

# Resource Management: INSTITUTIONS AND INSTITUTIONAL DESIGN

Erling Berge

## A survey of theories

NTNU, Trondheim

Fall 2006

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## Literature

- Scott, W Richard 1995 "*Institutions and Organisations*", London, Sage,
- Luhmann, N. 1985, *A sociological theory of law*, Routledge and Kegan Paul, London,
- Also see:
  - Ingram, Paul, and Karen Clay 2000 "The Choice-within-constraints new institutionalism and implications for sociology", *Annual Review of Sociology*, Vol.26:525-46
  - Peters, B Guy 2005 *Institutional Theory in Political Science. The new "institutionalism"*, Continuum, New York

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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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3

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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 constrained by the system of rules

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4

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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 Marx, Durkheim, Weber, 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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6

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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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7

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Three pillars of institutions (Scott 1995:35)

	Regulative	Normative	Cognitive
Basis of compliance	Expedience	Social obligation	Taken for granted
Mechanisms of compliance	Coercive	Normative	Mimetic
Logic	Instrumentality	Appropriateness	Orthodoxy
Indicators	Rules, laws, sanctions	Certification accreditation	Prevalence, isomorphism
Basis of legitimacy	Legally sanctioned	Morally governed	Cultural support, common knowledge

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8

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Institutional carriers (Scott 1995:52)

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

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9

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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, enforcement systems
- 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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16

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## Who are entitled to appropriate?

Types of actors

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

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17

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

Replacing formal – informal:

- Private decentralised (persons): norms, beliefs, world views
- Private centralised (collectives): bylaws
- Public decentralised (cultures): ?? “the web”
- Public centralised (states): laws

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18

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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?
- Public decentralised: e.g. cognitive institutions?

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19

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Scott(1995:33) defines institutions as

- consisting 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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20

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### Law and institutions

- A simpler definition of institutions than the one provided by Scott is "Institutions are the rules of the game in a society (North 1990:3)
- The most visible part of these rules are the laws enacted by a legitimate body representing the common interests of the people. But laws, formal rules, stand on a foundation of taken for granted rules. The informal institutions of the society.
- For many purposes formal and informal rules can be discussed together simply as rules. But first a brief look at law

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21

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### Law: A sociological theory (Luhmann 1972)

- Is difficult because
  - Complexity of law
  - Specialised technical language of law
  - Affects all aspects of society
- Will often be found to be studies of lawyers, judicial bodies, opinions of law –each in its own way limited by the complexity of law
- Needs a general approach like the sociology of knowledge
  - Complexity of law is the key
    - Small or large
    - Unstructured or structured

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### Law: Classical beginnings

- "Natural law" and "social contract" – presociological concepts
- Sociology "No normative invariants"
  - Law is contingent. The moral foundation of law becomes an empirical question
  - The perspective becomes evolutionary
    - Law as normative structure – empirical reality
    - Law and society as interdependent (co-evolving)
    - Empirical studies of the co-evolution

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### Law: Classical studies I

- Marx
  - Evolutionary force: changes in productive forces and relations of production
  - Law grants and protects bundles of rights of enjoyment of results of production, rights to decide on resource allocations, and devolution of rights to successors
- Sumner Maine
  - Evolution: from status in traditional society to contract in modern society
  - Contracts create local, time limited rules for small "games"

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## Law: Classical studies II

- Durkheim
  - Evolutionary force is the division of labour taking society from segmented to functional differentiation
  - Emphasises the non-contractual bases of contracts, law still expresses the "solidarity" of a society, from mechanic to organic solidarity
  - Law changes intention of sanctions from repressive to restitutive

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25

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## Law: Classical studies III

- Weber
  - Evolutionary force: the rationalisation of the world and creation of a capitalist economy
  - Law must become independent in its formulation of normative structures to be able to regulate precisely specific functions to support the individually rational calculation of action
- Parsons on Durkheim and Weber
  - Durkheim: insisting on the objective existence of social norms
  - Weber: law and norms as limits on the contingent individually decided meaningful actions
  - Parsons: multiple actors with independent decisions of meaningful action need integration of mutual expectations of behaviour by lasting learnable and internalisable norms
  - The contingency and coordination problems are not resolved by Parsons

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26

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## Law: Concluding

- Positivity of law not yet recognised as fundamental: Law can be changed, designed to achieve particular objectives posing the relationship between law and society in a new light
- Luhmann concluded in 1972. Today the problems of understanding the design of law are well established with various approached (rationalist, functionalist, conflict, moral entrepreneurs)

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27

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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
  - Arbitration
  - Courts

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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

- Operates by
  - Informal conflict resolution
  - Reputation and group pressures
  - Ostracism
  
- 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)
- Transaction costs
- 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 enforcers (persons) with legitimate interest in the interpretation and application of the rules
  - A group of actors pursuing their goals within the substantive area constrained by the system of rules
- An institution is in principle of relevance for all members of the social system

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