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

❖ FOUNDATIONS OF NEOINSTITUTIONAL THEORY

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

Neoinstitutional Theory in Economics

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

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

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

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

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

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

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

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

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

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

Transaction Cost Economics

One branch of neoinstitutional economics is concerned with the rule and governance systems that develop to regulate or manage economic exchanges. These systems occur at many levels, from macroregimes at the international level to understandings governing microexchanges between individuals. Accounting for the emergence and change of trading regimes among societies has been of primary interest to economic historians (e.g., North 1990), industry systems have been examined by industrial organization economists (e.g., Stigler 1968), and studies of the sources of organizational forms are being conducted by a growing set of organizational economists (see Milgrom and Roberts 1992). Although all of this work is properly regarded as institutional economics, it is the latter work, focusing on firm-level structures, that is especially identified with the new institutionalism in economics.

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

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

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

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

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

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

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

Whereas Williamson (1994: 79) focuses attention on organizations as institutional forms—governance systems devised to reduce transaction costs—that must take into account "background conditions" such as property rights, laws, norms, and conventions, North (1990: 5) directs attention to these wider institutional frameworks—societal "rules of the game"—and views organizations as "players" who are attempting to devise strategies to win the game.

Evolutionary Economics

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

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

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

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

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

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

Neoinstitutional Theory in Political Science

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

Historical Institutionalism

The historical institutionalists, in many respects, hearken back to the turn-of-the-century institutional scholars, who devoted themselves to the detailed analysis of regimes and governance mechanisms, but also reflect the influence of Weber and his comparative approach. Members of this camp include March and Olsen (1984, 1989), Katzenstein (1978), Krasner (1988), Hall (1986), Skocpol (1985), and Zysman (1983). Institutions are viewed as including "both formal structures and informal rules and procedures that structure conduct" (Thelen and Steinmo 1992: 2). These scholars began by focusing attention on the state, examining the ways in which these structures shape the character and outcomes of conflicts by the ways in which they distribute power among actors and shape actors' conceptions of their interests (Hall and Taylor 1996). They emphasizes that political institutions are not entirely derivative from other social structures such as class, but have independent effects on social phenomena (Evans, Rueschemeyer, and Skocpol 1985); that social arrangements are not only or even primarily the result of aggregating individual choices and actions; that many structures and outcomes are not those planned or intended, but the consequence of unanticipated effects and constrained choice; and that history is not usually "efficient"—a process "that moves rapidly to a unique solution" (March and Olsen 1984: 737)—but one that is much more indeterminate and context-dependent.

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

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

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

Rational Choice Theory

The second camp consists of the rational choice theorists (also termed *positive* theory) and includes such scholars as Moe, Shepsle, and Weingast. These analysts view institutions as governance or rule systems, but argue that they represent deliberately constructed edifices established by individuals seeking to promote or protect their interests. The approach represents an extension of the neoinstitutional work in economics—including the transaction cost approach of Williamson and the work of agency theorists such as Alchian and Demsetz (1972)—and its application to the study of political systems. Tullock (1976: 5), an early advocate of importing economic models to explain political behavior, argued that: "Voters and customers are essentially the same people. Mr. Smith buys and votes; he is the same man in the supermarket and the voting booth" (see also Buchanan and Tullock 1962). Moe (1984: 750) enumerates the major elements making up the paradigm adopted from the economists as including:

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

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

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

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

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

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

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

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

Neoinstitutional Theory in Sociology

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

Theoretical Roots

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

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

The question became, what types of "software" provide the programs and transformation rules for these processes? Such factors ranged from the functioning of the brain and nervous system to the structure of individual cognitive processes. Early social theorists, like Durkheim, insisted that "the framework of the intelligence" was entirely provided by the forms of the society into which an individual was born: Social and cultural forms determine mental models ("collective representations"). This argument, with variations, has been echoed and elaborated by Mead, Parsons, and Bourdieu, among numerous others, up to the present time (Bergesen 2004). However, a large and growing body of psychological theory and research suggests that, rather than providing a blank slate, humans (e.g., unsocialized infants) come equipped with a number of fundamental mental capabilities, such as conceptions of space, number, cause-and-effect relations, and recognition of categories (see Gopnik, Melzoff, and Kuhl 1999; Mehler and Dupoux 1994). In a related development, Chomsky (1986) convinced most linguists that "the principles of language [syntax] are not learned but part of our bio-endowment" (Bergesen 2000: 73).[8]

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

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

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

Culture Theory. These advances by advocates of the "nature" persuasion have forced some retreats by, but have by no means defeated, the "nurture" advocates. Irrespective of capacities and predispositions on the part of individual human actors, all scholars agree that learning occurs in a social context. The groundwork was laid by Franz Boas (1982), a cultural anthropologist working at the turn of the 20th century, who, "by stressing the plasticity of human culture . . . expanded human nature into an infinity of possibilities rather than a prison of constraints" (Ridley 2003: 202). One of the important developments in cultural theory involved a shift away from a more diffuse definition of *culture* as encompassing the entire way of life of a people to focus on its semiotic functions. Worthy successors to Boas, such as Alfred Kroeber and Clyde Kluckholn (1952), carried this tradition forward, concluding that, "Culture consists of explicit and implicit patterns of historically derived and selected ideas and their embodiment in institutions, practices, and artifacts." Their more eloquent protégé, Clifford Geertz (1973: 5, 12) elaborated on the message:

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

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

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

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

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

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

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

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

Symbolic systems vary in the extent to which they exhibit uniformity and promote consistency of action. All too often it is assumed that cultures are stable and constraining. However, more recent work stresses that culture can enable change. For example, Swidler (1986: 277–278) argued that in "settled" times "culture accounts for continuities . . . organizing and anchoring patterns of action," whereas in times of change, culture functions more like a 'tool kit,' providing repertoires "from which actors select different pieces for constructing lines of action."[9]

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

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

- *externalization*—the production, in social interaction, of symbolic structures whose meaning comes to be shared by the participants;
- *objectification*—the process by which this production "comes to confront him as a facticity outside of himself," as something "out there," as a reality exerienced in common with others; and
- *internalization*—the process by which the objectified world is "retrojected into consciousness in the course of socialization."

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

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

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

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

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

Neoinstitutional Theory and Organizations: Founding Conceptions

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

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

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

Silverman's critique and attempted redirection of organizational theory had more impact in European than U.S. circles (see Burrell and Morgan 1979; Salaman 1978).[11] Another European social theorist, Pierre Bourdieu, employed a general conception of "social field" to refer to social arenas governed by distinctive values and approaches. Bourdieu emphasized the contested nature of social fields and the role of power in resolving these contests (see chap. 8). Fields can be examined as social phenomena external to any particular actor, but also exist as subjective, internalized mental elements. In his analysis of social structures, Bourdieu (1977: 95) placed great importance on the internalization of cultural rules. His concept of *habitus* refers to the existence of a "system of lasting and transposable dispositions which, integrating past experiences, functions at every moment as a matrix of perceptions, appreciations and actions," allowing individuals to structure their behavior within situations (see also Bourdieu and Wacquant 1992: 94–149). Bourdieu's work was also much more influential in Europe than the United States until recently.

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

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

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

Other influential contributions soon thereafter, by DiMaggio and Powell (1983) and Meyer and Scott (1983b), elaborated on the macro (environmental) perspective, which has become the dominant emphasis in sociological work. DiMaggio and Powell distinguished three important mechanisms—coercive, mimetic, and normative—by which institutional effects are diffused through a field of organizations and emphasized structural isomorphism (similarity) as an important consequence of both competitive and institutional processes. Meyer and Scott proposed that all organizations are shaped by both technical and institutional forces, but that some types of organizations were more strongly influenced by one than the other. Both sets of authors identified the organization "field" or sector as a new level of analysis particularly suited to the study of institutional processes. Organizational fields help to bound the environments within which institutional processes operate (see chaps. 4 and 8).

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

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

❖ CONCLUDING COMMENT

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

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

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

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

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

❖ NOTES

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

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

3. In addition to his mentor, Merton, Selznick was also clearly influenced by the work of Robert Michels (1915/1949), a contemporary of Max Weber, who first examined the ways in which some members of organizations become more concerned with preserving the organization even at the cost of sacrificing its original goals. Michels observed this process in his study of the Social Democratic Party in Germany, which came to power, but at the sacrifice of its original goals. He gloomily concluded: "Thus from a means, organization become an end" (Michels 1915/1949: 390).

4. Values are expressions of goals or, more precisely, the criteria employed in selecting goals; norms are the generalized rules governing behavior that specify appropriate means for pursuing goals.

5. Parsons (1960b: 65–66) noted that the "points of articulation" between the three system levels are characterized by "a qualitative break in the simple continuity of line authority" because "the functions at each level are qualitatively different." His discussion thus anticipated the recognition by later analysts that some structural elements are "loosely coupled" or "decoupled" (see Meyer and Rowan 1977; Weick 1976).

6. A related line of theory and research, *agency theory*, also addresses the proper design of control structures to deal with the motivation and control of "agents"—those hired to assist the "principal"—the person expected to be the prime beneficiary of the collective work (see Alchian and Demsetz 1972; Jensen and Meckling 1976; Pratt and Zeckhauser 1985). Dealing with a problem common to all organizations, this approach focuses on the design of appropriate control and incentive systems to manage various kinds of work.

7. Peters (1999) identified six institutional perspectives existing within political science, including normative, rational choice, historical, empirical, international, and societal. This typology, in my view, gives too much weight to differences in methodology and/or topic. In a useful review, Hall and Taylor (1996) identified three "new institutionalisms": historical, rational choice, and sociological.

8. Paradoxically, as Chomsky has shown, an innate, hard-wired language capacity provides the basis for a "generative grammar" capable of rich and flexible language usage (Bergesen 2000, 2005).

9. Informative reviews of cultural sociology are provided by Wuthnow et al. (1984), Wuthnow (1987), and DiMaggio (1990, 1997).

10. It is for this reason that phenomenologists such as Schutz and Bellah define themselves as "symbolic realists."

11. In his subsequent work, Silverman (1972; Silverman and Jones 1976) shifted his focus toward a more micro, ethnomethodological emphasis, examining the multiple meanings and rationalities associated with participants' phenomenological accounts of their common situation (see Reed 1985).

3

Crafting an Analytic Framework I

Three Pillars of Institutions

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