

Contemporary Institutional Theory

lecture notes for
3 May 2001

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Litterature

- 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,
- Ostrom, Elinor 1990 "Governing the Commons", Cambridge, Cambridge University Press

Introduction

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

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

Previous theories

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

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)

Contemporary theory

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

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 |

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)
 - Immitation, 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

Types of institutions

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

Problem areas for the theory

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

Scott(1995:33) defines Institutions

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

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

Rule enforcement

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



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, cattlmen's associations
 - Commons
- Governing transactions
 - Law merchant
 - Certification schemes
- Organisations
 - Firms

Private decentralized institutions

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

Analytical levels of institutions

- The practical: Operational choices
- The organisational: Collective choices
- The constitutional: Constitutional choices

The Practical Level

- Application of rules to activities
- The everyday interpretation of operational rules by individuals or groups assigned tasks by an organisation
- The Lifeworld

The Organisational Level

- Making rules about activities
- The day to day monitoring, evaluation and adaptation of rules of operation for production and distribution
- Law, Police, and Judiciary

The Constitutional level

- “Rules about the making of rules”
- Constitution: Rules and procedures used to direct and shape the internal activity of an organisation and the rules of its operation
- The “Legislature” of the Organisation



Sources of variation in institutions

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

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Rights and duties

The “Hohfeld-Commons” conception

Defining the relation OWNER and NON-OWNER and its limit
(jural correlates) (jural opposit)

| <u>OWNER</u> | <u>NON-OWNER</u> | |
|--------------|------------------|------------|
| claim-rights | duties | exposure |
| liberty | exposure | duties |
| powers | liability | disability |
| immunity | disability | liability |

Hohfeld, W.N. 1913&1917 in Yale Law Journal

Commons, John R 1932 “Legal Foundation of Capitalism”

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What are the goods actors appropriate?



A TYPOLOGY OF GOODS

Utility from
consumption

CONSUMERS ARE
EXCLUDABLE NON-EXCLUDABLE

RIVALRY

PRIVATE

COMMON POOL

NON-
RIVALRY

CLUB

PUBLIC

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Appropriation and Production How do actors go about appropriating?

- In general the means are
 - technology
 - organisation
 - scale of activities
- Creating externalities
- Legitimacy: limits to rights and duties

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Use and Consumption

What are actors allowed to do with goods appropriated?

- In general it is assumed rights to
 - using it (ius utendi)
 - receiving incomes from it (ius fruendi)
 - powers of management (ius abutendi)
- externalities
- limits to rights and duties
 - public regulations

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Commonly recognized property rights institutions

Incentive systems:

- PRIVATE PROPERTY
- COMMON PROPERTY
- STATE PROPERTY

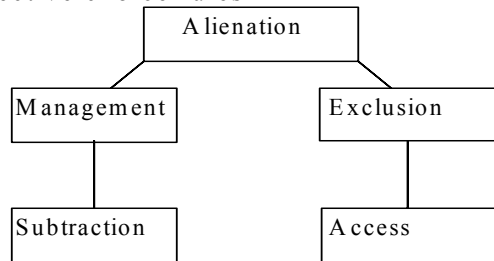
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The standard conception of ordinary private property rights (OPPrights)

A hierarchy of management rights

Collective choice rules



Operational choice rules

Source: Schlager & Ostrom 1992

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Hierarchical management roles

Bundles of rights associated with positions in a production oriented management system.

| | Owner | Proprietor | Claimant | Authorised user | Unauthorised user |
|-------------|-------|------------|----------|-----------------|-------------------|
| Alienation | X | | | | |
| Exclusion | X | X | | | |
| Management | X | X | X | | |
| Subtraction | X | X | X | X | |
| Access | X | X | X | X | X |

Source: Schlager & Ostrom 1992

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Trust management roles

Bundles of rights associated with positions
in a consumption oriented management system

| | Trust (over) | Contract (beneficial) | Manager (managerial) |
|------------|-----------------|--------------------------|-------------------------|
| Access | X | X | X |
| Situation | X | X | X |
| Management | X | X | X |
| Exclusion | X | X | X |
| Allocation | X | | |

Summary

- Field
- Rules
- Bureaucracies
- Organisations/ actors

- Embeddedness
- Path dependence