THE NOTION OF INSTITUTIONAL LOGICS IN CORPORATE GOVERNANCE

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ABSTRACT

In this paper, I offer a critical summary of the body of literature important for understanding the institutional logics perspective in light of its contribution to corporate governance. I begin the paper by presenting the key tenets of institutional theory and move on to examining the phenomenon of institutional logics as an evolvement of institutional theory. Relying on an extant literature review, I examine the concept of institutional logics from both a meta-theoretical and a methodological perspective. Additionally, I present a select review of empirical research addressing various issues recognized by institutional analysis scholars, most notably issues regarding institutional change and competing logics. Finally, I present an overview of suggestions for the improvement of the institutional logics approach and its application in corporate governance research. I argue that studying the key theoretical and methodological contributions of the institutional logics perspective helps in strengthening the theoretical reflexivity and the explanatory power of research, thus advancing our understanding of socially constructed organizations and institutions. By providing an overview of the key tenets of institutional theory and institutional logics, this paper can be viewed as a starting point for new and enthusiastic researchers interested in applying the institutional logics perspective in a variety of contexts.

Keywords: institutional logics, institutional theory, institutional change, competing logics, corporate governance

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Institutional Theory

One’s quest to understand institutional logics should start from the understanding of institutional theory and the concepts, constructs and terms under this wide theoretical umbrella (Berg Johansen & Boch Waldorff 2015; Thornton & Ocasio 2008).

Institutional theory has been a prominent conceptual and research framework, across the social sciences, since the middle of the 19th century (Scott 2014). However, for reasons not to be discussed in this paper (see Scott 2014), prolific institutional accounts of organization came to the fore in the 1970s (Scott 2014; Suddaby 2010).

As Suddaby (2015) noted, institutional theory examines the social world and organizations by tackling the assumption of efficient production being a “necessary and proper organizational objective” (Suddaby 2015, p. 93). Moreover, social and political beliefs, norms, laws and regulations are recognized as independent variables that account for the institutional context points. People are seen as conforming, “legitimacy-seeking satisficers” (Eisenhardt 1988, p. 491). Moreover, legitimacy as the foundation of organizations and organizational practices is at the centre of the institutional problem domain.

The evolution and appeal of institutional theory can be tracked through three phases or waves (Berg Johansen & Boch Waldorff 2015; Suddaby 2013). Before outlining each of the waves, it is important to note that the boundaries between them are blurred and ambiguous. This adds to the conceptual cacophony and calls for attention in creating definitions and setting boundaries of one’s research.

The first wave of “old” institutionalism rests upon the Selznickian institutionalization process (see e.g., Selznick 1996). This value-oriented approach emphasized the difference between “organization” and “institution” (Berg Johansen & Boch Waldorff 2015; Hirsch & Lounsbury 1997). As Hirsch & Lounsbury (1997) noted, this phase reflected an action perspective and emphasized social construction, values, dynamics and change along with the struggles, and negotiations that underpin institutions (Lounsbury, 2008).
“New institutionalism” came to the fore in the 1970s conceptually building up from pivotal articles on the dominance of culture and legitimacy over the autonomy of organizations (Berg Johansen & Boch Waldorff 2015; Suddaby 2010). Zucker’s (1977) study examined how organizational actors use signals from their environments to give meaning to events, thus also describing institutionalizing authority in organizations. Meyer and Rowan (1977) addressed how organizations attribute rationality to activities. Finally, DiMaggio & Powell (1983, 1991) introduced the framework of organizational isomorphism. Isomorphism ideates the mechanisms or forces driving institutionalizations. One can differentiate between coercive isomorphism (power and legitimacy), mimetic isomorphism (mimesis as a response to uncertainty) and normative isomorphism (attraction and professionalization) (Beckert 2010; Frumkin & Galaskiewicz 2004). Over time, developments in new institutionalism moved away from ideational elements and meaning systems and focused more on structural implications of isomorphism (Suddaby 2010). In the third wave, bridges between “old” and “new” institutionalism started to develop and their common denominators were change and complexity. By taking on a rather highly agentic approach, researchers addressed topics such as institutional change (e.g., Greenwood et al. 2002), human agency (e.g., Battilana et al. 2009), institutional entrepreneurship (e.g., Greenwood & Suddaby 2006; Lawrence & Phillips 2004) as well as institutional work (e.g., Dahlmann & Grosvold 2017; Lawrence et al. 2011). All this work and concepts came to be “confronted” and complemented by the institutional logics approach (perspective), which can also be understood as going back to legitimacy, rationalized myths, taken-for-granted status and meaning as the ideational elements of institutional theory (Suddaby, 2010).

Institutional theory is transposable and used in different fields (e.g., philosophy, sociology, education, management & organization, etc.) causing the aforementioned conceptual cacophony. A well-known critique of institutional theory and new institutionalism was presented by Lounsbury (2008) who noted that initial theoretical formulations and empirical studies focused too much on isomorphism and practice diffusion across fields, while strongly differentiating “between technical forces and rational decision-making on the one hand, and institutional forces and “irrationality” on the other” (Lounsbury 2008, p. 350).

Critics argue that the theory’s explanations of social reality do not provide empirical evidence beyond what other theories (e.g., rational choice, population ecology,
neo-classical economics, resource dependency, and many others) have added to the body of knowledge on various phenomena. The “novelty” of the approaches is seen as a sign of degradation; institutional theory is perceived as an “omnivorous theoretical object” explaining nothing (Friedland & Arjaliès, 2019; Friedland, 2017).

Despite of the rich body of work, the umbrella of institutional theory is lacking sound and unambiguous foundations in terms of assumptions, research questions, methodologies, concepts, constructs, etc. (Tolbert & Zucker, 1999).

The criticism described above has, along with understanding institutional complexity and change gave space to the rise of the institutional logics approach (Berg Johansen & Boch Waldorff 2015). The concept of institutional logics will be presented in the following paragraphs.

**Institutional Logics**

Under the umbrella of institutional theory, the institutional logics perspective (ILP), also known as the institutional logics approach (ILA), has come to the fore as an answer to critics who argued that “…institutional theory stood in danger of becoming a theory of socially legitimate albeit inefficient organizations” (Scott 2008, p. 436).

To better understand institutional logics and its novelty, it seems useful to point out complexities in conceptualizing institutions and institutional logics. As Glückler & Lenz (2016, p. 260) note, any institutional approach has to be to be explicit and precise regarding its conceptualization of institution(s) to enable relevant theoretical, empirical and practical contributions.

Many researchers have employed institutions to describe the specific role of organizations that have a particular form and can be separated from their environments. Examples include, but are not limited to, trade associations, public bodies and political organizations.

Bathelt & Glückler (2014) note that organizations represent sets of actors and resources (collective actors) aimed at pursuing common goals and that institutions should be conceptualized as stabilisations or interdependencies of the interactions.
between actors. Hence, institutions should be seen in regard to particular economic and social processes and not in relation to measurable and specific outcomes.

In that sense, rules and other forms of codified prescriptions, as well as behavioural irregularities, are not institutions *per se*. Once created and shared through different interactions, means of reading and interpreting, institutions need to be legitimized. Legitimacy occurs through creating expectations and identifiable sanctions. Legitimizations disables deviation from common practices and thus generates meaning for actors (Bathelt & Glückler 2014; Glückler 2015). Put short, institutions are created through interactions and mutual expectations of actors concerning legitimate action.

The term “institutional logics” was pioneered by Alford and Friedland (1985, 1991) who investigated the interrelationships between individuals, organizations, and the society. The authors conceptualized institutions as supraorganizational patterns of activity that have both material (structures and practices) and symbolic (ideation and meaning) elements (Thornton et al. 2012).

Most accounts of institutional logics start with the definition given by Thornton and Ocasio (1999) who defined institutional logics “as the socially constructed, historical pattern of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality” (Thornton & Ocasio 1999, p. 804). The appeal of the definition given by Thornton and Ocasio (1999) lies in bringing together the structural, normative, and symbolic dimensions of institutions as opposed to separating structural (coercive), symbolic (cognitive) and normative institutional carriers (Thornton & Ocasio 2008).

Socially constructed, institutional logics are rooted in values and shape the assumptions, rules, and beliefs, which determine the legitimacy and appropriateness of decision-making and actions on a field level (Dahlmann & Grosvold 2017; Svenningsen-Berthélem et al. 2018). Institutional logics shape the cognition of actors and condition a collective understanding of strategic interests and decisions in organizations. Hence, changes in institutional logics can influence which economic conditions are perceived as crucial or problematic and how that reflects in possible changes of the organizational strategy and structure (Thornton 2002; Thornton & Ocasio 2008).
The five principles underlying the meta-theory of institutional logics are: (1) embedded agency; (2) society as an inter-institutional system; (3) material and cultural foundations of institutions; (4) multiple levels of institutions; and (5) historical contingencies (Thornton & Ocasio 2008). When discussing the building blocks of institutional theory and institutional logics, one has to pay special attention to the “paradox of embedded agency”. This paradox “corresponds to the agency vs. structure debate in the framework of institutional theory” (Battilana & D’Aunno 2009, p. 32). It reflects the question how can embedded agents be a factor in institutional change when their norms, beliefs, intentions, etc. are shaped by the social structures they aim to change (Battilana et al. 2009). Accounting for the paradox of embedded agency warns against simplistic introductions of agency into institutional theory. Furthermore, it implies that institutional theory and its developments can benefit from insights from other theories while remaining true to its fundamental questions and puzzles (Suddaby 2010).

Understanding society as an inter-institutional system allows individuals and organizations to understand their worlds in heterogeneous ways (Tan & Wang 2011). This allows the researcher to see any context as potentially shaped by the competing logics (Tan & Wang 2011; Thornton & Ocasio 2008).

Critics of the institutional logics scholarship argue that the field is overly concerned with examining institutions and institutional processes at the field-level as opposed to employing the institutional logics approach to explain and understand logics (Greenwood et al. 2014). Moreover, they note that the flexibility to focus on different levels (e.g., organizations, industries, geographic communities, etc.) would support the employment of various research and theory development mechanisms, thus making the theory more precise and general at the same time (Thornton & Ocasio 2008; Aldrich 2009).

After outlining institutional logics as an evolvement of institutional theory, the following paragraphs will provide an overview of select empirical research on institutional theory and institutional logics, with an emphasis on research in corporate governance.
Institutional Logics: Examples of Empirical Research

The concept of institutional logics has gained considerable attention in the study of organizations from both a meta-theoretical and a methodological level (Mutch 2018).

An overview of the work on the institutional logics approach brings forth the phenomenon of institutional complexity (Greenwood et al. 2011) and multiplicity of institutional logics. Institutional complexity occurs when organizations face incompatible prescriptions from a number of institutional logics (Greenwood et al. 2011). Further, empirical studies on the nature of the relationship between multiple logics can be classified into two streams (Nicholls & Huybrechts 2016). The first stream focuses on a dialectical process in which a single logic dominates and sets “rules of the game” (Lounsbury 2007; Reay & Hinings 2005, 2009;). The second stream examines managing logic dissonance and overthrowing the status quo.

In regard to managing the logic dissonance, a number of studies have sought to understand how actors manage the multiplicity of institutional logics (Reay & Hinings 2009). Conceptually, Goodrick & Ray (2011) propose moving away from emphasizing differences between logics in terms of locations, types of organizations and actors and promote the concept of constellations. The latter explains combinations of institutional logics as patterns that guide behavior at any point of time. Viewing logics as constellations supports more explicit higher-order theorization on the multiple societal/meta logics (Scott 2008; Thornton & Ocasio 2008) and their influence on actors and interactions.

An interesting approach towards the question of managing competing institutional demands and logics lies in the notion of hybrid organizations. Hybrid organizations are conceptualized as organizations that build upon elements from different institutional logics (Battilana & Dorado 2010; Pache & Santos 2013), thus representing ‘arenas of contradiction’ (Pache & Santos 2013, p. 972). Hybrid organizations challenge institutional theory by moving away from the notion of organizations as entities reproducing a single, dominant, institutional logic towards acknowledging complexities and frictions between logics (Besharov & Smith 2014; Skelcher & Smith Rathgeb 2015; Greenwood et al. 2011). However, these studies offer contrasting conclusions (Besharov & Smith, 2014).
In short, the current body of knowledge provides support for several fundamental topics that map out institutional logics in organization & management research. Inclusive categories are: (1) overarching institutional orders guided by institutional logics (e.g., Berg Johansen & Boch Waldorff 2015); (2) institutional change and agency (e.g., Haveman & Rao 1997, 2006; Greenwood et al. 2002; Greenwood & Suddaby 2006; Lounsbury 2007; Powell & Colyvas 2008; Goodrick & Reay 2011); and (3) types of relationships between logics (e.g., Bruton et al. 2015; Lounsbury 2007; Miller et al. 2017; Reay et al. 2015; Thornton & Ocasio 1999).

Finally, it is important to note that research on institutional logics has recently moved away from field-level analyses towards highlighting how organizational and managerial actions help balance frictions between institutional logics at the individual and firm level (Dahlmann & Grosvold 2017). Similarly, Zhao et al. (2017) note that contemporary institutional scholarship, with its shift from isomorphism towards institutional sources and dynamics of heterogeneity, has implications for a number of firm-specific outcomes, including corporate governance.

Interestingly, rather little has been done in combining economic sociology with (comparative) corporate governance literature. There is a paucity of research that aims to understand the questions of why, when, and how firms develop, adopt, institutionalize and/or change governance practices (Aguilera et. al. 2018). There is still a limited understanding of why corporate governance practices differ within a national environment (Garcıa-Castro et al. 2013). Thus, Aguilera et al. (2018) advocate advancing multilevel theoretical frameworks that bring together micro and macro explanations of corporate governance practices. Put differently, there is a need to study not only the national institutional framework but also firm-level antecedents of corporate governance practices.

Research combining institutional theory and corporate governance can also be divided into two main research streams. The first stream addresses institutional contexts in terms of path-dependency legacies and national settings. Here, some of the articles are contextual in nature and put forward propositions and models that should be further examined. Another stream of research examines the enactment and existence of different institutional logics within firms and their impact on corporate governance practices.
The choice of the papers presented below serves as an initial step towards understanding the institutional logics approach in corporate governance and it is by no means exhaustive.

In regard to the first research stream, Aguilera and Jackson (2003) examined firm-level corporate governance in the light of institutional factors and social constructivism. The authors proposed a theoretical model accounting for variation in corporate governance practices. They also highlighted the processes of hybridization and institutional change. By taking on a top-down perspective, the authors explained how institutional factors shape interests of actors. More specifically, they looked at three major stakeholder groups (i.e., capital, labour, and management) and main institutional domains (e.g., ideology, property rights, inter-firm networks) and examined the impact of these domains on firm-level practices. Furthermore, they used configurations of domains and practices to account for cross-national diversity.

Aguilera (2005) further examined corporate governance mechanisms by shedding light on the role of boards of directors in regard to institutional contingencies and regulatory frameworks. She called for an in-depth analysis of the institutional context, especially multiple layers of regulation in which governance actors and firms are embedded.

Zattoni and Cuomo (2008) used institutional theory lens to analyze the adoption of corporate governance codes. Their findings show that the institutional specifics of the corporate governance system explain the main differences in the development and coverage of corporate governance codes.

More recently, Aguilera et al. (2018) combine the institutional logics perspective with both the governance and entrepreneurship literature to present a middle-range theory of how and why organizations operate in different national governance systems. The authors focused on the role of the institutional context in corporate governance deviance, thus opening a new avenue for comparative research.

As per the second research stream, Shipilov et al. (2010) utilized the institutional logics perspective to look at the diffusion and adoption of corporate governance practices in Canada. By developing a quantitative model of practice diffusion, they noted how mechanisms that drive the diffusion change over time. They also called
for an analysis of the relationship of the board-reform logic and other existing logics, such as the logic of management-controlled boards.

Joseph et al. (2014) combined the institutional logics perspective with the structural elaboration theory to explain the evolution of corporate governance practices. By conducting an event history analysis of the Fortune 250 companies, the authors showed how governance structures may appear to align with the objectives of the dominant institutional logic, but in practice they conflict with those objectives.

Sobhan (2016) looked at the connection between conflicting institutional logics and corporate governance compliance in a developing country. By focusing on the macro-micro connection, the author showed how the implementation of a new regulative framework (Anglo-American corporate governance model), that conflicted with the dominant cultural-cognitive framework, shaped compliance practices.

Fan & Zietsma (2017) examined the concept of embedded agency. By conducting a longitudinal qualitative study of a water stewardship council, they developed a theory about how and why actors manage disparate logics across multiple fields and construct a new governance logic. Put differently, they acknowledged the bottom-up approach to institutional logics. Moreover, the authors emphasized the role of emotions in institutional logics. The latter is a topic that has been unrightfully neglected (see e.g., Friedland 2018; Friedland et al. 2014; Jarvis 2017).

In regard to logics construction, Teixeira et al. (2017) focused on the hybridization of logics and its and its impact on decision-making processes. More specifically, they did a qualitative analysis of the process related to the hybridization of cooperativism and corporate governance.

The paragraphs above shed light on the great diversity of research topics, thus providing support for the further development of the institutional logics perspective. With that in mind, it seems prudent to take a brief look at institutional logics as a method of analysis.
Institutional Logics as a Method of Analysis

The meta-theoretical principles of institutional logics proposed by Thornton & Ocasio (2008) have been studied by utilizing various research methods. The purpose of the following paragraphs is to briefly present the most common methods used in research.

Thornton et al. (2012) note that the studies under the institutional logics approach build upon both qualitative and quantitative designs with a strong focus on data triangulation. More specifically, they state:

“Empirical research on institutional logics has employed a variety of methods, including surveys, archival documents, event history analysis and other statistical modelling techniques, interviews, ethnographic field notes, secondary data sets, and case studies” (Thornton et al., 2012, p. 184).

“Ideal types” are recognized as an analytical tool for examining the role of institutional logics (e.g., Thornton & Ocasio 2008; Goodrick & Reay 2011; Thornton et al. 2012; Reay et al. 2015). Skelcher & Smith (2015) note that empirically observed organizational forms typically manifest different combinations of ideal types, and thus compose hybrids. In other words, ideal types enable a systematic comparison of empirical variation (Goodrick & Reay 2011, p. 378).

The case study method is oftentimes chosen for its interpretive and exploratory nature with the aim of building theory from observed cases (Nicholls & Huybrechts 2006). For example, Vaskelainen and Münzel (2018) turned to a “phenomenon-driven single case study” based on qualitative data to utilize its explanatory power and to address context specificities as well as to support theory building.

Dahlmann & Grosvold (2017) shed light on the potential of pattern inducing interpretivist analysis with repeated interviews being the dominant data source. Furthermore, the uses and implications of ethnographic methodologies in institutional research are well-documented and researchers argue in support of field study methodologies (Bjerregaard 201).

Finally, Joseph et al. (2014) give a good example of event history design and a quantitative approach to institutional theory.
To summarize, researchers are improving research designs that examine and measure phenomena, meaning and change under the institutional logics perspective. In that light, researchers have to be cautious about the proliferation of exclusively qualitative methods; they should aim to integrate interpretive and hypothesis testing approaches. (Thornton & Ocasio, 2008). Along with the call for cross-level, multi-method studies, researchers should consider the call by Thornton et al (2012) who argued in support of experiments and simulations as available methods. Moreover, researchers should answer the call for the use of configurational research - the simultaneous conceptualization and analysis of the causal complexity underlying institutional logics and subjects such as corporate governance (Misangyi et al. 2017; Misangyi & Acharya 2014; Ragin 2008).

CONCLUDING REMARKS

The purpose of this research paper has been to shed light on some important theoretical and empirical contributions that set the stage for understanding the institutional logics perspective under the “institutional theory” umbrella. The progress within the research agenda can be seen from tackling the cacophony of institutional theory through theoretical elaborations and clarifications, greater scope of idea application, development of sound empirical indicators, and utilizing new and improved methodological tools (Scott 2008).

In assessing the explanatory potential of the institutional logics perspective, researchers have to pay due attention to the differences in understanding institutional logics. Theorizing institutional logics still leaves great room for interpretation; a majority of research has not yet utilized this opportunity.

To summarize, institutional research should not solely focus on the outcomes of institutional processes, but should aim for an in-depth comprehension the sources of heterogeneity and dynamics of those processes, without shrinking complex causal threads to a number of relatively discrete and measurable variables (Suddaby 2014).
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