1. Organizing beyond management and market

SIMILAR FAÇADES BUT DIFFERENT FOUNDATIONS

Anyone who travels the world quickly discovers that there are many similarities between countries with respect to what they look like and how they work. We see, for example, a great likeness in the foods people eat. McDonald’s restaurants can be found in cities worldwide, and pizzerias are everywhere from small Swedish communities like Forshaga (north of Karlstad) and Mönbo on the outskirts of Södertälje with only a few thousand residents, to global metropolises with millions. Soft drinks like Coca-Cola and Fanta can also be purchased almost everywhere around the globe, and the Danes claim that Carlsberg is ‘probably is the best beer in the world’! From a local perspective, in this case Sweden, for many families Fridays are associated with a laid-back evening with Mexican food. No tacos – no cosy Friday dinners!

The similarities between what goes on in different places are found in many different areas. For example, all across the world people listen to the same kind of music, even if there may also be a local variety of music characteristic of a particular region. However, even this is subject to globalization under the label of ‘ethno-music’. We also see the same clothing styles wherever we go. Local variations naturally exist, but if we look at how people dress in urban centres around the world, the similarities are striking. For example, in Sweden in the early years of the 2010s, children and seniors alike were wearing NY Yankees baseball caps, and in the 2020s young women in many countries are wearing Michael Kors and Calvin Klein handbags, not to mention Nike sneakers used by people of all categories all over the world.

It is also interesting to note that even when we try to be different, we tend to do things in similar ways no matter where we are in the world. Global subcultures have been established, where distinctive lifestyle
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standards determine whether we belong to one culture or another. Even if we rebel and do our best to be unique, we do it in the same way, such as listening to the same alternative music, wearing the same alternative clothes and symbols, and in other ways embracing certain approaches to situations and things (for example, flower power, punk, heavy metal, hip hop, piercing, tattoos, Goth rock, hipster).

Similarities are seen not only in food, clothes and music, but also when it comes to other things. Architecture is one example. During different time periods, every big city claiming to be a modern urban centre shows striking similarities in the appearance of their buildings. Beijing, for example, has undergone a dramatic change since the 1990s, with its characteristic low buildings and narrow lanes suited to bicycles being replaced by Western-style skyscrapers and wide roads for cars. Yes, even Beijing has taken on a typically American ‘downtown’ look, although it is likely that this metaphor is not used in China! Almost everywhere we also see shopping malls popping up in the outskirts of cities, everywhere populated by more or less the same retail chains and fast-food restaurants such as McDonald’s and Kentucky Fried Chicken (KFC). We also watch the same TV shows and movies, and read the same books, newspapers and magazines more or less all over the world. We see the same round-the-clock news on CNN or the BBC, and use the same software programs and types of computers. Almost every large city has a metro, and airports all look the same and include the same types of shopping, bars and restaurants. There are also organizations that promote equal working conditions across the world (for example, the International Labour Organization, ILO), equality, health (for example, the World Health Organization, WHO), free trade (for example, the World Trade Organization, WTO), and the like. From a European viewpoint, the EU is a familiar and tangible example of one such organization where common rules and conditions are drawn up for citizens and organizations, public and private, in the EU member states.

We also see higher education becoming more and more synchronized and standardized between nations so that we all compete on the same playing field in global labour markets. By way of the so-called ‘Bologna model’, the aim during in particular the first decade of this millennium was for us to have access to the same education, with the same curricula, that should lead to the same degrees, regardless of where we live in Europe. Today the European Union is emphasizing the establishment of the European University by initiating a number of alliances among different universities in different EU countries where one purpose is to increase...
student mobility and thereby standardize curricula and programmes. Another example of similarity is that the organization of both public and private activities is becoming increasingly standardized around the world, allowing us to compare the performance of organizations. We use the same measures of organizational quality across the world. The *Financial Times*, for example, has developed a model for ranking business schools and their masters programmes, executive education and MBA programmes around the world. To make it onto these lists, higher education organizations must therefore offer programmes that are measurable; that is, that meet the criteria measured by the ranking system, a development that can be called the ‘Financial Times-ization’ of higher education! Organizations also use the same ideas of organization and management around the world. Popular models such as Business Process Reengineering, Total Quality Management, Balanced Scorecard, Shareholder Value, Time-Based Management, Corporate Social Responsibility, Knowledge Management, Talent Management, Change Management, Organizational Learning and so on, are discussed and tested in many organizations in many countries at the same time. Among the means used to spread organizational ideas are books, with the result that some management books that promote specific management models and leadership styles are sold in vast numbers (millions) across the entire world. In addition, internationally operating, often US-based, consulting firms and large companies from many countries operate their business on a global basis, also contributing to the diffusion of certain organizational and management ideas to many institutions around the world.

Despite the above emphasis on the tendencies towards international similarity, I have also hinted at the existence of elements of local variation in different cultures. But variations exist not only in central local religions, local customs or laws. At the same time as tendencies towards increased similarity are strong globally, there are also local variations that on the surface appear to be similar. In other words, it is not unusual for us to interpret different meanings in different contexts, for example, of a management model. That is, the same idea about education may be advocated in many countries, but the practice that it leads to can be fundamentally different. The curriculum may be copied in many countries, with a certain country seen as having come a long way by using it as a starting point, but what then takes place in the classroom can vary considerably. That is, just because the US secondary school curriculum was used as a template for school reforms in Botswana does not mean
that the teaching offered there is particularly like that offered at American high schools.¹

Different places around the world also exhibit differences in culture and legislation, meaning that even if there are obvious similarities on the surface in some contexts, such as education, the differences in cultural conditions can be considerable. Consequently, the formation of the activities being carried out may differ with respect to the importance given, for example, to the advice of a US management consultant, a management model described in a popular book, an international standard for quality or environmental management …

THE IDEA OF THE BOOK

The idea of this book is to show that we, as individuals and as a collective, cannot isolate ourselves from what is going on around us. We are affected by tendencies towards greater similarity in many respects across the world, but we are also affected by local cultural factors. This applies both in our private lives and in the workplace; and to companies, associations, government agencies and individuals. We cannot avoid these influences, and this applies both to us as individuals and to those whose job it is to lead us. This means that managers are not omnipotent or able to do whatever they want in a given situation. That which falls within the realm of possibility is determined by what was described above as tendencies towards globalization, and local variations in culture and how global trends are received locally.

The ‘institutional environment’ of organizations is the concept used here to describe such circumstances, and shall thus be understood as the surrounding environment that determines the conditions that organizations and their managers must adapt to and manage in order to be regarded as legitimate actors in the type of business they conduct. If the business is education, this means that each and every school must live up to the institutional demands for what is considered to characterize a real school. If the business is steel production, the organization must live up to the institutional demands for what is considered to characterize a real steel manufacturer. In the case of hospitals, the organization must meet the institutional demands for what is considered to characterize a real hospital, and so on.

¹ Meyer et al. (1993).
These demands remain fairly constant over time. This is also what is meant by the concept of ‘institutionalization’ – that is, where an activity has become so established that most of us take for granted a certain understanding of what characterizes education, steel production or hospital care, for example. If, in addition, there is legislation to support these institutionalized understandings, the likelihood is great that they will live on for a long time. Such understandings are, however, not static. They are constantly being influenced and modified by tendencies, as described above, towards a global convergence of ideas about organizing and management. Prior to the 1980s, for example, it was not a given in the West that market mechanisms should control the allocation of resources in health care and education. A few decades into the new millennium, it is almost the opposite – that is, it is seen as strange for a state to allocate resources to hospitals and schools according to a policy-driven distribution model. Still, in the early 2020s, we see tendencies, at least in Northern Europe that the pendulum in the debate is swinging back again, away from a strong emphasis on market- and competition-driven organizations. It is, however, too early to say anything about the scale of these winds of change. So far, it is fair to say that the debate climate has changed, but there is for the time being no evidence of whether this will lead to any changes in practice.

Amidst all this noise of impressions and institutions, are the decision-makers. Decision-makers are needed, but that they themselves control the nature and timing of their decisions is doubtful. This book argues that policymakers make the decisions that are possible according to the institutional framework of their organizations, and that they do this whether they like it or not, and whether they are aware of it or not. With a better understanding of the environment around these decision-makers, and how it affects how they think, what they do and why they do it, they also improve their chances of making more carefully considered decisions.

This book is written from an organizational perspective, which means that the arguments are based on how organizations work and why things are done in a certain way in organizations. The aim is to specify key elements in the institutional environment where individual organizations and their decision-makers operate, and to discuss the importance of these elements in the shaping and development of the activities an organization engages in. Here, we are dealing with variables and connections that can be perceived as abstract and thereby also as elusive, and therefore perhaps at first glance even unimportant or self-evident. The reason for this is that
elements in the institutional environment are difficult to discern, and it is difficult to identify clear, measurable links between what goes on in the institutional environment and how individual organizations develop.

How is it, then, that what we can’t see is important for what happens? Those who have been in a particular business for a long time and have experience of acting in different situations have developed an awareness of the institutional variables in operation. It is not uncommon for us to describe people like this as acting on intuition, or on their gut feelings. They have a sense of what works and are able to improvise solutions, but it is difficult to pinpoint exactly how they know this and what factors, based on their experience, they have taken into account.

For those who are convinced that the world is made up solely of clear, measurable connections, this is naturally problematic. Those with a more modest approach to the truth, however, see considerable explanatory value in it. When it comes to social conditions and circumstances, which are what characterize processes between organizations, and between individuals and organizations, there are many things that occur without us being able to observe or measure them. The point of departure here is that studies of clear, observable links between, for example, a buyer and a seller, an organization and a financier, or between a leader and the led, offer only limited explanations as to how organizations develop and why they do it in a particular way. Certainly, such studies explain some conditions, such as who does what, for example; but we also need to know how social mechanisms work and why a certain development occurs in the manner it does. In order to grasp these difficult questions, we must look deeper – that is, beyond the obvious and directly observable, and delve beneath the surface in an attempt to see what is not visible with the naked eye. Those who live and work in different environments learn over time which invisible structures apply to the business they are involved in, making these structures very tangible for them and for the business conducted in the organizations they belong to. Often it is a matter of indirect influence, such as through the existence of general rules for a particular industry, laws, or that certain discourses (that is, ways of talking), paradigms (ways of thinking) and norms (ways of doing things) have become established around particular businesses, phenomena and fields.

An important point I intend to highlight is that elements in the institutional environment do not simply appear on their own. Thus, they are by nature not a given, but their existence is a result of actors in the environment producing them, spreading them and safeguarding them. This also means that how they are formed can be actively influenced, but, since it
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is a matter of a social interplay involving many actors, it is not easy to do. The book will provide insight into how elements in the institutional environment are created and thus show what processes it is important to be a part of if one wants to be involved and influence their direction.

The arguments presented in this book have thus been selected with an end to specifying the practical content of the institutional environment of organizations. The theoretical concept of the ‘institutional environment’ has been chosen because it expresses factors that actually can be defined and their origin be traced. For some reason the meaning of the concept institutional environment has received little attention in general discussions on why organizations develop the way they do. The concept tends rather to be used as a given in the literature. This is unfortunate since it is a central concept for the understanding of processes of institutionalization and for why organizations tend to do certain things in certain ways. Thus, it matters for organizations how the institutional environment is composed. One hope with this book is that it will bring a better understanding of the factors included in the concept institutional environment, and that this will have the potential to encourage more actors not only to understand better their role as actors in the contexts in which they operate, but also to make them take better decisions, and to see possibilities for changing the institutional demands put on them.

In the remainder of this chapter I will develop the book’s starting point and present an outline of the rest of the book.

THE STARTING POINT: ORGANIZATIONS AND ENVIRONMENT

One underlying thought in the above discussion is that organizations are closely connected to what goes on in the world around them. The circumstances depicted until now, however, are not those usually in focus when discussing how organizations develop and change. We often hear that organizations are run by their managers and that organizing is something that should be viewed more as an instrument which management has at its disposal to lead the organization towards set goals. However, this picture is complicated by the fact that organizations in general, and to a larger extent, are assumed to compete in markets. Thus, all of the power is not assumed to lie in the hands of management, since the market also has an impact on what individual organizations can do and how they develop. Here, however, research in organization and marketing over the past 50 years or so has highlighted that companies are linked in differ-
ent ways to a number of other actors around them. It has been argued, for example, that the network of financiers, suppliers and buyers they have direct exchanges with – an organization’s ‘stakeholders’, as they are also called – places a number of demands on them. In organization studies, the most prominent genre that has drawn attention to these types of relationships is called ‘industrial marketing’ or ‘network theory’. That organizations are connected to one another through different types of exchanges (where someone manufactures, someone buys, someone transports, someone finances, someone develops technology, etc.) is now a relatively widespread understanding of how organizations work. There is also a fair amount of literature that argues that individual organizations have the ability to influence and direct the development of their networks. This literature has thus drawn attention to the fact that governance of an organization does not stop at its own boundaries, but extends beyond them into its networks with other organizations. However, although they are important and of great significance for how we understand the development of organizations, these explanations are based primarily on a dimension that can be called ‘observable’. It is possible to observe what other organizations an organization has exchanges with. This is important if we want to understand how organizations develop, and there is also a great deal of literature that draws attention to this. But organizations are not only governed by the observable.

This book deals with the less obvious, that which is more difficult to observe, and which therefore receives less attention in the public debate and in the literature that attains a wide distribution. This attention deficit, however, is not due to the knowledge being unimportant – nor, for that matter, is it unknown to decision-makers. Rather, it is the other way around. It is a matter of a kind of knowledge that we often perceive as implicit and perhaps simply self-evident, that we learn ‘along the way’, but that is usually difficult to specify and hence also difficult to pass on. This knowledge therefore often becomes inaccessible to anyone other than the initiated. In other words, knowledge about what is not obvious is difficult to pass on because we are unable to observe exactly how it relates to the development of organizations.

Thus, the focus in this book is on a dimension of the environment other than what we first encounter in the organization and marketing literature, a dimension that is sometimes referred to as the institutional environment. It should, however, be noted that the concept of institutional environment is used in a pragmatic sense and as a label for the legal, social and mental structures in which individual organizations are embedded. This means
that our focus is the elements in the environment surrounding organizations that determine what they can do, what they must do, and what they should do and how they should do it. It is thus a question of factors that create and define the room for organizations to act. The concept of institutional environment has its theoretical home in the so-called ‘new institutional organizational analysis’, where it is a central concept. This theoretical body has to do with how organizations are influenced by societal factors such as ideas, rules, fashions, knowledge, ideologies, norms, and so on, as well as how these are created and disseminated between organizations and cultures. As with many central concepts in this theory, however, the focus has not been directed towards systematizing the meaning of the concept institutional environment. Although Scott dedicated much effort to refining arguments and concepts, there is still no clear and systematic conceptual definition of what the institutional environment consists. The ambition here is not to do this once and for all, but instead to try to flesh out and fill a number of central concepts used in the institutional organizational analysis with examples and meaning. These concepts reflect important circumstances in organizations’ environment that decision-makers and others need to understand. This enables them to better understand the underlying processes and mechanisms – things that are not directly observable or obvious to anyone other than those deeply involved – that drive organizations to develop in certain directions.

There are a number of phenomena in, and aspects of, organizations’ surrounding environment that send signals to individual organizations and individuals in these organizations, about how things should be run, organized and managed, and what organizations and individuals should do. An important starting point in the argumentation in this book is therefore that it is not only the management, owners or boards of organizations that control this. Another starting point is the assumption that the environment surrounding organizations consists of more than the other actors that an organization has business exchanges with – for example, suppliers and customers. Direct business relations are naturally an important dimension of an organization’s world, but the legal, social and mental environment in which these exchanges occur is equally important.

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4 DiMaggio and Powell compiled an overview of the state of research in 1991. A more recent compilation has also been done by Greenwood et al. (2017).
Organizing Beyond Management

The introductory argument above states that organizations are embedded, partly in direct business relations and partly in the institutional environment that provides the framework for both the business relationships and for the business area and organization’s ability to develop in one direction or another. If we believe this, then we should be able to find key reasons as to why individual organizations evolve the way they do in the forces outside the organizations, as well as outside the direct relationships they have with actors in their immediate surroundings. It has also been suggested that this does not exactly reflect the picture we get from the dominant literature in the field, which tends to stress that the fate of organizations lies in the hands of their managers! How, then, are we to understand the importance of management? Equally as radical as claiming that an organization’s success or failure lies in the hands of its management would be to interpret the above reasoning the other way around: that is, as though everything were governed by external factors and hence that management plays only a marginal role in what happens! The argument here, however, is more nuanced than either of these interpretations. All collective activity, such as that in organizations, occurs through different kinds of interaction. It involves interaction – between individuals, between organizations, between organizations and rules, between ideas and organizations, between norms, standards and organizations, between leaders and the led, and so on. Thus, it is not a question of either one variable or another, but of the scope an organization has to act being determined by the combined interaction between these types of variables – and the role of managers and other actors in all this.

‘Useful’ knowledge

The literature on how organizations work and evolve is, however, dominated by discussions about precisely that: the importance of management. Research that advocates models of how management should act for their organizations to be successful is generally viewed in the public debate as representing ‘useful’ knowledge. This is a question that organization researchers are often asked by CEOs, politicians, consultants and journalists – that is, by those who practise management in some form. CEOs want to learn better methods for governance and control, consultants want fresh new models that they can build their consultancy around, politicians want to know the keys to success so they can develop policies for growth, and journalists want to write about topics that readers want to
read about. They all want to know the direct practical applications of the knowledge conveyed.

The question of what knowledge about organization and management can be useful is important for societal development, but it is also very intricate. The answers may not necessarily be found where most of us look for them. Moreover, the same knowledge may not be useful for everyone in every context! Before we can even begin to have a serious discussion on the topic, we need to get to know the lie of the land. We need to know where to start, how to proceed, at what pace, and who to take with us. Only then, once we have a nuanced understanding of this, can we begin to decide which paths to take and which directions will take us where we want to go. The hope is that this book will provide readers with a good basis upon which to begin this journey. In the meantime, however, readers must content themselves with my claim that what on the surface appears so attractive may not always be very useful. It may well also turn out that we need both what is good and what is useful in order to thrive and move in a positive direction over the long term. Too much of a good thing may not be so good, and too much of the useful may not be good either!

Books that answer a resounding Yes to the question of whether organizations can be governed are appealing because they not only provide clear answers to complex problems, but also claim these answers to be applicable in practice. This type of literature often stresses how our attention and energy should be directed towards developing knowledge and methods of how organizations can be better governed.5 There are also authors who maintain that it is immoral not to pursue better understandings of how organizations work and can be governed.6 However, not only books devote efforts to these questions. Advisers of different kinds have also taken upon themselves the task of offering advice to management about how their organizations can be governed better. Separate organizations have also been formed for the purpose of developing international standards for better governance. The International Organization for Standardization (ISO) is a good example, with quality and environmental standards (ISO 9000 and ISO 14000 series). Many managers around the globe have also been assigned the responsibility of managing their respective organizations. For many of us, it is obvious that organizations

6 Rhenman (1973); Normann (1975).
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can be managed and that it is management that does this while the board and owners exercise governance. But does the mere fact that it has been established as a matter of course mean it is a reasonable explanation of how organizations evolve?

Organizations’ management naturally do a lot of things in attempts to steer organizations in a particular direction. Management is one force that affects how organizations evolve, but there are forces outside management that are also of importance, setting the rules of the game for what organizations and their managers can do. Perhaps the most talked-about force of this nature is the market. I will argue, however, that there are no ‘natural’ forces in markets and, rather, that in order to understand forces exerted by the market on individual organizations we must focus not only on market actors (that is, buyers and sellers) but also on what goes on outside the market (that is, in the institutional environment in which markets are embedded).

Beyond the Market

An extensive amount of literature tones down the importance of management in favour of explanations stating that an organization’s success or failure is determined by the market. However, this literature stresses the power and potential of ‘economic man’ – that is, a rational, profit-maximizing market actor who makes deliberate choices based on strategic analyses of how certain types of action lead to certain outcomes.

It is naturally important for all organizations that make a living by selling things that there are others to buy these things from them. Otherwise, they would soon cease to exist – that is, if there were no willing investors injecting new money all the time. Such was the case with many IT companies around the turn of the twenty-first century, for example, before the IT bubble burst. The power of customers is important, and many organizations expend considerable effort adapting to customers’ wishes. This often leads to interdependencies, however, especially in industrial contexts where a customer (Company A) may buy components from a supplier that are then used to make products sold

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7 The ‘IT bubble’ is a concept used to characterize the large economic interest in IT that existed in the years around the turn of the twenty-first century. During this time, numerous IT consulting, so-called dot.com firms, were started and vast sums of money were invested in these companies, but only a few succeeded in creating sustainable profit-generating operations.
on to its (Company A’s) own customers. A chain of dependence is thus created, usually described as a network of relationships between organizations that are in various ways dependent on exchanges with each other.\(^8\) This means, in addition, that customers adapt to what suppliers are able to supply. The power inherent in this mutual adaptation is strong and determines much of what is possible. Adapting to the market requires knowledge of which actors operate there, what their needs are, and what they produce. Such market relationships often also build on trust between the actors, and just as it takes time to build the trust needed for one organization to adapt its production to another – that is, to allow itself to become dependent on another organization – it often also takes time to absorb this trust. This means that relationships are often long-lived and are based on forces other than a buyer merely choosing the cheapest option. Often, customers would rather buy from someone they can count on, someone in whom they have developed trust. It also means that, in practice, there is seldom an ‘economic man’. It is rarely a matter of profit-maximization, but rather of security and social exchange and, consequently, of sufficient economic profit.

Managers and other individuals who have exchanges with other organizations are obviously able to influence the relationships their companies have with others. Their ability to act, however, is severely limited by the dependency that their organization has developed on other organizations. It is important to maintain trust and to continue to supply products and services that customers need. Any changes that the organization engages in must therefore occur in harmony with how the organizations it is bound to by business exchanges develop.

The market thus limits management’s ability to act. There are many who also claim that the market does not just limit an organization’s ability to act, but also constitutes it. To some extent, this is naturally reasonable, at least if we direct our focus towards the direct exchanges organizations have with other organizations. However, it does not suffice as an explanation to how organizations evolve in certain directions. We must therefore look for explanations not only beyond what managers do and accomplish, but also beyond what occurs in the market and the forces found there. The generic term I use to describe this is the ‘institutional environment’.

\(^8\) See, for example, Hägg & Johanson (1982).
The Institutional Environment

The meaning of the concept ‘environment’, as used in this book, is the world in which individual organizations are embedded. By ‘embedded’ I mean, as discussed above, the direct market relations which organizations have, as well as all of the indirect factors in the environment that limit organizations’ and their managements’ ability to act. The latter set of factors (the indirect ones) in particular, are those that are included here in the concept of the institutional environment. The question is then: what are they, and in what way do they constitute limits for what organizations can do? I defined the meaning briefly above, when I said that it was a matter of legal, social and mental structures.

Legal structures are the most tangible of these limits and also the most commonly referred to when discussing elements in the institutional environment. To look at a concrete example, the Swedish Companies Act stipulates, among other things, that all companies must have an auditor, a board and a managing director. It also states that they must have a certain amount of capital, and that the ratio between this and any company debt must exceed a certain level in order that the company is not forced to draw up a balance sheet for possible liquidation. There are certainly options to choose from according to Swedish law for people who want to operate a business, in the form of a limited company, or sole proprietorship, partnership or limited partnership. Depending on the structure chosen, specific laws stipulate the requirements that must be met. The following example is picked from Sweden but there are similar legislative structures in most countries, and it demonstrates that legislation is an important component of society, which limits the ability of individual persons and organizations to act; but legislation does not simply happen on its own. The body in society with the right to legislate is the state, meaning that government agencies responsible for making law concerning business – in particular the ministry of labour, the tax authorities, and the ministries of trade and finance – must also be included in this environment. This means that politicians and civil servants working in these ministries and authorities are also part of the environment in which organizations are embedded.

The picture becomes even more complex when we include the social structures. In fact, civil servants and politicians who make decisions on laws do not do so without being affected by one another. They do not sit alone in their offices and make up laws. Their work has, for example, a large international component, to adapt for example Swedish legisla-
tion to what the EU has decided shall apply to all EU member states. In addition, they often surround themselves with experts and advisers who are either active practitioners in the field that the legislation pertains to, or who work as consultants to actors in that field of practice. Thus, politicians and civil servants in other countries, as well as actors who consult and represent others, perhaps competing companies, are also part of an organization’s institutional environment.

That is a very concrete example of one element of the environment that limits an organization’s ability to act: a law. I used this example partly to show how important the environment beyond the market is for what occurs in individual organizations and partly to illustrate how extensive and complex it is. A law does not simply come into being. It has to be produced through a process that involves a wide variety of cooperating actors – both national and international, and both private and public. Note also that this is only one example of one law, the Companies Act, and that there are numerous laws, national and international, that organizations must comply with. There are environmental laws, competition laws, accounting laws, laws governing contracts and work environments, labour market laws, and so on, that regulate the space in which organizations and their managements operate. And if organizations break these laws, they must pay the penalty in the form of fines, jail time, damages, or denial of permissions sought. Laws are thus a very tangible and hence also an easily grasped part of the environment beyond the market. To some extent, laws help to regulate how actors in the market behave in their relationships with one another, but they also help to regulate how the actual formation of a business occurs. For example, if someone wishes to apply for a bank loan in order to operate a certain business, the business must first be registered with the proper authority according to the legal form in which it intends to operate (in the Swedish case this means as a proprietorship, partnership, limited partnership, limited company, or association). Failing this, the business is not considered a legal entity and cannot enter into contracts, as it is only ‘persons’ – individual or legal – who can enter into contracts.

Thus, when it comes to limiting organizations’ ability to act, laws are fundamental, and because they are visible, compliance with them is also predictable. It is also easy to predict what will happen if a law is not followed. In certain cases, organizations may take a calculated risk – for example, by not complying with environmental laws or contract laws – and hope that they can negotiate their way out of sticky situations if they get caught. But the institutional environment consists not only of
formally binding laws and the actors who produce them; there are also a number of other elements that we, from a formal standpoint, adapt to voluntarily. This can involve standards or norms whose content we more or less take for granted. Both types of elements fall under the part of the institutional environment that we can call ‘mental’ structures. The mental structures are difficult to illustrate and difficult for outside observers to see. Even those who are deeply involved in a business can have difficulty seeing them because they are often taken for granted and therefore perceived as natural in a given situation.

Ultimately, the institutional environment can be described as consisting of sets of rules that determine what is legally, socially and psychologically permissible. Depending on what type of institutional element we are talking about, it can be placed in one of these categories. Unlike laws, which fall under the category of ‘legal’, norms, which belong in the psychological (‘mental’) and social categories, are not expressed in text. They are instead a question of exhortations that are normalized or that some people attempt to normalize in the settings where certain organizations operate. And although norms cannot be made visible in the same way as laws, they can constitute sharper boundaries to organizations’ ability to act. That one should not break the law, for example, is a strong norm. Anyone who does so is considered a criminal and someone we are wary of trusting. Being exposed as a lawbreaker can thus carry broader consequences than being forced to pay a fine. One may also risk one’s legitimacy as a trusted actor in that one has not only broken the formal law, but also the norm that one should not break the law.

Laws fall under the category of legally binding rules because they are explicit, written, intended to apply to everyone, and are compulsory and thereby have sanctions attached to them. Norms are also binding; yet, from a formal standpoint, following them is voluntary. Unlike laws, they are mainly associated with mental and social structures. Norms can be described as expectations established in modern society of what individuals or organizations of different natures are supposed to do in particular situations and how they are to go about doing it. Examples of clear norms are that we expect the dentist not to be dressed as a clown when she examines our teeth; CEOs of large corporations such as Ericsson, Volvo or Citibank not to be dressed in tails, gala dresses or jump suits; or carpenters and plumbers in suits or dresses while at work. We also expect companies to make a profit and the police, fire fighter or the emergency physician to not haggle over prices before responding when people call to report a crime, a fire or an accident in progress. When it comes to people...
in management positions, we expect them to set a good example and not be the first to embezzle money from the company’s coffers or walk off with materials used in company activities to build their own house or to be used in some other private pursuit on the side. We expect salespeople to be courteous and socially competent, and to be knowledgeable about the products and services they sell. Although these represent examples of expectations, which from a formal standpoint any actor is free to meet or not, in practice it is extremely difficult to go against an established norm, at least if you want to be seen as a legitimate actor within your field.

Business exchanges are largely a matter of various actors having confidence in each other. In order for us to trust other actors to the point that we enter into business exchanges with them, we expect a certain predictability in their behaviour. For example, we prefer that they do not manufacture cars one day and then provide health care the next, or that they do nuclear research one day, and make candies and sweets the next. We want to be sure that they have expertise in the business areas in which they operate. We also prefer to have a particular contact person in the organization we are doing business with so that the tone of our conversations is good. We also want to know that we can rely on them to deliver at the agreed-upon time and preferably also that we can go back to them at a later date, if need be, since it costs time, money and energy to find new suppliers one can rely on. We also want them to be at the address they give us, want the telephone number, website or email address they give us to be correct, want them to answer our letters and emails, and want them not to be involved in nefarious activities or organized crime. That is, most people would rather borrow money from a commercial bank than from the Hell’s Angels. Most of us also prefer to get our drugs from the pharmacy rather than in back alleys or from some downtown pusher. We would probably also prefer to buy a used car from an established car dealer rather than ‘Honest Harry’.

Thus, the expectations of other actors, and especially the expectations of actors who operate in the same setting and who are potential customers, financiers or suppliers, greatly limit an individual organization’s ability to act. The above examples illustrate some very tangible expectations based on well-established norms of good business conduct and generally upstanding behaviour in society. Someone who breaks these norms makes it more difficult for others to see him or her as a legitimate actor – that is, as someone we can trust and whose behaviour demonstrates a certain desired predictability.
A MODEL TO UNDERSTAND ORGANIZING BEYOND MANAGEMENT AND MARKET

Up until now, the argumentation suggests that isolating explanations of how organizations develop into individual types of phenomena, such as management or market forces, is problematic. These phenomena are naturally not unimportant, but there are forces beyond them that also contribute to organizing; and not only to the organization of market exchanges, but also in that the creation of boundaries for what is possible contributes to what individual organizations and their managements can and must do in order to exist.

I mentioned above that elements in the environment do not simply appear on their own – individuals and organizations formulate them, ensure that they are adhered to, and come up with sanctions when needed. In order for them to exist, social exchange is needed, and to enable elements like norms to be shared by many requires a systematisation over time in this social exchange. Because all three categories of structures (markets, management, social exchange) contribute to setting the boundaries for and thereby regulating the ability of organizations and their managements to act, it is important for us to understand the ways in which they do this and how they differ and complement one another. Legal, social and mental structures in the form of laws, standards and norms, as well as knowledge, restrict what a leader can do and how an organization can act. This means that they also help to control how individual organizations evolve. If we want to understand how organizations evolve, and why they evolve in a certain way, we must also understand the interaction between management and market forces, on the one hand, and legal, social and mental structures in the institutional environment, on the other.

The aim of this book is to flesh out this institutional environment, the background being that the environment is not made up of ‘naturally occurring’, objective elements, but that the structures are socially constructed. This means that they are created by individuals and groups of individuals who interact. Figure 1.1 shows some of the key elements in the institutional environment. The idea with the figure is to illustrate that an organization’s institutional environment can be seen as consisting of different layers, which can be roughly divided into the immediate institutional environment and the indirect institutional environment. The immediate institutional environment comprises the actors that organizations,
and individuals who work for them, meet, along with their action and results of their action such as information, rules and services produced by them. The indirect institutional environment, on the other hand, stresses the longer term in the form of criteria that can be linked to movements and social trends.

Closest to the organization lies the observable: that which everyone can see – that is, the exchanges the organization has with other organizations. These can be in the form of business exchanges, or they can be of a different character, such as exchanges of a financial or stakeholder nature. The demands these actors place on individual organizations are very tangible: for example, customers want their goods and services delivered, suppliers want to be paid for the delivered goods or services, and financiers want to see a return on invested capital. This represents very tangible pressure on organizations from their exchange environment that forces them to do certain things in certain ways. Important to note is that the exchange environment is not an element in the institutional environment. Instead, we can see the actors in the exchange environment as the institutional environment’s last outpost – that is, the channels through which the institutional environment’s compiled pressures materialize into actions in exchanges between organizations. Behind and alongside such materializations, however, there are many activities that create, form and add to the institutional pressure on organizations.

![Diagram of the institutional environment](image)

**Figure 1.1** The institutional environment
Beyond the exchanges, but still of an immediate or direct character, we find a layer consisting of what here is framed as institutional products. To put it simply, it is here we find the outcome of actions taking place in the next layer called institutional actors. There are reasons to see these as separate layers since they represent different types of actions. In the institutional product layer, the main action is *distribution* of ‘products’ already made, while in the institutional action layer it is more about the *making* of these products. From the point of view of organizations that meet institutional products and actors it can be important to see the difference since having encounters with the one or the other type of environmental element may require different actions from their side. Moreover, different institutional products and actors might also require different responses. Thus, facing an institutional product like a management fashion or various management techniques and models for organizational formation channelled to organizations, may be different than facing a management standard, a book or a law. It is also likely that encounters with institutional actors behind such different products also require different actions. It is, for example, different to meet management consultants who provide services related to management fashions, techniques and standards than lawyers, accountants or politicians who are more likely to represent authorities that produce and cultivate regulations. The way organizations deal with institutional products and institutional actors can have an impact on both how they form their organizations and what the exchanges they have with other organizations look like.

Still, if we want to understand why institutional actors exist, why they do what they do and work in the ways they do, we have to look at the circumstances and contexts in which they operate. Thus, we have to look beyond the immediate environment, and search for more distant or indirect layers, such as institutional movements and societal trends. In these layers, individual organizations are rarely directly involved, but what happens here can nevertheless help us understand how, above all, mental structures are created, such as what thoughts are legitimate to think in certain situations at certain times. For example, institutional products such as regulations and fashions are often clearly linked to various institutional movements in society. The concept ‘institutional movement’ as it is used here should not be mixed with the more common *social* movements where people gather physically in demonstrations and form barricades to protest about something, like pollution, war, nuclear power, animal rights, the EU, or globalization. The meaning of introducing the concept institutional movement is to bring attention to
more implicit movements, where large groups of people go about the same thing at about the same time in many places although they do not march side by side on the streets, screaming rhymes and waving posters. An obvious example of such a movement is marketization. Public sector organizations and private companies around the world have, in recent decades, organized more and more as markets. They have sought to operate in a more business-like manner in order to become better market actors with clearer organizational forms reminiscent of corporation, which are believed to be best suited for competing in markets. This does not occur in a vacuum, however, but can be associated with what we refer to here as an institutional movement framed as ‘marketization’. This concept expresses the fact that a number of actors, operating at national and international levels, systematically, over a long period of time, advocate similar social forms of organization – in this case, the market. This means that some institutional actors primarily are engaged in producing and distributing institutional products while others are more engaged in contributing to the formation of institutional movements. Examples of such actors include businesses and trade associations, government agencies, transnational government organizations such as the OECD, UN and WTO, as well as private organizations such as the International Organization for Standardization (ISO) and the European Organization for Quality (EOQ), and hybrid organizations such as, for example, the International Labour Organization (ILO), where governments, businesses and employees work together. These type of actors usually have more long-term perspectives for their actions than, for example, consultants that typically focus on providing more practically related services and management techniques to organizations. By cultivating certain development directions, emphasizing particular models for governance – such as marketization – being engaged in regulation and policy processes, their actions are more directed at forming movements towards certain orders while, for example, consultants are more engaged in developing single organizations.

Most fundamental of all, however, is what can be called ‘societal trends’. The meaning of a trend here is not to be mixed up with trends like fashions. A societal trend means a certain fundamental direction in how we think about the development of society, a thinking that endures over time. In other words, societal trends characterize the fundamental way we look at how society is ordered. For the past 200 years, the dominating societal trend in the Western world has been modernity. To briefly touch upon the reasoning to come in Chapter 5, this means an approach
in what we mean by making progress, and the dominating trend since the Enlightenment in the eighteenth century is that we tend to understand progress as processes that generate growth, that processes are predictable and development calculable, that we should be able to measure and compare things, that we want order in terms of clear relations between means and ends, and that we want to be able to have control. The most distinctive feature of modernity is perhaps rationality – that is, in the sense that we look for a cause–effect relationship in almost everything we do. This fundamental way of thinking characterizes everything from politics to sports, enterprise and science, and also helps us to structure everyday events, such as justifying why we buy certain things or why we go to bed early the night before if we have a big day planned the following day. In a way, modernity is a complement to religion and social order. In the West, religion no longer holds the prominent position in society that it once did, and that it continues to hold in other parts of the world. In many countries, for example, Hinduism, Buddhism and Islam still have a significant impact on how society is organized. In Western countries, however, modernity has become the dominant societal trend.

In a way, the different types of elements can be seen as sediments of the environment that surrounds individual organizations. Figure 1.1 can therefore be likened to a hill. At the bottom of the hill is the individual organization. On top of this are the various layers of institutional environmental elements that together represent very tangible pressure, which severely limits an organization’s ability to act.

CONCLUSION AND OUTLINE OF THE BOOK

In this chapter, I have argued that neither management nor market forces suffice as explanations for why organizations develop as they do. To understand this development, we must look beyond the obvious, beyond the observable explanations, and try to understand the implicit mechanisms that drive both individuals and individual organizations in a certain direction. This book presents the argument that an understanding of the institutional environment is essential in this respect. It may not explain everything, but it can provide a valuable point of departure. This means that we need to know what makes up the institutional environment. In this chapter, a model that specified direct and indirect variables in the environment was developed. In Chapters 2 and 3, a more detailed understanding of the direct variables is discussed, represented here by who the actors are (institutional actors) and what products they produce.
(institutional products). Following this, our attention will turn to the indirect variables *institutional movements* and *societal trends*. The book will then conclude with two chapters on how the institutional environment influences organizations.