

INSTITUTIONS AND  
INSTITUTIONAL DESIGN

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Part I b: A survey of theories

NTNU, Trondheim

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Literature

- Ingram, Paul, and Karen Clay 2000 "The Choice-within-constraints new institutionalism and implications for sociology", **Annual Review of Sociology**, Vol.26:525-46
- Scott, W Richard 1995 "**Institutions and Organisations**", London, Sage,

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Introduction

- What is an institution?
- Previous theories
- Contemporary theory
  - "Choice-within-constraints" perspective
  - Cognitive-constructionist perspective
- Institutional change
  - Origin
  - Maintenance and reproduction

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## Defining Institutions

Institutions comprise

- a substantive area of operation (field)
- a system of legitimate rules
- a group of persons with legitimate interest in the interpretation and application of the rules
- a group of actors pursuing their goals within the substantive area

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## Previous theories

- 1880-1950
  - Economics (Schmoller, Veblen, Commons, Schumpeter, Galbraith, Myrdal) -->
    - Overtaken by neo-classical micro-economics
  - Political science ( most, but Burgess, Wilson, Willoughby) -->
    - Overtaken by behavioralism
  - Sociology (most, but Weber, Durkheim, Cooley, Meade, Hughes, Mannheim, Parsons, Schutz, etc) -->
    - Dominated by conflict and class theory

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## Neo-institutional theory

- 1950 ---->
  - Economics (Coase 1937, 1960, Williamson 1975, North& Thomas 1973, North 1990)
  - Political science (March& Olsen 1984, 1989, Skocpol 1985, 1992, Buchanan& Tullock 1962, Shepsle& Weingast 1987)
  - Sociology (Goffmann, 1961, Schutz 1962, Berger& Luckmann 1967, Silvermann 1971, Meyer& Rowan 1977, Zucker 1977, DiMaggio& Powell 1983, Hechter 1987, Coleman 1990)

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Contemporary theory

- Cognitive
  - Constructivist, institutional facts
  - Thomas theorem
- Normative
  - Encoding shared values, shaping roles
- Regulative
  - Coordination, collective action, affecting cost/benefit calculations

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Three pillars of institutions (Scott 1995:35)

	Regulative	Normative	Cognitive
Basis of compliance	Expedience	Social obligation	Taken for granted
Mechanisms	Coercive	Normative	Mimetic
Logic	Instrument-ality	Appropriate-ness	Orthodoxy
Indicators	Rules, laws, sanctions	Certification accreditation	Prevalence isomorphism
Basis of legitimacy	Legaly sanctioned	Morally governed	Culture, knowledge

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Institutional carriers (Scott 1995:52)

Carrier	Pillar		
	Regulative	Normative	Cognitive
Cultures	Rules, Laws	Values, expectations	Categories, typifications
Social structures	Governance, power sys	Regimes, authority sys	Identities, isomorphism
Routines	Protocols, standard procedures	Conformity, performance of duty	Scripts, performance programs

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Institutions:  
where do they come from?

- Creating and changing: politics
  - Dynamics
    - Regulative -collective action problems
    - Normative - encoding values
    - Cognitive - defining (thought) worlds
  - Statics
    - Regulative - variable governance(market vs hierarchy)
    - Normative - uncertainty in markets (fairness)
    - Cognitive - standardization, belief systems

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Institutions:  
how do they persist?

- Inertia is no explanation
- Maintenance and reproduction
  - Power and interests
  - Knowledge systems and shared norms
  - Environmental change
  - Network constraints
  - Framing effects
  - Diffusion (legitimacy, expert knowledge)
  - Imitation, adoption

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Institutions:  
shaping systems & fields

- The state
  - Property rights
- The professions
  - Cognitive and normative environments (the Thomas theorem at group level)
- Shaping policy
  - Economic, industrial, market, environment

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Institutions:  
shaping fields & populations

- Creating fields
  - boundaries, governance, structuration
- Forming populations
  - Densities & legitimacy
  - Certification, regulation, mandating
  - Legitimacy (cognitive, normative, regulative)

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Organizations: structure & performance

- 'Imprinting' at establishment
  - Culture, roles, beliefs, legitimacy
- Differential responses to pressures
  - Collective (lobbying, compliance mechanisms)
  - Individual (acquiescing, compromising, avoiding, defying, and manipulating)
- Learning from others
  - Of similar size
  - Having success

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Summarizing  
Institutions and organisations

- What is the difference?
- Co-evolution of institutions and organisations
- Level of analysis

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### Organisations

- Actors
- Goals - preferences - utility
- The relation between actor and goal
- Action and action environment
  - governance
  - rights and duties
  - processes
  - externalities

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### Who are entitled to appropriate?

Types of actors

- INDIVIDUALS
- COLLECTIVES
  - the firm
  - the association
  - the community
- STATES

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### Types of institutions (Ingram & Clay 2000:531-539)

- Private decentralised (persons)
- Private centralised (collectives)
- Public decentralised (cultures)
- Public centralised (states)

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Problem areas for the theory

- Rationality - bounded or?
- Opportunism - trust
- Credible commitment - contract enforcement
- Transaction costs
- Preferences - from where do they come?, and to what do they apply?

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Scott(1995:33) defines Institutions

- consist of cognitive, normative, and regulative structures and activities that provide stability and meaning to social behaviour. Institutions are transported by various carriers - cultures, structures, and routines - and they operate at multiple levels of jurisdictions

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Rule systems

- Rules are based on values
  - Cultural, social, economic
- Rules are based on knowledge
  - Institutional facts
- Rules are based on needs for coordination
  - Solving social dilemmas
- Persons have knowledge and values: usually in the form of a world view shaping their perceptions of facts and interpretation of rules

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Rule enforcement

- Monitoring and enforcement
  - Second party enforcement ('victim')
  - Third party enforcement ('state')
- Conflict resolution mechanisms

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Public centralized institutions

- Facilitating exchange (helping subjects to make credible commitment)
- State commitment to abstain from subsidization of organisations
- State commitment to abstain from "expropriation" of property
- Regulation of distributional issues

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Public decentralized institutions

- Language
- Culture
- International law

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Private centralized institutions

- Governing property rights
  - Claim's clubs, cattlemen's associations
  - Commons
- Governing transactions
  - Law merchant
  - Certification schemes
- Organisations
  - Firms

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Private decentralized institutions

- Informal conflict resolution
- Reputation and group pressures
  
- Foundational for other institutions  
(embeddedness , legitimacy , cognitive systems)

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Sources of variation in institutions

- Governance (market vs hierarchy)
- Incentives (rights and duties)
- Processes (by types of goods)
- Externalities

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### Institutional change

- Because accidents happen (historical conjunctures)
- Because they evolve according to an internal dynamic (path dependence)
- Because of intentional activities aimed at changing them (politics)

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### Summary

- Fields
- Rules
- Bureaucracies
- Organisations / actors
  
- Embeddedness
- Path dependence

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### Concluding

- Institutions comprise
  - A substantive area of operation
  - A system of legitimate rules
  - A group of persons with legitimate interest in the interpretation and application of the rules
  - A group of actors pursuing their goals within the substantive area
- The institution is in principle of relevance for all members of the social system

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