

services into conglomerates has the potential to reinvigorate longstanding debates about elite class control versus pluralism, although with a global dimension. Since financial service conglomerates that are being built through mergers, acquisitions, and alliances in this era of deregulation are transnational in scope, the new, emergent money trust may not be a uniquely US phenomenon. Likewise, institutional investors are active participants in securities markets around the world and play a key role in economic development and global monetary flows. Hence, we may want to begin to study whether a new transnational class of capitalists is in the making, or at least probe how large, global investors are shaping the social organization of countries around the world.

3. Conclusion

The rise of institutional investors both in the US and around the globe is a critically important phenomenon that researchers have only just begun to investigate. While we know a good deal about how the rise of institutional investors has challenged managerial autonomy in the US, we know much less about the relationship between institutional investors and corporate governance in other, especially non-Western, countries. More generally, we know very little about how country-specific capital formation processes are changing amid the continuing globalization of financial markets and the emergence of transnational financial conglomerates. We would benefit greatly from detailed cross-national studies of how economy–society relationships may be changing as a result of these developments. Through such research, we may begin to unearth the heterogeneity of practices lumped under the category ‘institutional investors’ and reveal the wide variety of influences these actors have around the world.

See also: Capitalism; Capitalism: Global; History of Technology; Information Society; Institutional Investors; International Marketing; Stock Market Predictability; Stockholders’ Ownership and Control; Technological Innovation; Venture Capital

Bibliography

- Berle A A, Means G C 1932 *Modern Corporation and Private Property*. Macmillan, New York
- Biggart N C, Guillén M F 1999 Developing difference: Social organization and the rise of the auto industries in South Korea, Taiwan, Spain and Argentina. *American Sociological Review* **64**: 722–47
- Davis G F 1991 Agents without principles? The spread of the poison pill through the intercorporate network. *Administrative Science Quarterly* **36**: 583–613
- Davis G F, Mizruchi M S 1999 The money center cannot hold: Commercial banks in the US system of governance. *Administrative Science Quarterly* **44**: 215–39
- Davis G F, Thompson T A 1994 A social movement perspective

- on corporate control. *Administrative Science Quarterly* **39**: 141–73
- Dobbin F R 1992 The origins of private social insurance: Public policy and fringe benefits in America, 1920–1950. *American Journal of Sociology* **97**: 1416–50
- Domhoff G W 1974 *The Bohemian Grove and Other Retreats*. Harper and Row, New York
- Glasberg D S, Schwartz M 1983 Ownership and control of corporations. *Annual Review of Sociology* **9**: 311–32
- Hirsch P M 1986 From ambushes to golden parachutes: Corporate takeovers as an instance of cultural framing and institutional integration. *American Journal of Sociology* **91**: 800–83
- Mayer M C J, Whittington R 1999 Strategy, structure and ‘systemness’: National institutions and corporate change in France, Germany and the UK, 1950–1993. *Organization Studies* **20**: 933–59
- Mintz B, Schwartz M 1985 *The Power Structure of American Business*. University of Chicago Press, Chicago
- Mizruchi M S, Stearns L B 1994 A longitudinal study of borrowing by large American corporations. *Administrative Science Quarterly* **39**: 118–40
- Rao H, Sivakumar K 1999 Institutional sources of boundary spanning structures: The establishment of investor relations departments in the Fortune 500 industrials. *Organization Science* **10**: 27–42
- Roy W G 1997 *Socializing Capital: The Rise of the Large Industrial Corporation in America*. Princeton University Press, Princeton, NJ
- Useem M 1996 *Investor Capitalism*. Basic Books, New York
- Ventresca M, Porac J 2000 *The Social Construction of Markets and Industries*. Pergamon, Oxford, UK
- Zeitlin M 1974 Corporate ownership and control: The large corporation and the capitalist class. *American Journal of Sociology* **79**: 1073–19
- Zysman J 1983 *Governments, Markets, and Growth: Financial Systems and the Politics of Industrial Change*. Cornell University Press, Ithaca, NY

M. Lounsbury

Institutionalism

The study of political institutions has moved back into center stage in political science. Whereas only a few years ago, institutions were mostly casually mentioned in most political science research, today they are a central focus of attention. This change is not simply a change of language or the catching on of a new popular phrase or academic fad. Instead these changes represent an important development in evolution of political science theory and intellectual focus.

1. What are Institutions?

In the broadest sense, institutions are simply rules. As such, they are a foundation for all political behavior. Some are formal (as in constitutional rules) some are informal (as in cultural norms), but without institutions there could be no organized politics. Indeed absent institutions there could be no organization at

all. To understand this point, simply attempt to consider a world in which there were no rules: In this Hobbesian hell, individuals would be forced to 'invent' communication every time they encountered another individual. In this sense, then, if we study social interaction, we study institutions. This does not suggest, however, that all social scientists are 'Institutionalists.'

2. Institutionalism

The 'Institutionalism' specifically examines the ways in which institutions structure social and political behavior (North 1990). This burgeoning body of literature argues that policy, politics, and behavior can only be understood in the context of the institutions in which they take place. Thus, for example, Ellen Immergut argues that variations in National Health Insurance (NHI) systems are best explained by variations in national political institutions (Immergut 1992). Similarly, Bo Rothstein shows that Sweden's high union density is best explained by the 'Ghent' unemployment insurance system which gives workers powerful incentives to join Swedish unions (Rothstein 1992). Even more broadly, Douglas North suggests that the very success of Western political economic model is rooted in the peculiar institutions developed in these societies (North 1990).

The central tenet of this New Institutionalism is that institutions are not neutral to policy outcomes. As Peter Hall has suggested, 'On the one hand, the organization of policy-making affects the degree of power that any one set of actors has over policy outcomes.... On the other hand, organizational position also influences an actor's definition of his own interests...in this way, organizational factors affect both the degree of pressure an actor can bring to bear on policy and the likely direction of that pressure' (Hall 1986, p. 12).

In sum, institutions define the rules of the political game and as such they define who can play and how they play. Consequently, they ultimately can shape who wins and who loses. If politics is the study of who gets what, when and why, then institutionalists argue that institutions should be at the heart of that study.

3. A Brief History of Institutionalism

Institutionalism has a long established tradition among those interested in politics and political outcomes. Plato's *Republic* is a comparative study of institutions. Similarly, Aristotle's central concern in *Politics* is which kinds of political institutions will produce the best outcomes. James Madison must clearly also be seen as an early American 'Institutionalist' in that he was specifically concerned with which kinds of institutions would produce the best political outcomes and how the specific design of institutions would shape political outcomes.

Political scientists have also long been interested in institutions. Indeed, in its early years political science meant the study of political institutions (Wilson 1891). But, with some important exceptions (cf. Herring 1940, Key 1947), early political science was often more descriptive than analytical. 'Comparative politics,' in particular, consisted mostly of detailed configurative studies of different legal, administrative, and political structures (for a review and critique of this early comparative literature see Verba 1967). In the immediate postwar years a new generation of political scientists attempted to make the study of politics more 'scientific.' For many this effectively meant that political science ought to model itself on the 'hard sciences' which they believed was fundamentally a deductive process. Thus rather than studying the details of political life and inductively uncover the patterns of behavior and action, political 'science' should be a deductive science that seeks to discover of the general laws and fundamental forces that lay behind political action. Focusing on particular institutions, proponents of this intellectual agenda implied, was 'a-theoretical.' Concomitant with the push for more abstract laws, political scientists were disillusioned by the failure of parliamentary institutions in Inter-war Weimar Germany (and later in post-colonial Africa) to prevent these polities from devolving into authoritarianism. Clearly, many argued, there were bigger, more important, indeed more fundamental, forces at work in politics and development than political institutions. These forces, they argued, should be the focus of political science.

Thus, behavioralist, functionalist and Marxist perspectives took leading roles in political science theory building through most of the 1960s and 1970s. As a consequence, institutional analysis diminished in prominence... particularly in comparative politics. For Functionalists, political institutions were simply seen as organizations created to fulfill the systemic needs of society. As such, political institutions were neither important nor interesting. For Behavioralists and Marxists, political institutions were simply arenas in which political battles were fought out. While Marxists saw the relevant groups as classes and Pluralists saw them as more narrowly defined, neither theoretical perspective played particular attention to the structure or character of the institutions themselves. The real meat of politics, they argued—and the keys to understanding political outcomes—was found in the articulation of group interests. Though this was rarely explicitly stated, implicit in these theories was the assertion that if politics or policies differed between societies, this difference was surely the result of different constellations of group and class interests or preferences (Almond and Verba 1963, Miliband 1969).

It was not the case, however, that all political scientists had abandoned the study of institutions. Indeed, many of the most widely read scholars in American Politics maintained an explicitly institutional emphasis (cf.

Schattschneider 1960, Greenstein 1963, Fenno 1960, Polsby et al. 1969). In Comparative Politics, as well, several political scientists continued to examine political institutions and their effects on political outcomes (Ekstein 1960, Bendix and Brand 1968, Huntington 1968), even while they sometimes had to defend their 'inductive' approach from the challenge that it was not 'scientific' (Przeworski and Teune 1970, Bill and Hardgrave 1973). For these scholars it was self-evident that if one wanted to understand what government does, one needs to specifically study the institutions through which it acts.

It was probably in Comparative Politics that the search for 'Grand Theory' had its most significant impact. It may be for this reason that a self-conscious return to 'Institutionalism' was most forcefully articulated here. Among the first group of scholars to move in this direction was Peter Katzenstein and his colleagues who sought to explain why several advanced capitalist states responded so differently to the oil shock of the 1970s. The answer, they concluded, was found in the differing institutional structures in these polities and the consequent patterns of economic policy pursued in each nation (Katzenstein 1978). Similarly, Theda Skocpol's study of social revolutions also concluded that one could not explain the course of a country's revolution without examining the nature and structure of the state against at which these revolutions were aimed (Skocpol 1979).

Soon a new 'state centered' approach emerged in comparative political inquiry. These scholars forcefully argued against the behaviorist and Marxist 'grand theory' emphasis then dominant in the study of comparative politics. Instead, they suggested, political outcomes were shaped and structured by the specific actors and their position in the state. One should not treat the state as a neutral 'black box' through which group or class interest was simply translated (Evans et al. 1985). Instead, the state had independent interests and agendas which were separate and different from the interests and preferences of classes and interest groups that made up society.

Of course it did not take long for these scholars to discover that 'the state' is too broad a concept and too varied a set of institutions to be 'taken seriously' without being broken down. To make analytic sense out of the insights, scholars began examining institutions more carefully. If state institutions 'matter,' they argued, then why should this not be equally true of institutions outside the boundaries of the executive state? With these questions 'The New Institutionalism' was born.

4. *Three 'New Institutionalisms'?*

Today three different intellectual approaches lay claim to the term 'Institutionalist' (cf. Hall and Taylor 1996). Each grows out of a different academic disci-

pline and attempts to integrate these different analytic traditions into the understanding of politics. Sociological Institutionalism, as its name implies, grows out of sociology and the study of organizations (e.g., Selznick 1949). These scholars have been centrally interested in understanding culture and norms, as institutions. These scholars emphasize 'folkways,' 'patterns of behavior,' and 'cognitive maps' and argue that these social institutions are critical for understanding the structure of social, political, and economic interactions (March and Olsen 1989, DiMaggio and Powell 1991). Building on upon their analyses of complex organizations, these scholars show the relationship between formal institutions and the structure or patterns of behavior and beliefs. They argue that these informal institutions are core to any understanding of the nonrational aspects human communication and exchange.

'Rational Choice Institutionalism,' taking its lead from economics, emphasizes quite different sets of institutions and their effects. Rational Choice (RC) scholars attempt to apply the formal logic and methods to the study of politics and history and often explicitly eschew the more 'mushy' or less precise variables such as norms and beliefs. Instead, basic assumptions are made about human behavior and motivation in order to uncover and examine the basic laws of political behavior and action. Scholars in this tradition argue that once these laws are discovered, models can be constructed that will help us understand and predict political behavior (Levi 1988). In their deductive model, Rational Choice scholars look to the real world to see if their model is right (test the model). For these scholars, understanding real outcomes is not the first point—creating, elaborating, refining a theory of politics is (Weingast 1996).

The implications of this scientific orientation are substantial. Morris Fiorina, a highly regarded RC scholar at Harvard, put the issue in the following way: 'most PTI scholars are not as interested in a comprehensive understanding of some real institution or historical phenomenon, so much as in a deeper understanding of some theoretical principle or logic ... [F]or most PTI scholars, breadth trumps depth; understanding 90 percent of the variance in one case is not as significant an achievement as understanding 10 percent of each of nine cases, especially if the cases vary across time and place' (Fiorina 1995, pp. 110–1).

The third 'New Institutional' approach emerges out of what might be considered a more traditional political science. Consequently, it has a quite different aim: Historical Institutionalists are primarily interested in understanding and explaining real world events and outcomes. As with the other approaches noted above, scholars working in this tradition also argue that one cannot explain particular historical outcomes without specifically examining the way in which the political institutions have shaped or structured the political process (Steinmo et al. 1992). But, unlike RC scholars

in particular, Historical Institutionalists came about their 'institutional' arguments inductively after testing a variety of alternative theories (i.e., Marxist, structural functionalist, culturalist, and rationalist) against the outcomes they observed. In other words, Historical Institutionalists are first interested in explaining an outcome (say, for example, why France and Britain have pursued such different styles of industrial Policy (Hall 1986) or why some welfare states generate more popular support than others (Rothstein 1998)); they then proceed to explore alternative explanations for the outcomes they observe.

Historical Institutionalists do not argue that institutions are the only important variables for understanding political outcomes. Quite the contrary, these scholars generally see institutions as intervening variables (or structuring variables) through which battles over interest, ideas, and power are fought. Institutions are thus the focal points in critical junctures in a historical path analysis because political battles are fought inside institutions and over the design of future institutions.

5. Institutional Change and Evolution

Institutionalist scholars from a variety of perspectives are currently focusing on one of the most interesting and vexing issues left hanging in the institutionalist literature—explaining institutional change. Institutional stability (or equilibrium) is far easier to explain than change: institutional change means increased uncertainty because any particular set of institutions are embedded in a variety of other institutions; it is difficult to accurately predict the long run consequences of even small rule changes. Once again, every institution favors some interests and ideas over others, and therefore the advantaged are generally loath to change the status quo. Indeed, even current losers may decide that the status quo is preferable to some uncertain future in which they could be even further disadvantaged.

Of course, institutions do change, and sometimes they can change quite dramatically. Still, we as yet have no clear theory of how and why they change (with the exception of the 'punctuated equilibrium' model derived from Steven Gould's evolutionary theory). But clearly this single model of change is inadequate. It amounts to little more than suggesting 'stuff happens.' While it may be true that 'stuff happens,' we need to have a better understanding of why even exogenous shocks get refracted in particular ways. Additionally, we need a better understanding of the role of endogenous variables in the change process.

A variety of scholars have begun to explore the dilemma of institutional change by building more explicitly on evolutionary models suggested in the life sciences (Arthur 1994, Jervis 1997). Indeed, perhaps

one of the most interesting outgrowths of the 'institutionalist turn' of political science in recent years may be that political science may begin to move away from its fascination with physics and its emphasis on absolute laws that hold across time and space. An institutionalist political science may instead look more like the life sciences—with their emphasis on contingency, context, and environment. In this event, the goal will be more to explain past (evolutionary) outcomes and less to predict future ones.

See also: Institutionalization; Institutions; Law: New Institutionalism; Norms; Political Science: Overview; Political Sociology; Rational Choice in Politics

Bibliography

- Almond G A, Verba S 1963 *The Civic Culture; Political Attitudes and Democracy in Five Nations*. Princeton University Press, Princeton, NJ
- Arthur B 1994 *Increasing Returns and Path Dependency in the Economy*. University of Michigan Press, Ann Arbor, MI
- Bendix R, Brand C M 1968 *State and Society; a Reader in Comparative Political Sociology*. Little Brown, Boston
- Bill J A, Hardgrave R L 1973 *Comparative Politics; the Quest for Theory*. Merrill, Columbus, OH
- DiMaggio P J, Powell W W 1991 Introduction. In: DiMaggio P J, Powell W W (eds.) *The New Institutionalism in Organizational Analysis*. The University of Chicago Press, Chicago, pp. 1–38
- Ekstein H 1960 *Pressure Group Politics: The Case of the Medical Association*. Stanford University Press, Stanford, CA
- Evans P, Rueschemeyer D, Skocpol T 1985 *Bringing The State Back In*. Cambridge University Press, New York
- Fenno R F 1966 *The Power of the Purse: Appropriations Politics in Congress*. Little, Brown and Company, Boston
- Fiorina M 1995 Rational choice and the new (questionable) Institutionalism. *Polity* 28(1 (Fall)): 107–115
- Greenstein F I 1963 *The American Party System and the American People*. Prentice-Hall, Englewood Cliffs, NJ
- Hall P 1986 *Governing the Economy*. Oxford University Press, New York
- Hall P A, Taylor R C R 1996 Political science and the three new institutionalisms. *Political Studies* 44: 936–57
- Herring P 1940 *The Politics of Democracy; American Parties in Action*. W. W. Norton & Company, New York
- Huntington S 1968 *Political Order in Changing Societies*. Yale University Press, New Haven, CT
- Immergut E 1992 *Health Politics: Interests and Institutions in Western Europe*. Cambridge University Press, New York
- Jervis R 1997 *System Effects*. Princeton University Press, Princeton, NJ
- Katzenstein P 1978 *Between Power and Plenty*. University of Wisconsin Press, Madison, WI
- Key V O 1947 *Politics, Parties and Pressure Groups*. Thomas Y. Crowell Company, New York
- Levi M 1988 *Of Rule and Revenue*. University of California Press, Berkeley, CA
- March J, Olsen J 1989 *Rediscovering Institutions*. Free Press, New York
- Miliband R 1969 *The State in Capitalist Society*. Weidenfeld & Nicolson, London

- North D C 1990 *Institutions, Institutional Change and Economic Performance*. Cambridge University Press, Cambridge, UK
- Polsby N, Gallaher M, Rundquist B S 1969 The growth of the seniority system in the United States house of representatives. *American Political Science Review* 63: 787–807
- Przeworski A, Teune H 1970 *The Logic of Comparative Social Inquiry*. Wiley-Interscience, New York
- Rothstein B 1992 Labor market institutions and working class strength. In: Steinmo S, Thelen K, Longstreth F (eds.) *Historical Institutionalism in Comparative Politics: State, Society, and Economy*. Cambridge University Press, New York
- Rothstein B 1998 *Just Institutions Matter: The Moral and Political Logic of the Universal Welfare State*. Cambridge University Press, New York
- Schattschneider E E 1960 *The Semisovereign People: A Realist's View of Democracy in America*. Holt, New York
- Selznick P 1949 *TVA and the Grass Roots: A Study in The Sociology of Formal Organization*. University of California Press, Berkeley, CA
- Skocpol T 1979 *States and Social Revolutions: A Comparative Analysis of France, Russia and China*. Cambridge University Press, Cambridge, UK
- Steinmo S, Thelen K, Longstreth F (eds.) 1992 *Structuring Politics: Historical Institutionalism in Comparative Analysis*. Cambridge University Press, New York
- Verba S 1967 Some dilemmas in comparative research. *World Politics* 20: 111–27
- Weingast B 1996 Political institutions: rational choice perspectives. Goodin R E (ed.) *A New Handbook of Political Science*. Oxford University Press, Oxford, UK, pp. 167–90
- Wilson W 1891 *Congressional Government: A Study in American Politics*. Houghton, Boston

S. Steinmo

Copyright © 2001 Elsevier Science Ltd.

All rights reserved.

Institutionalization

Institutionalization as a research topic reached its heyday in the 1970s when spates of articles featuring the ‘institutionalization of (fill in the blank)’ were published in major journals. The objects institutionalized included the United Nations (Keohane 1969), cultural persistence (Zucker 1977), voting patterns (Przeworski 1975) and political parties (Wellhofer 1974), among others. In the years following this explosion, there appeared other works focusing on a number of clearly political institutions such as the presidency (Ragsdale and Theiss 1997) and the California legislature (Squire 1992). An overview of these articles shows that institutionalization has meant different things to different authors. The common theme, however, was that certain institutional features had persisted and it was the continuity of the pattern which was called institutionalization. An explication of the single most cited article on institutionalization in political science serves as an example of both the concept and its application.

Building on work of Witmer (1964) and Price (1964), Polsby (1968) published ‘The institutionalization of

the United States House of Representatives’ and, with colleagues, published a companion piece (1969) on the rise of seniority in the United States House of Representatives. In the 1968 article, Polsby cites the political development literature including Weber (1947), Durkheim (1938) and Huntington (1965). In examining the development of the US Houses of Representatives Polsby argues from organization theory (e.g., Selznick (1953) that ‘the institution’ of the US House of Representatives becomes separable from its environment and develops as an institution within the US political system that signals its adaptability and development. The three characteristics Polsby studies are:

(a) boundaries: the differentiation of the institution sufficiently differentiated from its environment so that members need special skills to rise to leadership positions;

(b) internal complexity: the rise of committees and a seniority system which captures the benefits of specialization, and

(c) universalism: the rise of nonpartisanship (or objectivity) in determining whom the House members will be in the case of disputed elections.

The development of the House as an institution necessitating special skills for its leaders is measured by the length of time that it takes a member to become the Speaker. Polsby shows change occurring over the nineteenth century where early in the century Henry Clay could become Speaker in his first term whereas by the end of the century the Speakers on average had served 20 years before becoming Speaker. The ‘institutionalization of specialization’ in the House was demonstrated by the absence of seniority violations on committees occurring early in the twentieth century. Likewise the rise of fairness is measured by the criteria applied to election disputes—that is, as bi-partisan voting behavior on contested seats rose, Polsby claims that objectivity within the House also rose to the status of a norm.

Each of these patterns of behavior shifted sharply in the 1890–1910 period—Polsby called this period the ‘Big Bang period’—in the institutionalization of the House. Many articles on the institutionalization of other legislative bodies followed. The bodies studied ranged from state legislatures to the mother of Parliaments—the House of Commons (Hibbing 1988). Much of the early work treated institutionalization as though it was a full-blown theory. Polsby, however, argued more accurately that he had described a tripartite dependent variable over time to show that discernable patterns had developed. The view of institutionalization as patterned behavior is closer to sociological theories of institutions and it is to this tradition that I turn.

Institutions are at the core of sociology (Durkheim 1938) and in general one can view an institution as organized, standing procedures which taken together constitute ‘the rules of the game’ (Easton 1981). Such