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

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

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

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

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

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

2

Institutional Theory Meets Organization Studies

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

This chapter reviews work connecting organizations and institutional arguments beginning in the 1940s and continuing until the emergence of the "new" institutional approaches in the 1970s. Three streams of work are identifiable among early theorists of organizations. The first was stimulated by the translation into English of Weber's (1906–1924/1946, 1924/1947) work on bureaucracy, which aroused much interest among a collection of sociologists at Columbia University.[1] Talcott Parsons, the reigning American sociological theorist of his time, at Harvard became a second early conduit both as a translator of Weber and because he was encouraged to apply his own "cultural-institutional" theory to organizations by James D. Thompson. Thompson, the founding editor of *Administrative Science Quarterly*, a new interdisciplinary journal devoted to research on organizations, invited Parsons to prepare an article for the inaugural issue in 1956. Third, Herbert Simon's pioneering work at the Carnegie Institute of Technology (now Carnegie-Mellon University) on organizational decision making was expanded, in collaboration with James G. March, into an influential statement of the nature of rationality in organizations.

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

❖ INSTITUTIONS AND ORGANIZATIONS: EARLY APPROACHES

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

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

Merton: Rules Trump Instrumentalism

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

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

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

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

Selznick: Means Become Infused With Value

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

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

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

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

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

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

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

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

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

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

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

Parsons' Institutional Approach

Talcott Parsons applied his general "cultural-institutional" arguments to organizations primarily by examining the relation between an organization and its environment—the ways in which the value system of an organization is legitimated by its connections to "the main institutional patterns" in "different functional contexts" (Parsons 1960a: 20). Although in most of his writing, as noted in chapter 1, Parsons stressed the "subjective" dimension of institutions, whereby individual actors internalize shared norms so they become the basis for the individual's action, in his analysis of organizations he shifted attention to what he termed the "objective" dimension: "a system of norms defining what the relations of individuals [or organizations] ought to be" (Parsons 1934/1990: 327).

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

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

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

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

The Carnegie School

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

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

March and Simon's arguments, albeit among the earliest, remain among the most influential and clearest statements of the microfeatures and functions of neoinstitutional forms (see DiMaggio and Powell 1991: 15–26).

❖ FOUNDATIONS OF NEOINSTITUTIONAL THEORY

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

Neoinstitutional Theory in Economics

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

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

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

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

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

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

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

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

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

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

Transaction Cost Economics

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