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Institutional Processes and Organizations

Most research on institutional processes by organizational scholars has focused on their effects on individual organizations. In this chapter, I review representative arguments and associated evidence. Earlier studies emphasized the effects of institutional context on all organizations within the relevant environment. The institutional environment was viewed as unitary and imposing structures or practices on individual organizations that were obliged to conform either because it was taken for granted that this was the proper way to organize, because to do so would result in normative approbation, or because it was required by legal or other rule-like frameworks. Later studies began to examine differences among organizations, recognizing that whether, when, and how organizations responded depended on their individual characteristics or connections. Recent theorists and researchers have stressed the varied nature of organizational responses to institutional demands. In some situations, individual organizations respond strategically, either by decoupling their structures from their operations or by seeking to defend themselves in some manner from the pressures experienced. In others, the demands are negotiated as organizations collectively attempt to shape institutional requirements and redefine environments. I review examples of studies that address these issues.

❖ ORGANIZATIONS AND INSTITUTIONS: THREE VIEWS

Three views are encountered in current writings about the relation between organizations and institutions. The first, most clearly developed by Douglas North (1990: 4–5) and embraced by many institutional economists, is based on a game analogy: Institutions provide the rules of the game, whereas organizations act as the players. Organizations may well assist in constructing the rules, attempting to devise rules favorable to themselves, and they often attempt to change the rules by political and other means. However, a consideration of rules and rule-setting and enforcement processes is to be clearly distinguished from concern with the playing teams and their structures and strategies. In his own work, North has attended primarily to the processes involved in constructing institutional rule systems.

Occupying a somewhat intermediate position, theorists such as Oliver Williamson (1975, 1985) view organizations, and their structures and procedures, as institutions: systems designed to exercise governance over production systems and minimize transaction costs. As noted, Williamson (1994) emphasizes the regulative aspects of institutions. However, rather than focusing attention on the "background conditions" involving property rights, contract law, and the like, he attends to the impact of these rules on the organization of economic activities at the level of individual economic enterprises. Designers of organizations construct institutional forms–governance structures—to more effectively manage economic transactions. In a parallel manner, but emphasizing normative forces as described in chapter 6, Selznick (1957) examines the ways in which individual organizations devise distinctive character structures over time, developing commitments that channel and constrain future behavior in the service of their basic values. For scholars such as Williamson and Selznick, organizations are relatively unique institutions that are either designed by or evolve out of the choices made by organizational agents.

Sociologists including Meyer, Zucker, and Dobbin act to elide the distinction between organizations and their institutional environments by stressing the strong connection between processes occurring at societal (and even transnational) levels and the structure and operation of individual organizations. Focusing on the cultural-cognitive aspects of institutions, organizational sociologists emphasize the extent to which the modern organization is an institutionalized form—in Zucker's (1983: 1) phrase, "the preeminent institutional form in modern society." Unlike economists, who view organizational systems as reflecting natural economic laws (primarily based initially on the British and subsequently on the American experience), these sociologists insist that "rationalized organizational practices are essentially cultural, and are very much at the core of modern culture precisely because modern culture is organized around instrumental rationality" (Dobbin, 1994a: 118). Not only is our overall conception of an instrumental organization based on a cultural model, but many of the components comprising any given organization are not locally designed to produce efficiency in a specific context, but taken "off the shelf" of available patterns. As Meyer and Rowan (1977: 345) point out:

> The growth of rationalized institutional structures in society makes formal organizations more common and more elaborate. Such institutions are myths which make formal organizations both easier to create and more necessary. After all, the building blocks for organizations come to be littered around the societal landscape; it takes only a little entrepreneurial energy to assemble them into a structure.

Again we see the wide range of assumptions and arguments guiding contemporary institutional studies.

❖ LEGITIMACY AND ISOMORPHISM

The general concept of legitimacy is defined and discussed in chapter 3. Weber was among the first social theorists to call attention to the central importance of legitimacy in social life. In his theoretical and historical work, he gave particular attention to those forms of action that were guided by a belief in the existence of a legitimate order, a set of "determinable maxims" providing models viewed by the actor as "in some way obligatory or exemplary for him" (Weber [1924] 1968: 31). In his analysis of administrative systems, both public and private, Weber examined the changing sources of legitimation as traditional values or a belief in the charismatic nature of the leader increasingly gave way to a reliance on rational/legal underpinnings. Organizations were regarded as legitimate to the extent that they were in conformity to rational (e.g., scientific) prescriptions and legal or law-like frameworks.

Parsons (1960a) applied the concept of legitimacy to the assessment of organizational goals. As specialized subsystems of larger societal structures, organizations are under normative pressure to ensure that their goals are congruent with wider societal values, as described in chapter 2. The focus of the organization's value system "must be the legitimation of this goal in terms of the functional significance of its attainment for the superordinate system" (Parsons 1960a: 21). This conception of legitimacy, emphasizing the consistency of organizational goals with societal functions, was later embraced by Pfeffer and colleagues (Dowling and Pfeffer 1975; Pfeffer and Salancik 1978).

Meyer and Rowan (1977) shifted the focus from organizational goals to the structural and procedural aspects of organizations. The structural vocabulary of modern organizations—their emphasis on formality, offices, specialized functions, rules, records, and routines—was seen to be guided by and reflect prescriptions conveyed by wider rationalized institutional environments. These structures signal rationality irrespective of their effects on outcomes. The master proposition they advanced was that "Independent of their productive efficiency, organizations which exist in highly elaborated institutional environments and succeed in becoming isomorphic with these environments gain the legitimacy and resources needed to survive" (Meyer and Rowan 1977: 352).

The principle of isomorphism was first applied to organizations by human ecologist Amos Hawley (1968), who argued that "Units subjected to the same environmental conditions . . . acquire a similar form of organizations" (see also Hawley 1950). However, ecologists proposed that isomorphism resulted from competitive processes because organizations were pressured to assume the form best adapted to survival in a particular environment (see Hannan and Freeman 1989), whereas neoinstitutionalists emphasized the importance of "social fitness": the acquisition of a form regarded as legitimate in a given institutional environment. DiMaggio and Powell (1983: 147) reinforced this emphasis on institutional isomorphism, focusing attention on coercive, normative, and mimetic mechanisms that "make organizations more similar without necessarily making them more efficient." More so than Meyer and Rowan, DiMaggio and Powell recognized that the models developed and the mechanisms inducing isomorphism among structural features operate most strongly within delimited organizational fields, rather than at more diffuse, societal levels (see chap. 8).

These arguments help to account for two notable features of all contemporary organizations. First, there exists a remarkable similarity in the structural features of organizational forms operating within the same organizational field. One university tends to resemble closely another university, and one hospital is much like other hospitals. The recognition that organizations must not only be viable in terms of whatever competitive processes are at work, but must also exhibit

structural features that make them both recognizable and in conformity with normative and regulative requirements, goes a long way to explaining observed similarities among organizations in the same arena. Second, students of organizations at least since Barnard (1938) have long observed the presence of formal and informal structures, the former reflecting officially sanctioned offices and ways of conducting business, the latter actual patterns of behavior and work routines. An uneasy tension exists between these structures. What was not clear until the work of the neoinstitutionalists is why such tensions exist, but, more fundamentally, if they are disconnected from the work being performed, why do the formal structures exist at all? By positing an environment consisting not only of production pressures and technical demands, but also of regulative, normative, and cultural-cognitive elements, the relatively independent sources of informal versus formal structures are revealed.

Hence, there are good theoretical reasons for attending to isomorphism among organizational models and formal structures, and in the following sections I review additional research examining isomorphic pressures. However, to treat the existence of structural isomorphism as the litmus test for detecting institutional processes oversimplifies the complexity and subtlety of social systems. Varying, competing institutions and multiple institutional elements are often at work. Although they constitute new forms, they also interact with a variety of previously existing forms with varying characteristics and in differing locations. Conformity is one response to isomorphic pressures, but not the only one, because institutional processes are themselves conflicted or because they combine with other forces to shape structure and action.

Varying Elements and Mechanisms

The meaning of legitimacy and the mechanisms associated with its transmission vary somewhat with the three institutional elements, as previewed in chapter 3. General effects of institutional processes on organizational structures are readily apparent, but often overlooked. They become most visible when a longer time period is considered. A clear instance of the effects of regulatory forces—combined with cultural-cognitive constitutive processes—on for-profit organizations is represented by the structuring influence of incorporation statutes. These social arrangements, allowing for the pooling of capital from many sources along with limitations on liability for those who managed these assets, were created early in the 18th century in England, but the misadventures of the South Sea Company set back the acceptance of these forms until the mid-1800s (Micklethwait and Wooldridge 2003: chap. 2). In its early development, the corporate form was restricted to enterprises pursuing broadly public purposes, such as turnpikes and canals, but gradually it was appropriated for use by private firms, as detailed by social historians Seavoy (1982) and Roy (1997). Individually crafted charters granted by state legislatures were replaced by statutes providing a legal template for incorporation available to a wide range of organizations. These legal (and cultural) changes were associated with the rapid expansion of business enterprise in England and the United States during the second half of the 19th century, fueled in good part in America by competition among the several states to pass legislation favorable to businesses wishing to incorporate.

The effect on organizational structure of normative influences is illustrated by the distinctive features of the American community hospital. During the late 19th and early 20th centuries, American physicians consolidated their social and cultural authority, upgraded their training systems, and exercised increasingly strong jurisdictional controls over the medical domain (Starr 1982). Although they became increasingly dependent on hospitals, which provided the technical equipment, laboratory facilities, and nursing services required for effective acute care, physicians were able to remain independent of administrative controls, organizing themselves into an autonomous medical staff to oversee clinical activities. This "dual" control structure—one administrative, the other professional-collegial—provided the organizing principle for community hospitals throughout the 20th century (White 1982). Only during the most recent decades have managerial interests begun to exert more direct controls over rank-and-file physicians in hospitals (see Scott et al. 2000).

The power of shared cultural models as a basis for organizing is highlighted in Knorr-Certina's (1999: 242–243) study of high-energy physics and molecular biology laboratories. She argues that, more so than most types of organizations, the structural blueprint for these knowledge societies is object- rather than person-centered. The work takes place in the context of shared scientific knowledge—"distributed cognition, which then also functions as a management mechanism: through this discourse, work becomes coordinated and self-organization is made possible." Moreover, legitimation of these organizations is based on the congruence between the theories and practices of these laboratories and the wider scientific community of which they are a part. Many of the distinctive features of professional organizations are possible because of the unobtrusive controls exercised by shared symbolic systems linking actors to the objects of their work based in understandings grounded in their invisible colleges.

We can supplement these more historical and process-oriented accounts with studies employing quantitative evidence. These studies provide evidence of the increasing variety and sophistication of indicators employed. With regard to studies emphasizing the cultural-cognitive pillar, as noted, some scholars infer legitimacy from the prevalence of an organizational form (Carroll and Hannan 1989), and others interpret the increasing diffusion of a form as an indication of increasing legitimacy (Tolbert and Zucker 1983). These indirect and somewhat controversial measures tap into the cultural-cognitive and, to some extent, the normative dimensions of legitimacy. However, more direct measures of cultural cognitive support have utilized a variety of archival materials to measure changes in meaning systems and legitimating ideologies. For example, in studies described in chapter 8, investigators have measured changes in legitimating "social logics" as assessed by changes in professional discourse or the media coverage (e.g., Rao, Monin, and Durand 2003; Scott et al. 2000). In an imaginative approach, Zuckerman (1999) assessed the "illegitimacy discount" imposed by stock analysts on those firms whose markets did not match conventional industry-based classifications.

Employing a more individual-level approach to legitimacy processes, Elsbach (1994: 58) conducted studies combining impression management and institutional theories to examine how organizational agents "use verbal accounts or explanations to avoid blame or gain credit for controversial events that affect organizational legitimacy." Managers of companies in the cattle industry in California were asked to respond to a number of controversial events occurring within the industry, and their responses were evaluated by informants representing influential groups (e.g., media, public officials). These qualitative studies provided the inputs for an experiment in which varying combinations of situations (vignettes) and company responses were reported to experimental subjects who then rated the legitimacy accorded to the organization. Acknowledgments of problems in contrast to denials, and references to widely institutionalized procedures, in contrast to technical measures, led to higher legitimacy scores.

Analysts emphasizing the normative pillar have stressed measures that assess certification and accreditation procedures utilized by professional associations (e.g., Casile and Davis-Blake 2002; Mezias 1995; Ruef and Scott 1998), opinions expressed by the public media (e.g., Hybels and Ryan 1996), and the endorsement of established community organizations such as schools and religious organizations (e.g., Baum and

Oliver 1992). Ventresca and Mohr (2002: 811) point out that the latter shift analysts' attention away from measures that "emphasize organizations as independent objects toward the measurement of relations among objects and the inherent connectivity of social organization."

Scholars favoring the regulative view of institution utilize measures that stress the extent to which organizations are under the jurisdiction of a given authority (e.g., Hannan and Freeman 1987; Tolbert and Zucker 1983), whether enforcement is vigorous or lax (Dobbin and Sutton 1998), and whether a specific organization has been approved by a licensing body or, conversely, has been subject to sanctions by an enforcement authority (e.g., Deephouse 1996; Singh, Tucker, and House 1986).

These and related studies demonstrate that it is possible to develop measures of legitimating processes in modern society, such that these institutional forces need not simply be asserted or assumed, but are subject to being assessed with empirical evidence.

Varying Sources and Salience

Who—which agencies or publics—have the "right" to confer legitimacy on organizations of a given type may not be a simple question in environments characterized by complexity or conflict. It is a truism of modern organization studies that organizations are highly differentiated, loosely coupled systems, in part, because they must relate to many different environments. Universities, for example, relate not only to educational accreditation agencies and professional disciplinary associations, but also to federal agencies overseeing research grants and contracts and student loans, to the National Collegiate Athletic Association for sports activities, to local planning and regulatory bodies for building and roads, among many other oversight bodies (see Stern 1979; Wiley and Zald 1968).

In his study of commercial banks operating in the Minneapolis–St. Paul metropolitan area, Deephouse (1996) examines the effects of two different sources of legitimation: state regulatory agencies that made onsite assessments of the safety and soundness of a bank's assets and metropolitan newspapers who reported information to the public about banking activities. Both sources were found to be positively associated with isomorphism in the asset strategies pursued by banks. Banks that experienced fewer enforcement actions from regulatory agencies and banks that received a higher proportion of positive reports in the public media were more likely to exhibit conformity to

the industry average in their strategies for distributing assets across various categories of borrowers, such as commercial, real estate, and individual loans. This finding held up after the differences in their age, size, and performance (return on assets) were taken into account. Both of the legitimation sources were significantly associated with strategic isomorphism, although there was only a modest association of .34 between measures of regulatory assessment and public endorsement. This result suggests that legitimation sources vary in the attributes to which they attend in conferring legitimacy.

The salience of such legitimation agents can vary among organizational subunits or programs, and also over time. In our study of hospitals in the San Francisco Bay area, for example, Ruef and I (Ruef and Scott 1998) found that accreditation by an assortment of medical bodies, such as the American College of Surgeons, was independent of (and, in some cases, negatively associated with) accreditation by various managerial bodies, such as the American Hospital Association. Although the endorsement of both types of accreditation agencies was positively associated with hospital survival throughout the period 1945–1995, the strength of this relation was found to vary over time. During the period before 1980, when professional medical associations exercised greater influence in the field, medical association accreditations were more strongly associated with hospital survival than were managerial endorsements, whereas after 1980, managerial accreditations were a stronger predictor of survival than medical endorsements. We argue that market and managerial logics have become more prevalent in the health care field since 1980, challenging and, to some degree, supplanting the logics of the medical establishment. It appears that the influence of various regulatory and normative bodies varies depending on the institutional logics dominant within the wider institutional environments.

In summary, individual organizations exhibiting culturally approved forms and activities (including strategies), receiving support from normative authorities, and having approval from legal bodies are more likely to survive than organizations lacking these evaluations. Legitimacy exerts an influence on organizational viability independent of its performance or other attributes or connections.

In the following section, I review arguments and related research concerning the effects of the institutional context on organizational structures. In much of this work, the underlying rationale implied is that the effects are due to legitimacy processes. However, other causal processes may also be at work.

❖ INSTITUTIONAL CONTEXT AND ORGANIZATIONAL STRUCTURE

Imprinting

Stinchcombe (1965) was the first theorist to recognize the strong influences of social (including institutional) conditions present at the time of its founding on the structural forms of organization, but his focus was on organizational forms or populations, not on individual organizations (see chap. 5). However, his concept of imprinting has also been applied to the level of individual organizations accompanied by the same assumption: Imprinting processes are important because they tend to become institutionalized and persist over time. Kimberly (1975) evaluated the imprinting argument by studying a collection of 123 rehabilitation organizations (sheltered workshops) established in the New York region during the period from 1866 to 1966. During the latter part of this period, beliefs and norms supporting these workshops shifted from a commercial emphasis on the production of goods and services to a therapeutic one, emphasizing the psychological rehabilitation of the clients. Although only 18% of the workshops founded before 1946 were rehabilitation-oriented, 64% of those founded after that date exhibited this orientation. Moreover, the later in the period studied that a workshop was founded, the more likely it was that a rehabilitation orientation would be embraced. This study did not systematically assess changes in the normative and cultural-cognitive models and norms governing these organizations, yet it is clear that the more recently founded organizations differed substantially from earlier forms in their institutional logics and internal characteristics.

Boeker (1989) studied factors affecting the institutionalization of power differences present at the time of founding in a sample of 53 semiconductor companies. Boeker contrasts the impact of entrepreneurial and environmental effects present at the time of the firm's founding on current firm strategy. He found that the previous functional background of the entrepreneur influenced the selection of the firm's strategy, but also that this decision was independently influenced by the industry's stage of development at the time the firm was founded. Firm strategies were significantly impacted by industry stage in three of the four stages examined. For example, firms founded during the earliest era were more likely to embrace and continue to pursue first-mover strategies, whereas firms founded during the most recent period studied were more likely to develop and to pursue a niche strategy.

Cultural models of organizing precede the creation of organizations. Most organizational fields present not a single, but a (limited) number of organizational models or archetypes. Research by Baron, Hannan, and Burton (1999) assessed the types of models or blueprints governing employment practices present in the mind of the founding CEOs in a sample of startup firms engaged in computer hardware, software, and semiconductors in Silicon Valley. Examining the characteristics of these firms after their first few years of operation revealed that companies whose CEOs held a more bureaucratic conception of employment practices were more likely to exhibit higher managerial intensity (proportion of managers to full-time employees) than companies whose CEOs held a more egalitarian "commitment" models.

Environmental Complexity

Gradually, both theorists and researchers have come to realize that, although organizations confront and are shaped by institutions, these institutional systems are not necessarily unified or coherent. A variety of scholars have explored the effects on organizations of environmental complexity and inconsistency (see Brunsson 1989; Heimer 1999; Meyer and Scott 1983b; Zucker 1988a).

Several researchers have examined the effect of institutional complexity on organization structure. For example, Meyer and I proposed that organizations confronting more complex, fragmented environments—such as multiple authorities and/or funding sources—would develop more complex and elaborated internal administrative structures, holding constant the complexity of their work processes (Scott and Meyer 1983). Powell (1988: 126) found evidence consistent with this prediction in his study comparing a scholarly book-publishing house and a public TV station. He concluded that "organizations, such as [the public television station] WNET, that are located in environments in which conflicting demands are made upon them will be especially likely to generate complex organizational structures with disproportionately large administrative components and boundary-spanning units." Meyer, Scott, and Strang (1987) employed data on the administrative structure of districts and elementary and secondary schools to demonstrate that schools and districts depending more on federal funding, which involves many independent programs and budgetary categories, had disproportionately large administrative structures compared to schools relying primarily on state funding, which tended to be more integrated.

D'Aunno, Sutton, and Price (1991) examined effects on community mental health organizations exposed to two conflicting models for staffing and service provision in drug abuse programs. The conventional mental health approach prescribed a psychosocial model of treatment administered by mental health professionals, whereas the competing model, more common in the drug abuse treatment sector, endorsed the Alcoholics Anonymous (AA) model, relying on ex-addicts and client-centered approaches. Because some mental health centers, termed *hybrids*, elected to treat drug abuse cases, they were confronted with the two conflicting institutionalized models of treatment. These organizations reflected the conflicts in their environments by attempting to incorporate some features consistent with both the mental health and drug abuse institutional practices. These organizations "responded by combining hiring practices" from the two sectors: "hybrid units also adopted conflicting goals for client treatment and somewhat inconsistent treatment practices" (D'Aunno, Sutton, and Price 1991: 655–656). Conflicts in the institutional environment were mapped into the structure and practices of these organizations.

Interactive Processes

Although all organizations within a given institutional field or sector are subject to the effects of institutional processes within the context, all do not experience them in the same way or respond in the same manner. Just as social psychologists call attention to "individual differences"—differences among individuals in their definition of and response to the same situation—students of organization have increasingly attended to differences among organizations in their response to the "same" environment. I review here studies examining how adoption responses vary because of differences among organizations in the amount of pressure they experience, in their characteristics, or in their location within the field. In a later section of this chapter, I consider a broader array of responses by organizations to their institutional environments.

The general question addressed is: Why are some structures or practices adopted by some organizations, but not others in similar situations? This question is of interest not only to institutionalists, but also to students of the diffusion of innovation (see Abrahamson 1991; Rogers 1995; Strang and Soule 1998) and organizational learning (see Haunschild and Miner 1997; Ingram, 2002; Levitt and March 1988). The latter ask in this connection how organizations learn both from their own experience as well as from the experience of others. Institutional arguments, emphasizing the effects of rules, norms, or constitutive beliefs, shade off into stratification and instrumental arguments, for example, that organizations imitate others whom they perceive to be successful or prestigious (see e.g., Burns and Wholey 1993; Haunschild and Miner 1997; Haveman 1993). Many motives conduce toward conformity: fads, fashion, status enhancement and vicarious learning. All mimetic behavior does not involve (exclusively) institutional processes.

Variable Institutional Pressures

All organizations in the "same" field are not equally subject to the institutional processes at work there. Organizations vary in the extent to which they are under the jurisdictional authority of oversight agencies. Regulative requirements regarding employee protections such as health and safety rules often apply only to organizations of a given size. Equal opportunity laws apply more clearly to public sector organizations and to organizations receiving federal grants and contracts than to other employers (see Dobbin et al. 1988; Edelman 1992). As another example, Mezias (1990) examined the adopting of new procedures for reporting income tax credits by the 200 largest nonfinancial firms in the United States from 1962 to 1984. He discovered a number of organization-level factors that influenced adoption, including whether the firm was under the jurisdiction of the Interstate Commerce Commission. Casile and Davis-Blake (2002) found that business schools located in public universities were more responsive to changes in accreditation standards than those affiliated with private colleges.

Variation in institutional pressures also comes from differences over space and time in the strength of cognitive beliefs or normative controls. As described in chapter 5, both ecologists and institutional scholars view the increasing prevalence of a form or practice as an indicator of increasing legitimation. This temporal variation has given rise to an interesting line of research that contrasts the characteristics of early versus late adopters. Two studies were particularly influential in shaping the arguments.

The first was the study of the diffusion of civil service reforms among municipalities at the turn of the century conducted by Tolbert and Zucker (1983), portions of which were discussed in chapter 6. Turning their attention to those states in which civil service was not mandated, Tolbert and Zucker show that its adoption by cities during the initial period varied according to their characteristics: Larger cities, those with higher proportions of immigrants and a higher proportion of white-collar to blue-collar inhabitants, were more likely to adopt the reform. The authors argue that these cities were rationally pursuing their interests: Some local governments confronted more severe governance problems, encouraging them to adopt changes that would buffer them from "undesirable elements." Although such city characteristics were strongly predictive of adoption during the earliest period (1885–1904), in each subsequent period, the associations became weaker, so that by 1935, these variables no longer had any predictive power. The authors interpret these weakening correlations as evidence of the development of widespread and powerful cultural beliefs and norms supporting civil service reform, such that all cities were under increasing pressure to adopt the reform regardless of their local needs or circumstances.[1]

The second study, by Fligstein (1985), was briefly discussed earlier, but merits more detailed examination. Fligstein tested a number of alternative arguments for why large firms adopted the multidivisional (M-form) structure. His data were collected to reflect five periods, each a decade between 1929–1939 and 1969–1979, and included information on the 100 largest U.S. industrial corporations for each period.[2] During the earlier periods, firms that were older, pursuing product-related strategies in their growth patterns, and headed by managers from sales or finance departments were more likely to adopt the M-form than firms lacking these characteristics. During the 1939–1949 time period, these same factors continued to operate, but another variable also became relevant. If firms were in industries in which other, similar firms had adopted the M-form, they were more likely to adopt this structure. All of the factors, with the exception of age, continue to be significantly correlated with M-form adoption during the last two decades included in the study.

Fligstein's study provides empirical support for two different versions of institutional arguments. The findings linking structural forms to strategies supports Williamson's (1975) arguments that organizational managers attempt to devise governance structures that will economize on transactions costs—the alignment of structure with strategy. The findings relating M-form adoption to the number of other similar firms employing the structure are consistent with DiMaggio and Powell's (1983) views of mimetic—and perhaps normative—processes operating in uncertain environments.

These findings have been replicated in a number of later studies, some of which are described below. They suggest the following general pattern. In the early stages of an institutionalization process, adoption of the practice by organizations represents a choice on their part that can reflect their varying specific needs or interests. As the institutionalization process proceeds, normative and cultural pressures mount to the point where adoption becomes less of a choice and more of a requirement. Differences among individual organizations are of less consequence when confronted by stronger institutional imperatives. Although in one sense the logic of action has shifted from one of instrumentality to appropriateness, in another sense, the situation confronting each organization has changed so that it is increasingly in the interest of all to adopt the practice. Not to do so is to be regarded as deviant, inattentive, or behind the times, resulting in a loss of legitimacy and, perhaps, attendant material resources.

The question of what types of benefits are associated with early and late adoption is further explored in a study of over 2,700 U.S. hospitals encouraged to adopt total quality management (TQM) procedures in response to increased normative pressures from the Joint Commission on Accreditation of Healthcare Organizations. Westphal, Gulati, and Shortell (1997) found that hospitals slower to adopt these practices conformed more highly to the pattern of practices implemented by other hospitals to which they were connected or to a particular, standardized approach, compared to early adopters. That is, hospitals adopting early were more likely to customize their TQM practices to their specific situation; those adopting later exhibited a more ritualistic pattern, mechanically following standard TQM models or imitating the practices of other hospitals with which they were connected in alliances or systems. The adoption of TQM improved hospital legitimacy (overall ratings by the Joint Commission) for both early and late adopters, but only early adopters of TQM also improved their productivity and efficiency, as measured by a number of objective and subjective indicators. We see again that, although early and late adoption showed different effects, all hospitals adopting TQM improved their legitimacy and some improved their performance.

Organizational Factors Associated With Adoption

A generation of recent studies has attempted to identify what organizational features are associated with early adoption. Of course, these features vary greatly depending on the nature of the innovation. Most of the studies reviewed examine the adoption of some type of administrative innovation (e.g., new managerial structures or employee systems). A number of general characteristics appear to be associated with adoptive behavior. Without attempting to be comprehensive, I identify three classes of variables that have received attention from recent scholars.

Attributes. Organizations vary in many ways, but only a few of these differences have been found to be regularly associated with early adoption. Numerous studies have found that organization size is important, larger organizations being more prone to early adoption. Size effects have varying interpretations, each of which is conducive to earlier response. Larger organizations tend to be more resource-rich; larger organizations are more differentiated and, hence, more sensitive to environmental changes; and larger organizations are more visible to external publics, including governance bodies (see Dobbin et al. 1988; Edelman 1992; Greening and Gray 1994). Organizations that operate within or are more closely aligned with the public sector are more likely to be responsive to institutional pressures, particularly legal and regulatory requirements, but also normative pressures (see Dobbin et al. 1988; Edelman 1992; Casile and Davis-Blake 2002). Organizations possessing differentiated personnel offices are more likely to be receptive to innovations, particularly those pertaining to employment matters (e.g., the adoption of hiring, training, and due-process procedures; see Baron, Dobbin, and Jennings 1986; Baron, Jennings, and Dobbin 1988; Dobbin et al. 1988; Edelman 1992; Kalleberg et al. 1996). Unionization has been shown to affect selected types of adoption, in particular, grievance procedures and internal labor market practices (Pfeffer and Cohen 1984; Sutton et al. 1994; Kalleberg et al. 1996). In private sector organizations, the characteristics of CEOs have been found to affect adoptive behavior. CEO background—for example, whether their experience comes from production, marketing, or finance (Fligstein 1985, 1990)—and CEO power vis-à-vis the corporate board (Westphal and Zajac 1994)—is associated with the adoption of new structural forms and with CEO compensation protections and incentive systems. Firms experiencing turnover in their top management teams are more likely to adopt new accounting procedures (Mezias 1990). Finally, organizational performance has been found to influence the adoption of CEO income protection and incentive plans (Westphal and Zajac 1994).

Linkages. Networks of organizations exhibit structure. Linkages among organizations vary by frequency and nature of exchanges, multiplicity and absence of connections, and central and peripheral location. Participants within organizations are linked together at high levels

(e.g., interlocking boards of directors, friendship, and school ties among executives) and low levels (e.g., occupational affiliations and communities of practice that cross organizational boundaries).

For example, Haunschild (1993) demonstrates that corporations sharing directors were more likely to make acquisitions during the 1980s, and Palmer, Jennings, and Zhou (1993) reported that interlocking directors predicted the adoption by corporations of an M-form structure during the 1960s. Rao and Sivakumar (1999) report that firms with similar ties were more likely to create an investor relations office when they learned about it from other board members.

The distinction between being connected and being similar to another social unit is an important one to network theorists. The former, referred to as *cohesion*, pertains to the presence of exchange relations or communication links between two or more parties. The latter, termed *structural equivalence*, refers to social units that "occupy the same position in the social structure"; they "are proximate to the extent that they have the same pattern of relations with occupants of other positions" (Burt 1987: 1291). In situations where information is widely available (e.g., via the mass media), social contagion—the diffusion of some practice or structure—may be more influenced by the behavior of those we regard as similar to ourselves than by those with whom we are in contact (recall the similar arguments made by Strang and Meyer [1993], discussed in chap. 6).

The relative importance of cohesion versus structural equivalence is evaluated in a study by Galaskiewicz and Burt (1991), who examined factors affecting diffusion of norms and standards among Contributions Officers in corporate firms pertaining to the evaluation of nonprofit organizations seeking donations. The study examines how common norms develop within an organizational field, affecting how individual officials come to view their social environment, adopt standards, and arrive at similar evaluations. Results were based on evaluations made by 61 contributions officers of 326 local nonprofit organizations eligible to receive donations from corporations. Judgments by officers (as to whether they recognized the nonprofits and, if so, regarded them as worthy prospects) were correlated with the evaluations of other officers who were either (a) in contact, or (b) in equivalent structural positions. "The results show weak evidence of contagion by cohesion and strong evidence of contagion by structural equivalence" (Galaskiewicz and Burt 1991: 94). Differences in judgment were also influenced by differences in the personal characteristics of officers, such as gender and prominence, but these did not eliminate the structural effects.

Reference Groups. These and related studies raise this general question: If organizations imitate the behavior of other organizations, how do they determine which organizations to emulate? Clearly, organizations must choose among their many network connections, and they must decide what criteria to employ to assess similarity. A number of recent scholars explore these questions utilizing network approaches. Notably, much of this research focuses on the adoption by market-based organizations of various competitive strategies, including acquisition behavior, entry into new markets, and choice of an investment banker or construction of a comparison set (e.g., for justifying CEO compensation). Illustrative findings are that organizations are prone to imitate the behavior of organizations that are geographically proximate (Davis and Greve 1997; Greve 1998), perceived to be similar to themselves (e.g., operating in the same industry; Haunschild and Beckman 1998; Palmer, Jennings, and Zhou 1993; Porac, Wade, and Pollock 1999); closely connected by ties, including resource, information, and board interlocks (Galaskiewicz and Bielefeld 1998; Haunschild 1993; Kraatz 1998; Uzzi 1996); have high status or prestige (Burns and Wholey 1993); and are more (visibly) successful (Haunschild and Miner 1997; Haveman 1993; Kraatz 1998). In contrast, firms may select less successful others as a comparison set to justify or place their own actions in a favorable light (Porac, Wade, and Pollock 1999).

The arguments associated with reference group variables range from strictly institutional to vicarious learning to political maneuvering. More important, however, these studies begin to show the ways in which institutional processes interact with interest-based motivations to guide organizational choices and behaviors (see also Baum and Dutton 1996; Dacin, Ventresca, and Beal 1999).

Institutional and Organizational Processes

The public policy literature contains numerous studies providing examples of the ways in which organizations both engage in regulatory activities and respond to attempts to control their behavior. Some of these accounts take a top-down perspective (e.g., Wilson 1980), focusing on the structure and tactics of the enforcement agency, whereas others take a bottom-up view, examining how the policies are interpreted and carried out at local sites (e.g., Lipsky 1980). Organizations operate at every level in these accounts: as policymakers, units of the implementation machinery, and targets of policy reform. Although these studies have received scant attention from mainstream organizational

scholars, they contain important insights concerning how organizations participate in and respond to regulatory efforts (see e.g., Hoffman and Ventresca 2002; Landy, Roberts, and Thomas 1990; McLaughlin 1975; Peterson, Rabe, and Wong 1986). Pierson (2004: chap. 1) provides a perceptive discussion of political organizations, public policy setting, and institutional processes.

A more general process-oriented perspective is provided by organizational scholars who focus attention on organizations as information systems: as symbol-processing, sense-making, and interpretation systems. Pfeffer and Salancik (1978) stress the importance of the information system developed by the organization: the specialized units and routines that determine the variety and types of information routinely collected by the organization. Information is more likely to be salient and used simply because it is available. The availability of information thus influences the "attention-structure" of decision makers. Because "time and capabilities for attention are limited," as March (1994: 10) notes, "theories of decision making are often better described as theories of attention or search than as theories of choice." Rather than assuming a straightforward, unified, demand-response model, a more ambiguous, complex, and nuanced portrait is painted of organizations staffed by multiple actors with conflicting agendas and interests confronting diverse and imperfect information. Demands or requirements trigger not automatic conformity, but multiple questions: Does this apply to us? Who says so? Is this something to which we should respond? What might we do about it? Who else may be in the same situation? What are they doing? They become occasions for interpretation and initiate sense-making processes (Barley 1986; Daft and Weick 1984; Whetten and Godfrey 1999). Weick (1995) provides a penetrating and provocative analysis of these processes—reminiscent of Suchman's (1995a) discussion of theorization—that occur within and across organizations.

Related efforts to foster the development of more interactive and subtle models of the ways in which organizations relate to institutional environments have been carried out by law and society scholars, who complain that institutionalists too often embrace a "legal formalism" stressing the external, objective, rational nature of law. Rather, as Suchman and Edelman (1997; see also Edelman and Suchman 1997) propose, laws and regulations are socially interpreted and find their force and meaning in interactions between regulators and regulatees. This approach is well illustrated in a series of studies examining the response of a diverse sample of U.S. organizations to equal opportunity/affirmative action laws passed in the early 1960s (see Dobbin et al.

1988, 1993; Edelman 1992; Edelman, Uggen, and Erlanger 1999; Sutton et al. 1994). All laws are subject to variable interpretation, but these statutes—in part reflecting underlying, unresolved political conflicts—were particularly ambiguous to the point where even cooperative organizational managers could not determine what it meant to be in compliance. The passage of the legislation set in motion an elaborate sense-making process in which personnel managers engaged in discourse with their counterparts—within their organizations, in their professional journals, at conventions—attempting to discern what measures would be found acceptable. Proposals were floated, prototype programs were developed, and, over time, these responses were evaluated by the federal courts (yet another collection of state-based, professional actors), which served as the final arbiters of adequate compliance. Personnel managers were much more willing to initiate procedural rather than substantive solutions (that focused on the consequences of employer actions) (Edelman 1992), although their proposals were often couched in language emphasizing their contributions to organizational efficiency (Dobbin and Sutton 1998). Hoffman (2001: 143) amplifies this argument, noting that organizational actors attempt to reframe environmental demands in terms that make sense from their specialized perspective:

> When buyers and suppliers impose environmental pressures on the firm, they become framed as an issue of operational efficiency through resource acquisition, processing, and sales. When imposed by banks, shareholders, and investors, they become framed as an issue of capital acquisition. When consumers begin to consider environmental concerns in their purchasing decisions, the issue becomes framed as an issue of market demand. When competitors begin to use the environment as a strategic issue or challenge how others use it, the issue becomes translated into one of competitive strategy.

When eventually selected kinds of programs were declared to meet the requirements of the law—governance processes having shifted to the judiciary—these models diffused rapidly through the field. The overall process that occurred was one in which legal changes could best be understood as an endogenous process engaging various actors and working through sense-making and problem-solving activities within the organizational field. This process was guided more by normative constructions among professional actors than by coercive mechanisms emanating from the state, and it was better understood as a structuration process changing rules and behaviors across the entire field, rather than as a simple process by which individual organizations were confronted by and conformed to centralized directives.

❖ STRATEGIC RESPONSES

Studies emphasizing institutional processes rather than effects, such as those described above, begin to suggest that organizations may not be quite so powerless or passive as depicted in earlier institutional accounts. Noting the oversocialized conception of organizations and the limited response repertoire proffered by early formulations—in effect, Conform, either now or later!—a number of scholars have joined voices in calling for more attention to power and agency, particularly on the part of individuals and organizations subject to institutional pressures (see DiMaggio 1988; Perrow 1986). Pfeffer (1981; Pfeffer and Salancik 1978) was among the first to emphasize that managers often manipulated symbols to "manage" their legitimacy in the larger environment.

In an important development of these arguments, Christine Oliver (1991) called for an expansion of the choice set available to organizations. Drawing on resource-dependence arguments, she outlined a broad range of potential responses, emphasizing throughout the possible use of more self-interested, strategic alternatives.[3] I begin by reviewing her arguments and typology. However, because they focus on responses by individual organizations, I conclude by pointing to the possibility of more collective strategic actions.

Individual Organizational Responses

Although it is useful to recognize that organizations can react to institutional pressures in a number of ways, it is also important to observe the extent to which institutional environments operate to influence and delimit what strategies organizations can employ. Just as institutions constitute organizations, they also define and set limits on their appropriate ways of acting, including actions taken in response to institutional pressures. Strategies that may be appropriate in one kind of industry or field may be prohibited in another. For example, public agencies are frequently encouraged to coordinate services, whereas private organizations are expected to refrain from becoming overly cozy (or collusive). Tactics that can be successfully pursued in one setting may be inconceivable in another. As we have noted in studies previously reviewed, structures, as well as strategies are institutionally shaped.

Oliver (1991: 152), however, concentrates primarily on types of strategies that organizations can pursue irrespective of such field-level constraints. She delineates five general strategies available to individual organizations confronting institutional pressures:

- *Acquiescence* or conformity is the response that has received the lion's share of attention from institutional theorists.

As we have seen, it may entail either imitation of other organizations selected as models or compliance to the perceived demands of cultural, normative, or regulative authorities. It may be motivated by anticipation of enhanced legitimacy, fear of negative sanctions, hope of additional resources, or some mixture of these motives.

- *Compromise* incorporates a family of responses that include balancing, placating, and negotiating institutional demands.

Compromise is particularly likely to occur in environments containing conflicting authorities. Earlier, we described D'Aunno, Sutton, and Price's (1991) research on the compromises devised by mental health agencies incorporating drug abuse programs. Although this seems a special case, as we noted in chapter 6, in liberal, pluralist societies like the United States, inconsistent and contested institutional frameworks are commonplace (Berman 1983; Friedland and Alford 1991). This implies that organizations will frequently find themselves in situations in which they have considerable room to maneuver, interpret, bargain, and compromise. For example, Abzug and Mezias (1993) detail the range of strategies pursued by organizations responding to court decisions regarding comparable worth claims under Title VII of the Civil Rights Act of 1972. The federalized structure of the court systems, permitting quasi-independent rulings by federal, state, and local courts, allowed a greater variety of appeals and also provided avenues for reform efforts to continue at one level if blocked at another.

Alexander (1996: 803) describes a combination of "compromise" strategies as being pursued by curators of fine arts museums in the United States, whose organizations increasingly rely on diverse funding streams—wealthy individuals, corporations, governments, and foundations—each of which holds different goals in providing support. Alexander finds that curators, whose prestige "rests on the scholarliness and quality of their work, including the exhibitions

they mount," tend to alter the format of exhibitions to please their funders—for example, creating "blockbuster" and traveling exhibitions to please corporate and government sponsors—but to compromise less on the content of exhibitions. Other specific strategies employed included "resource shifting," "multivocality"—sponsoring exhibitions with many facets that appeal to a variety of stakeholders—and "creative enactment"—inventing linkages between particular types of art and the specific interests of a potential sponsor.

- The strategy of *avoidance*, as defined by Oliver, includes concealment efforts and attempts to buffer some parts of the organization from the necessity of conforming to the requirement.

One mode of avoidance has received considerable attention from the outset of neoinstitutional theory. In their seminal essay on institutional environments, Meyer and Rowan (1977) argued that organizations confronting demands frequently respond by "decoupling" their structural features from their technical activities. This is assuredly a possible response. Loose coupling among differentiated units is a characteristic feature of all organizations—indeed, of all open systems (see Glassman 1973; Orton and Weick 1990; Weick 1976). Organizations, in particular, are known to deal with external demands by developing specialized administrative units mapping onto these external sources (Buckley 1967; Thompson 1967/2003). Organizations under pressure to adopt particular structures or procedures may opt to respond in a ceremonial manner, making changes in their formal structures to signal conformity, but then buffering internal units, allowing them to operate independent of these pressures. Although this is certainly a possible response, Meyer and Rowan imply that this response is widespread. Indeed, some theorists treat decoupling as the hallmark of an institutional argument. I believe this interpretation to be incorrect.

To begin, these decoupled responses are often seen to be merely symbolic, the organizational equivalent of "smoke and mirrors" (see Perrow 1985). However, to an institutionalist, the adjective "merely" does not fit comfortably with the noun "symbolic." The use of symbols involving processes by which an organization connects to the wider world of meaning exerts great social power (see Brunsson 1989; Pfeffer 1981). Second, numerous studies suggest that, although organizations may create boundary and buffering units for symbolic reasons, these structures have a life of their own. Personnel employed in these units often play a dual role: They both transmit and translate environment demands to organizations, but also represent organizational concerns to institutional agents (see Hoffman 1997; Taylor 1984). In addition, the very existence of such units signals compliance. Edelman (1992: 1544) elaborates this argument in her discussion of organizational responses to equal employment opportunity/affirmative action requirements:

> Structural elaboration is merely the first step in the process of compliance. Once EEO/AA structures are in place, the personnel who work with or in those structures become prominent actors in the compliance process: they give meaning to law as they construct definitions of compliance within their organizations. . . . But while actors within organizations struggle to construct a definition of compliance, structural elaboration signals attention to law, thus helping to preserve legitimacy.

Finally, rather than assuming that decoupling automatically occurs, we should treat this as an empirical question: When and under what conditions do organizations adopt requisite structures but then fail to carry out the associated activities? Consistent with our pillars framework, which elements are involved can be expected to affect the response. Organizations are more likely to practice avoidance when confronted with external regulatory requirements than with normative or cognitive-cultural demands. Thus, research by Coburn (2004: 233), who studied the effect of curricular changes in elementary school reading programs, found that teachers were more likely to respond to "normative messages than to regulative messages by incorporating them into their classroom and doing so in ways that altered their preexisting practice." Organizations are also more likely to decouple structure from practice when there are high symbolic gains from adoption but equally high costs associated with implementation. Westphal and Zajac (1994) studied the behavior of 570 of the largest U.S. corporations over two decades when such firms were adopting long-term CEO compensation plans in an attempt to better align CEO incentives with stockholder interests. Although many companies adopted these plans, a substantial number failed to use them to restructure executive compensation within a subsequent 2-year period. Adoption of a plan was found to enhance organizational legitimacy with stockholders and stock purchasers. Westphal and Zajac (1994, 1998) found that plan adoptions, regardless of whether they were used, resulted in improved market prices, and they found adoption to be associated with greater CEO influence over the board. At the same time, use of these plans could negatively impact CEO compensation. Accordingly, the researchers found that nonimplementation was also associated with greater CEO influence. In addition, Westphal and

Zajac (1994) observed the familiar pattern involving late versus early adoption: Late adopters were less likely to implement the plan than early adopters, suggesting that decoupling is more likely to occur among reluctant adopters responding to strong normative pressures.

- The strategy of *defiance* is one in which organizations not only resist institutional pressures to conform, but do so in a highly public manner.

Defiance is likely to occur when the norms and interests of the focal organizations diverge substantially from those attempting to impose requirements on them. Covaleski and Dirsmith (1988) describe one organization's attempt to defy the state's efforts to impose a new budgetary system on them. The University of Wisconsin system attempted to devise and obtain public support for an alternative budgetary system that would more clearly reflect their own interests in research and educational programs and retaining top-flight faculty. In the end, state power prevailed, and the university was forced to accept the state's enrollment-based approach.

- Organizations may respond to institutional pressures by attempting to *manipulate*—"the purposeful and opportunistic attempt to co-opt, influence, or control" the environment (Oliver 1991: 157).

Numerous scholars, from Selznick (1949) to Pfeffer and Salancik (1978) to Alexander (1995), have examined the ways in which organizations attempt to defend themselves and improve their bargaining power by developing linkages to important sources of power. Of special interest to institutional theorists are the techniques used by organizations to directly manage views of their legitimacy. Elsbach and Sutton (1992: 702) report a process study of impression-management techniques employed by Earth First! and ACT UP, two militant reform organizations that employed "illegitimate actions to gain recognition and achieve goals." Their analysis suggests that such techniques were employed to gain media attention to the organization and its objectives. Once such attention was forthcoming, spokespersons for each organization stressed the more conventional aspects of the organization and attempted to distance their organization's program from the illegal activities of some of its members. They sometimes claimed innocence or justified their actions in the light of the greater injustices against which they were contending. Endorsements and support received from other constituencies were emphasized. In these and related ways, organizations attempt to manage their impressions and improve their credibility. However, as Ashforth and Gibbs (1990) point out, organizations that "protest too much" run the risk of undermining their legitimacy.

One final caution: In recognizing the possibility of strategic action by organizations confronting institutional pressures, it is also important that institutional theorists not lose sight of the distinctive properties of institutions, in particular those associated with the cultural-cognitive forms. As Goodrick and Salancik (1996: 3) point out:

> A problem with the direct incorporation of a strategic choice perspective into institutional theory is that it discounts the social-fact quality of institutions. Rather than being social facts that make up the fabric of social life, they assume the special and arbitrary positions of dominant social agents. . . . The notion that organizations act at times without choice or forethought is lost. . . . The institutional context [then becomes] . . . of no special importance for understanding organizational action. It is simply a constraint to be managed like any other constraint, a choice among many choices.

Goodrick and Salancik (1996) examined the behavior of various types of California hospitals in adopting Cesarean operations from 1965 to 1995, a time when the rates for this procedure increased greatly. Professional practice norms encourage the use of Cesarean sections for high- but not low-risk births. Comparing Cesarean rates among for-profit and nonprofit hospitals, the researchers observed differences among them only for births of intermediate risk. For-profit hospitals were more likely to carry out these relatively profitable procedures under these conditions than nonprofit forms. But this self-interested, strategic behavior only occurred for intermediate-risk patient conditions for which professional norms did not provide clear guidelines. Institutional rules set the limits within which strategic behavior occurs.

More generally, there is clear tension between a strategic approach and the view of many institutional theorists. As previewed in chapter 3, a strategic perspective views legitimacy as another type of resource—a cultural resource—to be extracted from the environment. As Suchman (1995b: 576) points out, given the "almost limitless malleability and symbols and rituals," in contrast to the hardness of material resources and outcomes, the former provides ready targets for manipulation by managers. Institutionalists, however, emphasize the limits of this view.

In a strong and constraining symbolic environment, managers' decisions are often constructed by the same belief systems that determine audience reactions. Consequently, rather than examining the strategic legitimation efforts of specific focal organizations, many institutionalists tend to emphasize the collective structuration (DiMaggio and Powell 1983) of entire fields or sectors of organizational life (Suchman 1995b: 576).

Collective Responses

More so than the actions of single organizations, concerted responses by multiple organizations have the potential to shape the nature of the demands and even to redefine the rules and logics operating within the field. We review several studies dealing with these collective responses to institutional environments, but reserve for chapter 8 a discussion of more general field-level changes.

Earlier in this chapter, we discussed a number of empirical studies depicting the ways in which organizations subject to some type of normative or regulative pressure respond in ways that reshape or redefine these institutional demands. Recall the behavior of personnel officers confronted by equal opportunity legislation. We suspect that such processes—in which rules or normative controls are proposed or legislated, interpretations and collective sense-making activities take place among participants in the field to which they are directed, and then the requirements are redefined and clarified—are more often the rule than the exception.

A study by Kaplan and Harrison (1993: 423) examines the reactions by organizations to changes in the legal environment that exposed board members to a greater risk of liability suits. Corporations pursued both proactive strategies, adapting so as to conform to environmental requirements, and reactive strategies, attempting to alter environmental demands. Both involved collective as well as individual efforts. The Business Roundtable, a voluntary governance association, "took the lead in coordinating the conformity strategy by making recommendations on board composition and committee structure" consistent with the concerns raised by such regulatory bodies as the Security and Exchanges Commission. Proactive collective strategies included lobbying efforts directed at states to broaden the indemnification protection for outside directors as well as the creation of insurance consortia to underwrite the costs of providing director and officer liability insurance to companies. The strategies pursued were judged to be highly successful: "New legislation and the insurance consortia enabled most corporations to substantially improve director liability protection. As a result, most board members are less at risk of personal liability now than they were a decade ago" (Kaplan and Harrison 1993: 426–427).

A somewhat more contentious process of negotiation and compromise is detailed by Hoffman (1997) in his historical account of reactions by the U.S. chemical and petroleum firms and industries during the period 1960–1995 to increasing regulatory pressures intended to reduce treats to the natural environment. Trade journals were examined to assess industry response to these challenges. During the 1960s, relatively little attention was devoted to environmental concerns; most accusations and concerns were dismissed as groundless. However, with the formation of the Environmental Protection Agency in 1970—in response to a number of highly visible environmental accidents—governmental scrutiny of both industries increased dramatically, as did the mobilization of environmental activists. The Chemical Manufacturers Association and the American Petroleum Institute initially pursued primarily confrontational strategies in an attempt to influence regulatory behavior—in particular, standard-setting—but by the late 1980s, a more cooperative framework had evolved as the industries and related corporations began to embrace a policy of corporate environmentalism. Public agencies and corporate actors accommodated to one another's interests, erecting new types of understandings, norms, and hybrid public/private governance arrangements.

But more conflict-laden collective reactions have occurred whose resolution has proved more difficult. Miles (1982) examined the interesting case of the response by the "Big Six" tobacco companies in the United States to the Surgeon General's report linking smoking and cancer. Each of these companies reacted individually, some developing their foreign markets and others diversifying their products. But they also engaged in collective action, creating the Tobacco Industry Research Committee to conduct their own scientific studies and cooperating to hire lobbyists and create Political Action Committees (PACs) to guide legislation and resist the passage of punitive laws. Collective efforts to shape the regulative and other governance structures to which they are subject continue up to the present day in response to heightened activities on the part of federal and state officials.

A different kind of negotiation process and redefinition of the organization field is described by Halliday and colleagues (Halliday, Powell, and Granfors 1993) in their study of U.S. state bar associations These associations were formed at the turn of the 20th century as market-based organizations competing for the support of lawyer members. However, during the early decades, failure rates were high. A different model of organizing was developed in the early 1920s, which relied on state support: Membership in the association was mandated as a condition for practicing in the state, and annual fees were imposed on all members. This new form, which required either legislative action or a ruling by the state supreme court, rapidly diffused through a number of states, although it did not supplant the market-based form in all states. Event-history analysis revealed that the state-based mode was more likely to be adopted in states in which the market-based form had attracted only a small proportion of lawyers (i.e., states favorably disposed to licensing professions) and in rural states. The state-based form was also promoted by a centralized, propagator association, the American Judicature Society, created to advance legal reform and diffuse the new structure. Collective action in this case resulted in the transformation of an organizational form, moving it out of the competitive marketplace and under the protective wing of the state.

❖ SOURCES OF DIVERGENCE

Collecting arguments from this and previous chapters, we see that, although institutional pressures under many conditions conduce toward isomorphic organization structure and practices, there are many ways in which "identical" institutional forces can result not in convergent, but divergent outcomes. Among the mechanisms and processes discussed, consider the following:

- Varying carriers whose characteristics or mode of transmission alters the message
- Varying translations of institutional rules
- Misunderstandings or errors in the application of rules
- Varying exposure or susceptibility to institutional rules
- Varying attributes or relational connections that affect knowledge of or response to institutional pressures
- Adaptations or innovations by users adopting institutional forms
- Competing models being combined into varying hybrid forms
- Strategic responses by individual organizations to institutional pressures
- Strategic responses by networks or associations of organizations

Given the variety and prevalence of these factors, it would appear that if more nuanced institutional arguments are used, investigators may discover that it is easier to account for divergence than convergence of response by organizations to common institutional pressures.

❖ CONCLUDING COMMENT

Although organization analysts early embraced an open systems conception of organizations, it has taken a long time for us to comprehend the extent to which organizations are creatures of their distinctive times and places, reflecting not only the technical knowledge, but also the cultural rules and social beliefs in their environments. As Schrödinger (1945: 75) observed in his treatise on open systems: "The device by which an organism [or organization] maintains itself stationary at a fairly high level of orderliness . . . really consists in continually sucking orderliness from its environment."

Much of the important work by institutional theorists over the past two decades has been in documenting the influence of social and symbolic forces on organizational structure and behavior. Empirical research has examined how institutional systems shape organizations, variably, as a function of their location in the environment, their size and visibility, and their nearness to the public sphere, structural position, and relational contacts.

Organizations are affected, and even penetrated, by their environments, but they are also capable of responding to these influence attempts creatively and strategically. By acting in concert with other organizations facing similar pressures, organizations can sometimes counter, curb, circumvent, or redefine these demands. Collective action does not preclude individual attempts to reinterpret, manipulate, challenge, or defy the authoritative claims made on them. Organizations are creatures of their institutional environments, but most modern organizations are constituted as active players, not passive pawns.

In this chapter, I have tried to reflect the gradual but significant shift in scholarly treatments of institution-organization relations. From a concern with one-way, determinant institutional "effects," most contemporary researchers are instead crafting research designs to examine the complex recursive processes by which institutional forces both shape and are shaped by organizational actions.

❖ NOTES

1. Tolbert and Zucker here use density or prevalence of adoption of reforms as an indicator of their increasing legitimacy, although later Zucker (1989) criticized Hannan and Carroll for employing a similar "indirect" indicator.

2. Note that this sample design is unusual in that each of the decades represents a different set of firms. In subsequent analyses, Fligstein (1990, 1991) examined the strategic behavior of both firms that had entered and left so that the characteristics of "stayers" and "leavers" could be compared.

3. This conception was instrumental in attracting the attention of management scholars to institutional ideas. After all, an approach that views organizations as shaped largely by environmental forces—whether ecological or institutional—may appeal to academic social scientists, but is unlikely to attract scholars who consult with present and prepare future business managers for leadership responsibilities.