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A TALE OF TWO CITIES: COMPETING LOGICS AND PRACTICE VARIATION IN THE PROFESSIONALIZING OF MUTUAL FUNDS

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This article examines practice diffusion in an environment where competing logics exist, specifically investigating how trustee and performance logics that were rooted in different locations (Boston and New York) led to variation in how mutual funds established contracts with independent professional money management firms. This focus on competing logics redirects institutional research away from isomorphism and the segregation of institutional and technical forces and toward an appreciation of how multiple forms of rationality underlie change in organizational fields. Implications for the dominant two-stage institutional model of diffusion and for research on institutions, organizations, and professions are discussed.

Organizational research on diffusion has tended to focus almost exclusively on cases of success in which a unitary practice spreads throughout a field or focal population (Strang & Soule, 1998). This focus has been especially apparent in neoinstitutional empirical research, where the emphasis has been on a two-stage process whereby early adopters are driven by technical considerations and later adopters imitate each other in a contagion-like process that is decoupled from rational calculation (e.g., Tolbert & Zucker, 1983). Despite the fact that many scholars have complained that the depiction of later adopters as passive and “a-rational” provides a very limiting conceptualization (e.g., Strang & Macy, 2001), this contagion model of diffusion has remained dominant in institutional theorizing, reinforcing the misguided notion that neoinstitutionalism is a theory of isomorphism and stability (e.g., Hirsch & Lounsbury, 1997).

Recently, scholars promoting the notion of logic have challenged the two-stage model's conceptualization of institutional and technical forces as separate and distinct by emphasizing the institutional embeddedness of technical considerations (e.g.,

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Friedland, 2002; Lounsbury, 2002; Scott, Ruef, Mendel, & Caronna, 2000; Thornton, 2004). The concept of logic generally refers to broader cultural beliefs and rules that structure cognition and guide decision making in a field. At the organization level, logics can focus the attention of key decision makers on a delimited set of issues and solutions (Ocasio, 1997), leading to logic-consistent decisions that reinforce extant organizational identities and strategies (Thornton, 2002). However, extant research on logics has tended to emphasize how a dominant logic uniformly shapes organizations in a field, reinforcing notions of stability and institutionalization that harken back to early neoinstitutional formulations (Reay & Hinings, 2005). Even research that has emphasized transformation in logics has treated institutional shifts as period effects that segregate one relatively stable period of beliefs and activities from another (e.g., Thornton & Ocasio, 1999).

A more complete shift away from the two-stage model of diffusion and associated notions such as “institutionalization” and “isomorphism” requires a conceptualization of institutional environments as more fragmented and contested (Schneiberg, 2007; Schneiberg & Soule, 2005) and influenced by multiple, competing logics (Friedland & Alford, 1991). Such a reconceptualization will importantly redirect the study of institutional diffusion toward finer-grained mechanisms, including the translation of symbolic systems of meaning (Czarniawska & Sevon, 1996; Sahlin-Andersson & Engwall, 2002; Zilber, 2006) and processes of practice creation (Barley, 1986; Orlikowski, 2000; Zbracki, 1998), that spawn and are influenced by the heterogeneity of actors and activities that underlie apparent con-

formity. Although some research has highlighted how idiosyncratic features or situations of organizations (e.g., Kraatz & Zajac, 1996) or differential links to other organizations in a field (e.g., Davis, 1991; Kraatz, 1998; Palmer, Jennings, & Zhou, 1993) can explain adoption/nonadoption behavior, much less is known about the variety of ways in which organizations respond to institutional pressures (Fiss & Zajac, 2004; Goodrick & Salancik, 1996; Greenwood & Hinings, 1996; Oliver, 1991) or the institutional sources of practice variation (Lounsbury, 2001).

In this paper, I study how the spread of a new practice is shaped by competing logics that generate variation in organizational adoption behavior and practice. Empirically, I examine the spread of contracting to independent professional money management firms among U.S. mutual funds. In the early part of the 20th century, money management was predominantly an ad hoc, craft-based vocation, learned through apprenticeship; as an occupation, it was seeded in small investment firms, such as mutual fund organizations that enabled small investors to access broadly diversified portfolios of stocks. Mutual funds themselves emanated from the "trustee organizational form" in Boston and were mainly considered an extension of that form (Grow, 1977). Under the logic of Boston trusteeship, the main goal of mutual fund firms was wealth preservation, a goal requiring a focus on conservative, long-term investing (Sheehan, 1934). This goal reinforced a passive, low-cost approach to money management in which efficiency was a key consideration.

In the 1940s and 1950s, the mutual fund industry was quite stable, offering relatively mundane products—approximately 80 percent of all industry assets were in conservatively managed diversified common stock funds. This product category was dominated by Boston-based funds and the trustee logic. The "professionalization project" of money managers, fueled by the rise of portfolio management theory and financial economics (Whitley, 1986), perturbed this comfortable situation. As part of this project, whose roots were in the early part of the 20th century, a subpopulation of professional money management service firms, mainly located in New York, emerged and grew. There were only 5 independent professional money management firms in 1944; by 1985 there were over 60 such firms—a large percentage of which were New York-based.

The emergence of a performance logic promoted by the profession initially spurred subpopulation growth (Association of Investment Management and Research, 1997). Acting in contradistinction to

the core funds of the industry and the logic of trusteeship, many aspiring professionals began to focus on more aggressive investing techniques and argued that their purpose was to produce higher short-term annualized returns (Mayer, 1968). This intention manifested itself in the "growth fund movement" that emerged in the 1950s in New York (Burk, 1988). This tension between the long-standing conservatism of the industry, enforced and exemplified by Boston-based mutual funds, and the upstart New York funds that sought to gain a foothold in the industry with a more speculative approach to investing, was a key dimension of conflict over the nature of the industry (e.g., Henriques, 1995; Volcker, 2000). Thus, practice variation was importantly connected to geographic heterogeneity, an often underappreciated dimension of organizational difference (Marquis, 2003; Marquis, Glynn, & Davis, 2007).

Many mutual funds utilized mostly in-house money management staff in the early years of the industry, yet the possibility of organizing professional service firms that mutual funds would contract out to was appealing to money managers, given that doing so would allow them to have more autonomy in their work (Freidson, 2001). The percentage of mutual fund sponsors that purchased money management services from independent, professionalized firms increased from around 10 in the mid 1940s to around 40 by 1985. Despite the growth of this professional money management subpopulation, the performance logic did not completely eradicate the trustee logic. A large cross section of the mutual fund industry continues to offer more conservative funds, the prototypical example being index funds. Hence, in addition to managing growth funds, managing such conservative funds has provided an ongoing opportunity for independent professional money management firms.

Since professional money management firms have tended to focus their practice on managing either aggressive growth funds or more conservative funds, competing logics offered alternative pathways and identities for professionalizing money managers—enabling professionals to specialize in either market timing or cost containment. In addition, the coexistence of these logics suggests different rationales for using external professional money management firms. On the one hand, the focus on passive investing and efficiency under the trustee logic suggests that contracting out to professional service firms would be driven more by cost considerations. On the other hand, the performance logic suggests that professional money management firms would be used for their value-added

ability to provide higher short-term annualized returns than a fund could achieve with in-house staff.

In the next section, I draw on multiple sources of data to develop an analytical narrative that traces the development of the trustee and performance logics in the mutual fund industry as well as the growth of contracting to independent professional money management firms. Historical research included analyses of primary sources such as Congressional testimony, Securities and Exchange Commission reports, and a wide variety of mutual fund documents, speeches, memoranda, and annual meeting minutes that are archived at the Investment Company Institute (ICI), the main trade association for the mutual fund industry. As part of this project, I had full access to the ICI library and archives, which house a comprehensive set of materials going back to the beginnings of the industry. In addition, I interviewed over 30 industry insiders, including current and former ICI staff, money managers, and leaders of major mutual fund companies. These interviews importantly corroborated and extended my historical understanding of the processes I track. Drawing on this historical research as well as extant theory, I developed several hypotheses that I then tested using fixed-effects logistic regression models. This quantitative analysis uses panel data on mutual funds coded from annual directories published by Wiesenberger Investment Services from 1944 through 1985. I drew on all of these sources to chronicle how competing logics shaped the diffusion of contracting to independent professional money management firms in the mutual fund industry.

TRUSTEE AND PERFORMANCE LOGICS IN THE MUTUAL FUND INDUSTRY

Individuals and families in American society save for the future in different ways today than in the early post–World War II era or before. Previously, most people deposited their savings in a commercial bank, perhaps owned a life insurance policy and, even less likely, purchased a small amount of stock from a broker (Nocera, 1994). This picture changed dramatically in the second half of the 20th century as a result of capital formation shifts in the U.S. field of finance away from commercial bank dominance (Lounsbury, 2002), and the concomitant growth of retirement savings and individual and institutional investing (Useem, 1996). As part of this shift, the mutual fund organizational form has become a central financial institution; the industry grew from \$448 million in assets and 296,000 shareholder accounts in 1940 to over \$8.1 trillion in assets and over 92 million

individual mutual fund owners by 2005 (according to the 2005 report of the general membership meeting of the Investment Company Institute). Mutual funds now constitute over 14 percent of all financial intermediary assets, rivaling assets controlled by commercial banks, insurance companies, and other core organizational forms in the U.S. field of finance.

Each mutual fund is an independent legal entity (i.e., an organization) that invests assets of shareholders for the sole benefit of those shareholders. Through the pooling of assets, most individual shareholders are able to attain a level of diversification that they would not be able to achieve by investing on their own. The operation of mutual funds, orchestrated by a mutual fund management company, conventionally referred to as a *sponsor*, comprises four core practices: investment management, distribution, shareholder services, and custody and fund accounting. Investment management involves the daily supervision of fund asset investments and, in the modern idiom, draws on portfolio management and financial economic theories and tools. Distribution has to do with the marketing and sales of fund shares. Shareholder services maintains records of shareholder transactions and is purely administrative. Custody and fund accounting, typically conducted by a bank or trust company external to the fund sponsor, involves receiving investment income and making disbursements. Mutual funds allow security holders to redeem shares at their asset or liquidating value, and new share offerings can be made on demand (see Gremillion [2001] for more detail).

The mutual fund industry emerged out of developments in the investment company field, which grew rapidly during the 1920s, when a rising stock market enabled and encouraged broader public participation in the securities markets. The first mutual fund, Massachusetts Investment Trust, was created in Boston in 1924, but mutual fund industry growth was limited until the passage of the Investment Company Act in 1940, which provided a solid regulatory foundation for industry development. In the first three decades of the mutual fund industry, mutual funds were organized and operated along the lines of the trust business that provided fiduciary management services to wealthy families and was distinguished for its focus on capital preservation and the intergenerational transfer of wealth, as opposed to short-term gain (Holbrook, 1937).

This orientation has deep roots in the financial culture of Boston and its Brahmin elites (DiMaggio, 1981, 1982). Pedigree and propriety were cherished characteristics of Boston financiers, who took pride

in these values, which distinguished them from the rival city to the south—New York (Harriman, 1932). Bostonians disdained the kind of class mobility and opportunism that characterized Wall Street, and Boston had been singularly free from the mushroom variety of millionaire that had sprung up overnight in such numbers in New York (Lawson, 1905: 69). Henriques wrote:

As wealthy men came to see themselves less as capitalists and more as Stewards of their descendants' wealth, the financial arteries of Boston began to harden . . . Bostonians—especially early Boston investment managers—developed an intense clubbiness and an almost religious disgust for the more exuberant display of wealth practiced by their counterparts in the financial community of New York, where having too much money to spend was considered a very fine thing, indeed. (1995: 42–43)

Up until the 1950s, mutual funds were typically referred to as Boston-type funds, since funds located in Boston dominated the early years of the industry (Grow, 1977). The orientation of these funds was guided by norms linked to the Boston trusteeship logic and dense social relationships that supported those norms:

The phrase “Boston-type fund” has a social as well as a financial connotation. The original Boston-type funds were, in the main, run by men from Boston’s social elite, men like Paul C. Cabot, Richard Saltonstall and Richard Paine at State Street; William A. Parker, George Putnam and William Tudor Gardiner at Incorporated Investors; and Merrill Griswold at Massachusetts Investors Trust. These men were from the same social mold. They were bound to each other by ties of friendship and family, by attendance at the same school, membership in the same clubs. The college in this case was *always* Harvard, where the club was often Porcellian. They had grown up in the Boston trustee tradition of money management. (Grow, 1977: 4)

Mutual fund sponsors prominently touted their trustee heritage. For instance, a 1938 advertisement placed by the George Putnam Fund of Boston, a mutual fund created in 1937, made reference to their commitment to trusteeship by arguing that they operated their fund as a “trustee in an absolutely independent position, with but one master to serve—the individual who contracts for his services” (Welch, 1936: 1). This connection to the ideas and practices of trusteeship was a guiding influence throughout the early development of the mutual fund industry and was reflected in the money management activities and strategies of funds.

In the early days of the industry, mutual fund sponsors were typically small firms offering a sin-

gle fund that enabled shareholders to achieve broad diversification in common stocks. A group of senior officers, almost always men who had created the fund, made all money management decisions. They acted with trustee-like fiduciary responsibility and tended to approach money management in an extremely passive way. For example, a 1925 brochure for the Massachusetts Investors Trust highlighted that “the trust, by complete diversification, both geographically and industrially, has eliminated the human element of prediction by adopting the mechanical Law of Averages as successfully demonstrated by insurance companies.” Since there was little diversity among funds, competition in the industry was structured by efficiency principles, whereby firms aimed to provide a credible product with minimal research and analysis infrastructure.

The logic of Boston trusteeship was dominant in the industry up until the 1950s. In 1940, during hearings that led to the passage of the Investment Company Act, the legislation that regulates mutual funds, Congressman William Cole asked, “Why is it that all of the open-end companies (i.e., mutual funds) apparently come from Boston: is there something peculiar about that section of the country that accounts for that?” (U.S. House of Representatives, 1940: 77). In 1930, mutual funds located in Boston controlled close to 85 percent of all assets in the industry. This proportion slowly dwindled in the post-Depression era as stocks became a more legitimate investment vehicle for the population as a whole, fueling the nationwide creation of intermediaries such as mutual funds that could connect Main Street to Wall Street (Nocera, 1994). In 1945, however, mutual funds located in Boston still controlled approximately 65 percent of all assets in the industry. Massachusetts Investors Trust (MIT) alone accounted for over 20 percent of all industry assets at that time. By 1960, however, funds located in Boston controlled only 30 percent of industry assets, and MIT’s share had decreased to 10 percent. This shift away from Boston as the industry center went hand-in-hand with the emergence of a new performance logic of competition, promulgated by funds and money management firms located mainly in New York.

The *performance logic* was ushered in by a focus on short-term annualized returns that was most prominently propelled by growth funds, which began to be created in the 1950s (see Burk, 1988). The mutual fund industry had been mainly comprised of funds that employed relatively passive and conservative investment strategies, but growth funds invested more narrowly and aggressively in speculative companies that promised more rapid appre-

ciation of principal. The investment approach of the new growth funds was more speculative and provided an opportunity to obtain short-term performance outpacing that of most of the funds in the industry at that time. The emerging subpopulation of professional money management firms was a key driver of the growth fund movement, as it enhanced their visibility and shifted industry attention toward short-term performance—which, these firms claimed, they had unique skills and abilities to achieve.¹ The number of growth funds increased from 1 in 1950 to around 40 by 1960, and approximately 75 percent of these funds employed independent professional money management firms. Most growth funds were initially created in New York, but, over time, they diffused to other parts of the country.

This diffusion led mutual fund shareholders to reevaluate their long-term relationships with funds and to become more willing to buy and sell funds based on short-term performance. In 1967, *Forbes* stated, “Performance is what the customers are demanding—and not just a handful of sophisticated customers. Mutual fund salesmen have found that performance is a more glamorous sales argument than the old-fashioned promise of diversification and of inflation protection that used to be their stock in trade” (June 15: 25). Reflecting on how the new short-term performance focus revolutionized the industry, Bill Berger, who started Gryphon Fund, a growth fund, in 1962, commented:

The public liked performance. It was the first time people started being measured.... It was unheard of that anyone ever measured themselves against the averages. They never thought you had to produce performance for the fee you charged. (Quoted in Griffeth, 1995: 44)

By the late 1960s, money managers had gained celebrity status, and popular magazines such as *Time* and *Newsweek* devoted cover stories to these new stock pickers (Mayer, 1968). For instance, a 1967 columnist in *Forbes* observed that “a whole new class of bright young money managers rose from obscurity to influence and affluence” (June 15: 24). In the interview cited above, Bill Berger noted that “money managers began to be lionized like rock stars” (Griffeth, 1995: 44). Even Jack Dreyfus, who ran the generally conservative Dreyfus

¹ Historical research indicates that money management firms were able to encourage more sales oriented financial organizations to create funds that they would then manage. They rarely created funds on their own since they did not want to be responsible for marketing and sales.

Fund in New York at the time, admitted, “I didn’t object to soundness, but I was interested in market timing” (Dreyfus, 1996: 115).

Although a new performance logic was firmly ensconced by the 1960s, the trustee logic did not disappear, and there were ongoing debates about the relative values of pursuing the trustee versus the performance logic (e.g., Volcker, 2000). In fact, the rise of a new class of performance-oriented funds enabled the beginnings, in the early 1970s, of a countermovement of new, passively managed, efficiency-oriented funds, such as index and money market funds. Such funds explicitly focused on cost competition, and some mutual fund sponsors, such as Vanguard, even branded themselves on the basis of delivering the lowest-cost products.

This renewal of the trustee logic was partly supported by the rise of efficiency market theorists in financial economics who challenged performance-oriented funds by claiming that no investor (including a mutual fund) has much chance, beyond luck, of consistently outguessing all other market participants (e.g., Fama, 1970; Jensen, 1965; Mankiel, 1973). Although independent professional money management firms serviced funds operating under both logics, they tended to specialize in either growth funds or more conservative funds. Hence, the coexistence of trustee and performance logics provided different pathways for the subpopulation of professional money management firms to take shape, as well as distinct belief systems that guided what kinds of funds sponsors offered.

CONTRACTING TO PROFESSIONAL MONEY MANAGEMENT FIRMS: HYPOTHESES

To explore how competing logics facilitate practice variation among organizations, I track the establishment of contracts with independent professional money management service firms. The spread of this practice is practically important because it addresses a core functional aspect of the mutual fund organizational form—how mutual fund portfolios are actually managed. It is of theoretical importance because professionals who work in professional services firms tend to have higher work autonomy than those who work in large, complex organizations (Freidson, 2001). In addition, there has been little research on how and why professional work becomes organized inside or outside of focal organizations (Abbott, 1988). Given that the professionalization of money managers was one of the most crucial developments affecting the mutual fund industry over the time period studied, tracking how and why mutual funds estab-

lished links to independent professional money management firms provides a particularly good focal point for assessing how competing logics shape practice diffusion. Here, I develop hypotheses about how extant mutual funds decided to switch from in-house to external money management.

Organizational economists conceptualize external contracting as a make-versus-buy decision and argue that the decision to contract out is based on efficiency considerations (Williamson, 1985). In the context of my study, the question is whether to continue to make (i.e., manage funds in-house) or to buy (i.e., establish a contract with an independent professional money management firm). Analytically, this decision can be broken into two parts: minimizing production costs and minimizing transaction costs. Comparing in-house and external production costs is straightforward, yet the analysis of transaction costs involves assessing the potential costs associated with being tied to a particular supplier if it will not be easy to switch suppliers. This limitation may occur when external suppliers are scarce to begin with, when there is uncertainty associated with the transaction, and when asset specificity develops with a supplier as a result of frequent transactions related to key technology and knowledge flows.

However, these transaction costs considerations were not substantially relevant over the time period studied. For the most part, mutual funds can switch to a different money management firm or bring money management in-house without significant "hold-up" costs. That is, there were few concerns about transaction costs related to "small numbers bargaining," contract uncertainty, and asset specificity. As a result, the assessment of the relative efficiency of shifting from in-house money management to external contracting would most sensibly focus on production cost issues. If a fund's production costs were higher than most of their competitors', then the fund would seek ways of reducing those costs—and contracting out would be a key option to be considered. This motive is particularly important in the mutual fund industry, where production costs are reflected in expense ratios that are well publicized and are a key input into consumer decision making (Gremillion, 2001). Hence,

Hypothesis 1. Mutual funds are more likely to switch from in-house to external money management if their product costs are higher than competitors'.

In organization theory, a well-established trigger for the adoption of a new practice is poor performance (DiMaggio & Powell, 1983). Experiencing poor performance catalyzes firm search behavior to

identify possible solutions (e.g., Cyert & March, 1963; March & Simon, 1958). Dramatic declines in performance are expected to initiate search behavior, but the saliency of more moderate performance deficiencies as a trigger for search may vary by context. In the case of mutual funds, poor performance relative to competing funds causes serious concern, given its transparency and direct relation to consumer purchases of mutual fund shares. In such cases, fund executives may consider a wide range of options, including changing money managers internally, shifting the strategy of the fund, shutting down the fund, or establishing a contract with an external professional money management firm. Therefore,

Hypothesis 2. Mutual funds are more likely to switch from in-house to external money management if their performance is lower than competitors'.

Although inefficiency and poor performance have been typically conceptualized as universal triggers for organizational change, institutionalists have alternatively argued that such technical triggers are institutionally contingent (e.g., Dobbin, 1994; Dobbin & Dowd, 1997; Douglas, 1986; Ruef & Scott, 1998). For instance, broader institutional belief systems such as logics shape decision making by determining what issues decision makers attend to (Ocasio, 1997) and providing "rules of appropriateness" that make certain actions or solutions legitimate (March & Olsen, 1989). Typical studies of logics focus on how a dominant logic legitimates a particular set of practices, but the rise in contracting to professional money management firms occurred in an industry that had two competing logics. Under such conditions, one might expect sociopolitical conflict to affect diffusion processes (e.g., Fiss & Zajac, 2004; Mezias & Boyle, 2005; Washington, 2004) as different categories of actors pursue goals and strategies that are aligned with distinct logics.

In the mutual fund industry, the trustee logic emphasized passive investing and low-cost money management, while the performance logic emphasized outcompeting rivals via the attainment of higher short-term annualized returns. In practice, these two logics became associated with distinct kinds of funds. Specifically, historical research indicates that the new performance logic was ushered into the industry in the 1950s by new kinds of growth funds, which were actively resisted by dominant incumbents that were characterized by the trustee logic and conservative offerings, such as broadly diversified stock funds (Lounsbury & Rao, 2004).

Hence, one might expect that the triggers for a fund's establishing contracts with professional money management firms might differ according to the type of fund. That is, to the extent that non-growth funds did establish external contracts, the trustee logic suggests that cost considerations, as opposed to poor performance, would be the motive. Alternatively, given that growth funds supported and promoted the performance logic, the establishment of contracts by such funds would be driven more by performance than efficiency. Hence,

Hypothesis 3. Nongrowth funds are more likely to switch from in-house to external money management if their product costs are higher than competitors'.

Hypothesis 4. Growth funds are more likely to switch from in-house to external money management if their performance is lower than competitors'.

Research on diffusion has also emphasized how social proximity enables a flow of practices, as firms look to each other to identify appropriate models of behavior and strategy (e.g., Davis & Greve, 1997; Galaskiewicz & Burt, 1991). However, to the extent that appropriate models of behavior differ in fundamental ways over geographic locations, such differences may become important elements of logics that differentially shape the cognition and decision making of organizations over regions (Saxenian, 1996) or cities (e.g., Marquis, 2003; Marquis et al., 2007). In the context of the early development of the mutual fund industry, Boston and New York were the main geographic locations for development, and the financial communities of these two cities were notoriously bitter rivals (Harriman, 1932; Henriques, 1995).

Since the trustee logic originated in Boston, Boston-based funds tended to be more conservative and were especially resistant to the new performance logic that many New York funds began to promulgate in the 1950s (Grow, 1995). Longstanding Boston incumbents worked hard to mitigate the influence of growth funds' practices and other aggressive investing techniques in an effort to maintain the established order. This is not to say that Boston-based mutual funds did not incorporate sophisticated financial analysis techniques and modern money management practices. They did so both through the development of internal labor markets and through external contracting with professional money management firms. However, to the extent that Boston funds did establish external contracts, the trustee logic suggests that they did so because of cost considerations as opposed to poor perfor-

mance. Alternatively, given that New York was the epicenter of the performance logic, the establishment of contracts by such funds might tend to be driven more by performance than efficiency. Hence,

Hypothesis 5. Boston-based funds are more likely to switch from in-house to external money management if their product costs are higher than competitors'.

Hypothesis 6. New York-based funds are more likely to switch from in-house to external money management if their performance is lower than competitors'.

QUANTITATIVE DATA, METHODS, AND ANALYSIS

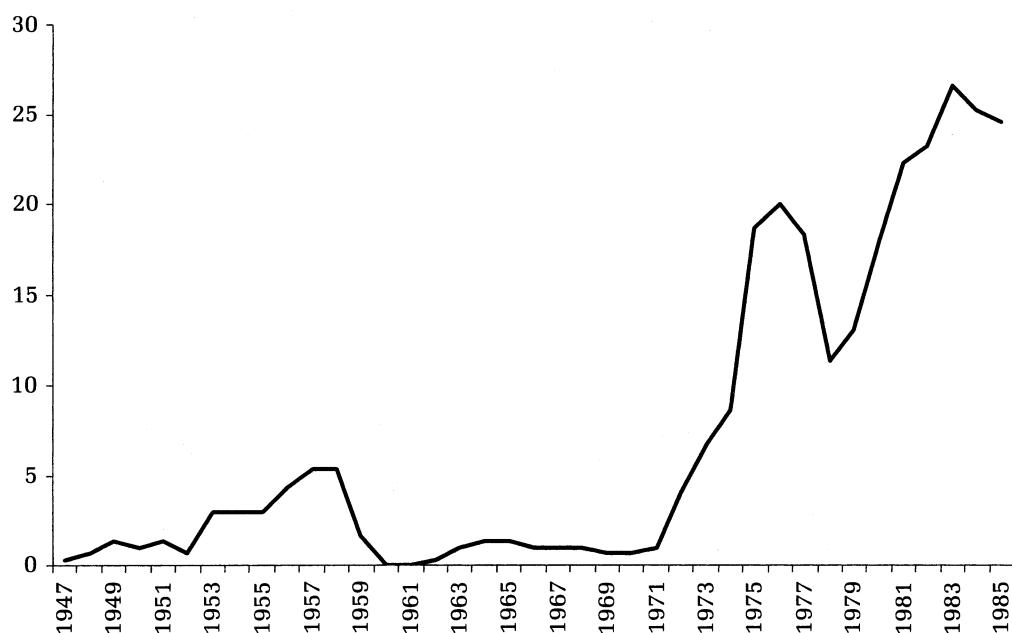
Analysis

To track the growth of contracting to independent professional money management firms, I analyzed yearly data on mutual funds that were coded from the 1944–85 *Wiesenberger Investment Companies Yearbook*. Since the yearbooks constitute a complete census of the mutual fund industry, the data include information on all mutual funds. The entries in the Wiesenberger yearbooks provide, for each mutual fund, data on product category, sponsor, money manager, total assets, efficiency, and performance.

My time series begins in 1944 because that is the first year of mutual fund coverage by *Wiesenberger*. Since the first mutual fund was created in 1924, my data are left-censored. I do not believe that this condition poses a major problem, however, because my main interest is in the diffusion of contracting to independent professional money management firms, a movement that did not pick up steam until much later. Further, industry growth was quite limited until after the passage of the 1940 Investment Company Act.

I cut off my analysis in 1985 because this is when *Lipper, Standard & Poors*, and other popular business magazines began to systematically track and offer information to consumers on mutual fund product categorizations and rankings. Even though this cut-off creates right-censoring in my data, it offers the advantage of limiting the analysis to a period when *Wiesenberger* was the sole source of information on the mutual fund industry for producers and other industry insiders. This narrowing is important because product categories provide a crucial ordering device that enables analysis of the pressures and mechanisms associated with directly competing funds. Hence, the entrance of other rat-

FIGURE 1
**Number of Independent Professional Money Management Firm Contracts Established by Existing Funds
 1945–85^a**



^a Data are three year smoothed.

ings agencies in the mid 1980s greatly complicates the analysis of the product category valuation order because different ratings agencies offered disparate product categorizations to assess funds. Despite the potential biases of both left- and right-censoring, I am confident that the time period chosen covers key processes of interest related to competing logistics and the spread of contracting practice.

Analyses are based on a total of 15,790 fund-year observations. Since a fund can shift back and forth between in-house and external professional money management, my data set contains all funds in existence during each calendar year. Hence, each fund can theoretically experience multiple events, although this is indeed rare.²

Variables

Dependent variable. My dependent variable is coded as a 0/1 dummy variable that tracks whether

² I also ran analyses that tracked only when the first contract with an independent professional money management firm was established for a fund. In this case, funds were taken out of the risk set once they adopted such a contract. My pattern of results was virtually identical and so I only report results from the analysis of the mutual fund risk set that allows funds to experience multiple events since this provides a more comprehensive analysis.

a new contract to an independent professional money management firm was established by an existing mutual fund. This measurement enabled me to estimate the probability that a mutual fund established a contract with an independent professional money management firm. A total of 303 professional money management firm contracting events occurred over the time period I analyzed, in a wide variety of product categories. Figure 1 plots the number of events in which an established mutual fund contracted with an independent professional money management firm. That figure indicates that there are professional money management firm contracting events throughout the time period analyzed, with some relatively quiescent years in the 1960s but a dramatic increase in the 1970s and especially the 1980s.

Independent variables. Fund performance was calculated as the percent change in net asset value from the previous year and subtracted from the mean performance of all funds in a product category to provide a relative fund performance measure. This standard measure of mutual fund performance excludes flows of assets into and out of funds that are due to consumer purchases and redemptions of shares. Hence, it provides an accurate assessment of how a particular fund actually performed with regard to money management practices relative to its competitors. I reverse-coded this

variable for ease in interpretability. To capture the extent to which inefficiency is a trigger for practice adoption, I calculated a *relative fund expense ratio* by dividing total operating expenses and management fees by total assets and then subtracting that figure from the mean expense ratio of all funds in a product category.³ This variable was also reverse-coded for ease in interpretability. *Growth fund* was a dummy variable coded 1 if a mutual fund was categorized as a growth fund in the *Wiesenberger Investment Companies Yearbook*. *Boston* and *New York* were both dummy variables that took a value of 1 if a mutual fund was located in Boston or New York, respectively.

Control variables. To provide a more conservative test of my theoretical predictor variables, I also included a number of control variables that I believe are theoretically relevant to the process of contracting to independent professional money management firms. For instance, many researchers have shown that changes in resource environments importantly affect organizational processes (e.g., see Aldrich & Ruef, 2006). To track changes in the overall resource environment of the mutual fund industry, I calculated the yearly percent change in the Dow Jones Industrial Average Index. This index, which is calculated as a weighted average of large blue-chip stocks, has been a dominant metric in the financial markets since its inception in 1896.

Legitimacy of new professional roles can be importantly captured by tracking increases in professional knowledge that enable the members of occupations to claim professionalism (Baum & Powell, 1995). *Growth of portfolio management knowledge* was measured as the percentage of articles published in the *Journal of Finance* that focused on portfolio management. This variable directly captures the development of abstract financial knowledge that provided a foundation for money management professionalization (e.g., Bernstein, 1996). The *Journal of Finance* is one of the premier academic journals for financial economics, and publication of articles on portfolio management in that journal indicates the extent to which financial economists devoted attention to the development of that area of research. In 1985, the *Journal of Finance* published a cumulative index (Tarascio,

1985) categorizing articles in a fashion that enabled the calculation of this variable from 1946, volume one of this publication, through 1983. I supplemented this time series by coding articles that focused on portfolio management through 1985 to provide a complete time series for this analysis.

To capture broader institutional pressures that facilitate contagion, I used the *percentage of external contracts in a category*,⁴ a common measure of the diffusion of innovations in the organizations literature (e.g., Scott, 2001). I coded this percentage at the product category level as opposed to the industry level to provide a stronger test for contagion, since the pressures to establish contracts with independent professional money management firms would have been greater to the extent that directly competing peer funds had already adopted the practice.

Performance average in category captured the mean performance of all funds in a category. This variable was calculated as the average percent change in net asset value from the previous year for all funds in a product category. As the performance average of funds in a product category increases, funds may be more likely to experiment with or adopt innovative money management practices, such as establishing external contracts, in an effort to meet or exceed mean performance expectations in a product category.

Percentage of sponsor funds with external contracts was calculated as the percentage of funds under the management of a particular sponsor that employed independent money management firms to manage their funds. To the extent that a sponsor uses external contracts with some of their funds, they may be more likely to establish such contracts with other funds that they manage in-house. I also developed a related dummy variable measure that tracked whether a sponsor used any external contracts at all, but this variable was very highly correlated with the percentage of sponsor funds with external contracts variable. Since the results of my analysis are virtually identical using either variable, I only include the percentage of sponsor funds with external contracts, the finer-grained measure.

Sponsor size tracked the total assets under management across all funds of a particular mutual fund sponsor. Larger sponsors may be more likely to build internal labor markets for money managers and eschew contracting to independent firms.

³ Although expense ratios can include marketing expenses as well (e.g., 12b-x1 fees), expenses related to money management tend to explain much of the variation across funds (Gremillion, 2001). For instance, index funds that require less research and analysis invariably have lower expense ratios than more actively researched stock portfolios.

⁴ Virtually identical results are obtained by using the number of mutual funds with external contracts with professional money management firms in a product category.

TABLE 1
Descriptive Statistics and Correlations

Variable	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Percent change in Dow Jones Index _{t-1}	0.06	0.11													
2. Ln (growth of portfolio management knowledge) _{t-1}	310.21	202.90	-.06*												
3. Percentage of external contracts in category _{t-1}	10.58	10.24	.09*	-.08*											
4. Performance average in category _{t-1}	0.01	0.13	.49*	.11*	.02*										
5. Percentage of sponsor funds with external contracts _{t-1}	0.66	0.25	.03*	-.07*	.25*	.01									
6. Sponsor age _{t-1}	6.43	8.04	-.01	.34* -.04*	.06*	-.07*									
7. Sponsor size _{t-1}	811.03	2,101.60	.12*	.17*	.01	.03*	-.09*	.23*							
8. Sponsor differentiation _{t-1}	3.69	2.94	.08*	.35*	.03*	.07*	-.15*	.49*	.48*						
9. Fund size _{t-1}	94.08	298.99	.04*	.03* -.02*	-.01	-.04*	.07*	.36*	.12*						
10. Fund expense ratio _{t-1}	0.70	0.73	.03*	-.13*	.01	-.04*	-.02*	.12*	.12*	.17*	.07*				
11. Fund performance _{t-1}	-0.01	0.25	-.26*	-.06* -.01	-.48*	-.02*	-.03*	-.02*	-.04*	.01	.01				
12. Growth fund _{t-1}	0.91	0.78	-.09*	.48* -.10*	.04*	-.15*	.48*	.28*	.49*	.06*	.01	-.01*			
12. Boston _{t-1}	0.07	0.25	.01	.05* -.03*	.01	-.09*	.31*	.28*	.27*	.11*	.09*	-.01	.23*		
13. New York _{t-1}	0.69	0.45	-.01	-.10* .03*	-.01	.06*	-.10*	-.08*	-.08*	-.04*	-.03*	-.01	.12*	-.45*	

* p = .05

Sponsor age was computed as the number of years a mutual fund sponsor had been in existence. Older sponsors may be more rooted in their established practices and resist the adoption of new practices such as the establishment of contracts with new professional money management firms (Stinchcombe, 1965). *Sponsor differentiation* was the number of different Wiesenberger product categories in which a sponsor had funds. *Fund size* tracked the total assets under management of a particular fund. All the independent and control variables were lagged by one year and updated annually.

Models. I estimated the probability that a mutual fund established a contract with an independent professional money management firm using logit models estimated by maximum likelihood techniques. The general likelihood function for logit is:

$$\ln L = \sum \ln F(\mathbf{x}_j, \mathbf{b}) + \sum \ln[1 - F(\mathbf{x}_j, \mathbf{b})] \quad (1)$$

$$j \in S \quad j \in \sim S, \quad (2)$$

where x_j represents all independent variables and S is the set of all observations j such that $y_j \neq 0$, $F(z) = e^z/(1 + e^z)$. Since my data contain sponsors that each operate multiple funds, the observations for each fund are not independent of each other. Lack of independence can lead to biased parameter esti-

mates. In such cases, a recognized option is to estimate fixed-effects models to control for unobserved time-invariant factors associated with grouped observations (Yamaguchi, 1996). By including sponsor-level fixed effects, I enhanced my ability to make inferences about fund-level effects.⁵ I used the xtlogit command in STATA 7.0 to estimate fixed-effects logistic regression models.

RESULTS

Table 1 reports basic descriptive statistics and correlations. These descriptives indicate that there are no major correlational problems with the variables reported. Table 2 provides fixed-effects logistic regression results. Model 1 includes industry and category-level controls. Model 2 adds sponsor and fund-level control variables. Model 3 adds

⁵ Since there are also multiple observations per fund across time, I also ran fund-level fixed-effects models that included dummy variables for all mutual fund sponsors as a robustness check. The pattern of results obtained with these models was substantively similar to that in fixed-effects logit models that grouped by sponsor, providing further confidence in the overall results. I only report the sponsor-level fixed-effects models since they are more parsimonious.

TABLE 2
Results of Fixed-Effect Logistic Regression Models of Contract Establishment with Independent Professional Money Management Firms^a

Variables	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
Percent change in Dow Jones Index _{t-1}	-0.24 (1.31)	-1.68 (1.30)	-1.75 (1.32)	-1.78 (1.32)	-1.75 (1.32)	-1.74 (1.31)	-1.80 (1.32)	-1.79 (1.32)
Ln (growth of portfolio management knowledge) _{t-1}	13.88** (4.78)	16.66* (5.15)	16.39** (5.36)	16.52** (5.38)	16.35** (5.37)	16.21** (5.35)	16.36** (5.37)	16.51** (5.41)
Percentage of external contracts in category _{t-1}	0.66** (0.25)	0.79 (0.56)	-0.86 (0.57)	-0.85 (0.57)	-0.86 (0.57)	-0.82 (0.54)	-0.81 (0.54)	-0.82 (0.54)
Performance average in category _{t-1}	0.55 (0.97)	0.69 (1.05)	1.14 (0.99)	1.28 (0.95)	1.12 (0.99)	1.15 (1.00)	1.25 (0.97)	1.18 (0.98)
Percentage of sponsor funds with external contracts _{t-11}	3.74** (0.31)	3.73** (0.32)	3.70** (0.32)	3.74** (0.31)	3.76** (0.32)	3.73** (0.32)	3.73** (0.32)	3.75** (0.32)
Sponsor age _{t-1}	-0.02* (0.01)	-0.02* (0.01)	-0.02* (0.01)	-0.01 (0.01)	-0.02* (0.01)	-0.02* (0.01)	-0.02* (0.01)	-0.02* (0.01)
Sponsor size _{t-1}	-0.02* (0.01)	-0.01* (0.01)	0.01* (0.01)	-0.01* (0.01)	-0.01* (0.01)	-0.01* (0.01)	-0.01* (0.01)	-0.01* (0.01)
Sponsor differentiation _{t-1}	0.33*** (0.07)	0.37** (0.07)	0.38** (0.08)	0.37** (0.07)	0.37** (0.07)	0.38** (0.08)	0.38** (0.08)	0.39** (0.08)
Fund size _{t-1}	-0.03** (0.01)	0.02** (0.01)	0.02** (0.01)	0.02** (0.01)	0.02** (0.01)	0.02** (0.01)	0.02** (0.01)	0.02** (0.01)
Fund expense ratio _{t-1}	-0.26** (0.07)	0.12 (0.26)	-0.26** (0.07)	0.12 (0.26)	-0.26** (0.07)	0.09 (0.26)	0.07 (0.26)	0.07 (0.26)
Fund performance ratio _{t-1}	0.52* (0.37)	-0.13 (0.27)	0.57* (0.37)	0.51* (0.37)	0.51* (0.37)	-0.13 (0.28)	-0.15 (0.26)	-0.15 (0.26)
Growth fund _{t-1}	-0.13 (0.25)	-0.43* (0.27)	-0.13 (0.25)	-0.13 (0.25)	-0.25 (0.57)	-0.25 (0.57)	-0.50 (0.56)	-0.58 (0.56)
Boston _{t-1}	-1.10 (1.20)	-0.95 (1.20)	-2.10* (1.19)	-1.19 (1.19)	1.85* (1.05)	0.99 (1.11)	-1.89 (1.12)	0.02 (0.51)
New York _{t-1}	0.19 (0.33)	0.21 (0.33)	0.19 (0.33)	0.02 (0.33)	0.02 (0.51)	0.06 (0.52)	0.06 (0.52)	0.24 (0.60)
Growth fund _{t-1} × fund expense ratio _{t-1}	-0.41* (0.24)	0.68** (0.33)	-1.00** (0.37)	-1.00** (0.37)	0.70* (0.34)	-0.38* (0.24)	-0.36* (0.24)	2.06** (0.67)
Growth fund _{t-1} × fund performance ratio _{t-1}	Boston _{t-1} × fund expense ratio _{t-1}	New York _{t-1} × fund performance ratio _{t-1}	Boston _{t-1} × growth fund _{t-1}	New York _{t-1} × growth fund _{t-1}	Boston _{t-1} × growth fund _{t-1}	New York _{t-1} × growth fund _{t-1}	New York _{t-1} × growth fund _{t-1}	New York _{t-1} × growth fund _{t-1}
Log-likelihood	-1,443.44 4	-1,126.06 19.14	-1,113.90 9	-1,108.82 224.45	-1,099.91 16	-1,107.46 294.16	-1,100.83 290.52	1.59** (0.71)
χ^2								-1,095.27 311.54
Number of variables								2.07* (1.12)

^a *n* = 15,790.

* *p* < .10
** *p* < .05
*** *p* < .01

Tests are two-tailed for control variables and one-tailed for hypothesized effects.

main effect independent variables, and models 4 through 8 add interaction terms, with model 8 being the full model containing all variables.

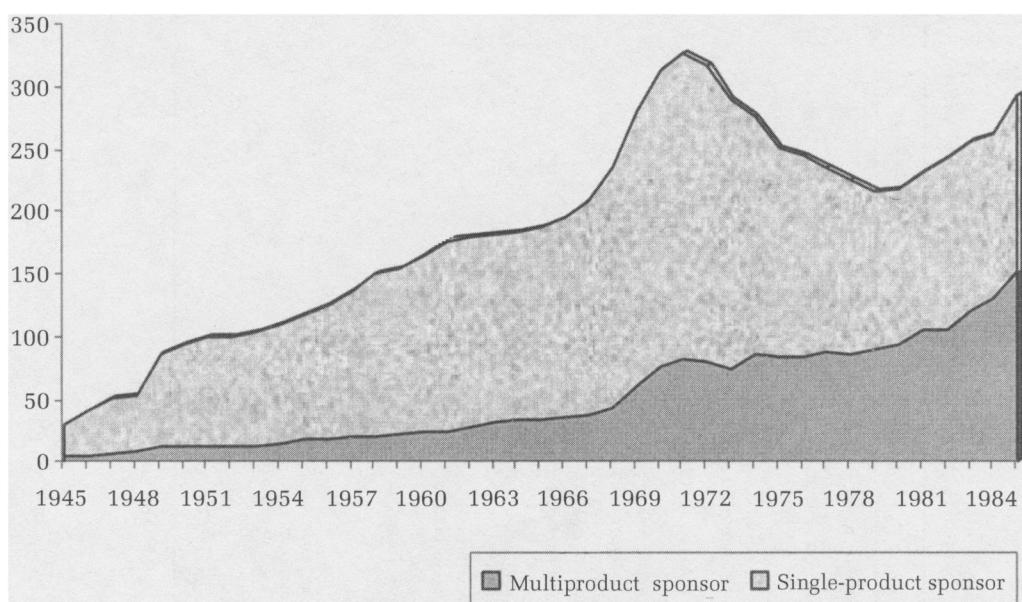
Not surprisingly, the results show that growth in portfolio management knowledge strongly predicts the establishment of contracts with independent professional money management firms. As the professions literature suggests, the development of this abstract body of financial knowledge enabled both the subpopulation of professional money management firms and elaborate in-house money management systems and external contracting to grow (Abbott, 1988). Model 1 also shows that the coefficient for the variable for percent of external contracts in category is positive and highly significant, suggesting a strong contagion effect. However, when sponsor- and fund-level control variables are included in model 2, this effect goes away, and the variable actually turns negative in subsequent models. This pattern indicates that perhaps the use of professional money management firms was not taken-for-granted as a money management solution. However, it also suggests that findings for contagion in support of the two-stage model of diffusion must be more carefully scrutinized, since greater attention to the role of actors may indicate mindfulness and intelligence, rather than the institutional dopeness emphasized by earlier neoinstitutional formulations (e.g., Tolbert & Zucker, 1983).

Model 2 shows that sponsors that had funds with external contracts with professional money management firms were more likely to establish such

contracts in the future. Hence, some sponsors seem to be serial users of independent money managers. Larger and older sponsors seem to be less inclined to establish external contracts, although these effects are marginal, and the effect of sponsor size dissipates in subsequent models. The extent to which a sponsor is differentiated—has funds in multiple product categories—is a strongly significant predictor of external contract use. Over the time period of this study, diversification and the creation of multiproduct sponsors (sometimes referred to as fund families) offering funds in many product categories were growing trends. Figure 2 contrasts the numbers of single and multiproduct mutual fund sponsors and shows that, in the mid 1940s, only 10 percent of all sponsors had funds that operated in two or more categories but that this proportion increased to around 25 percent by 1970 and to just over 50 percent by 1985. Hence, the finding for the sponsor differentiation variable indicates that many sponsors sought to diversify by hiring external professional expertise as opposed to creating sophisticated internal labor markets. My models also show that the establishment of external contracts tends to be more likely for larger funds, although the fund size variable is only marginally significant in the full model.

Model 3 shows that funds with high expenses and poor performance tend to establish external contracts, but these variables lose their significance in subsequent models, providing limited support for Hypotheses 1 and 2. Although the main effect

FIGURE 2
Number of Multiproduct and Single-Product Mutual Fund Sponsors, 1945–85



for growth funds is not significant in model 3, model 4 shows that nongrowth funds (e.g., index funds) with high expense ratios were more likely to establish external contracts. Model 4 similarly shows that growth funds with poor performance tended to contract with independent professional money management firms. These interactions remain significant in subsequent models, providing support for Hypotheses 3 and 4. These results support the contention that growth funds were bound up in the emergence of the performance logic and that the decision of growth funds to contract out was importantly shaped by concerns about poor performance. In contradistinction, more conservative funds, informed by the trustee logic, based decisions to contract out on efficiency considerations as opposed to poor performance.

Results also show that the contracting decision orientation of funds also had a geographic dimension. Even though the main effects for Boston and New York funds in model 3 are not significant, model 5 indicates that Boston funds with high expenses and New York funds with poor performance were more likely to establish external contracts. Unreported models indicated that Boston funds with poor performance were significantly less likely to establish external contracts and show a nonsignificant interaction between New York funds and expense ratio. These findings combine to provide strong support for Hypotheses 5 and 6. Investigation of the external contracting data also showed no strong geographic association between the locations of mutual funds and professional money management firms. That is, most professional money management firms operated out of New York, but they serviced funds located in different parts of the country, including Boston. Hence, the professional money management subpopulation was more nationally oriented.

Model 8 further shows that Bostonian nongrowth funds with high expenses were especially likely to contract out. The interaction between location in Boston and growth fund is also negative and highly significant, indicating that Boston-based growth funds tended to be internally managed. Inspection of the data reveal that although Boston-based sponsors (e.g., Fidelity) actually created a number of growth funds up through the mid 1980s, they were mainly managed in-house. Model 8 also indicates that New York growth funds with poor performance were likely to switch to independent professional money management firms.

It is interesting to note that the operationalization of performance I used was conservative, since it tracked not only the most dramatic declines in performance relative to competitors' performance,

but also smaller deviations. Performance measures that focus on just the most extreme declines in performance produce the same pattern of results, albeit stronger, but the fact that the performance variable reported provides such robust results indicates that the impact of the performance logic has implications that go beyond the most obvious cases of poor performance, where one would expect some sort of corrective action to be taken. That is, the findings for poor performance suggest that in situations in which the performance logic dominates, mutual fund leaders are attentive to even the smallest deviations from competitors' ways and rely on such information to make decisions about core practices, including the changing of money managers.

Overall, these results suggest that neither poor performance nor inefficiency provides universal mechanisms that drive new practice adoption in the case of professional money management contracting. Instead, competing logics in the mutual fund industry shaped the effect of these triggers. Since nongrowth funds, especially those located in Boston, were informed by and promoted a trustee logic that emphasized passive, low-cost investing, these funds were more likely to establish contracts with professional money management firms as a result of efficiency considerations.

In contradistinction, growth funds from New York were focused more on the performance issues that became increasingly prominent beginning in the 1950s. These funds supported the performance logic and established contracts with professional money management firms when they experienced poor performance relative to peer funds. As a result, the trustee and performance logics worked their way into the structuring of the professional money management subpopulation by enabling the creation of different kinds of professional service firms—those that focused on attaining high annualized returns by investing in riskier ways (e.g., growth funds) and those that focused on providing a low-cost service (e.g., index funds). Hence, these results indicate that variation in practice diffusion was not only facilitated by competing logics, but that the process of practice diffusion itself was interpenetrated with the sociopolitical maneuvering of different kinds of actors (i.e., Boston versus New York funds) that were promoting their respective logics in an effort to maintain or gain competitive position in the industry.

DISCUSSION AND CONCLUSIONS

In this paper, I examined how competing logics shape practice diffusion. Over the past couple of

decades, research on institutional diffusion has tended to focus on how unitary practices spread throughout relatively stable and homogeneous fields (Strang & Soule, 1998). This research has perpetuated an approach that counterposes technical rationality and institutional beliefs and emphasizes how contagion ultimately drives adoption behavior (e.g., Tolbert & Zucker 1983). My study suggests that a focus on logics has the potential to redirect this long-standing tradition by emphasizing how technical mechanisms such as performance and efficiency are institutionally embedded, as opposed to decoupled from broader institutional beliefs. This focus echoes research by Palmer and colleagues that showed that economic effects were quite prominent in both the widespread diffusion of the multidivisional form and acquisition behavior among large corporations in the 1960s (e.g., Palmer, Barber, Zhou, & Soysal, 1995; Palmer et al., 1993), casting doubt upon whether the temporal division of labor between institutional and rationalist approaches posited in the institutional contagion model is useful (see also Strang & Macy, 2001; Van den Bulte & Lilien, 2001).

By focusing on competing logics, this paper extends research on institutional diffusion by highlighting how the spread of novel practices can be shaped by multiple forms or modes of rationality (see also Clegg, 1995; Townley, 2002; Weick & Putnam, 2006). To date, research on institutional beliefs such as logics has emphasized shifts over time, but these shifts tend to be treated as exogenous shocks that separate eras of equilibrium (Reay & Hinings, 2005). Although the notion of logic emerged as a way to redress the distinction between institutional pressures and rationality by conceptualizing technical rationality as culturally constructed (Friedland, 2002), most environments are subject to multiple, competing logics that provide a foundation for ongoing contestation and change (e.g., D'Aunno, Sutton, & Price, 1991; Djelic & Quack, 2004; Washington & Ventresca, 2004). By conceptualizing organizational environments as multiple and fragmented, researchers can generate new insights about the sources of resistance (Oliver, 1991) as well as about organizational and practice variety (Lounsbury, 2001). In turn, such insights can extend research on the coevolution of institutions and organizations (e.g., Durand, 2006; Hoffman, 1999; Jones, 2001; Lawrence, Hardy, & Phillips, 2002; Leblebici, Salancik, Copay, & King, 1991; Maguire, Hardy, & Lawrence, 2004) by enabling a more complete understanding of how institutionally based forms of rationality shape the structuration of fields.

Empirically, I have shown how inefficiency and

poor performance were not the universal decision-making triggers that they are conventionally argued to be, but were contingent upon trustee and performance logics. The notion of trusteeship is largely absent from contemporary discourse, but the spirit of that logic has become firmly ensconced in the mutual funds industry. It has become embedded in product categories that feature passive investing and competition structured by cost considerations (e.g., index and money market funds). I have demonstrated the potency of the trustee logic by showing how non-growth-oriented, Boston-based funds established contracts with professional money management firms because of cost considerations. In contradistinction, mutual funds based in New York, and growth funds more generally, established external contracts not for efficiency considerations, but as a way to enhance performance.

Hence, the trustee and performance logics provided distinct forms of rationality that informed the behavior of different kinds of mutual funds and facilitated variation in how these funds responded to the growing allure of a particular kind of practice. In addition, these competing logics facilitated the creation of variation in the subpopulation of professional money management firms since different firms tended to service growth versus non-growth funds. Drawing this distinction highlights how identities such as those of professions are institutionally structured, suggesting an opportunity for researchers to develop higher-bandwidth links between the literatures on identity and institutions (Glynn & Abzug, 2002; Lounsbury & Glynn, 2001; Whetten, 2006). Further development of this line of thinking could include a deeper analysis of how such broader symbolic meaning systems systematically structure localized practices and identities, as well as how such ground-level translations and performances (Feldman & Pentland, 2003; Tsoukas & Chia, 2002) contribute to the editing and reformulation of broader cultural ideas and discourse in more interactive and recursive ways (e.g., Orlikowski, 2000; Phillips, Lawrence, & Hardy, 2004; Zilber, 2002).

Given the resultant subpopulation and product category variation, competing logics became an enduring fixture of the industry, as opposed to the performance logic trumping the trustee logic in a transformation from one equilibrium state to another. This outcome raises interesting questions about how spatial differences and logics linked to the vestiges of geographic diversity can imprint and influence the social organization of industries and markets. The extent to which such imprinting shapes the development of markets and the trajectories of other social phenomena such as technolo-

logical paths is an important question that may require organizational theorists to expand the scope of their work to incorporate the insights of a broader array of scholars, such as those in economic geography (see Marquis et al., 2007). In general, there is a need for more concentrated attention on the sources and manifestations of incoherence and multiplicity (Schneiberg & Clemens, 2006).

Ironically, neither of these logics has led to an autonomous "profession" of money management as they have both led to commodification of service. Professional money management firms that cater to efficiency considerations and assist in the management of money market funds, for instance, are interchangeable. Similarly, firms focusing on achieving high performance in aggressive growth funds often produce a few years of outstanding results followed by periods of mediocre growth. It is rare for any of these firms to consistently outperform the market, pace the efficient market theorists. As a result, mutual funds may establish contracts with hot money management firms but break them when they lose their "hot hand." In addition, mutual funds can always bring money management in-house, which further commoditizes the professional money management service.

Scholarly research on professions has tended to focus on case studies of particular professionalizing occupations, to the relative neglect of how professionalization is fundamentally intertwined with broader organizational dynamics (Abbott, 1989). Organizational theorists have alternatively been more centrally concerned with the evolution of organizations but have spent little energy investigating the role of professionalization projects (DiMaggio, 1991). Given the limited interchange among researchers studying professions and organizations, understanding of the processes by which such professional expertise gets structured in organizational fields remains impoverished. A handful of studies by organizational institutionalists have tracked shifts in the extent to which professionals control work in industries and fields (Jones, Hesterly, Fladmoe-Lindquist, & Borgatti, 1998; Scott et al., 2000; Thornton & Ocasio 1999), the role of professions in constructing organizational forms (DiMaggio, 1991), and how professionals enable particular kinds of strategic practices to diffuse throughout organizational fields (e.g., Baron, Dobbin, & Jennings, 1986; Sutton & Dobbin, 1996). There has also been some attention paid to the conflict of professions and administrators in heteronomous organizations (e.g., Powell, 1985). None of this research, however, focuses attention on the specific ways in which professional work becomes organized inside or outside of organizations.

This study helps to bridge the gaps between these literatures by focusing attention on the complex interplay of professional development and organizational evolution. Such an approach can help to revise the standard conceptualization of professional control of work as a form of social organization that is distinct from the organizational control of work through internal labor markets and the market control of labor via shifts in relative prices (Freidson, 2001). In the case of mutual funds, professionalization of money managers and the rise of a subpopulation of professional money management firms went hand-in-hand with the instrumental rationales—efficiency and performance—that guided mutual fund choice to use such firms. By reconceptualizing professional, organizational, and market-based control of work as partial and overlapping forms of social organization, scholars will greatly expand the ability to understand the coevolution of and interconnections among professions, organizations, and industries.

Finally, efforts to bridge the gap between neoinstitutional and more rationalist approaches have important implications for economic sociology. Researchers have built up some knowledge about markets as social structures (Swedberg, 1994), yet much of that research neglects how market processes are bound up in broader field-level political struggles over meanings and resources (Lounsbury, Ventresca, & Hirsch, 2003; Schneiberg & Bartley, 2001; Stryker, 1994). By showing how important organizational and industry changes are embedded in logics, this study highlights how market building is not a natural or inevitable process, but often involves conflict over meaning and infrastructure that is produced by the activities of a wide variety of market participants (Fligstein, 2001). Hence, this research suggests that more attention needs to be paid to the origins and structuring of logics and how they shape industry practices as well as the decision making of organizations. Cultural and material exchange processes are both key components of the Weberian tradition, and much more work needs to be done to cultivate a more cosmopolitan economic sociology that takes culture seriously.

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