Institutions that Are Taken for Granted, Constructed, and Imagined: What is the New Institutionalism in Organizational Analysis?

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Introduction

The new institutionalism in organizational analysis has been explored widely over the last four decades by scholars who are interested in understanding the behavior of organizations from an institutional perspective. It has achieved numerous research findings and is continuously evolving its themes and widening its theoretical applications in organizational studies. One purpose of this paper is to examine the content of the new institutionalism in organizational analysis by reviewing its representative works from the time it was established up to the present. Another purpose is to show three different kinds of understanding of institutions that are established and change, together with scholars’ efforts to deal with new issues in institutional approaches of organization studies during different periods of time.

The works of organizational institutionalism can be broadly classified into three periods that partly overlap, which can be distinguished by the different opinions on the agency of organizations or actors. When launched in the 1970s, institutional approaches to organization studies emphasized that organizations are not influenced solely by rational
considerations, but also by their institutional environment. Specifically, the wide spread of formal-structural organizations is not because of their technological efficiency, but rather their legitimacy. Many studies until the 1990s stressed organizations' passive conformity to their institutional environment. These studies tended to claim that actors take the institutions for granted, which reduces the possibility of challenging them.

However, this institutional determinism drew criticism. Specifically, a failure to pay attention to the agency of actors inhibits the ability of institutional approaches to explain institutional change. As such, from the late 1980s, studies emerged arguing that actors, especially those with sufficient resources, do actively influence their institutional context. Although these studies did not deny that actors become embedded in the institution as the process of institutionalization goes on, they tended to emphasize the phase of creating a new institution or disrupting an old one and stressed the actors' active influence on the change of institution. Such arguments are very different from those in earlier studies.

At the same time, such studies drew scholars' attention to a dilemma called "the paradox of embedded agency," which refers to the question of how actors can change institutions if their actions and interests are defined by the very institution they wish to change (e.g., Friedland and Alford 1991; Holm 1995; Seo and Creed 2002). The resolution of this paradox, especially through endogenous processes by the institution itself, became the central issue of institutional approaches to organization studies from the 1990s to the 2000s; it also led to the third kind of understanding of an institution, which argues that, essentially, an institution exists in people's mind and intersubjectivity is not necessary in order to establish an institution.

Recent studies stress the agency of actors. (i) Institutional complexity, which focuses on how organizations simultaneously cope with multiple contradictory institutions (e.g., Battilana and Dorado 2010; Pache and Santos 2010; McPherson and Sauder 2013), and (ii) institutional work, which focuses on the role of actors in creating, maintaining, and disrupting institutions (e.g., Lawrence and Suddaby 2006; Helen and Sydow 2013; Micelotta and

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1 The organizational environment can be classified into the institutional environment and the technical environment. Scott and Meyer (1983: 140) noted that the institutional environment is "characterized by the elaboration of rules and requirements to which individual organizations must conform if they are to receive support and legitimacy from the environment" and the institutional environment is that "within which a product or service is exchanged in a market such that organizations are rewarded for effective and efficient control of the work process."
In this paper, we first review the background of establishment of the new institutionalism in organization analysis and its early studies; next, we discuss the works of institutional change; and then, recent studies are examined; finally, in the conclusion, we give a brief summary or classification of the studies of new institutionalism in organization analysis, and we also show three different kinds of understanding of institutions as well as future research agendas.

Background of establishment and early studies

The new institutionalism in organization analysis appeared in the 1970s; it casts doubt on the dominant notion of society being made up of empowered actors who are often purposive, interested, and rational (Meyer 2008). Rather, it emphasizes that institutional contexts in which individuals or groups are embedded have great influence on defining the purposes, interests, and behavior of social actors.

Many studies have also shown that organizations are not as rational as they are thought to be. For example, findings from a survey on American elementary school systems in the San Francisco Bay area conducted in the early 1970s by Elizabeth Cohen, Terrence Deal, John Meyer, and W. Richard Scott proved this. Through their research, they found that there are formal structures that tightly control some areas, such as the credentialing and hiring of teachers, the assignment of students to classes and teachers, and scheduling, but there are few controls on the instructional activities (Meyer and Rowan 1983; Meyer et al. 1983). Such research findings cast doubt on the traditional argument about the prevalence of the formal structure or bureaucracy. Traditionally, bureaucracy is regarded as the most efficient and effective way to coordinate the relationship between goals and means, and its technical efficiency is considered as the reason for its wide adoptions by organizations (e.g., Weber 1921-1922), which is inconsistent with the research findings mentioned above. Therefore, there is a need to give an alternative account of bureaucracy's wide diffusion.

In their influential paper, Meyer and Rowan (1977) noted that the formal structure is supported not only by its technical efficiency, but in many cases by its social legitimacy. They claimed that the formal structure consists of a series of institutionalized rules, which
function as powerful myths, and many organizations adopt them only ceremonially. That is, owing to the fact that people speak highly of rationality in modern society, organizations that adopt the formal structure, which is often regarded as a symbol of rationality, can receive resources or support from society; this enhances its chance of survival or provides greater stability in today's uncertain environment. They also argued that the more similar the environment is, the more organizations will adopt behaviors and structures that are similar.

DiMaggio and Powell (1983) further developed this viewpoint. They noted that there are three kinds of institutional isomorphism, a term that refers to organizations adopting similar forms and practices because of their similar institutional environments. Coercive isomorphism occurs due to pressure from other organizations on which an organization depends or the cultural expectations in society. Mimetic isomorphism results from uncertainty in organizational goals and technologies. Finally, there is normative isomorphism; professionalism, which produces specialists and individuals who have similar social norm, is the primary factor behind this type.

These studies that stress the influence of institutional contexts on organizational behavior or structure have contributed tremendously to the establishment of institutional approaches in organization studies. Subsequently, much research effort was expended examining what legitimacy is and how organizations achieve it (e.g., Baum and Oliver 1991; Aldrich and Fiol 1994; Suchman 1995) as well as explaining how innovations diffuse and why the organizational forms or behaviors are so homogeneous (e.g., Tolbert and Zucker 1983; Davis 1991; Strang and Meyer 1993; Haunschild and Miner 1997). Most of these studies placed great emphasis on the institutional environment in which organizations function and stressed that, to a large extent, organizational practices are constrained by the institutional environment.

**Institutional change by institutional entrepreneurs and collective actors**

Early studies that stressed the cognitive elements of institutions tended to emphasize the passive conformity of individuals and organizations to wider social contexts or the institutional environment. Compliance occurs because, in many cases, other types of behavior are inconceivable. Individuals and organizations follow the routines that are prescribed by institutional structures and take these routines for granted (Scott 2001: 57-58;
Meyer 2008). However, such viewpoints from early studies, which can be called “institutional determinism”, have also drawn a lot of criticism.

DiMaggio (1988:12) noted that “the theoretical accomplishments of institutional theory are limited in scope to the diffusion and reproduction of successfully institutionalized organizational forms and practice. Institutional theory tells us relatively little about… where institutions come from… why and how institutionalized forms and practices fall into disuse.” In other words, early studies failed to account for how institutions change. To resolve these problems, DiMaggio suggested paying much more attention to interest and agency in institutional theory.

Perrow (1985: 155) also pointed out that, although “the cultural environment certainly has been neglected in organizational analysis…” we must be wary of an attempt to reinterpret everything in terms of myths and symbols.” In addition, empirical studies have shown that the process of institutionalization is full of power and self-interest (e.g., Covaleski and Dirsmith 1988). Because of this criticism of early studies emphasizing the passive conformity of individuals and organizations to the institutional environment, from the late 1980s, studies emerged stressing the agency of actors and trying to explain how and why institutions change.

DiMaggio (1988:13) defined institutionalization as “a product of the political efforts of actors to accomplish their ends.” In other words, institutionalization is a process through which actors with different interests fight to establish institutions that benefit their own interests. It therefore follows that actors whose interests cannot be sufficiently reflected under the existing institutions always have a motivation to challenge them.

Actors who organize to establish a new institution are defined as “institutional entrepreneurs”. In order to implement an institutional project that aims to change existing institutions, institutional entrepreneurs require help from subsidiary actors who can also benefit if the institutional project succeeds. Once a new institution is created, institutional entrepreneurs who played a key role in creating it begin to become embedded in the

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In this paper, institutionalization is described as a process to establish institutions. However, in fact, institutionalization can be regarded as a result as well as a process. It is a process when actors transmit socially defined reality to others. At the same time, “at any point in the process the meaning of an act can be defined more or less as a taken-for-granted part of this social reality” (Zucker 1977: 728), which means that institutionalization is also a result, namely, as an institution. Considering that institutionalization as a process is full of power and self-interest, while when regarded as a result it transcends interest and politics and is often taken for granted, DiMaggio (1988) noted that institutionalization is a paradoxical concept.
institution and then take it for granted. On the other hand, those subsidiary actors who supported the institutional entrepreneurs’ creation of new institutions can also legitimate and benefit themselves from those institutions. However, since the interests of institutional entrepreneurs and subsidiary actors can never be completely the same, there is always the possibility that the subsidiary actors become the next institutional entrepreneurs to challenge the existing institutions in order to achieve their own goals or interests.

Unlike DiMaggio, who argues that individuals or a group of individuals with sufficient resources play an important role in creating new institutions, Zucker (1988) emphasizes that collective actors, especially organizations that are formally organized, are the primary source of institutional change. Again, differentiating her viewpoints from those of DiMaggio, who points out that institutional entrepreneurs create institutions in order to realize their own interests, Zucker claims that organizations establish new institutions aimed at resolving social dilemmas, which arise from the contradictory self-interests of their members, and at bringing stability to themselves.

Organizations define fair exchanges among their members in order to resolve social dilemmas through formal structures. There are three primary mechanisms through which organizations facilitate the institutionalization of rules, routines, or structures used to define those fair exchanges and bring stability to themselves (Zucker 1988: 33-41). These are (i) creating differentiated roles that lead to the impersonality of actions and increase the institutionalization of those roles, (ii) transmitting legitimacy of an institutionalized element to other associated elements, and (iii) increasing the number and types of network ties among elements that can improve resistance to change that may disrupt the fair exchanges in organizations.

However, since social entropy accumulates, which may result from the natural decay of institutional elements, micro/macro-incongruity, or the reemergence of individual self-interest and competing power coalitions, organizations need to create new institutions continually in order to ensure that fair exchanges remain possible and to maintain their stability.

Endogenous institutional change

Studies that emerged in the late 1980s and tended to emphasize the agency of
actors or regarded institutional change as the result of actors' interest-seeking activities, no matter whether this refers to the interests of an individual or an organization, soon received a lot of criticism. Because the institutional approaches to organization studies start from a theoretical assumption that actors are embedded in institutions and their interests, and agency is prescribed by institutional structures, studies that stress interests and agency that seem free from institutions are inconsistent with the theoretical assumptions of the institutional approach (e.g., Friedland and Alford 1991).

However, on the other hand, if institutions are firmly rooted in routines that are taken for granted and individuals or organizations only automatically conform to them, which was as emphasized by early studies, then the institutional approach is inhibited from being able to explain how institutions change. Against this background, from the 1990s, many researchers began attempting to resolve the problem of "the paradox of embedded agency," which refers to the question of how actors can change institutions if their means and ends are defined by the very institutions they want to change.

Friedland and Alford (1991) noted that the contradictions among different institutional logics are the answer to this paradox. They defined institutions as "both supraorganizational patterns of activity through which humans conduct their material life in time and space, and symbolic systems through which they categorize that activity and infuse it with meaning" (Friedland and Alford 1991: 232). They further developed the concept and pointed out that each institution has a central logic that guides its organizing principles (Friedland and Alford 1991: 248). Different institutional logics lead to different interests and behaviors of individuals or organizations. For example, actors in firms tend to maximize their profits, while actors in the setting of research universities like to pursue publications (Scott 1987: 508).

These multiple institutional logics, often contradictory to each other, are available to individuals and organizations. Because of the contradictions rooted in the different institutional logics that actors can experience simultaneously, actors can start to reflect on the institutions they are embedded in. Furthermore, actors are able to manipulate one institutional logic in order to change another one, which can benefit them (Friedland and Alford 1991: 253-256). This means that the source of endogenous institutional change comes from the contradictions among multiple institutions; however, this remains unsatisfactory as an answer to the paradox mentioned above since contradictions with other institutional
logic are still required.

Seo and Creed (2002) provided a model to resolve the theoretical paradox of the institutional approach. They claimed that the process of institutionalization and institutional change can be divided into four phases: social construction, totality, contradiction, and praxis. Social construction means that institutions at various levels and in various sectors are produced and reproduced continually through social interactions. Totality refers to the state in which, as the process of institutionalization goes on, multilevel institutions that are often mutually incompatible become complicatedly interrelated. The third phase of contradictions within and across institutions results from those institutional incompatibilities. Then, the continuous experience of contradictions makes institutionally embedded actors aware of those institutions; in some cases, this will finally lead to praxis, in which actors act to change the existing institutions.

Accordingly, we can see that the ability of this model to explain endogenous institutional change depends on whether or not sources of institutional contradictions that form the basis of actors becoming conscious of the institutions arise from the institutions themselves.

Seo and Creed (2002: 226-229) proposed four sources of institutional contradictions. First, conforming to the wider institutional environment with the aim of achieving social legitimacy leads to technical inefficiency. Second, from both a psychological perspective and an economic perspective, it has been shown that, once a behavior or a structure is institutionalized, it is difficult for individuals or organizations to change that behavior or structure, even if it does not fit well in the new environment. Third, institutions at multiple levels and in multiple sectors are incompatible, which means that conforming to one will lead to disruption of another. This is similar to the perspective of contradictory institutional logics mentioned earlier. The final source of contradictions is the asymmetric power and diverse interests of actors who participate in creating an institution. That is, an institution is unable to meet various interests of actors simultaneously and, in many circumstances, established institutions much more strongly reflect the interests of those actors with more power (DiMaggio 1988).

Although Seo and Creed (2002) integrated several sources of contradictions, which are all mentioned in earlier studies, none of them can give a satisfactory answer to the paradox of embedded agency. They require contradictions with other institutions or other
actors, they need a change of the external environment, or they assume the existence of actors only partly embedded in the institution.

In Japan, researchers have also attempted to resolve this theoretical paradox. Matsushima and Urano (2007) viewed cognitive diversity as a clue to the resolution of endogenous institutional change. They noted that, even for an institution that has been legitimated and established, actors who have different interests are able to give diverse interpretations of the institution and the interest-pursuing actions of those actors manifest the institutional contradictions (Matsushima and Urano 2007: 43). In other words, endogenous institutional contradictions are rooted in diverse interpretations of the “same” institution by actors. Such understanding of an institution is very different from that of other researchers.

A lot of researchers regard intersubjectivity, which refers to the shared understanding of a phenomenon among actors, as a prerequisite for the formation of an institution. Under this shared understanding, the same patterns of activity are repeated by actors (e.g., Berger and Luckmann 1967: 54; Zucker 1977: 728; Scott 2001: 84). However, in Matsushima and Urano’s opinion, even in an established institution, actors can have diverse understandings of the institution, which means that intersubjectivity is not necessary to form an institution, as many researchers supposed.

Seiyama (1995), a Japanese sociologist, gave an explanation for the existence of these two different understandings of an institution. He noted that two kinds of taken-for-granted presupposition of researchers lead to the need for intersubjectivity in order to establish an institution (Seiyama 1995: 255-256). First, researchers tend to believe that people live their lives in a community that is ordered. Second, researchers tend to suppose that people live under the same institution. Therefore, intersubjectivity is necessary because it is hard for researchers to imagine how people can live orderly lives under the same institution if they have no shared understanding of a phenomenon.

On the other hand, Seiyama emphasized that actors also have taken-for-granted presuppositions that require no intersubjectivity in order to form an institution (Seiyama 1995: 256-266). Actors have a basic understanding of an institution and believe that institutions are supra-individual and place the same constraints on every human being. Unless activities that are supposed to be inappropriate under a certain institution occur, actors tend to consider that people are under the same institution. This means that, ultimately, the institution exists in people’s mind. One puts constraints on one’s own activities when
considering that something supraindividually affects every human being. That is, an institution exists when one thinks it exists; if not, then it does not exist.

On the basis of this viewpoint, we can understand the cognitive diversity used by Matsushima and Urano (2007) to explain endogenous institutional change. However, if one starts from the perspective that, in fact, it is impossible for exactly the same institution to exist in different people’s minds, it would raise a question about whether it is appropriate to use the word “endogenous.” This is because, institutions viewed as the same both by actors and by researchers are in fact different from each other. Institutions change just when those differences that exist at the very beginning become apparent. If people have diverse interpretations of the “same institution,” it would be better to focus much more on what those interpretations are, how they form, how researchers can approach them, and what kinds of implications they have on future organizational studies rather than discussing whether institutions change endogenously or not.

**Institutional complexity and institutional work**

Recently, studies have frequently stressed the agency of actors. The two central issues in institutional approaches to organization studies are institutional complexity, which focuses on how organizations simultaneously cope with multiple contradictory institutional logics, and institutional work, which focuses on the role of actors in creating, maintaining, and disrupting institutions.

As mentioned earlier, studies of institutional logics provided researchers with a new theoretical tool to analyze the heterogeneity and agency of individuals and organizations that are located in a context composed of contradictory interrelated institutions from different levels and different social sectors. Subsequently, a lot of studies employing institutional logics to explain institutional change emerged.

Haveman and Rao (1997) studied the coevolution of organizations and institutions in the early thrift industry in America, which is a good example of how changes in institutional logics at the societal level influence organizational forms at the industry level. Their studies show that modernization in society changed people’s traditional understanding of saving, which eventually led to the downfall of organizational forms that emphasized mutuality and rigidly enforced effort, and the rise of organizations that appreciated bureaucracy and
Thornton and Ocasio (1999) conducted a study on the higher education publishing industry, which showed that the transition of institutional logics from editorial logic, which stresses the editing talent, to market logic, which emphasizes the talent of management, has had a great influence on the way executives obtain legitimacy and authority, which as a result has changed the criteria to determine who is promoted further up the hierarchy. Similarly, Lounsbury's (2002) research on the financial sector in America also showed that a transition from regulatory logic to market logic gave people with a professional knowledge of new financial theories, such as risk management and portfolio management, a greater chance of being promoted to high positions within the workplace hierarchy.

Although many impressive studies associated with institutional logics emerged, most of them tended to focus on how one institutional logic replaces another one and the influence of such a transition on organizational behaviors and forms. However, considering that in reality individuals and organizations have to deal with multiple contradictory institutional logics simultaneously, researchers began attempting to tackle the theme of institutional complexity in recent years.

Battilana and Dorado (2010), through their comparative studies on two commercial microfinance organizations, suggested that socialization of organizational members and construction of organization identity are two effective ways to cope with contradictory institutional logics in organizations. Pache and Santos (2010) provided a model of how organizations respond to the conflicting institutional demands of the field in which they operate. How to respond, compromise, avoid, defy, or manipulate depends on the nature of these contradictory demands, which means that whether the conflict is about organization goals or means. At the same time, how to respond also depends on the internal representations of those contradictory demands in the organization and the power relationship of those internal representations.

Unlike Battilana and Dorado (2010), who focused on the organization level, and Pache and Santos (2010), who dealt with the links between the sector and the organization, McPherson and Sauder (2013) developed a micro-level account of how individuals deal with institutional complexity in their day-to-day organizational activities. By investigating the proceedings in a drug court where the judicial process for legal offenses related to drug use is carried out, McPherson and Sauder argued that, although individuals have their own
dominant logics, they have agency to employ other logics, sometimes contradictory to their own, in order to relieve conflict and make daily organizational activities easier.

Together with institutional complexity, institutional work is the other of the main research streams in the institutional approaches to organization studies in recent years. Lawrence and Suddaby (2006: 215) defined institutional work as “the purposive action of individuals and organizations aimed at creating, maintaining and disrupting institutions.” This definition shows that research on institutional work emphasizes the active effects of individuals and organizations on institutions.

The study of institutional work focuses on a wide range of research issues, such as the forms of institutional work and who engages in such work. As noted by Lawrence and Suddaby (2006), there are several types in all phases (creating, maintaining, and disrupting institutions) of institutional work. Because of the tremendous diversity of forms of institutional work, this topic is still under development.

In their recent studies, Helen and Sydow (2013) pointed out that negotiation is one important kind of institutional work that can create a proto-institution with the potential to become an institution. Micelotta and Washington (2013) argued that not only do measures that aim to improve the resistance to change or to improve the adaptability after change belong to the category of institutional work, but also that those used to repair the disrupted institutions are also important forms of such work.

Professionals are regarded as the most influential actors who engage in institutional work (Scott 2008). Suddaby and Viale (2011) also claimed that projects that are conducted by professionals and aimed at extending their knowledge base are also a kind of institutional project. Micelotta and Washington (2013), as mentioned earlier, also emphasized the role of Italian legal professionals and their associations in ensuring that government reforms of promoting competition in professional service sectors failed and in repairing the institutions that promote the autonomy of professionals.

Besides these themes, there has been research that focused on the relationship between agency and institutional work. In their recent study, Smets and Jarzabkowski (2013) established an important model on how individuals deal with conflicting institutional logics, which eventually leads to the creation of new institutions. They argued that different types of agency are engaged in different phases of processing those contradictory institutional logics, which may finally become complementary as the process goes on. Their study also
implied that institutions may not be created based on a clear vision or plan, as many earlier studies supposed, but rather may be created in order to resolve the practical problems at hand.

Conclusion

One purpose of this paper is to examine the content of the new institutionalism in organizational analysis by reviewing its representative studies from the time it was established up to the present. This work has shown that studies of the institutional approach to organizational analysis can be broadly divided into three overlapping periods. The first period is from the 1970s to the 1990s, during which studies tended to emphasize the strong influence of the institutional environment on an organization's behavior and forms; many studies related to legitimacy and institutional isomorphism emerged in this period. The second period is from the late 1980s to the 2000s, during which studies emphasized the active influence of actors on institutions; how to explain institutional change, especially endogenous institutional change, was the centre issue. The third period is from the late 1990s to the present, in which studies stressed the agency of actors and their influence on institutions; and institutional complexity and institutional work have become two major research streams.

It was also found that there are three kinds of understanding of institutions. The first views institutions as something taken for granted, which means that institutions preexist objectively outside of us. Individuals and organizations usually conform to them without thinking. The second emphasizes that institutions are created subjectively by people through social interactions, which leads to the construction of intersubjectivity. Under such intersubjectivity, the same patterns of activity that may become taken for granted as the process of institutionalization goes on will be repeated by people. Finally, there is the view that institutions are imagined, which means ultimately that institutions only exist subjectively in each person's mind. Intersubjectivity is thus not necessary to form an institution. People believe they are under the same institution only because they presuppose that other people make sense of the world in the same way as they do. This presupposition can be maintained if people fail to become aware of the differences between their understanding of "an institution" and the differences in their behavior under a certain institution imagined by them.
The second kind of understanding claims that an institution is the product of people’s intersubjectivity that is constructed through social interaction (e.g., Berger and Luckmann 1967), which means that approaches such as discourse analysis, an effective way to observe how people achieve agreement on something (the construction process of intersubjectivity), can be used to analyze how institutions form.

In contrast, the third kind of understanding of an institution, which argues that social interactions and intersubjectivity are not necessary to form an institution, have not yet found an effective method to study such institutions. Developing tools to study institutions under the third kind of understanding is an important and difficult theme requiring much more research.

References


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