

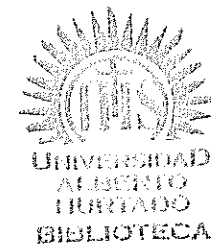
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# Institutional Change and Globalization

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*To Kathy*

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## WHERE DO WE GO FROM HERE?

I HAVE MADE several arguments in this book. First, I have shown that to recognize institutional change more accurately for what it is, rather than mistaking revolutionary for more evolutionary shifts, or vice versa, we need carefully to consider two things: the important dimensions of an institution that we track over time and the time frame itself. Second, I have explained that we need to specify more carefully the mechanisms underlying the causal concepts, such as path dependence and diffusion, which we use to account for institutional change. And I have argued that the mechanisms of bricolage and translation are particularly helpful in this regard. Third, I have discussed how different types of cognitive and normative ideas facilitate and constrain institutional change in important ways that are often neglected in studies that focus only on the impact of regulative institutions and the pursuit of self-interests. Finally, I have suggested that all of these issues have been serious problems for institutionalists, regardless of their specific approaches to institutional analysis, and that by strengthening institutional analysis in the ways suggested in this book we can better understand important social phenomena in the world around us. To illustrate the point, I applied the conceptual, methodological, and theoretical insights developed in chapters 2, 3, and 4 to the phenomenon of globalization. Contrary to much conventional wisdom, I established that the extent of globalization has been misunderstood, the causal mechanisms by which globalization is said to influence national institutions have been oversimplified, the effects of globalization have been exaggerated, and the national-level institutional changes that have been attributed to globalization have been far more evolutionary than revolutionary.

As I stipulated at the beginning of this book, my hunch is that institutional change tends to be more evolutionary than we often realize. Yet whether it is, or not, in a particular case is ultimately a question that can be answered only on empirical grounds. By developing institutional analysis along the lines suggested in this book, we can do a better job of identifying and explaining institutional change when it happens. We can also begin to resolve some of the analytic problems that rational choice, organizational, and historical institutionalists share. In turn, we may also be able to craft better theories of institutional change and perhaps a more unified paradigm of institutional analysis. So where do we go from here?

This chapter addresses that question. I begin by offering a theory of institutional change that integrates several insights from previous chapters and provides the basis for further theorizing and for empirical work in the future. Second, I explain that this theory also demonstrates the importance and payoffs of drawing upon the lessons of all three of the institutionalist paradigms with which this book is concerned. As a result, it also contributes to the second movement in institutional analysis, mentioned briefly in chapter 1. Recall that the second movement in institutional analysis is an emergent intellectual trend whose proponents seek to move beyond the traditional acrimonious debates in which rational choice, organizational, and historical institutionalists attacked each other's work. Instead, the second movement seeks to establish a more constructive dialogue among these paradigms that may result in building bridges and reconciling some of the intellectual disagreements among them (Campbell and Pedersen 2001b). Finally, I discuss the implications and opportunities of all these insights for future research.

## TOWARD A THEORY OF INSTITUTIONAL CHANGE

I noted in chapter 1 that institutional analysis has been criticized for having an inadequate understanding of institutional change. I think that we are now in a position to improve the situation if we take the lessons of previous chapters seriously. What follows is an effort to articulate a rudimentary theory of institutional change. It consists of a set of theoretical propositions based directly on the literatures and arguments discussed in preceding chapters.<sup>1</sup> These propositions are first approximations in that they are likely to be modified by further research. They are certainly not the last word on the subject, but should help us better focus our thinking and research in the future. Moreover, these propositions should provide the basis for the development of more precise hypotheses that can be tailored to research on specific instances of institutional change. In this sense, I hope that they will stimulate more theorizing and empirical research by providing a theoretical tool kit from which scholars can draw as they study institutions. Together they constitute a middle-range theory—one that is sensitive to the fact that historically specific institutional contexts constrain institutional change (e.g., Merton 1967).

The theory can best be described as one of *constrained innovation*. It provides, on the one hand, an account of creative institutional innovation, particularly by institutional entrepreneurs, and, on the other hand,

<sup>1</sup> Because the discussion that follows is based on arguments presented previously in considerable detail, I will be brief and will dispense with most citations to the relevant literature.

an account of structural constraints, which include the institutional processes, cultural frames, and cognitive beliefs that tend to limit the range of options available to these entrepreneurs. As a result, the theory offers insights about micro- and macro-level effects and how both agency and structure influence institutional change. More specifically, it explains how objective conditions give rise to problems that trigger episodes of institutional change; how institutional entrepreneurs and others play key roles in defining and framing these problems as well as proposing remedies for them; how the actions of entrepreneurs are constrained by the institutional and other contexts within which they operate; and how all of these phenomena affect the probabilities that institutional change will result.

Remember from chapter 1 that institutions are sets of formal and informal rules, monitoring and enforcement mechanisms, and systems of meaning that define the context within which people and organizations interact. They result in durable practices that are legitimated by widely held beliefs. Moreover, remember that institutional change is defined as the extent of variation that occurs, or not, over a given period of time in the important dimensions that constitute an institution. As discussed in chapter 2, these are critical issues that researchers must consider carefully if they want to determine how much change has actually occurred in any given episode of change. Revolutionary change involves simultaneous change across most, if not all, dimensions of an institution over a given period of time; evolutionary change consists of change in only a few of these dimensions; and stability consists of the absence of change in most, if not all, of these dimensions. So, for any episode of change, change may be located on a continuum, which ranges from stability on one end, through increasing degrees of evolutionary change in the middle, and through increasing degrees of revolutionary change on the other end.

But what causes institutional change? To begin with, institutional change can be triggered by either exogenous or endogenous factors. Exogenous factors typically receive most of the attention among institutionalists. They include war, economic catastrophe, and other calamities as well as abrupt shifts in prices and transaction costs, changes in state policy, dramatic technological innovations, and the like. They are generally alluded to by those of us who favor punctuated equilibrium or punctuated evolutionary models of change. However, if we accept the notion, suggested in chapter 2, that institutions are multidimensional entities that are composed of different institutional logics guiding action, then we should expect that there may be much inconsistency among these dimensions and logics. That is, institutions may create potentially contradictory incentives and opportunities for action. Such inconsistency may generate enough tension, friction, and other problems to cause actors to seek new institu-

tional arrangements. In other words, constellations of institutions may themselves generate endogenous pressures for change (Friedland and Alford 1991; Lieberman 2002; Schneiberg 1999). Indeed, some have argued that for this reason institutions are far less stable than we tend to assume (e.g., Orren and Skowronek 1994). To wit,

*Proposition 1: Institutional change can be triggered by problems that are either exogenous or endogenous to the institution in question.*

Of course, arguing simply that problems (sometimes we call them crises) cause change is not very useful. First, it implies a mindless knee-jerk reaction, which assumes that actors know a problem when they see one and then respond automatically to it by altering their institutions. The process involved is far more complex than this, as I will soon elaborate. Indeed, the process is so complex that there are no guarantees that problems will always precipitate institutional change. Actors may fail to recognize problems as such for a long time. They may also disagree about how serious a problem is, how to solve it, or whether anything can or should be done about it in the first place. In this sense, problems are socially constructed. Furthermore, struggles to change institutions may result in stalemates, inertia may set in, and problems may fester for a long time without much being done to resolve them.<sup>2</sup> And, of course, actors may try to address problems without resorting to institutional change per se. To wit,

*Proposition 2: Problems are necessary, but not sufficient, conditions for institutional change.*

Second, to argue simply that problems cause change begs an important question: How, as analysts, do we recognize such problems a priori? Can we determine in advance when problems are likely to reach a point at which actors begin to suspect that they need to make institutional adjustments to cope with them?

I propose that such problems manifest themselves when exogenous or endogenous factors create situations that actors perceive as a threat to the fundamental distribution of resources or power that they need to pursue whatever self-interested, altruistic, or other goals they may have. For instance, during the 1970s and 1980s, the advent of new production technologies among European steel manufacturers threatened the domestic market share for U.S. steel producers, who then successfully urged Con-

<sup>2</sup> There is a substantial literature that explores why actors do not recognize problems when they emerge and why, even if they recognize them, they fail to take action to resolve them. For example, see Crenson (1971), Gaventa (1980), and Lukes (1974).

gress to pass protectionist trade legislation (Scherrer 1991). Engagement in the First World War caused the U.S. War Department to experience supply shortages, which led to the creation of temporary corporatist-style planning boards that were designed to improve industrial governance and increase production for the war effort (Cuff 1973). And, as discussed in chapter 4, the U.S. Atomic Energy Commission's contradictory institutional mandate to promote and regulate the development of commercial nuclear power triggered conflict between government bureaucrats and scientists over each other's jurisdiction regarding nuclear reactor safety policy—a conflict that sparked a legitimization crisis for the agency and an overhaul of regulatory institutions. In each case, situations developed that actors believed threatened their access to resources or power (markets, customers, profits; military supplies; regulatory authority) and then precipitated institutional change (new rules regarding international trade; industrial governance; regulatory policy). If institutions are settlements over the distribution of resources or power that are reached through struggle and bargaining, as I suggested in the opening paragraph of this book, then anything that threatens to upset this distribution is a problem that could trigger new struggles and bargains and eventually institutional change. To wit,

*Proposition 3: Problems trigger a struggle over institutional change when actors perceive that these problems jeopardize the current distribution of resources or power.*

Furthermore, if actors perceive that a situation has emerged that provides them with an opportunity to change institutions in ways that will increase their resources or power, then they will likely seek change in these institutions. For example, as noted in chapter 2, after international attention began to focus intensely on civil rights abuses in the United States during the 1950s, U.S. civil rights activists perceived that their opportunities for achieving institutional change had increased. In turn, the movement's activities escalated and activists pressed harder for constitutional changes, notably voting rights legislation, that would have increased the political power of African Americans. Conversely, if actors perceive that a situation has emerged that threatens to reduce their resources or power, then they will likely resist change to the institutions that provide these things, as many Southern politicians did in response to the civil rights movement's constitutional initiatives. To wit,

*Proposition 4: Actors are more likely to pursue / resist change in the institutions affecting the distribution of resources or power if they perceive that it will increase / decrease their resources or power.*

One caveat is in order regarding the last proposition. To preserve the institutional status quo in one place, and thus the current distribution of resources or power, actors may seek to change institutions in another place. For instance, to curb the civil rights movement's quest for equal voting rights, local politicians often changed ancillary institutions to check the movement's advance. In particular, they resorted to increasingly oppressive law enforcement policies for dealing with demonstrators, and turned an increasingly blind eye to vigilante groups, like the Ku Klux Klan, who terrorized civil rights organizers. In both cases, defensive institutional reforms were designed in one place (local law enforcement policy) to maintain the institutional status quo in another place (the U.S. Constitution). Similarly, when the threat of hostile corporate takeovers became prevalent in the United States during the 1980s, firms often adopted defensive institutional reforms, such as staggered terms for directors, golden parachutes for executives, super-majority rules for boards, poison pill strategies, and the like (Useem 1996, 28). These changes in corporate rules did not directly affect the distribution of resources or power between corporate raiders and their targets—that is, raiders could still launch a hostile takeover bid if they wanted—but modifications in ancillary corporate institutions made such a move less appealing.

I have suggested repeatedly that the perceptions of actors are important. But how do actors develop their perceptions about problems and solutions that involve institutional change in the first place? We still need to know much more about how these perceptions are formulated, but we have made some headway. For example, following the arguments in chapters 3 and 4, ideas and the actors associated with them are central to this process. Of particular importance are institutional entrepreneurs and others who frame situations as problems. After all, one thing that institutional entrepreneurs do is deliberately articulate a vision of the problem in ways that can be understood by the relevant decision makers and constituents. This means that they must frame and communicate the situation in clear and simple enough terms for these groups to understand.<sup>3</sup> Of course, what constitutes “clear and simple” depends on the prevailing normative and cognitive beliefs that are already in place. Things will more likely appear to be clear and simple if institutional entrepreneurs frame them in ways that resonate with these prevailing beliefs. To wit,

*Proposition 5: Problems are more likely to be perceived as requiring institutional changes if there are institutional entrepreneurs*

<sup>3</sup> Institutional entrepreneurs are not always elites, such as high-level political or corporate advisors. They may also be people less centrally located to decision-making processes, such as labor leaders, social movement activists, academics, and the like, who try to change institutions.

*on hand who can articulate and frame them as such in clear and simple terms.*

Recognition of a problem by itself, however, is not enough for decision makers to initiate change. For that to happen entrepreneurs must formulate alternative institutional programs and convince decision makers to adopt them. But where do these alternatives come from? How do entrepreneurs generate ideas about new institutional arrangements in the first place? Here we return to the arguments in chapter 3 about path dependence, bricolage, diffusion, and translation. Institutional innovations usually consist of a creative recombination—a bricolage—of institutional principles and practices that entrepreneurs have inherited from the past and that are available as part of their repertoire. Entrepreneurs with more diverse social, organizational, and institutional connections tend to have more expansive repertoires with which to work and tend to be exposed to more ideas about how to recombine elements creatively in their repertoires. As a result, they are more likely to propose relatively more revolutionary than evolutionary institutional changes. Similarly, entrepreneurs who are positioned socially, organizationally, and institutionally in ways that expose them to the diffusion of *new* ideas, which then become part of their repertoire, are more likely to create relatively more revolutionary than evolutionary ideas for change. Particularly as new ideas are incorporated into the mix, change tends to be less path dependent. To wit,

*Proposition 6: Institutional change is likely to be relatively more revolutionary than evolutionary to the extent that entrepreneurs are located at the interstices of several social networks, organizations, and institutions, especially if their location exposes them to new ideas.*

It is important to remember that entrepreneurs do not enjoy complete autonomy. They cannot do entirely as they please. No matter how brilliant they may be, or how wonderful their ideas for change might appear, their efforts will have little impact unless they mobilize supporters and garner the financial, political, organizational, or other resources that are necessary to gain access to key decision-making arenas and convince decision makers to adopt their innovations.<sup>4</sup> Access to these resources is especially critical when, as is often the case, the process of institutional change involves several entrepreneurs jockeying for position and competing to

<sup>4</sup> Of course, existing institutions themselves affect the likelihood that various entrepreneurs can gain access to these decision makers. For instance, porous political institutions afford access to a wider range of entrepreneurs than more insulated institutions. For a fascinating discussion of how different types of political institutions affect both the likelihood and substance of institutional change, see Sheingate (forthcoming).

win the favor of these decision makers. For instance, as detailed in chapter 5, this was one reason why neoliberal proposals for change, which were backed by well funded think tanks, more readily captured the imagination of Swedish decision makers for a time than proposals from less well funded groups when Sweden grappled with the problem of stagflation in the 1980s and early 1990s. Indeed, institutional change is a process of struggle and bargaining to which resources are central. To wit,

*Proposition 7: One program for institutional innovation is more likely to precipitate institutional change than another if the entrepreneurs who advocate it command more resources with which to sway key decision makers than their competitors.*

Once entrepreneurs have formulated an alternative institutional program and gained access to decision makers, they need to convince them that their program will provide an effective solution to the problem at hand as they have defined it. Their ability to do so depends on several things. First, as discussed in chapter 4, they must establish the credibility of their program. Credibility depends in part on whether there is available evidence that the proposed innovation will resolve the problem. Why? Because, as organizational institutionalists are fond of arguing, unless decision makers are forced to adopt certain institutional practices, they tend to copy things that seem to have worked for others in similar predicaments (e.g., Strang and Macy 2001). To wit,

*Proposition 8: One program for institutional innovation is more likely to precipitate institutional change than another if entrepreneurs present evidence to decision makers indicating that it has worked effectively elsewhere.*

Second, entrepreneurs must convince decision makers that the innovations they propose resonate favorably with the local institutional context. The better they do this, the more likely it is that decision makers will adopt their programs and sustain them over time. Generally speaking, these programs must appear to fit reasonably well with the given regulative environment by, for example, not threatening to raise legal questions and, therefore, the ire of local authorities. Entrepreneurs must also convince decision makers that their programs fit the decision makers' dominant cognitive paradigm. If decision makers cannot be convinced of this, then they will likely be suspicious of the program or have difficulty understanding it because it is not familiar to them. Finally, entrepreneurs must convince decision makers that the new program is legitimate in the sense that it resonates with the prevailing normative sentiments and sensibilities of decision makers themselves as well as their constituents (e.g., voters, customers, stockholders, etc.) and their peers, to whom decision makers

look for acceptance and support. Otherwise concerns may arise that the innovation will trigger opposition regarding its appropriateness. If this happens, then it will be difficult to sustain the institutional innovation. In sum, decision makers must be convinced that the proposed innovations can be translated into practice with relative ease. Making this case to decision makers requires institutional entrepreneurs to frame their proposals for change in convincing terms. To wit,

*Proposition 9: Institutional change is more likely to be initiated by decision makers if entrepreneurs can present programs for innovation that appear to translate well into the prevailing regulative environment, the cognitive paradigm of decision makers, and the normative sentiments of decision makers, their constituents, and their peers.*

Once decision makers have been convinced to adopt an innovation, they need actually to translate it into the local institutional context. Decision makers and others work hard to translate innovations into practice. Some innovations translate more easily than others. This is because existing institutional arrangements provide greater incentives and opportunities for some innovations than for others. The need to translate and fit innovations into the local context is one of the most important ways in which currently existing institutional arrangements mediate the process of institutional change. It stands to reason that those innovations that fit best are not only more likely to be adopted in the first place, but are also more likely to last than those that do not fit as well. After all, those that do not fit well are more likely to trigger resistance, opposition, and other difficulties after they have been implemented. These difficulties may then lead to modifications later where actors try to bring their initial innovations into closer conformity with the existing institutional context. For instance, in postcommunist Poland during the early 1990s quite radical changes in policies regarding social expenditures, enterprise subsidies, and privatization sparked so much opposition and protest that the new government dramatically scaled back and modified these reforms (Campbell 2001). In the extreme, innovations may be abandoned entirely if the fit is particularly poor. To wit,

*Proposition 10: Innovations that best fit the prevailing institutional context will be more likely to persist over time once they are implemented than those that do not fit as well.*

It also stands to reason that the more actors try to fit their innovations to the existing institutional context, the less likely these innovations are to be relatively revolutionary. This is because better fit implies greater compatibility and less change in the status quo. Thus, because sustained

implementation often depends on how well actors translate and fit innovations into existing institutional practice, institutional change tends to be relatively more evolutionary than revolutionary. As a result, change also tends to be more path dependent insofar as new institutional arrangements continue to resemble those of the immediate past. To wit,

*Proposition 11: Innovations that best fit the prevailing institutional context will be more likely to result in evolutionary rather than revolutionary change than those that do not fit as well.*

Finally, I suggested briefly in chapter 3 that even when decision makers agree to try an innovation, they are more likely to implement it substantively, rather than in just a symbolic or half-hearted way, if they are sympathetic and ideologically committed to the innovation and if they have the financial, administrative, and other implementation capacities necessary to support it. Again, resources are important. These practical considerations are real, and decision makers often take them seriously. It follows, then, that even if they are enamored with a relatively more revolutionary innovation, they will pursue a less revolutionary one if they do not believe that they have the capacities to implement and sustain the more radical one. To wit,

*Proposition 12: Institutional change is likely to be relatively more revolutionary than evolutionary not only if decision makers take the idea seriously, but also if they believe that they have the necessary resources to implement and sustain it effectively.*

Let me make several clarifications. First, the process of institutional change is often not as neat, clean, and linear as the sequencing I have used to present these twelve propositions. Although actors may try to be logical, systematic, and strategic, sometimes things happen in more chaotic and unpredictable ways (e.g., Cohen et al. 1972; Kingdon 1995). For instance, problems may be redefined after actors begin to craft institutional solutions for them. Hence, institutional change is a process that can be full of stops, starts, reversals, and redirections.

Second, none of what I have argued here implies a functionalist theory of institutional change. Just because an innovation is adopted and implemented on a sustained basis does not necessarily mean that it is successful (i.e., functional) in resolving the problem that triggered it. Why? Beside the possibility that people simply make mistakes, change involves much struggle, bargaining, and compromise. People also try to respond to problems in ways that they deem to be culturally appropriate. All of this means that the changes that people actually make may not be entirely effective for solving the problem at hand. And even though their innovations may be suboptimal in this regard, they may still be relatively permanent and

locked in due to the support they have from various quarters, including those who managed to dominate the innovation process.

Third, the theory I am proposing probably sheds the most light on the process by which planned institutional innovation and change occurs, particularly insofar as it emphasizes the role of institutional entrepreneurs. Not all instances of institutional innovation are entirely planned, deliberate, and intentional. For example, judge-made law is often said to evolve in ways that result eventually in important shifts in legal institutions through the unintended cumulative effects of many small judicial decisions, but without much planning or deliberate design (Rutherford 1994, chap. 5). In other words, while actors may be purposive in their actions, the institutional changes that follow from these actions are not always entirely intended.

Fourth, my emphasis on actors, especially institutional entrepreneurs, in this theory does not imply that we should rely exclusively on rational choice theory to inform our understanding of institutional change. For instance, although rational choice institutionalism may help us understand how actors strategically pursue their interests within certain constraints, other paradigms have much to offer in helping us understand how actors perceive and interpret their interests and constraints in the first place. As I will elaborate momentarily, an understanding of institutional change, as I have outlined it, requires insights from all three institutionalist paradigms. I have paid close attention to actors simply because it helps to infuse our thinking about institutional change with a sense of agency. Even scholars who are favorably disposed to institutional analysis have argued that institutionalists from all three paradigms—rational choice, organizational, and historical—tend to invoke excessively structural explanations (Hirsch 1997; Lieberman 2002). The propositions I have outlined acknowledge the importance and interplay of both structure and agency. As such they blend a theory of constraint with a theory of action. On the one hand, institutional structure generates the tensions, frictions, and problems that endogenously spark attempts at change. It also affects the likelihood that institutional entrepreneurs will gain access to resources, innovative ideas, and decision makers. After all, access of this kind is determined largely by the location of entrepreneurs within a constellation of social networks, organizations, and institutions. Finally, structure matters insofar as existing regulative, cognitive, and normative institutions make up the context into which innovations must be translated and fit. On the other hand, entrepreneurs enjoy a modicum of agency, autonomy, and choice as they concoct innovations through bricolage, frame their innovations in ways that affect the likelihood of adoption, and work to translate and fit them into practice. These are all creative albeit constrained processes. Moreover, they all involve considerable

struggle and bargaining. In sum, structure constrains the range of *possibilities* for institutional change that are generally available to creative actors and from which these actors may choose. Structure does not completely determine choices and outcomes, but it influences the *probabilities* that one innovation will be created, selected, implemented, and sustained rather than another. Of course, occasionally, very creative, well-positioned, and even lucky actors may defy the probabilities and beat the odds. But this is rare. In general, then, as I mentioned earlier, this is a process of constrained innovation.

### THE SECOND MOVEMENT IN INSTITUTIONAL ANALYSIS

The theoretical approach that I have outlined provides a more integrated view of the process of institutional change than any of the three institutionalist paradigms does alone. In this regard, it advances the second movement in institutional analysis—a movement that seeks to build bridges and reconcile some of the intellectual differences among these paradigms (Campbell and Pedersen 2001b). Let me explain.

First, the theory builds on some of the most important insights offered by rational choice institutionalists regarding institutional change. It accepts that exogenous shocks, which might include things like changes in prices (North 1990), transaction costs (Williamson 1985), threats of war (Levi 1997), and the like, may provide the initial spark for institutional change. It also recognizes that institutional change is driven by actors that are strategic and goal oriented (North 1990, 1998); that their goals are not necessarily restricted to self-interested ones, but may also include altruism, the pursuit of the collective good, or anything else that they believe to be appropriate (Elster 1989, pp. 23–24); that their pursuit of these goals is institutionally constrained (Ingram and Clay 2000); and that the outcome of any episode of institutional change depends on conflict, struggle, and bargaining as configured by the distribution of resources among the actors involved (Knight 2001, 1992). Indeed, rational choice theory's major contribution here may be the light it can shed on the processes of strategic bargaining and negotiation that are often central to institutional change. The theory I have proposed, however, modifies and expands upon these insights. For instance, it suggests that the problems that precipitate institutional change may be endogenous as well as exogenous in origin. It also stresses how the perception of these problems as well as opportunities for change play heavily in any episode of institutional change and that there are key actors (e.g., institutional entrepreneurs) who play central roles in socially constructing these perceptions in the first place. And, in an effort to heed Douglass North's (1998, p. 20) call for a more cognitively



oriented approach to the study of institutional change, it acknowledges that the cognitive dimensions of institutional contexts, especially the paradigmatic assumptions of decision makers, constrain the choices that actors are likely to make.

Second, the theory draws upon some of the core ideas of historical institutionalism. Specifically, it recognizes that the endogenous triggers for much institutional change emerge from the tensions, frictions, inconsistencies, and contradictions within institutions themselves (Orren and Skowronek 1994); that most institutional change tends to be path dependent and evolutionary (Pierson 2000b); and that for institutional innovations to stick and succeed they need to fit the local economic, political, and administrative context (Hall 1989b; Lieberman 2002). It also accepts that for decision makers to be convinced that an institutional innovation ought to be attempted, they need to be convinced by substantial evidence that current institutions cannot resolve the problem at hand and that new ones will (Hall 1993, 1992; McNamara 1998). It improves on these ideas, however, by suggesting how the process of defining problems, elaborating possible solutions, and fitting these solutions to local conditions involves much entrepreneurial activity and agency, such as the ability of actors to frame problems and solutions in convincing ways. It also shows that the process of path-dependent change stems not only from institutional and other constraints but also from the creative process whereby actors draw upon the pre-given principles and practices around them and engage in bricolage. In this sense, institutions are enabling as well as constraining.

Finally, the theory benefits from the insights of organizational institutionalism. It accepts that institutional change occurs when actors try to resolve problems that generate uncertainty—particularly uncertainty over the distribution of resources or power (Fligstein 1990); that relatively more revolutionary changes are typically associated with the diffusion of new ideas for innovation into a field of organizations and other actors (DiMaggio and Powell 1983; Meyer et al. 1997a, 1997b); that change often involves a process of bricolage by which actors recombine already available institutional principles and practices that exist in their repertoires (Clemens 1993; Swidler 1986); and that institutional entrepreneurs are central to much of this activity (Fligstein 2001b, 1997). It also relies on the important argument that institutions consist of cognitive and normative elements as well as the regulative elements most often discussed by rational choice and historical institutionalists (Dobbin 1994; Scott 2001, chap. 3). Yet it expands and modifies some of these notions. Notably, it contends that the capacity of entrepreneurs to innovate in evolutionary or revolutionary ways depends on their social, organizational, and institutional locations, which determine the degree to which they are exposed to the diffusion of new ideas for innovation. Furthermore, it holds that the

process of diffusion includes a critical translation step whereby innovative ideas are fit to local institutional contexts in ways that yield significant differences across locations. Lastly, this theory suggests that the distribution of resources and power play an important role in determining what entrepreneurs can do. It addresses the concern of critics who have lamented the tendency, when it comes to explaining change, of organizational institutionalists to privilege the determinative effects of normative and cognitive constructs at the expense of an analysis of power, conflict, and struggle (Hirsch 1997; Stinchcombe 1997).

My point is straightforward. Viewing institutional change as I have outlined it here requires that we recognize the relative strengths and weaknesses of all three institutionalist paradigms. More important, a complete understanding of institutional change demands that we blend insights from all three paradigms. In this sense, in order to improve our understanding of the process of institutional change a second movement in institutional analysis is imperative.

#### IMPLICATIONS FOR FUTURE RESEARCH

The preceding discussion as well as previous chapters raise several issues that require considerably more attention in the future. What follows is a brief discussion of some of those that are especially important and that point toward exciting opportunities for research and theorizing. They include the endogenous origins of institutional change; the role of institutional entrepreneurs; the process of bricolage; the importance of perception and framing; and the translation and fitting of innovations to local contexts.

To begin with, although we are beginning to shift our attention from exogenous to endogenous sources of institutional change, our understanding of the latter is far from adequate. Notably, although scholars have argued recently that institutional friction, such as mismatches among competing institutional logics, often spark change, identifying and measuring friction remains a serious problem for institutionalists, particularly for those of us who are interested in predicting institutional change or specifying the conditions under which it is more or less likely to happen (Lieberman 2002, 703). In short, we need to pay much more attention to the origins of endogenous problems.

One way to proceed would be to examine carefully the professional backgrounds of actors who are systematically responsible for decision making and their institutional locations. Following much early work in the sociology of organizations and professions (Friedson 1994, chap. 8; Waters 1989), we should expect, for instance, that the more decision-

making authority is shared by actors with substantially different kinds of training and experience, such as professionals, scientists, and other experts, on the one hand, and bureaucrats or managers, on the other hand, the more likely it is that friction will arise over how to define and handle problems when they emerge. Another way to proceed would be to pay close attention to the organizing logics of institutions (e.g., Scott et al. 2000). As some scholars have argued, institutions are probably more prone to friction and change when they consist of contradictory logics that create conflicting and perhaps irreconcilable incentives and motivations (Lieberman 2002; Schneiberg 1999). In any case, several questions can guide our work in the future. Do endogenous problems stem from differences in the normative orientations or identities among different types of institutional actors; from conflicts of material self-interest; from discrepant cognitive paradigms; or from some combination of them all? Which of these possibilities is likely to spark the most serious problems—that is, the problems that are most likely to precipitate the most extreme, revolutionary forms of institutional change? Assuming that all institutions generally have inconsistencies and contradictions like these, under what conditions are they most likely to manifest to the point where actors become concerned enough to begin thinking about changing institutions to resolve these problems?

We also need to know more about institutional entrepreneurs. These people play critical roles in changing institutions. As I mentioned briefly in chapter 3, there is a substantial literature on entrepreneurialism that has come from economics, organizational studies, and economic sociology (e.g., Swedberg 2000). Much of it is concerned with the establishment and survival of business enterprises and other types of organizations rather than with institutional change *per se*. Howard Aldrich's (1999, chap. 4) work is a good example insofar as he is concerned with how entrepreneurs affect organizational, not institutional, change. Nevertheless, his work is particularly useful insofar as he situates entrepreneurs in a broader social structural context and raises a variety of questions that could easily be applied to the study of institutional change. In particular, how do entrepreneurs' positions in broader social networks affect their capacities for changing institutions? How do different types of network ties affect entrepreneurial activity, such as the kind of bricolage that entrepreneurs are likely to devise? Are heterogeneous ties more or less beneficial than homogenous ties in changing institutions? Are stronger ties with close friends or familiar organizations more important for changing institutions than weaker ties with distant acquaintances or less familiar organizations? Can entrepreneurs strategically manage and change their network locations? If so, how do they do it, and what effect does this have with respect to their ability to garner resources, gather new ideas, and

devise innovations that result in institutional changes that are relatively more revolutionary than evolutionary?

Recently, a few institutionalists have begun to think seriously about how entrepreneurs affect institutional change. Notably, Neil Fligstein (2001b, 1997) has developed an interactionist theory of entrepreneurs, which stipulates that the most successful entrepreneurs are those that are skilled at inducing cooperation among contending groups of actors. Despite its many merits, especially its focus on interaction, Fligstein's theory largely neglects the important point that the skills with which entrepreneurs do this and, presumably, the patterns of interaction in which they engage, are determined in part by their social, organizational, and institutional locations. Insofar as this blind spot is shared by other institutionalists, we would all do well to pay closer attention to the vast literature on social networks upon which Aldrich relies—literature that shows, for instance, that an individual's network location has a big influence on his or her ability to access information and other resources (Granovetter 1974), gain competitive advantage (Burt 1992), and, ultimately, achieve entrepreneurial success (Uzzi 1996). Indeed, access to information and resources, gaining competitive advantage vis-à-vis other institutional entrepreneurs, and successfully persuading decision makers to adopt their institutional innovations are all central to the process of institutional change that I have theorized. There is also some potentially helpful research in the social movements literature, which recognizes that successful social movement mobilization depends on the social networks within which movement leaders are embedded and that connect rank-and-file members (Ganz 2000; Gould 1993). Both of these literatures offer us important insights into entrepreneurialism and leadership that may shed light on the nature of institutional change. Importantly, they both remind us that institutional change does not exist in a vacuum. The people that populate institutions and are responsible for changing them are situated in a broader set of social structures that institutionalists have often neglected, but that should be incorporated into our theories of institutional change.

This bears directly on the process of bricolage. Although some interesting work has been done to document that institutional bricolage occurs (e.g., Haveman and Rao 1997; Stark 1996), we actually know very little about how this process unfolds. I have suggested that it depends heavily on the social, organizational, and institutional location of entrepreneurs, but we still need to know more about why entrepreneurs make one bricolage rather than another. To my knowledge, very few people have studied this intriguing question. It would be fascinating, for instance, to interview people whose job it is to devise institutional innovations and find out more about why they concocted the innovations they did, and not other

ones, and how they blended ideas from different places and why they did so. It would also be very helpful to understand more about how astute entrepreneurs, who understand that their location matters, seek to shift locations and strategically create connections, if possible, with new actors when they feel that it is necessary to expand their repertoires and possibilities for bricolage (e.g., Piore 1995).

Much of what I have argued here about institutional change turns on how actors—particularly entrepreneurs—perceive their problems, possible solutions, opportunities for change, and eventual courses of action. Most institutionalists have paid remarkably little attention to the issue of perception other than to note that perceptions matter and are influenced by the institutional contexts that they have inherited from the past and within which they operate. Recall, for instance, that Frank Dobbin (1994) argued that national political institutions influenced how policymakers in France, Britain, and the United States perceived their options when they set out to build national railway systems, but that he focused much more on how these perceptions affected policy outcomes than on how these perceptions were formulated in the first place. Similarly, Victoria Hattam (1993) showed how a shift in the perceptions of the U.S. labor movement affected its strategies for institutional change, but she said little about how these perceptions shifted. And rational choice institutionalists have long been criticized for relegating perceptual issues to the distant background, ignoring, for instance, how actors perceive the interests that are pivotal to rational choice explanations. This generic blind spot among institutionalists is attributable to the excessively structural quality of most institutional analysis.

To eliminate this blind spot, we can benefit enormously by borrowing from two literatures. First, again, is the literature on social movements, which offers several insights about how people come to recognize opportunities for mobilization—that is, change—when they come to pass. The initial work was done by David Snow and his colleagues (Snow and Benford 1992; Snow et al. 1986), who theorized how leaders mobilize support by framing opportunities as well as possible solutions, strategies, and tactics. This work pays close attention to how movement leaders draw upon various types of ideas, culture, systems of meaning, and identities to create shared understandings of the world; how frames are constructed to diagnose problems and propose solutions; why some frames are more successful than others in mobilizing people for action; and how framing itself is a contested process involving movement and countermovement leaders as well as external actors, such as political authorities. Recently, more traditional social movement theorists who have explained movement success in terms of the ability of leaders to mobilize resources or exploit political opportunities have incorporated an analysis of framing

into their work with great benefit (McAdam et al. 1996; McCarthy et al. 1996; Tarrow 1994, 1996). The affinities between social movements theory and some versions of institutional analysis in this regard have become increasingly apparent (Campbell forthcoming) and are already being exploited by some researchers (Davis et al. forthcoming).

Discourse analysis is a second literature that promises to shed light on these sorts of perceptual issues. Discourse analysis is often based on close readings of print media, documents, and other texts seeking to determine how language and rhetoric that lead—successfully or not—to change in organizations and political institutions are constructed (e.g., Creed et al. 2002a, 2002b; de Goede 1996; Pedersen 1991; Phillips 1996; Schmidt 2002, 2001). Some of this work is highly technical, particularly to the extent that it tries to detect common rhetorical patterns in large numbers of texts (e.g., Lewis 2003). This too can be a useful place for us to look for insights about how institutional entrepreneurs interpret and define interests, problems, solutions, and the like for themselves, decision makers, and others.

Researchers who work in these two areas have raised and grappled with several interesting questions that relate to the process of institutional change as I have described it. First, how do institutional entrepreneurs construct frames and seek to alter perceptions? What are the conditions under which institutional entrepreneurs are more or less likely to copy the rhetoric and ideas of those around them (e.g., Lewis 2003)? Second, do these entrepreneurs use the same frames and discourse for diagnosing problems as they do for articulating solutions? Do their frames depend on their access to different kinds of resources or different arenas in which institutional problems are discussed? How do entrepreneurs shape their framing and rhetoric in different ways depending on whom they are addressing? In other words, do they offer different frames to decision makers, on the one hand, and to decision makers' constituents, on the other (e.g., Schmidt 2002)? Third, why are some frames more influential than others in either fostering or blocking institutional change? Can we specify different types of frames and discourse? Are arguments that are cloaked in scientific rhetoric and the trappings of quantification more likely to persuade than those that are not (McCloskey 1985)? Certainly an exciting possibility for research is to determine the conditions under which a particular type of frame is more or less successful in altering perceptions and precipitating institutional change. Another possibility is to examine why one frame among several competing frames is more likely to have contributed to institutional change than the rest (e.g., McCammon et al. 2001). Attending to these sorts of questions would help us infuse our theories with a bit more agency.

Finally, I have said a great deal about the necessity for translating and fitting innovative programs into local institutional contexts. We need to learn much more about this process too. What does it take for an innovation to fit, or not? Is fit really a function of the amount of political or organizational support an innovation has such that greater levels of support mean that people will simply try harder to make it work and be more forgiving when the innovation creates problems? Or is fit a function of something else? Researchers have begun to generate careful studies of the translation process, particularly in the area of comparative political economy (Djelic 1998; Duina 1999; Marjoribanks 2000), but we need more of this sort of work. Again, it would be extremely useful to know more about how people who devise and implement innovations take the issue of fit into account. Do they try to anticipate problems, take steps to avoid them preemptively, garner support in advance from constituents for translation, and perhaps make adjustments in already existing local institutions to prepare for translation of an innovation? If so, how do they do these things? Until we know more about translation and fit, our arguments about institutional change will remain poorly specified.

#### FINAL THOUGHT

Throughout this book I have tried to provide insights into some of the most important problems that rational choice, organizational, and historical institutionalists share. I have also made a number of suggestions about how we ought to begin to solve them. Along the way I have raised a number of questions that still require answers. In the end, as one colleague remarked after reading an earlier draft of this book, I have probably raised more questions than answers. But at this stage of the game, I think this is necessary, particularly insofar as these questions can orient future work across the three institutionalist paradigms and push the entire enterprise of institutional analysis forward. If we can answer these questions, then the future for institutional analysis is very bright.

### Appendix

## ANALYSIS OF TAX LEVELS AND STRUCTURES FOR COUNTRY SUBGROUPS

THIS APPENDIX examines whether there is support for globalization theory's prediction of a race to the bottom in tax institutions if we examine different types of OECD countries. Some scholars have argued that we should expect this sort of homogenization to occur within country subgroups (e.g., Kitschelt et al. 1999). The following analysis examines whether the level of taxation and the structure of taxation are affected by globalization in either different types of welfare states or in countries whose economies are coordinated by different types of institutional arrangements.

#### LEVEL OF TAXATION

One useful way to differentiate among countries is to distinguish among types of welfare states. The *social democratic* welfare states of Northern Europe have traditionally been the most generous to their citizens and, thus, ought to be associated with the highest tax burdens insofar as these states utilize tax revenue to finance welfare spending. In contrast, *residual* welfare states, like those in the Anglo-Saxon countries, have been stingier historically, and so should be associated with lower tax burdens. Finally, because *Christian democratic* welfare states fall between these extremes, so should their tax burdens (Esping-Andersen 1999; Stephens et al. 1999). Following globalization theory, we would expect countries with the highest tax burdens, the social democratic welfare states, to cut their taxes the most, followed by the Christian democratic welfare states, and then the residual welfare states.

Table A.1 shows changes in total tax revenues as a percentage of gross domestic product (GDP) in eighteen OECD countries from 1970 to 1998 for these three types of welfare states. Countries were classified as having residual, Christian democratic, or social democratic welfare states according to the index developed by Herbert Kitschelt and his colleagues (1999, 436). Table A.1 confirms that since 1970 average tax burdens were