Institutionalism "Old" and "New"

Philip Selznick
University of California, Berkeley

This essay expresses some of the author's concerns regarding the ethos and direction of the "new institutionalism." While recognizing the latter's valuable insights and perspectives, he questions the wisdom of drawing a sharp line between the "old" and the "new," especially because doing so inhibits the contribution of institutional theory to major issues of bureaucracy and social policy.

As I look back on the past forty years of organization studies, I experience an exhilaration tinged with regret. We have learned a great deal; we are awash in insights; we have had significant influence on the art of management. Yet we have failed to address—in the sustained and systematic ways they merit—some of the central problems of organization and governance. Can it be that we have been too much distracted by the quest for new paradigms?

In a little-known chapter of *Logic: The Theory of Inquiry,* John Dewey (1938) argued that social science should be guided by problems of life and practice rather than by intellectually self-generated conceptions and techniques. To be truly scientific, he wrote, the problems of social inquiry must "grow out of actual social tensions, needs, 'troubles' ":

> The connection of social inquiry . . . with practice is intrinsic, not external. Any problem of scientific inquiry that does not grow out of actual (or "practical") social conditions is factitious; it is arbitrarily set by the inquirer instead of being objectively produced and controlled. (Dewey, 1938: 499)

Dewey did not have a narrow conception of practice. He would have been quick to say that "social" or "human" problems cannot be identified with the special perspectives and taken-for-granted thoughtways of management. A larger vision must remain attentive, however, to the values at stake in social experience, including organizational, economic, and political life; and our conceptual schemes must be disciplined by the requirements of diagnosis, problem solving, and reconstruction. Have we met that standard? In this brief essay I won't presume to offer a definitive answer. Rather, I address the question by restating the perspectives of institutional theory, including the "new institutionalism," and by considering the relevance of our common enterprise for larger issues of social policy. A proper understanding of the former will, I believe, improve the latter.

My *Leadership in Administration* (1957) is often cited as a source of the "old" institutionalism in organization theory. In that book I was trying to make sense of two earlier works, *TVA and the Grass Roots* (1949) and *The Organizational Weapon* (1952). Those studies focused on two key ideas: character and competence. The character of the Tennessee Valley Authority was formed as, over time and in the course of responding to external threats, the agency adopted strategies that decisively affected its capacity to uphold standards of environmental protection and, in the early years, its willingness to reach out to poor blacks and farm tenants. *The Organizational Weapon* tried to show how Leninist organizational methods created a distinctive

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competence to turn members of a voluntary association into disciplined and deployable agents.

Reflecting on these findings, in *Leadership in Administration,* I postulated a distinction between "organization" and "institution." As an organization is "institutionalized" it tends to take on a special character and to achieve a distinctive competence or, perhaps, a trained or built-in incapacity. Monitoring the process of institutionalization—its costs as well as benefits—is a major responsibility of leadership. Thus institutional theory traces the emergence of distinctive forms, processes, strategies, outlooks, and competences as they emerge from patterns of organizational interaction and adaptation. Such patterns must be understood as responses to both internal and external environments. As I pointed out at the time, "distinctiveness" should not be taken too literally. We may be describing the formation of a certain *kind* of institution.

At bottom, institutionalization is a neutral idea, which can be defined as "the emergence of orderly, stable, socially integrating patterns out of unstable, loosely organized, or narrowly technical activities" (Broom and Selznick, 1955: 238). In *Leadership in Administration* I suggested that "perhaps the most significant" aspect of institutionalization is infusion with value beyond the technical requirements of the task at hand. The test is expendability, that is, the readiness with which the organization or practice is given up or changed in response to new circumstances or demands.

In making that point I did not mean to deny the prevalence or importance of other institutionalizing processes, including the creation of a formal structure, the emergence of informal norms, selective recruiting, administrative rituals, ideologies, and much else that results from a special history of goal seeking, problem solving, and adaptation. More recently I noted:

> The underlying reality—the basic source of stability and integration—is the creation of social entanglements or commitments. Most of what we do in everyday life is mercifully free and reversible. But when actions touch important issues and salient values or when they are embedded in networks of interdependence, options are more limited. Institutionalization constrains conduct in two main ways: by bringing it within a normative order, and by making it hostage to its own history. (Selznick, 1992: 232)

Nevertheless, values do have a central place in the theory of institutions. We need to know which values matter in the context at hand; how to build them into the organization's culture and social structure; and in what ways they are weakened or subverted.

In *Law, Society, and Industrial Justice* (1969) I studied institutionalization in a context I thought should be of special interest to the sociology of law, which had become my main preoccupation. I showed how the bureaucratic character of the large firm encourages managerial self-restraint and the recognition of employee rights. Here institutionalization takes the form of "legalization," understood as infusing a mode of governance with the constraints and aspirations of a legal order. The outcome is "private government" and, with it,

something akin to the rule of law. Legalization can also mean something rather different: the spread of "legalism," that is, mechanical following of rules and procedures without regard for purposes and effects.

The impulse to create a regime of rules stems from the practical requirements of organization, including the efficient use of human resources. I argued, however, that these incentives do not by themselves bring about the "legalization" of industrial life: "To them must be added a political dimension—the creation of new organizations, the struggle for recognition and power, the demand for new foundations of authority and new forms of participation" (Selznick, 1969: 121). Therefore I gave considerable attention to collective bargaining and to the new institutions it created, such as the bargaining unit and grievance procedures.

Although *Law, Society, and Industrial Justice* is an application of institutional theory, it is not a "case study."[1] Rather, the argument speaks to broad trends in industrial organization as they bear on major issues of law and jurisprudence. Among these is the intrinsic conflict between the premises of contract and those of association. The logic of contract runs up against the logic of sustained cooperation, and this tension is a major theme of the book. As we trace the relevant legal changes, we see the interaction of law and organization, law and the realities of social life. The focus throughout is on recurrent strains and troubles, as well as on institutional opportunities and constraints.

The tension between law and organizational reality is sharply revealed in unresolved issues regarding the modern corporation. To see the corporation "as an institution" is to view the enterprise as a going concern, taking account of relevant stakeholders, attending to long-run interests, being sensitive to the operative structure of authority. All this is in conflict with the still-dominant view that the corporation is a voluntary association of shareholders who own the enterprise and are the only members who really count. This doctrine obscures the realities of power, subordination, and responsibility:

> Perhaps most important, the primacy of the shareholder has had a pernicious effect on what we take to be corporate rationality. If the corporate "bottom line" is return to the investor, in dividends or in increased share value, it is easy to suppose that rationality consists in maximizing shareholder returns. Presumably that is what individual investors would like. Their interests extend no farther. . . . When a takeover bid is made, they consult their own advantage, and they do so with an easy conscience. What is rational for them is, however, not necessarily rational for the enterprise, which may be burdened with debt as a result of the takeover, broken up, even looted. (Selznick, 1992: 347)

An institutional theory of the firm is a voice of resistance to this culture of shortsightedness, offers guides to thinking about corporate responsibility, and brings into question the goal of *maximizing* profits or returns on capital.[2] In this way, institutional theory speaks to issues of social concern and does so without accepting conventional models of organization or the unreflective premises of management.

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We should be careful to distinguish "institutional theory," which attends to certain preferred variables, and provides some empirical generalizations, from a specific "theory of the institution." In the latter we identify the dynamics and character of, say, a school or type of school.

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On the distinction between "enhancing" profits and "maximizing" them, see Selznick, 1992: 347–350, 58–59.

New Insights, Persistent Realities

The "new institutionalism" in the study of organizations has generated fresh insights as well as interesting shifts of focus. The underlying continuities are strong, however, because both the "old" and the "new" reflect a deeply internalized sociological sensibility. Thus we read:

> The new institutionalism in organization theory and sociology comprises a rejection of rational-actor models, an interest in institutions as independent variables, a turn toward cognitive and cultural explanations, and an interest in properties of supraindividual units of analysis that cannot be reduced to aggregations or direct consequences of individuals' attributes or motives. (DiMaggio and Powell, 1991: 8)

None of this is surprising or uncongenial to a more or less conventional sociology of institutions. Nor do significant differences appear in the way "institution" and "institutionalization" are defined. Nevertheless, several new directions are taken. Among these is the focus on legitimation as a sustained and driving force among organizational actors. Legitimacy is seen as an organizational "imperative" that is both a source of inertia and a summons to justify particular forms and practices. The justifications encourage institutional mimicry or mimesis, which means that the organization is highly sensitive to the cultural environment within which it lives. As a result, institutional isomorphism occurs because

> Organizations tend to model themselves after similar organizations in their field that they perceive to be more legitimate or successful. The ubiquity of certain kinds of structural arrangements can more likely be credited to the universality of mimetic processes than to any concrete evidence that the adopted models enhance efficiency. (DiMaggio and Powell, 1991: 70)

Mimesis is considered "a response to uncertainty," presumably more deeply rooted in anxiety than in rational efforts to avoid reinventing the wheel. This suggests, perhaps, that organizational adaptation is often more compulsive than problem solving.

A corollary is a preoccupation with organizational myths and rituals. The formal structure of an organization, it is said, cannot be understood as a rational system for coordinating activities, nor can it be accounted for by a logic of transaction costs. Rather, the formal structure is institutionalized from without as well as from within, and it reflects prevailing concepts of how work should be organized. In postindustrial society, formal structures "dramatically reflect the myths of their institutional environments instead of the demands of their work activities." Furthermore, "the more an organization's structure is derived from institutionalized myths, the more it maintains elaborate displays of confidence, satisfaction, and good faith, internally and externally." Myths are complemented by routine procedures, such as "rationalized rituals of inspection and evaluation." Because such functions are threatening, "institutionalized organizations seek to minimize inspection and evaluation by both internal managers and external constituents" (Meyer and Rowan, 1991: 41, 59).

Attention to myths and symbols is hardly new, especially in the social theory of legitimation. Think only of Gaetano Mosca's "political formulae." In my study of the TVA, the mythology of "grass roots" administration has a central place, and both the internal and external functions of "morally sustaining ideas" are explored at some length (Selznick, 1949: 47–64; on the importance of myth, see also Selznick, 1957: 151–152).

More convincingly "new" is the reconception of formal structure as "thickly" institutionalized (Selznick, 1992: 235). On this understanding, the official design is created within a received and constructed framework of culture and constraint. Therefore it is not merely supplemented (as I have sometimes put it) by more informal and spontaneous practices, attitudes, relationships, and commitments. Rather, the formal structure must itself be seen as an adaptive product, responsive to environmental influences, including cultural definitions of propriety and legitimacy.

The new theorists rightly give great weight to "structured cognition." This very useful idea reminds us that the interaction of culture and organization is mediated by socially constructed mind, that is, by patterns of perception and evaluation. People in organizations live with (and welcome) bounded rationality, and they cope with uncertainty by relying on routines, which may become rituals. These and other insights help us look closely at organizational processes, thereby identifying very specific ways of thinking and acting. As we do so, we gain a better understanding of how minds are formed in organizational contexts, with significant consequences for interaction and decision making. This is not exactly "new," given much reliance on writings by James G. March and Herbert Simon, but the wish to give their findings a more central place in institutional theory (if that is possible) is very welcome.

The enterprise of looking closely at organizational experience can help us overcome the apparent conflict between rational-choice and institutional models. In *Leadership in Administration* I took the view that

> [N]o social process can be understood save as it is located in the behavior of individuals, and especially in their perceptions of themselves and each other. The problem is to link the larger view to the more limited one, to see how institutional change is produced by, and in turn shapes, the interaction of individuals in day-to-day situations. (Selznick, 1957: 4)

In this version of "methodological individualism," which I have long accepted, one does not slight the importance or the reality of distinctively social phenomena, such as group morale, or patterns of institutional adaptation and persistence. We do say, however, that these phenomena are produced in and through the responsive and problem-solving behavior of individuals. This behavior does not necessarily conform to rational-actor models, but it very often does include attention to short-term opportunities, constraints, and incentives. We need a better understanding of multiple and bounded rationalities—not merely to show that they exist—including much that is encompassed in economizing models. A focus on responsive and

problem-solving behavior is a helpful bridge between the nonrational and the rational. Of course, nonrational should not be conflated with irrational.

An especially interesting and pervasive theme in the new institutionalism is the prevalence of incoherence in complex organizations. Much has been done by the new institutionalists to deflate claims of rationality, system, and discipline. Instead of a carefully designed and tightly controlled organization we are invited to see loose coupling and even organized anarchy. This emphasis on the openness of systems undercuts the idea that organizations are mainly devices for achieving specific objectives. Because many stated "goals" are too vague and abstract to be effective in determining policy choices, we must infer operative goals from actual practice. Therefore, the typical large organization is better understood as a coalition, governed by multiple rationalities and negotiated authority, than as a unified system of coordination. These coalitions have permeable boundaries; if they are to survive and flourish they must engage in complex transactions with the environments they depend on and which they may control.

These insights are compelling. They offer arresting ways of focusing attention on the work that must be done—the heavy lifting needed—to create viable organizations, maintain them in steady states, and prepare them for change. We also learn much about the virtues of "decoupling," especially where diversity, flexibility, and autonomy are called for. Echoed here is the idea of postbureaucratic organization, with its model of a highly responsive organization, loosely controlled, congenial to initiative at all levels. But some new institutionalists have little sympathy with the rather optimistic note struck by theorists of postbureaucratic organization. I detect, instead, a deconstructionist impulse. It seems fair to say that the new institutionalists display, not without satisfaction, a postmodern sensibility. The connection is not far to seek, for in its dominant contemporary meaning postmodern thought is, above all, a challenge to coherence:

> Purported unities of self, community, culture, art, science, and organization are exposed as inescapably plural, conflict-filled, dissociated. . . . [The postmodern writers] properly call attention to many insidious aspects of modern life, including hidden forms of power and manipulation. . . . But these insights often lead to grossly exaggerated claims, with little attention to variability or context. (Selznick, 1992: 13)

This *Zeitgeist* has, I believe, a certain moral and creative worth. It is also a source of intellectual distraction and distorted judgment.

Toward Reconciliation

To label as "new" the ideas sketched above is, in itself, innocent and understandable. There are downsides, however, from the standpoint of social science and social policy. Most important, perhaps, is a failure to integrate the old and the new by taking full account of theoretical and empirical continuities. This outcome is exacerbated when theorists of the new institutionalism (for reasons that may be understandable rhetorically) embrace potentially

pernicious dichotomies. This is evident in the following contrasts drawn between the old and the new institutionalism: "Organizational forms, structural components, and rules, *not specific organizations,* are institutionalized"; and "*not norms and values* but taken-for-granted scripts, rules and classifications are the stuff of which institutions are made" (DiMaggio and Powell, 1991: 14–15, *emphasis supplied*). These and other contrasts may well describe some (possibly transient) differences in focus, but institutional theory should encompass them all and trace their connections.

We should also guard against a disposition to overlook, for the sake of the paradigm, the limited, partial, highly contingent nature of the truths discovered. For example, the creators of the garbage can model were careful to note that "these properties of organized anarchy . . . are characteristic of any organization in part, part of the time. They are particularly conspicuous in public, educational, and illegitimate organizations. A theory of organized anarchy will describe a portion of almost any organization's activities, but will not describe all of them" (Cohen, March, and Olsen, 1972: 1). Have such cautions been heeded? Have the variations been explored?

These logical and methodological failings are not innocent. They encourage an undesirable preoccupation with polarities and polemics. They interfere with a steady, problem-centered approach to the advancement of our understanding. I find this troubling, especially when I contrast the promise of organization theory with the present state of knowledge regarding how to implement social policy. Although we have learned a great deal about unintended effects—the so-called law of unintended consequences—I do not suppose we are ready to abandon the quest for more effective and humane cooperative systems, including better ways of delegating responsibility and insuring accountability. The "old" institutional theory, including the institutional economics of John R. Commons and his generation, was deeply interested in the vitality and coherence of institutions. To be truly successful, the "new" institutionalism must find its place within that tradition.

Although organization theory has its roots in the study of bureaucracy, our democracy remains troubled by some basic questions. Can bureaucrats be trusted to carry out their duties without gross self-seeking, without oppressive or insensitive rule making, without arbitrary decision? After many years of research, and much earnest theorizing, the ideal of an effective, fair, and responsive bureaucracy remains elusive. Our society desperately needs organized ways of dealing with social problems; we cannot rely solely on market strategies. Yet the spectre of bureaucracy still haunts and repels, still saps public confidence and weakens support for collective action.

A sign of this condition is the fact that in ordinary speech "bureaucracy" retains strongly negative connotations. During the past forty years we social scientists have struggled against that exercise in stigma. We have tried to define bureaucracy in a more neutral way, recognizing that the

pathologies of bureaucracy are real and endemic, but insisting that they should be considered contingent, not essential, subject to remedy, not inevitable. Obviously, we have not won this fight for high ground in public discourse.

My impression is that we need a period of stock taking. The agenda should include thoughtful attention to the policy relevance of organizational and institutional theory. Concern for policy is an important source of intellectual discipline. It tells us, among other things, that we cannot be satisfied with a new idiom, or a new way of thinking, if it fails to take account of contexts and variations. And it directs our attention to genuine problems of institutional life, which may not be the same as the problems that intrigue institutional theorists.

I am confident that a policy-centered approach, properly understood, will have plenty of need for analytical sophistication and theoretical reconstruction. Problems of accountability and responsiveness, public and private bureaucracy, regulation and self-regulation, management and governance, and many others will require new understandings of administrative, political, legal, and moral experience. It would be odd indeed, and quite inauthentic, if I were to disparage a passion for theory. I do not do so. But for guidance we should look to the pragmatic claims of social practice, including democracy and justice as well as efficiency and effectiveness.

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