

Welcome to the summer course Institutions and how to change them.
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In this video, I will explain the concepts institutions and institutionalization.

What is an institution?
Let's first start with a primer.

These are all institutions.

Industry practices
GDPR regulation
The police
Nations
Laws
Organizational forms, such as limited liability companies
Behavioral norms
Status hierarchies
Sustainability certification standards
Rituals to socialize freshmen
The idea of universities
Aalto university
Teaching practices at Aalto university.

Clearly, many aspects of social life are institutions. What combines them?

Richard Scott (Scott, 2014, p. 56) defines institutions like this:
"Institutions comprise regulative, normative, and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life."

I am going to define them based on four characteristics that they have in common: Institutions are socially constructed, which means that they are essentially shared agreements that people created through interactions. They have real consequences because they influence our behavior and constrain, enable, or orient what we do, institutions are widely shared on a societal level, and society will make sure you follow the rules or you will be sanctioned in one way or another.

Firstly, what is social construction?

This is something that is probably novel to anyone who has an educational background in an engineering field. Most ideas and activities that form our social reality are not "real" in the same way as a house is real, the ocean is real, and your computer is real. You can see these things and you can touch them. You cannot see an organization, a law, or money in the same way, because these are essentially ideas that are shared and exist because we collectively agree they exist. We believe that other people will act as if they existed.

Money is probably one of the most influential social constructions of all time. To simplify significantly and taking some artistic freedoms for the purpose of illustration, the invention of money probably went something like this.

Meet Kim, Alex, and Taylor. Kim was trading blueberries, Alex was selling walnuts, and Taylor was in the business of hut building. For a while, they manage to settle all their transactions in trading goods and services directly. But one day, Kim says: Hey, all, would life not be so much easier if we all agreed that money exist and behave as if it existed? So that is what they did then.

But can I then now today just say, okay, money is not real. I will just go to the store, take what I want, walk out, and tell the cashier, money is not real anyways so just chill out. No. There will be real consequences to this action because other people believe in money and will enforce this part of social reality one way or another. If keep acting like money is not real, eventually other people will probably put me in jail.

So here is where social construction is intersubjective. It is not enough for one person to stop believing in a social construction, such as money, but other people have to stop believing in it at the same time for it to cease existing. Or more precisely, people stop believing that other people will act according to the shared agreement that the social construction represents.

This generally does not happen to the concept of money itself very often, but it does happen to currencies. New currencies enter into existence because enough people collectively start believing in them. Or they lose all value because people do not believe in them anymore, such as sometimes with unstable currencies of developing countries.

Occasionally, entire nations cease to exist because people stop believing in their existence at the same time, such as with the Soviet Union.

These social constructions tend to become so integral parts of our reality that they are completely taken for granted and become invisible even though they greatly influence our behavior and were completely imaginary to begin with.

Let's move on to the second characteristic of institutions. Even though institutions are imaginary ideas, they have real consequences because they affect our behavior and constrain, enable and direct our actions. Firm practices and economic systems are layers on layers of social constructions but they have very real consequences for the lives of people, on what technology gets invented and used, on the state of the oceans, and on yet again other social constructions that matter to us.

Thirdly, institutions are societal-level social constructions that are widely shared. We are generally talking about macro-level ideas.

So, in terms of fields of study, on the macro level, the societal level, you have macro-economics and sociology. Institutional theories are studied in both those fields. You have societies, nations, laws, and social norms. On the micro-level, the individual level, you have disciplines, such as micro-economics and psychology. You have decisions and actions and individuals.

How widely is widely enough? The world is a large place, so saying that everyone believes in the existence of some institution and acts in accordance with it is never true. For sure, there are cultural differences and different regulatory frameworks in different countries. Different professions and organizational fields follow different institutional logics. So, any societal level is enough. For instance, the idea of a central bank is generally similar everywhere but different central banks have slightly different operating principles and rules they follow. Also, surely, a fair number of people does not know about the existence of central banks, so, clearly, they are able to operate without everyone believing in their existence. Some critical mass for sure is necessary.

The fourth characteristic of institutions is that society will enforce institutions and sanctions those who do not follow the rules of the game.

One idea that seeks to explain this are the three pillars of institutions by Richard Scott. Institutions are being upheld by a regulative pillar, a normative pillar, and a cultural-cognitive pillar. Essentially, these happen through laws, shaming people that do not follow the institutional norms, and because some institutional arrangements have become so taken for granted that we cannot even imagine alternative arrangements.

Institutions are often about what is considered a legitimate course of action or a legitimate way to do things. Legitimacy means that something is considered appropriate and it conforms to social rules and expectations.

That was the definition of institutions.

How do they come about? Through a process of institutionalization.

What is institutionalization?

“Institutionalization is the process by which institutions are produced and reproduced. It is a ‘social process by which individuals come to accept a shared definition of social reality’” (Phillips, Lawrence, & Hardy, 2004, p. 638, citing Scott, 1987 p. 496).

So, basically, some variation of what happens in our illustrative example with Kim, Alex, and Taylor.

Now, earlier, the three of them agreed that money exist and act accordingly. They teach this to those that come after them and learn whatever reality is based on what their social and intellectual guides teach them, such as their children and their students. They socialize the newcomers to their organizations and their business partners. They socialize the people that they interact with. Eventually, the concept of money is widely shared and taken-for-granted. That is one example of institutionalization. Ideally, whatever gets institutionalized is a great idea and embeds social learning in a way that lessons learned by others are automated and everybody benefits from the arrangement. But sometimes, institutions are due for an update.

So, finally, why is institutional theory useful? In the following units, we will have a look at how institutions shape and are shaped by organizations, industries and technology.

Sometimes institutions are great and embed social learning, which means that they automate wisdom acquired by others. But sometimes, not so much, and these social constructions could be changed for the better.

When that happens, it is important that we become aware of the institutional arrangements that constrain us. Second, when we hit institutional barriers of change resistance, which is something that pioneers tend to have experience with, we need to understand how we can change things and gain the buy-in from others. And third, when we have good ideas of how industries or practices might function better, we want these arrangements to become the norm and not an exception. So above all, institutional theory is a perspective on the social world that helps to address these issues.

This concludes the introductory video for the course Institutions and how to change them. I hope you enjoy the course.

References:

- Phillips, N., Lawrence, T. B., & Hardy, C. (2004). Discourse and institutions. *Academy of Management Review*, 29(4), 635-652.
- Scott, W. R. (2014). *Institutions and organizations: Ideas, interests, and identities*: Sage publications.