A ctors and Institutions

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Actors and Institutions

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Abstract:
A key theoretical and methodological issue for comparative scholars concerns the non-identical nature of actors across different institutional contexts. This paper reviews the relationship between actors and institutions within various strands of institutional theory, showing some emerging points of agreement among different social sciences disciplines regarding their co-generative or mutually constitutive nature. While actors’ identities and interests are shaped by the broader institutional environment, institutions are equally the outcome of particular constellations of actors and their interactions. This understanding of institutions in terms of actor identities, interests, and constellations is illustrated with reference to industrial relations and corporate governance institutions. The paper also draws upon recent theories of action grounded in pragmatism to argue that institutions should be understood as an historical and non-deterministic context of action, wherein institutionalization can be usefully understood as a matter of degree. In particular, the ambiguity of institutionalized constraints and opportunities and the different strategic capacities of actors to enact institutionalized routines may give rise to more or less heterogeneous forms of organizational within different national business systems.

1 John Campbell, Richard Deeg, and Glenn Morgan provided helpful comments on an earlier draft. I would also like to thank participants of the 2007 annual conference of the Society for the Advancement of Socio-Economics in Copenhagen for helpful suggestions. All errors remain my own.
1. Introduction

A distinguishing feature of comparative institutional analysis is the emphasis on understanding actors and actor constellations. Institutional analysis is concerned with processes of isomorphism and explaining similarities among organizations within an institutional field. Comparative approaches to studying institutions must, by nature, deal with the diversity of institutions across countries or over time. Comparative methodologies aim to link the similarities and differences in these institutions with a particular outcome of interest, such as economic growth, inequality, innovation patterns, and so on. But the act of comparison itself raises important questions about the nature and configurations of actors in different institutional settings, the non-identical nature of those actors, and how processes of institutionalization relate to the behaviour of those actors.

This chapter aims to give an overview of these issues from the perspective of comparative institutional analysis. Section 2 briefly examines the relation between actors and institutions in economics, political science and sociology. This review does not aim to cover all schools of institutional theory (see Hall and Taylor 1996), but selectively reviews several conceptions of scholars engaged in the comparative study of institutions. This review demonstrates certain points of agreement—actors and institutions are seen as being mutually constitutive of one another. One implication is the need to adopt a more historical and process-oriented approach to studying institutions. Section 3 explores the non-identical nature of actors in greater detail. In particular, institutions are argued to influence processes of identity formation, the definition of interests, and the forms of organization adopted by collective actors. Two brief illustrations are provided drawing on comparative examples from two institutional domains: industrial relations and corporate governance. Section 4 raises the broader issue of how institutions influence action itself. Given the mutual interdependence of actors and institutions, institutionalization may be seen as a matter of degree. Actors respond to institutions as one element within a situation, but institutional contexts never fully determine action. The concluding section suggests a few important methodological points for the comparative study of institutions from an actor-centred perspective.

2. The Importance of Actors for the Comparative Study of Institutions

Institutional analysis has a rich and diverse set of traditions with different perspectives on the relationship between actors and institutions. Rational choice or game-theoretical approaches often begin the analysis with a particular constellation of actors, and see institutions as a strategic choice of those actors. Institutions are seen as an outcome of a game in which multiple but known strategic equilibrium are possible. Here the constellation of actors is taken as given and institutions are described as an endogenous outcome of an economic game. Other scholars see institutions as the rules of the game itself. Institutions regulate the behaviour of actors through both formal and informal rules enforced by third parties (North 1990). Here institutions have a largely constraining character, setting clear boundaries on actors’ choices (Ingram and Clary 2000). Institutions are exogenous to actors, who are themselves seen as pre-existing and having stable preferences. For example, this approach has been influential in the ‘law and economics’ literature, which has interpreted cross-
national differences in economic activity as being influenced by different legal institutions rooted in either common law or civil law traditions (La Porta et al. 2000; La Porta et al. 1998; La Porta et al. 1999).

The utility of seeing actors as either ‘rule makers’ or ‘rule takers’ often depends upon the particular research question. Yet each of these perspectives alone is incomplete in a theoretical sense. Both perspectives share assumptions of methodological individualism, which tends to conceptualize of actors’ identities, interests or preferences as separate and apart from the institutions they inhabit. However, a different and alternative perspective has been gaining currency across the different social sciences, including economics. Namely, scholars increasingly conceptualize of actors and institutions as being mutually constitutive of one another. Actors may be ‘rule makers’, but take existing rules as a starting point for defining their own identities and interests. Conversely, actors may also be ‘rule takes’, but nonetheless modify or even overturn those rules from time to time. Or as Karl Marx (1852) famously argued in his *The Eighteenth Brumaire of Louis Bonaparte*, "Men make their own history but not in circumstances of their own choosing." The main point here is that institutionalization is a dynamic process. Institutional rules must be ‘enacted’ by actors, but institutions themselves are produced and reproduced through these actions. Institutionally defined situations influence the interests and even identities of actors within the boundaries of an institutions, and conversely institutions are rules defined in relation to stable configurations of actors with particular (institutionally defined) identities and interests. In sum, a constitutive approach conceptualizes actors and institutions as being mutually interdependent and reflexively intertwined with one another.

These arguments clearly echo developments in both ‘classic’ and contemporary sociological theory. For example, sociologist Georg Simmel (1955) regarding the dual constitution of social groups—namely, individuals are defined by social groups, but social groups are defined by the individuals who are included as members. More broadly, the social sciences have moved away from dualities such as ‘structure and agency’, ‘micro and macro’ or ‘interests and ideas’. Rather than seeing one as having primacy over the other, recent sociological theory has sought to integrate these dualisms into a relational perspective where actors and social structures as mutually interdependent—for example, the theory of structuration (Giddens 1984), theories of practice (Bourdieu 1990), or theories related to social networks (White 1992).

While the constitutive view of institutions is certainly not unique to the comparative analysis of institutions, it can nonetheless be argued that the notion of actors being “socially constructed” through their institutional settings has a very fundamental role in comparative analysis. Cross-national comparison usually involves a systematic examination of the similarities and differences in institutions either within a particular institutional domain of the economy (e.g. corporate governance, financial systems, or labor markets), or through a ‘holistic’ investigation of linkages between the various
domains that make-up the wider political economy. These sorts of comparisons face the inevitable issue that not only do the institutional rules differ across countries, but the identities, interests and resources of the actors or players of the game differ as well. For example, the comparative institutional analysis of corporate governance might examine the legal rights and obligations of a set of actors such as shareholders. Yet the most important categories of ‘shareholder’ differ vastly across countries—individual shareholders or institutional investors such as pension funds are common to the United States, but in Europe or Japan shareholders also include banks, other corporations, families, the state, and so on. Likewise, a comparative analysis of political institutions must go beyond the formal properties of electoral rules and constitutional division of powers. Different sets of actors inhabit these systems, such as political parties, interests groups and associations, social movements, the media and so on. Moreover, different sets of rules (e.g. majoritarian vs. proportional electoral systems) may have a strong influence on the actors themselves (e.g. the dominance of two broad ‘catch all’ parties or a greater number of more niche issue-oriented parties). To understand an institution, one must look at both the rules and the players, seeing each as an interdependent context for the other.

Of course, comparative institutional scholars still differ in the extent they subscribe to more ‘realist’ and interest-driven explanations or favour emphasis on how actors develop their interests through processes of interpretation. Nonetheless, all comparative institutional analysis touches on processes of social construction in some sense. All comparative analysis involves comparing apples and oranges, since both the rules and the players of the game differ across time and space, thus requiring “contextualized comparisons” (Locke and Thelen 1995). Indeed, Richard Hyman has argued that all comparisons involve an element of the incomparable, thus raising of how far the formal logic of comparative methods (e.g. comparing most similar cases with most different outcomes) can ever be realized in practice (Jackson et al. 2008). For present purposes, however, the important implication of this apples and oranges issue is the need to see institutionalization as dynamic and actor-centred social process, recognizing the duality of structure and agency, as well as the material and cognitive aspects of institutions. Before taking up this argument further, the remainder of this section will focus on how comparative scholars across different social science traditions have begun to address this common issue in understanding how actors and institutions are mutually ‘constitutive’ and interdependent.

In economics, comparative institutional analysis has undergone substantial elaboration in recent years. A pioneering example has been the work of Masahiko Aoki. His early work sought to understand the institutionalization of different forms of corporate organization in Japan and the United States (Aoki 1988), He developed a coalitional model of corporate control and internal organization of firm-internal labor markets based on the different interactions among managers, owners, and employees. This game theoretic approach has now developed into an integrated framework for

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2 The literature on comparative capitalism (CC) literature seeks to develop a holistic and synthetic comparison of national ‘models’ or types incorporating a number of institutional domains. This literature has made important contributions to the study of international business (Jackson and Deeg 2008), the role of state regulation and intervention (Jackson and Deeg 2008), and institutional change more generally (Deeg and Jackson 2007).
understanding how institutions constrain actors and how actors reproduce and change institutional environments (see also Greif 2005). Aoki (2001: 202) defines institutions as a “compressed, commonly perceived representation of ways in which a game is played.” This definition incorporates elements of rational/economic approaches and cognitive/sociological approaches such as Berger and Luckmann (1966) into a more strategic and game-theoretic perspective. Institutionalization is conceptualized as a process of feedback mechanisms represented by the COASE box and its four elements (Aoki 2001: 203-206). Subjective expectations (E) about the behavior of other actors coordinate the strategic choices of individual agents (S). This allows individuals to economize on information, while their choices are thereby constrained. As expectations are shared and serve as stable guides for strategy, collective behavior confirms and reinforces such expectations about others’ strategic choices. Institutions also have consequences (CO) within a given technological and institutional environment that, in turn, constrain and shape the capacities for action accumulated by actors (A).

**Figure 1** A Subjective Game Model of Institutionalization

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<th>Exogenous</th>
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<tr>
<td>(A)</td>
<td>Capabilities as active repertoires</td>
<td>Strategies as best-response choice</td>
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<td>(CO)</td>
<td>Consequences through inference rules</td>
<td>Expectations as private beliefs</td>
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<td>(I)</td>
<td>Institutions as shared beliefs</td>
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*Source:* Adapted from Aoki 2001.

With regard to Simmelian ‘duality’ of actors and institutions, Aoki’s definition has a number of notable characteristics. First, institutions are defined in terms of a dynamic process of institutionalization. Institutions are produced and reproduced by the strategic behavior of actors, even while actors are constrained by institutions. Aoki (2007, p.8) stresses this duality as follows, “An institution as a summary representation of equilibrium is produced and must be repeatedly reproduced as an endogenous outcome of the strategy interplays of all the agents in the domain…while it appears as if it were an external entity beyond their individual control which needs to be taken into consideration for individual choices.” Second, institutions do more than constrain actors’ pursuit of material interests. Rather, institutions shape the cognitive capabilities and dispositions of actors. Aoki (2007, p.8) stresses that “…the
rules of play can become an institution and sustained as such, only when they are deeply internalized by each individual, constituting part of his/her mind-set or belief.” Institutions are intrinsically linked to a particular constellation of actors and their capabilities, even as institutions serve to create them. A third and key consequence is the importance of history for institutional analysis. Aoki (2007, p.8) argues that

“Any model useful for examining the nature of an institution and conditions for its self-enforceability is likely to need to specify a player and its possible action choices beforehand….the existence of such a player may be rationalized as historically given. We need to acknowledge, however, then that such methodology implies that the game theoretic analysis cannot be a complete theory of institution.”

While the parameters of an institution appear as exogenous and fixed to actors in the short-term, they must be considered variable in the long run. Hence, game theoretical analysis goes hand-in-hand with historical analysis (Greif 2005).

Political scientists have proposed an essentially parallel understanding of actors and institutions, even where the theoretical micro-foundations are less formalized than in economic theory. In making a case for historical institutionalism, Steinmo and Thelen (1992, p.10) stress how political actors are constrained by institutions, and yet also create and change institutions. A defining aspect of this approach concerns the issue of preference formation. While rational choice approaches to institutions take preferences as given based on particular assumptions, “historical institutionalists take the question of how individuals and groups define their self-interest as problematical” (Steinmo and Thelen 1992, p.8). Institutions not only constrain the strategies of actors, but actually shape their preferences, interests, and goals in more fundamental ways. Given that preferences are not fixed, ideas play a potentially large role by influencing how groups think about their interests. Actors may be strategic, but define their goals in a historically situated fashion based on prevailing and contingent interpretation of social situations, including institutionalized values, norms and power configurations. One important consequence is that coalitions among actors may emerge in surprising ways, not merely based on a lining up of groups based on clear pre-existing sets of interests. For example, historical perspectives to comparing institutions such as employee codetermination in Germany show how institutions may be based upon and embody political compromises, relying on symbolic agreement over ambiguous or even contradictory sets of rules (Herrigel 2008; Jackson 2005). Over time, existing institutions shape the interests and political struggles over the adaptation or further change of those institutions in the future.

Historical institutionalism thus shares a common agenda with the aforementioned economics approach in seeking to understand the dynamic process of co-constitution between actors and institutions in historical time. Rather than starting with a clean slate of pre-existing actors with assumed or fixed sets of interests, institutional analysis is informed by a fundamentally historical understanding of actors within a particular context and setting. These settings help to define actors’ identities and interests, but actors also seek to transform these settings through their actions—particularly through politics and contention. Thus, historical institutionalism sees actors and institutions as mutually constitutive. One important implication is that actors and institutions also change over time in a recursive or dialectical fashion.
Actors may be socialized by or consciously adapt to institutions, but actors may also deviate from or reinterpret institutions in ways that change those institutions. While different substantive research problems may lead scholars to either start with actors and move to institutions (e.g. explaining their origin) or move from institutions to actors (e.g. explaining economic outcomes), historical institutionalism stresses that these processes are ongoing and recursive social processes.

Finally, these ideas appear again or even drew inspiration from institutional analysis in sociology. In trying to understand the isomorphic character of organizations within a particular field, proponents of the ‘new’ institutionalism saw organizations as enacting ritualized mythologies or scripts (Meyer and Rowan 1977). By their very nature, organizations are constituted by the formal and informal rules imposed by their institutional environment. Institutions embody shared understandings, such as cognitions or interpretative frames (Scott 1995). The identity of an organization, such as a corporation or a school, is shaped by the institutional field (Scott and Christensen 1995). Organizations thus adopt durable institutional forms that are compatible or resemble existing ones because actors interpret situations and adopt solutions from a menu of established, legitimate patterns of behaviour. Comparative scholars in this tradition have stressed how historical patterns of legitimate political authority across countries have led to different cognitive templates for corporate organizing in Europe and America (Dobbin 1994) or legitimated different logics of managerial authority across firms in East Asia (Biggart 1991). Likewise, the spread of new organizational forms such as the ‘shareholder value’ model of the firm in the U.S. is linked with processes of diffusion and changing cognitive concepts of control among top managers (Fligstein 1990, 2001).

More broadly, sociologists have outlined three pillars to institutions based on a regulative or coercive dimension, a normative dimension, and a cognitive dimension (DiMaggio and Powell 1991). While these pillars are well known, recent contributions have tried to emphasize the dynamic aspects of institutions. For example, the rapid spread and institutionalization of a particular cognitive notion such as ‘shareholder value’ may be associated with new opportunities to mobilize actors in support of political change of existing institutions, such as through shareholder-oriented legal reforms (Davis and Thompson 1994; Gourevitch and Shinn 2005). One reason for this dynamism concerns is that the different pillars of institutions influence one another in different ways over time—cognitive ‘frames’ may be used to legitimate new strategies for political reform, or coercive rules may create new interactions among professional groups in ways that reshape social norms (Campbell 2005).

A very poignant theoretical statement that encapsulates many of these ideas can also be found in the literature on actor-centred institutionalism (Mayntz and Scharpf 1995; Scharpf 1997). This literature was concerned with a comparative analysis of public policy and processes of governance across different sectors of the political economy. Reacting against some of the perceived deterministic aspects of institutional analysis, these authors see institutions as a context for action within which constellations of actors may interact with one another. First, institutions shape actors. This statement is particularly true in comparative analysis, which has a strong focus on collective actors, such as formal organizations. Collective actors are themselves often constituted through institutional rules, such as the legal frameworks governing the independence of central banks in different countries (Scharpf 1987) or the systems of
certification that govern membership within professions such as doctors or lawyers across countries (Döhler 1993). Second, institutions define particular arenas of interaction between different collective actors. These arenas shape how actors further define their interests, and develop both normative and strategic action orientations vis-à-vis other actors. For example electoral systems influence the strategies and coalition dynamics of political parties or institutionalized patterns of employee participation shape the bargaining games between employers and unions.

Both of the above arguments about identities and interactions apply at multiple levels of analysis. For example, collective actors within a policy arena may be formal organizations such as unions or business associations. These organizations are themselves made up of other organizations or individuals, which may be important additional level of analysis in understanding the orientation and capacity for action. Certain categories of individuals (e.g. families, ethnic groups, etc.) may also become collective actors in as much as they consciously aim to coordinate their actors under particular circumstances—as suggested in social movement theory (Davis et al. 2005).

One caveat regarding actor-centred institutionalism is the argument that institutions themselves never fully determine actors’ identities, their perceptions, goals and orientations, or ultimately their actions. Institutions shape interaction, but actors retain scope for choice within constraints or even alter those constraints by strategic or interpretative acts. Institutional analysis is an essential but inherently incomplete explanation when applied to particular outcomes (Scharpf 1997). This stress on the role of actors and actor constellations means that institutions are considered simultaneously as both dependent and independent variables—institutions are a remote cause of an outcome, and action remains a proximate cause.

In sum, this section has aimed to show how several key strands of comparative institutional analysis have converged toward an essential theoretical point—namely, actors and institutions are co-generative. Actors’ identities and interests are shaped by the broader institutional environment, and should not be considered as fixed or exogenous. Likewise, institutional analysis must take seriously the constellations of actors within a given institutional domain, and their interactions. This common principle does not deny the differences among various approaches and disciplines. Economics retains a stronger emphasis on the strategic choice aspect of institutions (e.g. actors as rule makers), whereas sociology has tended to see organizations as enacting institutional rules (e.g. actors as rule takers). Political science has certainly straddled both of these traditions, given its inherent focus both on the politics of how rules are made but also the enforcement of those rules. But these differences should not blind us to common themes—the importance of history, and the dynamic ways in which actors and institutions condition one another in historical time. Indeed, a broad agreement is emerging that to the extent institutional analysis neglects history, it will fall victim to functionalist fallacy (e.g. that institutions were created to serve the specific ends of the actors) or the structuralist fallacy (e.g. that institutions are immune to change even when actors face pressures to defect). The next section will develop these points further through a discussion of particular actors and actor constellations in comparative institutional analysis and then return to the relationship between actors, action, and institutions in the final section.
3. Actors and Institutions

In undertaking comparative institutional analysis, a key theoretical and methodological issue concerns the *non-identical nature of actors* across different institutional contexts. This point was made perhaps most explicitly and profoundly by various authors associated with the “societal effect” approach to studying work organization (Maurice et al. 1986; Sorge and Warner 1986). This work compared micro aspects of work organization, primarily in France, Germany and the United Kingdom based on matched pairs of factories with the intent of isolating those shop-floor differences attributable to societal differences and then linking these closely with an analysis of various social institutions in the respective countries. The way in which actors were educated and socialized by firms differed systematically across countries, so that the ‘qualificational space’ and authority relations between shop-floor workers and middle managers were based on very different categories of qualifications in each country. Comparing organizations across societies required these authors to explore how actors construct organizations, and understand how this constructive process is influenced by the societal fabric in which the actors operate. The actors within firms, such as managers and workers, were studied in relation with their social contexts and compared in terms of several interrelated sets of institutions: organization, skill formation, industry structure, industrial relations, and innovation (Sorge 1999).

As mentioned above, the diversity of actor identity and interests is particularly important given the strong emphasis on collective actors in the study of comparative political economy. While individuals are often the focus in terms of their behaviour as consumers, employees or voters, comparative studies often examine collective actors such as business associations, unions, state agencies, and so on. Even the nature of firms as economic actors is highly variable across societies (Biggart 1991; Whitley 1999). As formal organizations, firms use authority as a means of allocating resources. But the nature and boundaries of this authority are often unclear. Firms as economic actors differ in the scale and scope of business activity and resources which they control. Firms may range from large, vertically integrated managerial hierarchies to fragmented and sometimes loosely federated business groups, such as those organized around informal kinship ties and so on. This section will now turn to several illustrations of actor configurations within comparative institutional analysis.

**An illustration: comparative industrial relations.** The social construction of actors is well established within the study of industrial relations, as illustrated in the discussion by Streeck (1993). He argues that the *interests* of employees are not objectively determined, but depend upon the individual and collective *identity*, which those employees find to be most salient. These interests and identities form a possible basis for different forms of union *organization*, which reflect this diversity. Organizations themselves function in the context of *institutions*, which help to channel the expectations of their members and structure interactions with other parties such as employers or the state. Institutions condition *politics* in the sense of collective goals and the distribution of resources and life chances to the extent that those institutions constrain and enable particular decisions or strategies. These relationships are not conceived as being unidirectional whereby one is an ‘independent variable’, but a complex set of mutual interactions. Thus, causal sequences do not only run from identity to interest to organization, but also vice-versa so that different
institutions influence the success of different forms of union organization, as well as perception of employee interests and even the socialization of employees into different identities.

Streeck illustrates these relationships with regard to three different ideal-typical institutions in the domain of industrial relations—corporatism, pluralism, and paternalism. Corporatism is grounded in a class model of union organization, where employees define their identities in terms of their position as selling labour power in the labour market (e.g. the working class). Based on these identities, employee interests are closely related to solidaristic policies that diminish differences in income and status, such as the notion ‘equal pay for equal work.’ Identities rooted in social class are likely to be organized in terms of encompassing industrial unions that seek to gain members and set wages for an entire industry or even nation. However, unions conversely need strong organizational incentives and sanctioning mechanisms to present small groups and particularistic interests of employee groups from reasserting themselves. Corporatist institutions are, in turn, important for industrial unions to establish and maintain their representational monopoly over employees and thus maintain sufficient centralization to pursue solidaristic interests.

Similar analysis could be made of other institutional configurations. Pluralism is, by contrast, based on an occupational model of organization. Here employee identities are linked to human capital and qualifications that comprise the individual profession or occupation. Based on their occupational identity, employees define their interests in terms of “meritocratic” or particularistic standards. Flowing from this, union organization is likely to take on the form of a craft union where membership is specialized and exclusive based on the status of a particular occupation. Finally, paternalism is based on an enterprise model of union organization. Here identity is based on the employment relation itself, typically within a large enterprise. Interests tend to be defined in terms of the stability of employment and seniority-based promotion within the internal labour market. These interests are typically organized by enterprise unions, who protect the interests of ‘core’ employees, and can be institutionalized by informal or formal mechanisms of participation in the decision making of the firm.

These ideal types may be used to elucidate the more complex relation of actors and institutions when comparing particular cases. Indeed, Streeck argues that distinctiveness of German industrial relations as a unique configuration of class, occupational, and enterprise elements. German unions are organized as industrial unions based on broad class interests. At the same time, codetermination at the plant and in the company support enterprise-based interests. Tension exists between these dual bases for representation. On one hand, local cooperation between works councils and management at the company or workplace levels may undermine broader based class solidarity across different enterprises. On the other hand, German unions may integrate the company model by capturing seats in works councils and using them to implement, enforce, and adapt industry-wide collective bargaining agreements. Works councils may also be strengthened by expertise and independence through ‘outside’ union support.

Similar arguments apply to occupational interests in the German apprenticeship-based vocational training system. Industrial unions have maintained solidarity among
different occupational groups by supporting the upgrading of skills that leads to fewer
and more broadly defined occupations and by encouraging further training that
supports the mobility between occupations. This strategy is notably different from the
politics of market closure prevalent among traditional craft unions. While this
example cannot be discussed further there, it does suggest how institutions may
embody divergent ‘logics’ or principles of rationality that reflect historical
compromises between different groups of actors. Yet at the same time, institutions
help stabilize and ‘construct’ the particular interests and identities of those actors
within this context.

An illustration: comparative corporate governance. Corporate governance is
often defined in terms of the relations between owners and managers, or more broadly
between managers and various stakeholders. Corporate governance is traditionally
studied within the framework of agency theory which views the interests of investors
as being homogeneous functions of risk and returns. Comparative and historical
studies have noted differences in the structure of share ownership across countries.
For example, high concentration of ownership stakes influences the ability of
shareholders to exert power through voting rights, while fragmentation tends to pacify
shareholder voice. However, less attention has been given to the fact that various
investors (e.g., banks, pension funds, individuals, insurance companies, hedge funds,
private equity, etc.) possess different identities, interests, time horizons, and strategies
(Aguilera and Jackson 2003). Many investors are themselves often organizations
governed by institutionally defined rules.

Investors may have different sorts of identities based related to whether their
relationship with companies is defined in a purely financial or more diffuse strategic
fashion. For example, individual shareholders are usually motivated to invest by the
prospect of financial return on investment. Individuals’ relation to the firm may be
more strategic in the case of an employee share ownership plans (ESOP). Still, the
prevalence, form and participation in ESOPs differ widely across countries, and are
strongly influenced by related sets of institutions for employee voice within the firm
(Poutsma et al. 2006). Another example concerns institutional investors, such as
pension funds, whose identities are defined more directly by legal regulations
regarding fiduciary duty to maximize the financial value of their shares on behalf of
their beneficiaries. Again the prevalence of institutional investors and their size in
terms of financial assets and shareholder differs widely across countries depending on
the type of welfare state and system of pension provision (Jackson and Vitols 2001).
Finally, banks and corporations typically use ownership stakes as a means to pursue
the strategic interests of their organizations that go beyond purely financial
relationships—such as regulating competition between firms, underwriting relational
contracts, securing markets, managing technological dependence, or protecting
managerial autonomy from outside shareholders. Once again, the capacities of banks
to engage in long-term relationships with firms depend strongly on the regulatory
traditions across countries (Roe 1994). Similarly national traditions of anti-trust
regulation are one factor giving rise to wide variation in the structure, density, and
shape of inter-corporate shareholder across countries (Windolf 2002).

Related to these different identities, shareholders define their interests in different
ways—adopting different time horizons and seeking varying degrees of liquidity or
commitment in their relationship to the firm. In more familiar terms, shareholders
may differ with regard to their propensity to exercise exit or voice in the decision-making of the firm (Hirschman 1972). Traditionally, the literature on corporate governance describes individual investors as having a purely financial orientation and a high propensity to exit. The rise of institutional investors, such as pension funds, is conversely seen as leading to greater commitment and propensity to exercise voice in corporate governance (Useem 1996). These differences in interests reflect the different modes of organization of investment—whereas isolated individuals have little capacity to process information and mobilize efforts to discipline managers, the aggregation of individual investment in larger, professionally managed funds changes the capacity of shareholder to pursue such interests. However, as Hirschman pointed out, the choice between exit and voice is mediated by the degree of loyalty—and hence related to the identities of the actors.

Consequently, substantial variation may again exist across institutional contexts. In the USA, public sector pension funds are far more independent and activist than corporate pension funds, which are financed by corporate management and act less independently on corporate governance issues (Davis and Kim 2007). Meanwhile, pension funds play only a marginal or different role in corporate governance in other economies. In countries with strong and generous public pension provision, private pension funds have not yet accumulated large capital reserves or these funds remain organizationally embedded, such as the direct commitments between firms and employees in Germany or the relationship-based provision of life insurance in Japanese corporate groups (Jackson and Vitols 2001).

Complex and changing actor constellations are very important to understanding the diversity and change of corporate governance institutions, even in contexts that are often considered as similar market-based models based on the notion of ‘shareholder value’ such as the UK or USA. Historically, a manageralist model of the corporation emerged in both countries, where managers were strong and shareholders were weak due to the dispersed nature of ownership and consequent separation of ownership from control. The rise of new actors, such as pension funds, changed the power relations among these factors and gave rise to new corporate governance institutions. Their influence depended in turn on the emergence of other actors, such as takeover raiders engaged in leveraged buyouts. These actors sought to exploit particular weaknesses in corporate governance institutions and create new opportunities—namely, as individual investors would sell shares and follow strategies of ‘exit’, opportunities emerged for takeover raiders to buy corporations at a low price. This threat of hostile takeover gave institutional investors greater power and influence, as managers sought to keep investors loyal to the firm and thwart takeovers by higher share prices. Ultimately, the rise and institutionalization of corporate governance based on the logic of ‘shareholder value’ rests upon an uneasy or ambiguous compromise between different definitions of shareholder ‘value’ and conflicting strategies for realizing value based on liquidity, commitment and different organizational forms of shareholder activism.

Taken together, these examples illustrate the limits of using the concept of ‘shareholders’ or ‘shareholder value’ as a homogeneous category in comparative analysis. Shareholders differ not only in their capacity for control based on the dispersion or concentration of ownership stakes, but more fundamentally in terms of their overall orientation and social relationship to the firm in different national
institutional contexts. The institutionalization of different models of corporate governance depends upon a particular configuration of identities, interests, and organizational forms of shareholders—but equally, shareholders as key ‘actors’ within the corporate governance process depend on institutionalized definitions of their interests, and institutionally enabled opportunities to pursue those interests vis-à-vis managers. Comparative and historical analysis makes obvious that this relationship between the actors and institutions is far from a static equilibrium, but a dynamic process of mutual interdependence where the emergence or decline of different types of actors is a driving factor behind institutional diversity and change.

One methodological implication of the non-identical nature of actors is that comparative studies always involves comparing apples with oranges to some degree (Locke and Thelen 1995). A common approach to comparative analysis has been to focus on a single process, such as globalization or financialization, and compare the different patterns of change across a range of countries. Similar pressures are mediated by diverse institutional contexts. Cross-national variation in outcomes is explained by the divergent features of the institutional context. As useful as this approach may be, the salience of a particular issue may, in fact, be very different across countries given the diverse nature of those actors. Actors not only have different interests, but have different identities, worldviews and cognitive maps. The point here is that institutional comparison must go beyond broad typologies of institutions, and look in a ‘contextualized’ way at the underlying identities and constellations of actors. A similar issue or process may result in different outcomes or struggles, and processes that may seem very different may sometimes result in similar outcomes. Consequently, comparisons that are parallel in an analytical sense may require focus on different sticking points and trigger different sorts of struggles over institutional change. In this, comparison always confronts a challenge of the incomparable and the imperfect balancing of historical uniqueness with theoretical generalization (Hyman 2001).

4. Action and Institutionalization

Institutions place constraints on economic actors through various regulative, normative and cognitive pressures (Powell and DiMaggio 1991; Scott 1995). Regulative institutions are based on the making and enforcement of rules, such as formal laws that regulate behaviour. Normative institutions are rooted in collective moral understandings about legitimate behaviour. Cognitive institutions are those based on taken-for-granted definitions of the situation and worldviews. These categories are analytically distinct, and imply different mechanisms of institutionalization and carriers of institutional effects. Empirically, however, institutions may be underpinned by all three dimensions to various degrees.

Institutions also create opportunities for economic action in several ways. Any economic order requires a basic institutional infrastructure in order to function. International business scholars have stressed the importance of basic institutional infrastructure with regard to emerging and developing economies, particularly the importance of property rights and the rule of law (Khanna and Palepu 2006). But institutions not only give a basic framework for economic exchange, but may also solve certain collective action problems in ways that facilitate alternative modes of
governance over transactions – such as markets, hierarchies, networks, associations, state regulation and so on (Hollingsworth and Boyer 1997). Perhaps more importantly, institutions influence the collective supply of inputs (e.g., skills, capital) available to firms and other economic actors (Streeck 1992). Consequently, many scholars have argued that different countries may have comparative institutional advantages for different kinds of economic activity (Amable 2003; Hall and Soskice 2001; Whitley 1999). Institutional complementarities across functionally distinct institutional domains (e.g., finance, labor markets) may also lead to multiple, efficient combinations of institutions (Aoki 2001).

In understanding institutions as both constraining and enabling particular business strategies and models of economic growth, a large literature now exists based on various national typologies—most famously between liberal and coordinated market economies, but also using more elaborate classifications based on the Nordic, Germanic, Anglo-Saxon, Mediterranean, or Asian models. Yet a growing wave of criticism has been directed at these typologies as neglecting the dynamics of institutional emergence and institutional change (for an overview, see Deeg and Jackson 2007). In stressing the coherence and economic advantages of different institutional arrangements, comparative institutional analysis has faced growing criticism as being deterministic with regard to actors and their strategies. For example, in stressing the differences across countries, the diversity of organizational forms within national economies was seriously neglected (Lane and Wood 2009).

Institutional scholars have given an ‘oversocialized’ account of institutions and one-sidedly stressed their isomorphic character. Consequently, scholars have recently tried to deepen comparative institutional approaches by a more systematic analysis of institutional change (Campbell 2004; Crouch 2005; Streeck and Thelen 2005), as will be discussed in the next Chapter of this Handbook.

In the context of actors and institutions, it is nonetheless important to note that efforts to reclaim a less deterministic and more historically grounded understanding of institutions have led scholars to re-examine the relationship between institutions and action. If institutions are coercive, normative or cognitively taken-for-granted rules that constrain action or enable ‘efficient’ strategies, why and how may actors change their relationships to those constraints in ways that transform institutions?3 The short answer is that while institutions enable and constrain action, substantial indeterminacy and situational ambiguity remain. Yet this gap between institutional context and intentional action has not been sufficiently explored within institutional theory. Most existing theories of action rely on a teleological means-ends schema for understanding of human intentionality that leaves little scope for creativity (Joas 1992). Here action is conceived as the pursuit of preestablished ends or preferences that remain stable from context to context. The perception of the world is given, and separate from our actions. Actions are then “chosen” by their anticipated consequences—in what might be termed “portfolio models” of the actor (Whitford 2002). Even cognitive models of institutions stress how actors enact preconceived and taken-for-granted worldviews

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3 Conceptualizing institutional change faces issues similar to the “duality” of structure and agency examined by Bourdieu (1990) and Giddens (1984), who focus on how actors and social structures exist in a dialectical relation of mutual influence (Sewell Jr. 1992).
(DiMaggio and Powell 1991)—again bracketing how individuals might break with routine implicit understandings to change institutions.

A less deterministic theory of action⁴ would see institutions as just one element of a situation—a Durkheimian “social fact” within the situational horizon. Actors may interpret or utilize institutions in different ways, stretching their boundaries, adapting them to new contingencies, or avoiding them through deviant behavior (Oliver 1991) (Clemens and Cook 1999). No one-to-one relationship exists between an institution and its meaning in a specific situation (Friedland and Alford 1991, p.255).

Institutions represent situations only in a summary form as ‘typifications’ where under certain conditions X, a particular type of actor Y is expected to do Z (Berger and Luckmann 1966). As Mohr and White (2009 forthcoming) argue, “Interpretive frames at the institutional level are not immediate and specific; they are general and abstract; and they are collective rhetorics that are known, shared, and embraced as orienting devices for the construction, consumption, and bundling of stories across different netdoms [domains of social networks].” Institutionalized values must remain general enough to be transposed across diverse situations, but specific enough for actors to mobilize control in enforcing an institution (White 1992). But this generality or gap between institutional rules and situational contingencies means that actors may develop local styles or variations of an institution (White 1993) or have scope to challenge institutions through active political contestation (Zilber 2002).

A key implication here is that institutions must not be considered a fixed, objective reality outside of actors, but as a matter of degree (Jepperson 1991). Particular relationships or behaviors may be more or less institutionalized. In the extreme, Erving Goffman (1961) used the metaphor of a “total institution” where all situations are governed by an institution and action is only possible “backstage” through deviations in the performance of fixed roles. But while some institutions may be rigidly prescriptive (actors “must” follow a certain rule), others may establish more limited boundaries of what is not possible (actors “must not” do something), and others may provide only loose models around which actors engage in substantial improvisation (Crawford and Ostrom 1995).

If institutionalized action is understood as a matter of degree, how might this general theoretical considerations apply specifically to the comparative study of institutions? Here two points are relevant. First, in terms of institutions themselves, theoretical frameworks for comparisons should take into account not only differences in the type of institutions, but also the degree of institutionalization and corresponding level of organizational heterogeneity within the boundaries of an institution. For example, comparative analysis should move beyond national averages, and compare the scope of variation of firm-level variation within different national systems (Jacoby 2004).

⁴ A number of scholars in institutional theory and economic sociology have ‘rediscovered’ pragmatism and symbolic interactionism as a particularly relevant avenue for understanding actors and institutions (Beckert 1999, 2003, 2009; Sabel 1994; Sorge 1999). While a full discussion is beyond the scope of this chapter, Hans Joas (1992) suggests the concept of “situation” as a basic category for a theory of action where actors pursue various “ends-in-view” that emerge concretely out of situations based on judgments and assumptions about the type of situation and the possible actions that flow from it.
Second, in terms of actors, comparisons should also take into account how institutions stem from particular historical constellations of actors who possess particular identities, interests, and capabilities. The remainder of this section develops these two points in more detail.

**Institutions as ambiguous.** Unlike uncertainty or vagueness, the concept of ambiguity suggests institutions can take on two or more specific meanings depending on the situational context (Jackson 2005). Such multiplicity of meanings is commonplace as institutions become part of changed situational horizons and ends-in-view. As any professional lawyer will know, everyday actors may not always know whether a strategy will be considered consistent with expected norms or values. If institutions are capable of being understood in more than one way, gaps between institutionalized expectation (e.g. rule or value) and strategic action must be filled (Clemens and Cook 1999, p.448). These gaps allow scope for creative interpretation, application and enactment through processes of iteration, projection and evaluation (Emirbayer and Mische 1998). Actors will always face choice and be confronted by dilemmatic decisions (Sorge 2005).

One consequence is that different national, regional or sectoral economies may be institutionalized to different degrees. No society or business system can be said empirically to consist of fully integrated and complementary elements. For example, the post-war Japanese model is often cited as an internally homogeneous and tightly coupled characterized by strong institutional complementarities. However, the unwinding of cross-shareholding and weakening of main bank relationships in Japan since the mid-1990s did not lead to the rise of Anglo-Saxon style forms of corporate governance based on “shareholder value,” but rather a range of new hybrid forms of corporate governance that mixed and matched various elements of different models (Ahmadjian and Robinson 2001; Aoki et al. 2007). The more general point is that deinstitutionalization of older forms of organization is not always replaced by new models but may lead to more ambiguous and diverse patterns. Similarly, the adoption of shareholder-value orientated managerial practices in Germany led to a number of substantive innovations as a result of adapting these to an existing institutional context that is largely stakeholder-orientated (Buck and Shahrim 2005; Fiss and Zajac 2004; Sanders and Tuschke 2006; Vitols 2004). A more extreme case of weakly institutionalized forms of capitalism can be found in Eastern Europe or other transition economies. In studying the transition of Eastern European economies to market-oriented capitalism, Stark (2001) demonstrated how past institutions become “ambiguous assets” that were used toward a variety of ends and different paths of future institutional development. The institutional flux of transition economies gave rise to very heterogeneous forms of organization that contrast with the more stable and institutionalized patterns in Western Europe.

**Actor capabilities and institutionalized action.** A flip side of ambiguity concerns the fact that actors interpret institutions not only with regard to exogenous elements of a situation, but vis-à-vis their own changing identities, interests, and capabilities for action. A very important observation is that actors often require particular social skills to act within an institutional setting (Fligstein 2001). Social skills are required for the everyday operation of an institution. Actors must be socialized into take-for-granted assumptions, and learn how prevailing norms are interpreted and applied by
others. For example, the political economy literature has stressed how the different capabilities between large and small firms or across industrial sectors lead to differences in how actors are able to cope with or utilize institutions as a source of competitive advantage. In Japan, smaller firms in domestic industries were very dependent on regulatory protection, and have fewer resources to maintain other key institutions like lifetime employment in the absence of such protections. Meanwhile, larger firms with more international operations seem to have sufficient organizational buffers or strategic capability to maintain commitments to core employees even in the face of market and financial liberalization (Vogel 2006).

Likewise, the emergence of new skills and capacities may create opportunities for innovation or institutional change. An interesting example here is Silicon Valley. Whereas old economy firms in the region faced strong constraints on their behavior, the creation of new start up firms allowed many of these rules to be renegotiated and existing resources recombined in new ways that led to innovation in terms of property rights, inter-firm collaboration, and human resource management practices (Saxenian 1994). Ongoing processes of experimentation, learning and emulation within and across institutional boundaries may lead to new organizational or individual capacities (Levitt and March 1988), and thereby speed deinstitutionalization or lead to the creation of alternative institutions over time. Expanding the boundaries of an institution may bring in new sorts of actors and thus introduce new capacities for action unforeseen when the institution was created (Thelen 2004). For example, a large literature exists on the role of multinational enterprises in introducing institutional innovation or having capacity to engage in institutional avoidance (Edwards and Ferner 2004). Skilled actors may borrow and blend from more than one institution to create innovative local styles.

An often forgotten point is that institutions may unravel because the necessary capabilities or skills for their operation and reproduction erode or even disappear over time. For example, the post-war model of German capitalism is based on a particular set of value commitments often labeled in terms of the “Social Market Economy” (Lehmbruch 2001). But such discourses may become eclipsed over time by new sets of ideologies and understandings, such as the ascendancy of new models of management (Guillén 1994; Khurana 2007). These value commitments underlying institutions arise in experiences of self-formation and self-transcendence that lead to enduring modifications of the self—both through positive and negative experiences (Joas 1997). While non-economic value commitments may become important elements of economic institutions, their instrumentalization in service of utilitarian aims may erode those very values. This is precisely because the experiential basis of those value commitments fails to be reproduced, and cannot be reproduced on the basis on rational utilitarian calculation alone—as Durkheim was so insistent in pointing out (Durkheim 1984 [1893]).

By treating institutions as ambiguous and actors as skilled, comparative scholars may be reminded of the role of contestation, conflict, and coalitions in creating, reproducing, and changing institutions. Institutionalization requires efforts of control in enforcing institutional rules and understandings against deviant behaviour or political challenges. Recent work in organizational theory has attempted to draw links between organizations and social movements along these lines to better understanding how institutionalized features of organizations result from collective
action, as well as how the rise of new actors within organizations influences institutional change (Davis et al. 2005).

5. Conclusion

Institutions may be understood as a non-deterministic context for action. These contexts are inhabited by multiple actors with different skills and capacities. Actors may see and interpret the same institution in different ways. Such differences may give rise to contention or conflict over those meanings, and lead to the incremental modification of those institutions over time. This point is even more important given the fact that institutional contexts are comprised of a rich and differentiated set of institutions—notwithstanding the efforts of social scientists to understand societies as having coherent or functionally integrated sets of institutions.

One caveat is important here. If we view institutions as socially constructed by specific constellations of actors and view institutions as having an element of indeterminacy, this should not lead us to the opposite view that institutions are infinitely pliable. As Aoki (2001) suggests, institutions might be seen as a focal point for actors within an arena—while actors may define their identities or interests as being in line with or in conflict with an institution, the fact remains that actors must make these definitions with reference to existing institutions. Institutions have the character of social facts, even when an institution remains one of many factors within a situational horizon.

For scholars engaged in comparative institutional analysis, the importance of actors has important conceptual and methodological implications. First, institutions need to be explored in an actor-centred fashion that allows for the non-identical nature of those actors across societies, sectors or over time. Institutions are not the product of the same actors playing the same game with different outcomes. Equally, different actors may play different games with the same outcomes. This apples and oranges issue makes comparative analysis a perpetual challenge and one that often requires art or a ‘sociological imagination’ alongside the application of scientific methods. Second, actors’ strategies toward institutions need to be explored empirically. Different institutions may be more or less constraining and lead to different degrees of institutionalization across societies and over time. This consideration suggests not merely comparing national averages from a static point of view, but also looking at the degree of variation around those means. Institutions should not be taken for granted by scholars of institutions, even if we discover that they are taken for granted by the actors themselves.

Bibliography


