures, especially with how they are changed once formed, but this work is done primarily by political sociologists (e.g. Skocpol & Finegold 1982, Roy 1983). Political science is also examining unintentional effects on individual behavior, pri-

marily through constraining the range of political alternatives. Political enforcement mechanisms are often not so valuable as a means of obtaining compliance (contrary to the economic assumption), but are used to signal seriousness of intention (Skocpol & Finegold 1982).

In political science and economics, and less surprisingly in psychology, there is very little interest in the problems of where institutions come from, the processes that produce institutionalization of one element but not another (or, conversely, the contagion of legitimacy), or the internal structure or coherence of institutions. Institutional production and legitimation processes are left to the sociologists; other means of producing stable and coordinated action have largely been dominated by the other disciplines. Clearly, a combination of insights would produce a more complete institutional theory, more testable, and significantly more explicit, since the hidden disciplinary assumptions would necessarily be questioned. We would all benefit from an institutional theory that is much more precise: (a) It must make explicit such starting assumptions as how stable and coherent the social system is net of institutional structure; (b) it must be definitionally tighter, and should limit the use of underspecified terms such as “norms” and “myths”; (c) the link between institutional elements and their consequences must be specified—and tested—in more detail; and (d) the line between what is institutional and what is not needs to be drawn much more clearly, so that institutional theory is falsifiable.

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