Although the lion’s share of theory and research in recent decades has been devoted to questions of how existing institutions affect the structure and functioning of organizations, organizational populations, or organizational fields—work that we review in subsequent chapters—scholars have begun to devote attention to the important, prior questions: Where do institutions come from? How are they constructed? Who are the actors and what are the forces by which new types of institutions emerge? What are the mechanisms by which they are crafted?

Not surprisingly, most of the early statements were primarily theoretical, employing evidence in only a casual and illustrative manner. It was not long, however, before various types of empirical investigations began to appear. Their numbers have steadily increased, so that by now a substantial amount of research relevant to the testing and elaboration of institutional arguments has been produced. Most of this work treats institutional frameworks as given and asks how they affect organizational structures and functions. That is, in most of the empirical literature, institutions are treated as independent variables, and the studies are directed to examining their effects on some organizational
entity or process, the units ranging from transsocietal systems to organizational subunits. This focus is understandable because students of organizations are primarily interested in assessing whether and to what extent institutional systems affect individual organizations or collections of organizations. If such influences cannot be demonstrated, there would be little incentive for organizational analysts to pursue the related questions regarding the sources of institutions and the causes of institutional change and persistence.

Chapters 6, 7, and 8 describe and discuss the more extensive literature on institutional consequences: the ways in which institutional systems relate to organizational fields, populations, and organizations. The current chapter considers the question of institutional determinants—how institutions arise and achieve stability, legitimacy, and adherents. Later chapters examine how institutions are maintained and diffused (chap. 6) and how institutions lose credibility and undergo change (chap. 8).

**CREATING INSTITUTIONS**

It is somewhat arbitrary to distinguish the processes involved in creating institutions from those employed to change them. Institutions do not emerge in a vacuum; they always challenge, borrow from, and, to varying degrees, displace prior institutions. The difference lies largely in the investigator’s focus. If attention is directed primarily to the processes and conditions giving rise to new rules, understandings, and associated practices, then we have a study of institutional creation. As Greif (2006: 17) pointed out: “Beliefs, norms, and organizations inherited from the past will constitute part of the initial conditions in the processes leading to new institutions.” However, if the analyst examines how an existing set of beliefs, norms, and practices comes under attack, undergoes delegitimation, or falls into disuse, to be replaced by new rules, forms, and scripts, we have a study of institutional change. The former interests are reviewed here, whereas the latter are reviewed in chapter 8.

**Naturalistic Versus Agent-Based Accounts**

Views concerning institutional construction vary greatly, but can roughly be grouped into two categories: naturalistic and agent-based. Building on the work of Schutz (1932/1967) and Berger and Luckmann (1967), who stressed the unconscious ways in which “activities are
habitualized and reciprocally interpreted” during social interaction, naturalistic accounts treat institutionalization as a “natural and undirected process” (Strang and Sine 2002: 502). Ecological studies (e.g., Carroll and Hannan 1989) that view increasing organizational density as an indicator of increasing legitimacy, or work regarding embeddedness in community networks as a hallmark of increasing institutionalization (Baum and Oliver 1992), employ a naturalistic conception. Studies of diffusion processes of institutional reforms, first initiated by Tolbert and Zucker (1983), which we review in chapter 6, also depict institutionalization as an unconscious process. In these accounts, institutions are not created by the purposeful actions of interest-based agents, but rather emerge from the collective sense-making and problem-solving behavior of actors confronting similar situations.

By contrast, analysts embracing an agent-based view stress the importance of identifying particular actors as causal agents, emphasizing the extent to which intentionality and self-interest are at work. DiMaggio (1988) was among the earliest theorist to insist on the importance of “bringing agency back in” to accounts of institutional processes. He noted that studies of highly institutionalized organizations or organization fields can easily overlook the role of self-interest and power processes because opposing interests have been suppressed and dissenters silenced. The play of power is more visible during times of institutional change and, especially, institutional construction (DiMaggio 1991).

Put simply... institutionalization is a product of the political efforts of actors to accomplish their ends... the success of an institutionalization project and the form that the resulting institution takes depends on the relative power of the actors who support, oppose, or otherwise strive to influence it... Central to this line of argument is an apparent paradox rooted in the two senses in which the term institutionalization is used. Institutionalization as an outcome places organizational structures and practices beyond the reach of interest and politics. By contrast, institutionalization as a process is profoundly political and reflects the relative power of organized interests and the actors who mobilize around them. (DiMaggio 1988: 13; italics original)

Limits of Institutional Design

Although it is appropriate to recognize the role of agency in institutional construction, it is important that we not attribute heroic attributes to those who are seeking to create new frameworks of meaning
and governance. It is certainly the case that actors frequently work to create institutions that will reflect, protect, and advance their interests, that “parties often need institutions to help capture gains from cooperation” (Weingast 2002: 670). However, numerous considerations undermine the ability of actors to achieve their intended ends.

Paul Pierson (2004) provides a useful synthesis and summary of the kinds of limitations that beset attempts to design institutions:

- “Specific institutional arrangements invariably have multiple effects” (109), many of which are unexpected, unintended, and may be unwelcome.
- “Institutional designers may not act instrumentally” (110), but be guided by norms of “appropriateness,” by fads, or by misguided attempts to apply ready-made solutions that do not fit current circumstances.
- “Institutional designers may have short time horizons” (112), whereas the institutions they develop have long-term effects that frequently differ from those originally sought.
- The plans of institutional designers may lead to unexpected effects because the situations to which they apply have undergone change.
- Institutional designs presume that actors and their interests will remain unchanged, whereas over time actors come and go and interests change.

Such concerns should make us mindful of the assumptions we make when assessing the role of agency, interest, and rationality in the design of institutions.

Accounts and Pillars

Whether a naturalistic or an agent-based approach is employed appears to vary significantly by what types of elements—whether regulative, normative, or cultural-cognitive pillars—are invoked. Those examining regulative elements are more likely to be methodological individualists and assume that individuals function as agents, constructing rules and requirements by some kind of deliberative, strategic, or calculative process. Pros and cons are weighed, causes and effects evaluated and argued, and considered choices are made. Majorities or authorities rule. Analysts examining institutions made up of normative elements are more likely to posit a more naturalistic process, as moral imperatives evolve and obligatory expectations develop in the course of repeated interactions. Cultural-cognitive institutions seem to emerge
from the operation of even more ephemeral processes. Particularly in early accounts, shared understandings, common meanings, and taken-for-granted truths seem to have no parents, no obvious sources, no obvious winners or losers.

Although there are differences in the processes associated with each pillar, these characterizations, on reflection, appear to be oversimplified and can be misleading. Consider regulative rules. If they appear rational and transparent, this reflects the extent to which certain types of social settings and procedures have been constructed to be—seats of collective authority or as variously constituted forums for decision making. A full analysis of regulatory rule-making would examine the constitutive roots of the specific governance apparatus—how the forums developed, the rules for decision making and for selecting participants evolved—as well as all the back-stage activities (the fodder of historical institutionalists) that enter into the creation of laws and legal rulings. Conversely, norms often evolve through interaction, but they can also be rationally crafted. Professional bodies and trade associations act to create and amend their normative frameworks and standards via more conscious and deliberative processes. As with regulatory authorities, some social groups are endowed with special prerogatives allowing them to exercise moral leadership in selected arenas, whether they are environmental scientists dealing with global warming or medical scientists dealing with the control of contagious diseases. Cognitive elements also result from both more and less rational choice processes; they may evolve from inchoate collective interactions or be consciously designed and disseminated by highly institutionalized cultural authorities. Folkways are produced by the former; scientific truths and legal rulings, by the latter.

Types of Agents

Institutional agents come in a variety of guises and include both individual and collective actors. Some of the types of agents we consider—nation-states, professions, and associations—participate in the construction of new institutional forms, but also exercise many kinds of influence on existing forms and processes. We emphasize here their constitutive powers, but also note other ways in which they exert effects on existing organizations and fields.

Following DiMaggio’s lead, numerous scholars have pursued the question as to what types of actors are likely to participate in the creation of new types of institutions: the ability to serve in the capacity of “institutional entrepreneurs.” In the business literature, entrepreneurs
are individuals willing to bear risk to create new organizations (see Aldrich 2005). By contrast, *institutional entrepreneurs* are people (or organizations) who participate in the creation of new types of organizations or new industries, tasks that require marshalling new technologies, designing new organization forms and routines, creating new supply chains and markets, and gaining cognitive, normative, and regulatory legitimacy (Aldrich and Ruef 2006, chap. 9). Clearly, we are not talking about a single actor, but a variety of roles and functions distributed across diverse players.

DiMaggio and Powell (1983: 147) astutely observed that the nation-state and the professions “have become the great rationalizers of the second half of the twentieth century,” but other types of actors also play important roles.

The Nation-State

From some perspectives, the state is simply another organizational actor: a bureaucratically organized administrative structure empowered to govern a geographically delimited territory. However, such a view is limited and misleading. In our own time, and since the dawn of the modern era, the nation-state has been allocated—is constituted in such a way as to exercise—special powers and prerogatives (Krasner 1993). As Streeck and Schmitter (1985a: 20) pointed out, the state is not simply another actor in the environment of an organization: Its “ability to rely on legitimate coercion” make it a quite distinctive type of actor. All organizations are correctly viewed as “governance structures,” but the state is set apart. Lindblom (1977: 21) notes: “the special character of government as an organization is simply . . . that governments exercise authority over other organizations.”

In terms of institutional construction, states (in collaboration with legal professionals) possess extraordinary powers to define the nature, capacity, and rights enjoyed by political and economic actors, including collective actors. For example, during the past three centuries, states have worked to shape the powers and rights of the joint stock, limited liability corporate actor that has long since become the preferred form for organizing economic activity (see Coleman 1974, 1990; Seavoy 1982; Micklethwait and Wooldridge 2003).

More generally, Campbell and Lindberg (1990) detail the ways in which, by defining and enforcing property rights, the state influences the economic behavior of organizations. Property rights are “the rules that determine the conditions of ownership and control of the means of production” (Campbell and Lindberg 1990: 635), including labor laws defining the power of workers to organize, antitrust laws that
limit ties between competitors, and patent laws that limit access to new technologies.

The state provides the legal framework within which contracts are written and enforced. ... The state’s influence, quite apart from sporadic interventions, is always present in the economy insofar as it provides an institutional and legal framework that influences the selection of different governance regimes and thereby permanently shapes the economy. (Campbell and Lindberg 1990: 637)

Even the regulatory powers of the state can lead to the creation of new institutional forms. Fligstein (1990) underlined the role of antitrust legislation, including the Sherman Act of 1890, which prevented the development of the cartel-like forms that emerged in Europe at this time—unlike the United States, the German (as well as other European) states emphasized “the benefits of industrial cooperation” (Chandler 1990: 395)—and the Celler-Kefauver Act of 1950, which encouraged diversification as a growth strategy for U.S. corporations after World War II.

States also exert highly significant effects not only on individual firm structures and behaviors, but also on the structuration of organizational fields. Baron, Dobbin, and Jennings (1986) provided a historical account of the powers of the state to shape industry (field) and firm structure in their study of the evolution of modern personnel systems in the United States. The high water mark of state influence occurred in connection with the mobilization for World War II, when the federal government intervened to stabilize employment. Agencies such as the War Production Board, the War Labor Board, and the War Manpower Commission “engaged in unprecedented government manipulation of labor markets, union activities, and personnel practices. These interventions ... fueled the development of bureaucratic controls by creating models of employment and incentives to formalize and expand personnel functions” (Baron et al. 1986: 369). In short, the pressures created were cultural-cognitive and normative, inducing conformity among professional managers, as well as regulative controls involving coercion.

Later chapters detail other ways in which states influence the structure and behavior of firms and fields.

**The Professions**

In modern societies, professional occupations have come to play a unique and distinctive role. They have displaced the seers and wise men of earlier times to serve in a variety of capacities as institutional
agents. We emphasize here their role as creators of new institutional frameworks.

Employing the pillars framework, we observe that different types of professionals make use of differing combinations of elements (see Scott 2005a, forthcoming-b). Some professionals operate primarily within the cultural-cognitive sphere by creating new conceptual systems:

Their primary weapons are ideas. They exercise control by defining reality—by devising ontological frameworks, proposing distinctions, creating typifications, and fabricating principles or guidelines for action. (Scott and Backman 1990: 290)

The knowledge systems vary greatly in their content and in the extent of their empirical grounding, with physical and biological scientists working at the more empirically constrained end and philosophers and literary critics operating in less confined arenas. Strang and Meyer (1993: 492) stress the importance of the role of theorization—"the development and specification of abstract categories, and the formulation of patterned relationships such as chains of cause and effect" in the construction and diffusion of new institutions.

The types of professionals who emphasize the construction of normative frameworks include theologians and ethicists, many legal scholars, and accountants. However, in addition to these specialists, a great many other professional groups work within their associations to create and promulgate "standards" in their areas of expertise, which range from the threading of screws to the education of children and the control of AIDS (Brunsson and Jacobsson 2000).

Other professionals, including many legal experts, military officers, and managers, exercise substantial influence on the construction of regulatory frameworks. Lawyers in many countries (especially the United States) have a near monopoly on positions within policy-setting and state regulatory bodies: authorities empowered to create and enforce new kinds of institutional regimes. Managerial professionals increasingly are in a position to craft new governance structures for overseeing their enterprises. Institutional economists are ready to supply design criteria to executives seeking to craft more effective and efficient governance systems to reduce production and transaction costs.

Associations

Joining nation-states and professions as important classes of institutional actors exercising authority in cultural-cognitive, normative,
and regulative domains are an increasingly diverse array of organizations and associations operating at national and international levels. At the national level, for example, Greenwood, Suddaby, and Hinings (2002) described the role of the Canadian accounting association in legitimating changes in the functions of accountants and the structure of accounting firms as they adopted a new organizational archetype to accommodate multidisciplinary practice. Associations, both trade and professional, vary significantly across countries and over time in their ability to establish and enforce standards of practice (Tate 2001). Their efforts are historically situated and follow distinctive trajectories influenced in particular by the closeness of their connection to the state. Those in liberal regimes are more likely to pursue voluntary and cooperative approaches, whereas those working within more coordinated economies are more likely to seek and receive the backing of the coercive power of the state.

As globalization proceeds apace, associations of all sorts now operate at the transnational level, organized as international non-governmental organizations (INGOs). Such organizations have existed throughout the 20th century, but have grown rapidly in numbers and influence since World War II. For example, in 1900 about 200 INGOs were active, whereas by 1980 over 4,000 were in existence (Boli and Thomas 1997).

How do INGOs obtain and exercise their influence? Boli and Thomas (1997, 1999) point out that, at the present time, they do not presume to displace or replace nation-states, and, unlike states, they cannot make or enforce law. Unlike global corporations, they are not able to exercise coercive power and lack economic resources. Rather, “INGOs are more or less authoritative transnational bodies employing limited resources to make rules, set standards, propagate principles, and broadly represent ‘humanity’ vis-à-vis states and other actors” (Boli and Thomas 1997: 172; see also Brunsson and Jacobsson 2000).

Other Elites

Fligstein (1990, 1991) stressed the role of corporate elites who are in a position to negotiate—with their competitors and within constraints imposed by the state—an institutional framework working to curb cutthroat competition and allow multiple firms to operate within a given field or arena, albeit with differing advantages. The ability of elites to manage these negotiations depends “on the resources that organizations command and the types of network and dependency relations the organization has to other organizations” (Fligstein 1991: 314).
Elite organizations can also mobilize politically to advance their collective interests (Cawson 1985). Vogus and Davis (2005) described the efforts of corporate elites to defend themselves against state legislation favorable to takeover attempts. The better organized the local corporate elite—assessed in terms of number of board interlocks—the more likely was the state to adopt management-friendly legislation regulating hostile takeovers.

**Marginal Players**

It is sometimes the case that institutional innovations arrive from actors who are at the periphery of a field. Organizations differ in their social location, centrality, or connections to existing networks. Such differences are typically associated with varying levels of commitment to extant institutional logics and norms and, sometimes, to increased exposure to new ideas from neighboring fields. In their study of the U.S. radio broadcasting industry, Leblebici and colleagues (1991) described changes occurring between 1920 and 1965. Three stages are identified, differing in terms of who the dominant players were, what served as the medium of exchange, and which institutionalized practices governed these exchanges. The problem posed by the investigators is, “Why do those who occupy the positions of power in the existing institutions willingly change its practices?” (337). The analysis suggests that, at least in this industry and during the period under study, change was primarily endogenous, involving innovations introduced by marginal players that were subsequently adopted by leading members, driven to do so by increased competition. These new practices became conventions when used recurrently and subsequently became “institutional practices by acquiring a normative character when sustained through some form of legitimacy” (342).

Network theorists stress the importance of marginality to innovation and learning processes. Those who locate gaps or missing connections in social networks—“structural holes”—(Burt 1992) or who are associated with persons or organizations unlike themselves—“weak ties”—(Granovetter 1973) are likely to garner influence and be exposed to ideas different from their own. Just as the locations where sea water meets fresh water are particularly supportive of varied forms of marine life, so the areas of overlap and confluence between institutional spheres generate rich possibilities for new forms. Morrill (forthcoming) depicted the emergence of a new organization field staffed by new types of actors at the boundary where conventional legal structures overlap with social welfare forms. The field of alternative dispute resolution (ADR) emerged between 1965 and 1995 in response to
a growing number of minor disputes that were clogging the law courts. A community-mediation model, championed by the social work community, and a multidoor-courthouse model, supported by lawyers, competed for the jurisdiction of this interstitial arena. Morrill detailed the processes by which new roles and practices were created (innovation), legitimation and resources were acquired from day players in the existing fields (mobilization), and a stable uncontested institutional settlement achieved (structuration). Morrill concluded:

In the interstices created by overlapping resource networks across organizational fields, rules, identities, and conventional practices are loosened from their taken-for-granted moorings and alternative practices can emerge, particularly in the face of perceived institutional failure.

Social Movements

Suppressed interests, as well as elite groups, can give rise to new kinds of institutional forms. Such groups lack the resources available to established powers and must use their energies to challenge and disrupt existing routines in order to attract attention. They often are denied conventional modes of exercising voice or influence and, as a consequence, are forced to employ unconventional approaches. Such a case is described by Clemens (1993, 1997) in her well-documented account of the women’s movement in the United States at the beginning of the 20th century. Prohibited from the ballot box and from mainstream electoral politics, activist women borrowed from the tactics employed by disreputable lobbyists, only to perfect them into a repertoire of actions now used by all interest groups. They embraced conventional organizing forms (e.g., women’s clubs), but used them to advance the political education of their members, mobilize public opinion, gain procedural mastery of the legislative process, and devise ways to intervene in shaping policy and hold political officers accountable for their votes and decisions.

Rank-and-File Participants

Agency is not restricted to professionals, elites, or even social movements. The structuration perspective reminds us that all actors participate, wittingly or not, in the reproduction and reconstruction of the social systems they inhabit. Throughout our discussion of institutional processes, we emphasize that institutions are not only constructed from the top down, but from the bottom up.
Demand- and Supply-Side Explanations

Mark Suchman (1995a) provides an illuminating general discussion of conditions giving rise to new institutional arrangements. He suggests that the impetus for institutional creation is the development, recognition, and naming of a recurrent problem to which no preexisting institution provides a satisfactory repertoire of responses (see fig. 5.1). These cognitive processes can be viewed as giving rise to collective sense-making activities (Weick 1995), as actors attempt to interpret and diagnosis the problem and, subsequently, propose what are, at the outset, various ad hoc solutions. Once these responses have been “generalized into solutions,” it may be possible for the participants to engage in “a more thoroughgoing ‘theorization’ of the situation—in other words, to formulate general accounts of how the system works and, in particular, of which solutions are appropriate in which contexts” (Suchman 1995a: 43). Solutions generated in one context may then diffuse to other situations regarded as similar. Note the extent to which Suchman’s discussion maps onto and builds from Berger and Luckmann’s (1967) general formulation of institutionalization.

The foregoing description is meant to be sufficiently abstract to be applicable to any level of analysis—from the organizational subsystem to the world system. Suchman (1995a: 41) proposed that the question of where institutions arise—at what level—is determined by “where in the social structure particular shared understandings arise.” That is, this question is to be settled empirically by observing the locus of the social processes at work. At a broader level, Suchman’s general model embodies a “demand-side” argument: Institutions are crafted by actors in response to recurrent problems for which no existing “off-the-shelf” solutions are available.

A contrasting view of institutional construction offered by John Meyer (1994) is that institutional creation can also be driven by “supply-side” processes. His arguments are developed primarily at the world-system level, but are applicable to other levels. He suggests, as noted earlier, that certain types of actors—particularly those in the sciences and professions—occupy institutionalized roles that enable and encourage them to devise and promote new schemas, rules, models, routines, and artifacts. They see themselves as engaged in the great project of rationalization, whereby more and more arenas of social life are brought under the “rubric of ideologies that claim universal applicability” (42). The adoption of these generalized principles and procedures is promoted as evidence of “modernization,” irrespective of whether local circumstances warrant or local actors “need” or want
these developments. At the international and societal levels, general rules and principles are promulgated by professional associations and a wide range of nongovernmental organizations. At the level of the organizational field, organizational population, and individual organization, the carriers and promoters include foundations, management schools, accounting and auditing firms, and consulting companies (see DiMaggio and Powell 1983; Sahlin-Andersson and Engwall 2002). These purveyors of solutions must often begin their work by convincing potential adopters that they have a problem.
SELECTED STUDIES OF INSTITUTIONAL CONSTRUCTION

Transnational-Level Studies

Meyer and colleagues developed a theory of the processes by which rational models of organization and organizing have developed during the past several centuries—since the Enlightenment—giving rise to a collection of nation-states and a limited range of organizational forms that are, despite enormous disparities in technical and economic development, remarkably similar in their formal structures and modes of operation (Drori, Meyer, and Hwang 2006; Meyer et al. 1997; Thomas et al. 1987). The approach builds on the cultural-cognitive pillar: Institutions are “cultural rules giving collective meaning and value to particular entities and activities, integrating them into the larger schemes” (Meyer, Boli, and Thomas 1987: 13). In contrast to the “realist” account of organizations as distinctive entities designed to efficiently pursue specific objectives, the approach views nation-states and organizations as being constituted by the wider environment. Organization is not just about productivity and exchange, but serves to signal rationality and legitimacy.


A contrasting approach is associated with the work of Djelic, Quack, and colleagues, who focus attention on the recent emergence of a wide range of governance mechanisms to manage economic and political activities at the international level. In their view, recent developments in globalization are not “only about adaptation and change of national institutions. [They are] also about institution building in the transnational arena—a space traditionally and typically pictured and described as anomic and adversarial” (Djelic and Quack 2003c: 3). These scholars examined institution-building in such varied realms as the regulation of competition, central banking, control of carbon emissions, and business education (Djelic and Quack 2003b; Djelic and Sahlin-Andersson 2006). The scenario developed is not one of increasing global uniformity—the dominance of a single model—but a more interesting “multilevel and multilayered historical process” marked by “competing and conflicting actors and logics” (Djelic and Quack 2003a: 303) involving
both negotiation and the emergence of novel forms. They point out that, at the transnational level at the current time, we are witnessing a period of vibrant institution-building.

**Societal-Level Studies**

An early influential study of institution-building at the societal level is the historical account provided by North and Thomas (1973) of “the rise of the Western world.” These economic historians argued that economic growth does not occur unless there are mechanisms that closely align social and private rates of return. Individuals are motivated to undertake socially desirable activities only if they provide private benefits that exceed private costs. This situation, in turn, requires that appropriate property rights be established and enforced. The need for such regulatory institutions, however, does not guarantee their development. Creating such structures is costly. Since the rise of the nation-state, governments have assumed responsibility for enforcing property rights. However, the interests and fiscal needs of rulers may encourage them to establish and enforce agreements that do not promote economic growth. Hence, “we have no guarantee that productive institutional arrangements will emerge” (North and Thomas 1973: 8).

North and Thomas reviewed historical evidence from the high Middle Ages to the beginning of the 18th century, noting developments in the political economy of Europe that advanced or depressed economic growth. They examined a number of cases and drew on a variety of historical materials, but their most detailed discussion contrasted political and economic developments during the period 1500–1700 in England, The Netherlands, Spain, and France. They concluded that, by the beginning of the 18th century, “a structure of property rights had developed in the Netherlands and England which provided the incentives necessary for sustained growth” (North and Thomas 1973: 157). In England, for example, Tudor kings became dependent on political support from the House of Commons, increasingly dominated by the rising merchant class, and political compromises pressed on the rulers resulted in expanded markets, both internal and colonial. By contrast, French kings developed methods of taxation that did not require them to extend markets, eliminate hereditary land tenure, or challenge the power of guilds and monopolies in order to secure adequate revenue to support army and court. The interests of the fledgling bourgeoisie were not recognized or protected.

Although their particular interpretation of history has not gone unchallenged (see e.g., Wallerstein 1979), North and Thomas provided
a careful examination of ruling societal elites located in contrasting historical conditions who made choices that gave rise to markedly different institutional arrangements regulating economic activity.

Field-Level Studies

Dezalay and Garth (1996) provide a detailed historical account of the creation of an institutional framework at the international level for resolving disputes between businesses in different countries: transnational commercial arbitration rules and practice. Although their scope is international, they focused on the creation of a specific organizational field. Their history depicts the construction of an “international legal field”—the gradual and conflictual development of an arena with defined boundaries, central players, and accepted ground rules for dispute resolution.

The focus of their history is the transformation that began to occur in the 1970s as an elite “club” of “grand old men” centered in Paris confronted increased demand for arbitration services fostered by burgeoning international trade and globalization. This demand brought into the arena a new generation of “technocrats” housed in U.S. corporate law firms. The delicate transition was negotiated by the International Chamber of Commerce, which succeeded in transferring the legitimacy of the former elite to an expanding set of arbitrators in a classic instance of increased bureaucratization and rationalization of the field. Personal charisma was gradually replaced by routinized, impersonal, specialized expertise. Maintaining legitimacy was essential for the continued success of arbitration if it was “to provide a basis to govern matters that involve powerful economic and political entities” (Dezalay and Garth 1996: 33).

Dezalay and Garth (1996: 41) provide a finely nuanced account of “the contests through which the field and the markets of arbitration are constituted.” Although all participants are depicted as attempting to pursue their respective interests, the tale told is not one of rational design, but of improvisation, conflict, and compromise.

DiMaggio’s (1991) study of the efforts by professionals to create the cultural conditions that would support the development and maintenance of art museums during the late 19th century in America is also cast at the organizational field level, but limited to a single society. In his historical account, DiMaggio gave primary attention to cultural-cognitive aspects of the professional project: the creation of distinctions between high and low forms of art, and the creation and selection among cultural models for constituting art museums as distinctive
types of organizations. Struggles are depicted among contending professional factions debating the merits of a “curator” versus an “educational” model of museum, and between the interests of new types of professionals—curators, art historians, and acquisition experts—and those of museum managers. Philanthropic foundations, specifically the Carnegie Corporation, are shown to play a pivotal role as they work to advance the interests of the new museum professionals. This study underlines DiMaggio’s contention that agency and interests are more apparent during the creation of a new institutional fields in contrast to the routine operation of an existing field.2

Another informative study of contending models for organizing at the field level is provided by Rao’s (1998) account of the emergence of consumer protection organizations in the United States during the early part of the 20th century. The Consumers’ Union (CU) embodied the model of watchdog as radical critic, overseeing both consumer interests and worker rights. By contrast, Consumer Research (CR) advanced the model of watchdog as impartial evaluator, limiting their purview to consumer goods. Pressure from conservative media and political bodies forced CU to abandon its more radical agenda and, like CR, operate as a “rational” scientific agency employing impartial testing methods to evaluate consumer products. Rao emphasizes that the institutionalization of such consumer interest agencies could not take place until a settlement had been reached between these competing institution-building projects.

Population-Level Studies

At the population level, institutional construction concerns primarily the creation of new organizational forms. In his now classic discussion of organizations and social structure, Stinchcombe (1965) identified organizational forms as an important topic of study and pointed out that organizational foundlings of the same type tend to be concentrated in particular historical periods. Moreover, because new organizations must rely on existing ideas, technologies, and social routines, organizations take on a similar character—are imprinted by their institutional environment—so as to reflect the historical conditions of their origin. Finally, although these differences reflect these somewhat arbitrary conditions of their birth, they tend to persist over time. Organizational forms exhibit substantial inertia. Stinchcombe assembled data on differences in the labor force composition of varying industries to illustrate this effect, demonstrating that industries founded in different periods tended to exhibit differing labor force
characteristics and that these differences were maintained over long time periods.

These insights have provided an important touchstone for both population ecologists and institutional theorists. Ecologists are necessarily concerned with identifying meaningful organizational forms. After all, it is difficult to enumerate organizational populations if their identification is problematic. Theorists like McKelvey (1982) proposed the creation of a broad general taxonomy, but most ecological scholars utilize a more pragmatic approach that focuses on identifying similarities in key properties, such as stated goals, hierarchical forms, and core technologies (see Hannan and Freeman 1989).

Institutionalists Greenwood and Hinings (1993: 1055) stress the cognitive dimension in their attempt to identify distinctive organizational forms or archetypes, which they define as “a set of structures and systems that consistently embodies a single interpretive scheme.” Although they emphasized the importance of environmental niches associated with distinctive patterns of resource usage, ecologists also increasingly recognize that organization forms and the boundaries between them are institutionally defined and constructed. While the differences involved may have their origins in technologies, the characteristics of clients served, or the resources consumed, particular arrangements come to be seen as the “natural” way to carry out certain types of activities. Institutionalizing processes ensue, transforming arbitrary differences into differences with real social consequences. In this sense, nominal classifications become real classifications. They become real in their consequences when they serve as bases for successful collective action, when powerful actors use them in defining rights and access to resources, and when members of the general population use them in organizing their social worlds. Thus, the clarity of a set of boundaries is not a permanent property of a set of classifications. Rather, the realism of distinction among forms depends on the degree of institutionalization that has occurred. (Hannan and Freeman 1989: 57)

In the following chapter, we consider the way in which ecologists measure degree of institutionalization.

Mohr and Guerra-Pearson (forthcoming) illustrate the application of such arguments in their study of the emergence of differentiated populations of welfare organizations in New York City during 1888–1907 (see also Mohr 1994). They suggested that differentiation in these populations occurred along three axes: the sorts of statuses
recognized and the merit they were accorded, the kinds of social needs or problems identified, and the kinds of solution repertoires recognized. Client differentiation was driven by power struggles surrounding these three socially constructed dimensions.

Organizational forms are significant because they provide the containers into which these three dimensions of institutional life are poured and they provide the empirical foundations around which conflicts over how these three primitive institutional elements will be combined are negotiated and struggled over. (Mohr and Guerra-Pearson forthcoming)

The researchers examined data from city directories at the turn of the century and, with the use of multidimensional scaling techniques, were able to map changes over time in the coherence of organizational boundaries as selected forms came to be seen as preferred ways of organizing specified services.

As another example of a study of institutional construction at the population level, Suchman (1995a, forthcoming) combined both historical and analytic approaches in his study of the creation of organizational forms for semiconductor firms in California’s Silicon Valley. Creating a new organization requires not only resources, but also ideas or models on how to organize. Conventional histories celebrate the role of Stanford University engineers in providing the designs and early material resources for start-up companies (see e.g., Saxenian 1994). While acknowledging this contribution, Suchman and colleagues laid the groundwork for a “genetics of organization” that examines the flows of both operational resources and “constitutive information.”

Just as mating patterns shape organic populations by structuring the flow of constitutive genetic blueprints, institutional patterns—definitions, typologies, accounts of relevance, theories of causation, and so on—shape organizational populations by structuring the flow of constitutive cognitive models. Cognitive models carry the scripts for organizational competences, and in structuring the transmission of such models, cognitive institutions function as organizational reproduction mechanisms.” (Suchman, Steward, and Westfall 2001: 358–359)

They proceed to outline an organizational genetics, concerned with the development and preservation of distinctive species or forms, to supplement organizational ecology, which focuses on competition
among existing species or types of organizations. In established organizational fields, most new organizations are “reproducer rather than innovative” forms because they largely copy routines and competences from existing organizations (Aldrich and Ruef 2006: 67). They follow what Suchman and colleagues (2001: 359) termed a “filiation” mode of reproduction: Here “new organizations draw competences directly from specific existing organizations that embody those competences themselves.” But when fields are in their early stages of development, organizations cannot simply copy successful recipes. Under such circumstances, Suchman suggests, a process of “compilation” may be employed, whereby “information intermediaries” such as consultants or lawyers observe existing, relatively heterogeneous practices and attempt to distill a core set of organizing principles. In their historical account, Suchman and Cahill (1996) described how lawyers and venture capitalists in Silicon Valley functioned as “dealmakers,” linking clients with various transactional partners and as “counselors,” formulating and disseminating standardized solutions to recurrent problems.

Shifting to a quantitative approach, Suchman (1995a; Suchman, Steward, and Westfall 2001) analyzed data on 108 venture-capital financing contracts from two Silicon Valley venture-capital funds. Such contracts bring together the venture capitalists, lawyers, and entrepreneurs in the crucial founding event, constituting the structure of relations among these parties as they jointly form the start-up company. The contracts were coded along numerous dimensions, and these scores were then used to calculate measures of contractual standardization as an indicator of increasing institutionalization. Suchman’s analysis reveals that standardization was strongly correlated to both date of filing and location of the law firm that drafted the contract. In general, standardization of contracts was greater the later in the time period they were filed and the closer the location of the law firm drafting the contract was to the core of Silicon Valley.

**Organization-Level Studies**

Oliver Williamson (1994) embraces (boundedly) rational choice assumptions and, as discussed in chapter 2, developed an explanatory framework within which economic agents are expected to devise or select those governance forms that minimize transaction costs in managing their enterprise. He left to economic historians and sociologists the tasks of accounting for the characteristics of “institutional environments”—the “background conditions,” including property rights, norms, customs and similar frameworks—in order to focus on
the choice of “mechanisms of governance,” which he views as the central focus of the economics of organizations. Designers of organizational governance arrangements must take into account these wider institutional conditions when fashioning their structures. Williamson recognized that, over time, their choices feed back to affect environmental conditions, including institutional environments, but his interest lies in accounting for the design of specific organizations.

Walker and Weber (1984) tested Williamson’s arguments that transactions involving higher uncertainty and greater asset-specificity (specialized skills or machinery) would be more likely to be produced inhouse, rather than purchased by a firm. That is, organizational designers will elect to have such tasks governed by the firm’s hierarchy rather than by the market. Their study of 60 “make or buy” decisions within a division of a large automobile company found results generally consistent with these predictions, although, unexpectedly, the researchers found that comparative production costs had a larger impact on these decisions than did transaction costs.3

Studies by Armour and Teece (1978) and Teece (1981) attempted to empirically evaluate Williamson’s arguments regarding the relation between a firm’s governance structure and its economic performance. Following Chandler’s (1962) early insights and historical research, Williamson (1975) argued that firms adopting a multidivisional (M-form) structure would be more capable of separating strategic from operational decision making, allocating capital among divisions, and monitoring divisional performance. Armour and Teece studied a sample of diversified firms in the petroleum industry and found that those firms adopting the M-form structure performed better financially. Teece (1981) extended the test to evaluate the performance of pairs of firms matched by size and product line in 20 industries. The performance of the firm first adopting the M-form (the lead firm) was compared with that of the matched firm for two time periods. Again, the results confirmed the hypotheses.

Williamson, in concert with other practitioners of the new institutional economics, argues, in effect, that managers attempt to design the boundaries and governance structures of their firms so as to economize on transaction costs. This emphasis, as David (1992: 2–3) observed, assumes that these institutional arrangements represent “presently efficient solutions to resource allocation problems” and that “institutional arrangements are perfectly malleable.” Such assumptions are at odds with those held by most sociologists and economic historians, who stress the effect of past events on present institutions and the likelihood of these structures to resist change. Williamson also employs
functional explanations in accounting for changes in organizational governance structures (see Granovetter 1985). Such explanations attempt to account for the existence and maintenance of a given social structure by noting what functions it performs to assist adaptation. To be valid, such explanations need to specify the causal feedback loop by which the forces maintaining the structure are selected and reinforced, although most analysts are content to argue “as if” rather than to demonstrate such connections (see Elster 1983; Stinchcombe 1968).

Like Williamson, Terry Moe (1990a) focuses on the level of the individual organization. He has been particularly inventive in applying rational-choice perspectives to the design of public agencies. Adopting the perspective of institutional economists, Moe viewed organizations primarily as governance systems, emphasizing regulatory elements. Moe (1990a: 221) pointed out that governmental structures differ from those in the private sector in that, unlike the world of voluntary exchange, “people can be forced to [give up resources involuntarily] by whoever controls public authority.” The legitimate use of coercive power distinguishes public from private authorities. The problem confronted by political actors in democratic systems is that, although they can use their power to design institutional arrangements that serve their interests, the possibility exists that opposing parties will come to power and employ the same instruments to serve their own ends. To deal with this problem of the uncertainty of political control, Moe argued, public authorities often restrict the discretion of agencies and envelop them in detailed rules and procedures.

Obviously, this is not a formula for creating effective organizations. In the interests of political protection, agencies are knowingly burdened with cumbersome, complicated, technically inappropriate structures that undermine their capacity to perform their jobs well. Nor, obviously, is this a formula for effective hierarchical control by democratic superiors. Insulationist devices are called for precisely because those who create public bureaucracy do not want a truly effective structure of democratic control. (Moe 1990a: 228; italics original)

These pathologies are particularly likely to develop in political systems based on the separation of power, such as the United States, compared to parliamentary systems, such as the United Kingdom.

The “politics of structural design” become even more perverse in situations where the Congress and the White House are controlled by opposing parties. Moe (1989) provided a detailed historical account of
the creation of the Consumer Product Safety Commission (CPSC), an agency created when Richard Nixon, a Republican, was President, but was compelled to work with a Democratic Congress. Consumer interests, allied with Congress, were successful in their struggle to create an independent agency, separate from cabinet departments that were viewed as overly conservative. Strict procedural rules were imposed to ensure that the agency would attend to consumer interests. However, business interests, with the support of the administration, made sure that ample provision was made for their input and review of all pending decisions, and that enforcement powers were not vested in the Commission, but in an independent agency, the Justice Department. The initial design of the agency reflected the contending interests of the parties, and subsequent modifications were governed by the shifting political power of consumer versus business interests.

Philip Selznick, like Moe, also examined the design of a public agency. However, in his well-known account of the evolution of the Tennessee Valley Authority (TVA), Selznick (1949) eschewed a rational-choice framework, as he depicted processes that undermine rational design. He provided a historical account of the development over time of a distinctive ideology and set of normative commitments on the part of TVA officials. As I noted in reviewing Selznick’s views in chapter 2, his approach describes how the original structure and goals of this innovative government corporation were transformed over time by the commitments of its participants to the “means” of action. In Selznick’s work, to institutionalize is “to infuse with value beyond the technical requirements of the task at hand” (Selznick 1957: 17) because intrinsic worth is accorded to a structure or process that originally possessed only instrumental value. Although Selznick emphasized normative beliefs and values in his analysis, he also attended to the importance of cognitive features of organizations. His discussion of the role played by the grassroots ideology in framing decisions and garnering support from important constituencies is central to his argument (see Selznick 1996).

Selznick’s approach focuses on internal relations, especially informal structures rather than on formal structures, and on the immediate environment of the organization rather than on more general cultural rules or characteristics of the wider organizational field (see DiMaggio and Powell 1991). The carriers of institutionalized values are relational structures, in particular, informal structures and cooptative relations linking the organization with salient external actors, both individual and collective.4

Selznick’s argument stresses the importance of power processes—the vesting of interests in informal structures and the cooptation of
external groups that acquire internal power in return for their support. His analysis of the TVA examines the ways in which particular constituencies, such as the agricultural interests, on whom the organization was dependent, were able to modify agency programs in ways that compromised its conservation program. As discussed in chapter 2, Stinchcombe’s (1968) amplification of Selznick’s arguments stressed the ways in which power is used to perpetuate these interests and values over time.

Diane Vaughn (1996) wove together many of the same kinds of arguments to account for the continued use of a flawed design by Morton Thiokol engineers and the fateful decision by NASA officials to launch the Challenger missile. Her richly detailed historical account of the organizational routines—both technical and decision-making—leading up to the disaster depicted the development of a culture within which “signals of potential danger” were “repeatedly normalized by managers and engineers alike” (Vaughn 1996: xiii). Although production pressures played an important role, these pressures “became institutionalized and thus a taken-for-granted aspect of the worldview that all participants brought to NASA decision-making venues” (Vaughn 1996: xiv; italics original).

Selznick’s interest in organizations that become defined by their commitments to distinctive values has been pursued by a new generation of researchers interested in “organizational identity.” Defined as a commitment to values that are “central, enduring, and distinctive,” organizational identity provides participants with a core set of normative elements around which to craft their narratives and sense-making activities (see Albert and Whetten 1985; Whetten and Godfrey 1999).

**Interpersonal- and Intraorganization-Level Studies**

Axelrod (1984) employed the “prisoner’s dilemma” situation to examine the conditions under which individuals who pursue their own self-interest in the absence of a central authority will evolve norms of cooperation. The prisoner’s dilemma involves a situation in which two players make one of two choices: cooperation ($c$) or noncooperation ($n$). The payoff matrix is such that if both players opt for $c$, then both receive an intermediate reward; if both select $n$, they receive a low reward; but if one player selects $c$ when the other selects $n$, the former (sucker) receives no reward and the latter (exploiter) receives a high reward. Players are not allowed to exchange any type of information other than their choices, and the game is played over a number of trials.
The challenge for each player is to provide incentives and encourage the formation of norms to induce his or her partner to cooperate. However, the knowledge of each player is limited, and any normative structure that develops must be fashioned incrementally.

In a novel design, Axelrod (1984) invited other game theorists from many disciplines to compete in a computer tournament to select the best game strategy by submitting a program that embodies rules to select the cooperative or noncooperative choice on each move. Such a program provides a complete process description of the sequence of decisions during the course of the encounter. Of the 14 strategies submitted, the most successful was the “TIT FOR TAT” decision rule: a strategy that starts with a cooperative choice and thereafter selects whatever the other player did on the previous move. This simple strategy provided the best payoff to the player adopting it under a wide range of simulated conditions. Axelrod (1984: 54) summarized its virtues:

What accounts for TIT FOR TAT’s robust success is its combination of being nice, retaliatory, forgiving, and clear. Its niceness [never initiating noncooperation] prevents it from getting into unnecessary trouble. Its retaliation discourages the other side from persisting whenever defection is tried. Its forgiveness helps restore mutual cooperation. And its clarity makes it intelligible to the other player, thereby eliciting long-term cooperation.

Although it may be argued that the prisoner’s dilemma is “just a game,” it encapsulates an important dilemma built into many real-world situations, from the school yard to international diplomacy. It is to cope with such situations that security regimes and similar types of institutions develop (see Krasner 1983; Mares and Powell 1990). A particularly important element of the conditions supporting the rise of stable cooperative norms is that “the future must have a sufficiently large shadow” (Axelrod 1984: 174). The anticipation of future interaction provides an important stimulus to evoke norms of reciprocity. Indeed, such norms are argued to undergird the stability of much ongoing economic and social behavior, making it less necessary for parties to resort to such expensive alternative regulatory structures as the legal system and police force (see Macaulay 1963).

Elsbach (2002: 37) defines intraorganizational institutions as “taken-for-granted beliefs that arise within and across organizational groups and delimit acceptable and normative behavior for members of those groups.” This definition encompasses a wide range of organizational
research beginning during the 1930s and variously labeled studies of work group behavior and subgroup identities, human relations, organizational culture, organizational identity, and sense-making processes (see e.g., Dutton and Dukerrich 1991; Frost et al. 1985; Roethlisberger and Dickson 1939; Roy 1952; Weick 1995). Earlier studies tended to emphasize the normative facets of institution-building, whereas latter approaches have given more attention to shared schemas and identities—cultural-cognitive elements.

Comparative Comments

The studies briefly summarized here differ in a number of important respects. They are arranged by level of analysis, but it is important to emphasize that level is defined by the nature of the dependent variable: the level of the unit whose structure or behavior is to be explained. In many of the studies reviewed, multilevel processes are shown to be involved with, for example, societal structures affected by transnational phenomena or, alternatively, field-level processes being influenced by the actions of organizations embedded within the field. We believe that a hallmark of the more sophisticated institutional approaches is their openness to such multilevel causal processes.

The studies reviewed also vary in terms of the assumptions made about rationality of actors and salience of institutional elements. Among the various studies reviewed, Moe and Williamson assume a higher level of rational choice exercised by actors in designing institutional arrangements. In these studies, actors are assumed to be pursuing their individual interests armed with substantial knowledge of alternatives and their relation to consequences. Hence, the critical questions are when and why it is in an actor’s self-interest to construct and maintain institutional structures that will govern not only others’, but one’s own, behavior. Other theorists embrace a less restrictive conception of rationality, assuming that while individuals attempt to pursue their interests, they do so with imperfect knowledge and intelligence. Errors in judgment occur and unintended consequences result. Rather than conceiving of institutions as “sets of predesigned rules,” these theorists are more apt to see them as “unplanned and unintended regularities (social conventions) that emerge ‘organically’” (Schotter 1986: 118). Among the studies reviewed, North and Thomas and Axelrod best exemplify these assumptions.

Although analysts in all of the studies presume that participants have interests and examine the processes by which contending interests
are resolved, researchers such as Dezalay and Garth, DiMaggio, Mohr, Selznick, and Suchman view such interests not simply as preexisting, but as being constructed in the course of the interaction and negotiation processes.

With respect to institutional elements, North and Thomas, Moe, and Williamson place primary emphasis on regulatory structures. Axelrod, Dezalay and Garth, Selznick, and Vaughn attend largely to normative elements, although the latter three studies also considered cultural-cognitive elements. DiMaggio, Mohr and Guerra-Pearson, and Suchman highlight the role of cultural-cognitive processes of institutional creation.

**CONCLUDING COMMENT**

From an early focus on how existing institutions affect organizations, institutional theorists have recently expanded their purview to include attention to the ways in which institutions are constructed. Accounts of construction processes vary according to how much intent and conscious design is emphasized, as opposed to less intentional, more evolutionary processes.

Institutional agents include both individual and collective actors, and they differ in whether they employ primarily regulative, normative, or cultural-cognitive tools in their construction efforts. The nation-state and the professions play high-profile roles in institutional constructions, whereas a variety of other types of actors, including other elites as well as social movement organizations and marginal and rank-and-file players, have a hand in the building of institutions.

Investigators have examined these processes at work across multiple levels. Institution-building at the transnational level represents a relatively new focus of interest and is one of the most active construction arenas as we enter the 21st century.

**NOTES**

1. For a related discussion, see Strang and Sine (2002).
2. A possible limitation of this study is that it does not attend to potential sources of influence in field construction stemming from outside the United States. It is generally recognized that Americans at this time looked to Europe for their models of high culture.
3. More recent research suggests that this specific prediction may no longer hold in certain industries, including automobile manufacturing. To protect and develop specific assets, partnering relations with suppliers are now more likely to be used than vertically integrated structures (Helper, MacDuffie, and Sabel 2000).

4. In his monograph on the TVA, Selznick emphasized the crescive, unplanned, and unintended nature of institutional processes. Valued commitments were generated over time, unplanned structure having unintended consequences. However, in his later, more prescriptive writing on leadership, Selznick (1957) argued for a more intentional model: Effective leaders are those who can define and defend social values and obtain the support of others in preserving them.