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Working paper series
 1711-CSE



Working paper series

Centre for Sustainable Entrepreneurship
University of Groningen/Campus Fryslân

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Editor: Margo Enthoven
Academic director: Dr. Gjalt de Jong
Design (cover): David-Imre Kanselaar

WAVES OF CHANGE – THE DYNAMICS OF INSTITUTIONAL PRESSURE

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JUNE 2017

ABSTRACT

This article coins additional explanations for organizations' room for agency and institutional change by bringing all institutional and competitive pressures back into institutional theory, and by introducing theory on how the interaction between these pressures leads to novelty, contradictions, (acceleration of the) diffusion of novelty and finally institutional change. It introduces a categorization and loose hierarchy of pressures on the basis of which it theorizes how the interaction between pressures can co-determine the room for agency on the organizational level, and how it can generate both institutional change and increased isomorphism on the field level.

KEYWORDS: Institutional theory, agency theory, organizational theory

INTRODUCTION

Institutional theory has been strong in explaining how organizations adjust to the rules and norms in a field to obtain legitimacy thereby leading to homogeneity of organizational forms and practices (DiMaggio & Powell, 1983; Heugens & Lander, 2009). Oliver has argued that organizational responses to these pressures do not only depend on the pressures being exerted, but also on the willingness and ability of organizations to comply (Oliver, 1991). This willingness and ability explains variation of organizational behavior within fields. Together these contributions form a strong and complementary explanation for organizational behavior and many empirical studies have since been based on these theoretical foundations (Clemens & Douglas, 2005; Goodstein, 1994; Greening & Gray, 1994). However, there are three problems:

First, there is no broad consensus on which institutional and competitive pressures should be included, how they should be defined, to which level of analysis they should be attributed, and how they should be measured, making it difficult to compare studies and test theory (Heugens & Lander, 2009; Zucker, 1987). Common categorizations that are used are those of DiMaggio and Powell (1983) and Scott (1995). However, no attempts have been made to relate the categorizations to each other, or to reach consensus on which pressures should be distinguished and how. Rather, authors have picked concepts and definitions selectively and applied those in their research as to fit with the scientific field in which they operate (Mizruchi & Fein, 1999). The result is a patchwork overview of pressures that are scattered over various levels of analysis and often have overlapping definitions and multi-interpretable measures (Mizruchi & Fein, 1999), with no clear view on how institutions vary in their power, nor how they affect behavior (Barley & Tolbert, 1997). Whereas this ambiguity is to some extent inherent to the complexity of social processes that by their very nature take place across levels and are not easy to clearly and

unambiguously define, this does hamper theorizing on how competitive and institutional pressures lead to isomorphism or change. This article therefore starts with providing an overview of the current conceptualizations of competitive and institutional pressures and positions them in a framework that combines the pressures in a more encompassing one.

Second, most studies have described how organizations respond to one or two of the institutional pressures and a complete and integral picture of the (interactive) effect of pressures is lacking. Mizruchi and Fein (1999) found that out of 160 studies into institutional theory, only two operationalize all three forms of institutional isomorphism as distinguished by DiMaggio and Powell, and that competitive pressures were not at all considered. Their principal objection to this is that “... the focus on one isomorphic process leads to a failure to consider that an alternative process might be operative” (1999: 664). This criticism is in line with the observation of DiMaggio and Powell (1983:150) that the mechanisms of isomorphism are not necessarily empirically distinguishable; each is a separate process, but there will also be interactions between processes. Since the observations of DiMaggio and Powell (1983) and Mizruchi and Fein (1999) that for a true understanding of institutional processes isomorphic pressures should be considered in their full (interactive) complexity, many studies have addressed institutional processes, yet, studies that address several pressures simultaneously are still virtually non-existent. Some have studied processes of (non) adoption as a response to one or two forms of pressure (Fiss & Zajac, 2004; Ingram & Simons, 1995), whereas other have illuminated how responses can vary along the lines of Oliver’s (1991) framework (Goodstein, 1994). Whereas this has contributed to insights why organizations - and thereby fields - become more homogenous, and helps to explain discrepancies between organizational responses (Boiral, 2007), it does not address the characteristics and

ricocheting dynamics of institutional forces themselves in determining the room for strategic agency and the resulting homogeneity of fields. Or, as stated by Heugens & Lander (2009: 76): “Researchers have only barely begun to understand the field-level mechanisms through which isomorphic pressures accelerate and coordinate collective organizational action.”

Third, and related to the second problem, is that institutional theory is still looking for an answer to the fundamental paradox of “how actors can change institutions if their actions, intentions, and rationality are all conditioned by the very institution they wish to change” (Holm, 1995: 398). So far, no suggestions have been made that this answer could be found within the theoretical framework itself, i.e. how institutional pressures cannot only explain homogenization, but also diversification and change. Solutions that have been convincingly conveyed are those of institutional entrepreneurship (DiMaggio, 1988; Leblebici, Salancik, Copay, & King, 1991; Leca, Battilana, & Boxenbaum, 2008) and jolts (Greenwood, Suddaby, & Hinings, 2002).

However, heroic stories of entrepreneurial action and ‘life changing’ events can easily be constructed in hindsight, while overlooking the many events and actions that did not lead to any change (Suddaby, 2010). Why is it that some events and actions lead to change, whereas other don’t? This article addresses these problems and questions in several ways.

First it establishes a categorization of institutional pressures. On the basis of this categorization, the different character of and relationships between pressures is theorized. A model is developed that relates pressures to each other, relates them to spheres, and explains how pressures can both lead to generation and reproduction of institutions thereby creating a logical though loose hierarchy of pressures. Third, the interaction of institutional pressures is theorized as both a source of change, and as an explanation for the diffusion of change within a field. Central to this idea is that

institutional pressures, like physical waves, can interact thereby leading to a different result than the simple sum of pressures. Lastly, the concept of substance is introduced to theorize why some events or actions lead to institutional change, whereas other don't. Substance refers to the degree to which an event or action brings to the surface contradictions between pressures and spheres, which resulting tensions can create novelty and provides a propelling power behind a wave of change. In all sections, hypotheses are formulated.

THEORY AND HYPOTHESES

Oliver (1991: 159) argued that organizational behavior cannot be completely attributed to external pressures. Based on institutional and resource dependency theory, she developed an integrated predictive framework of strategic responses to isomorphic pressure varying from manipulation to acquiesce. She argued that it is not only the type and strength of a pressure that determines the response, but also the ability and willingness of the organization to do so. The predictive framework was based around the questions of 1) why pressures are being exerted (cause), 2) who is exerting them (constituents), 3) what the pressures are (content), 4) how and by what means they are exerted (control), and 5) where they occur (context). By doing so, Oliver connected external pressures to internal logics and capabilities and predicted that if rules are contested and not regularly monitored and enforced, and if external requirements do not conform with internal goals and operations, organizations will not comply and seek their room for agency.

This connection also works the other way though: the more organizations defy existing pressures, the more pressure will be built for change. In a way, Oliver 1992 captures this dynamics by addressing the process of deinstitutionalization as a result of political, economic and social pressure, with those pressures being built up by the

individual and possibly coordinated actions of individuals and organizations in the political, economic and social spheres. Heugens and Lander, on the basis of a meta-analysis of the effects of isomorphic pressures on organizational agency conclude that pressures form by no means an iron cage from which no escape is possible. It hence comes as no surprise that institutional stability is often short lived, as the consensus underlying the institution also holds the seeds for change (Heugens & Lander, 2009; Seo & Creed, 2002; van Gestel & Hillebrand, 2011). In this article we focus on the ricocheting process between institutional pressures themselves, and between pressures and actors, to theorize on how pressure interaction effects the room for agency and institutional change .

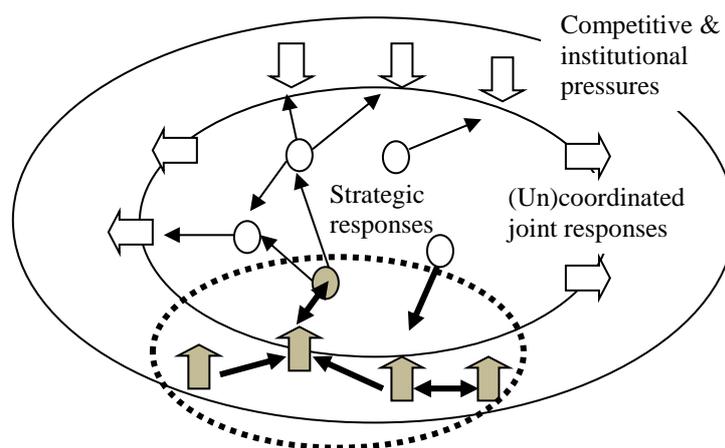


FIGURE 1. The interaction between pressures, and pressures and responses.

Institutional pressures do not only individually impact the position of organizations, it is also the joint effect of pressures that will determine the room for strategic agency of that organization. In a similar stand, what will happen at the field level will both be the result of the interaction between institutions and organizations, and between institutions. In the current banking crisis for instance, banks have been limited in their room for strategic actions due to economic conditions, but also tighter

regulation and social upset limit the banks' agency. It is the joint effect of regulation, social processes and many other processes though that will determine how banks, and their field, will develop.

CATEGORIZATION OF COMPETITIVE AND INSTITUTIONAL PRESSURES

Whereas many underwrite the importance of considering the various institutional processes in conjunction to reach a good understanding of organizational responses to pressures and institutional change, there are no empirical studies that address all pressures (Mizruchi & Fein, 1999). This whereas the grounding theoretical works do address the complexity and interaction of institutional processes. Meyer and Rowan (1977) were the first to draw attention to institutional processes and stated that isomorphism is a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions as they strive for legitimacy. They state that these institutional processes play a role next to economic competitiveness. They describe institutionalization as a process in which social processes, obligations and actualities take on a rule like status in social thought and action. Thereby 'rationalized myths' come into life (Meyer & Rowan, 1977) which 'rules' may simply be taken for granted or may be supported by public opinion or the force of law. Meyer and Rowan add to this by stating that many of the positions, policies, programs, and procedures of modern organizations are enforced by the views of important constituents, knowledge legitimated through the educational system, social prestige, laws, and/or by the definitions of negligence and prudence used by courts.

DiMaggio and Powell (1983) build on this work, but develop a more structured categorization of pressures, thereby separating and labeling the processes, while still acknowledging the importance of their interaction. They identify two types of

isomorphism, competitive and institutional. Competitive isomorphism involves pressures toward similarity resulting from market competition. Institutional isomorphism involves organizational competition for political and institutional legitimacy. They distinguish between coercive institutional isomorphism as pressures exerted by other organizations on which the focal organization is dependent, mimetic isomorphism as a response to uncertainty and anxiety and normative pressures fuelled by professionalization through either training and/or socialization of employees into similar worldviews or through interaction with e.g. professional trade organizations through which ideas are diffused.

Although Oliver (1992) presents her pressures as antecedents for deinstitutionalization, they in essence cover the same or similar forces that explain institutionalization and homogeneity. She argues that political, functional and social mechanisms, both within and beyond the organization are determinants of institutional processes. Political pressures originate from (discussions on) institutionalized practices such as rules and laws. Functional pressures result from technical or functional considerations on current and desired practices, on their perceived utility or technical instrumentality. Social pressures, lastly, refer to both developments in organizational cultures, as in the wider expectations from the social environment being the state with its rules and regulations, and society (Oliver, 1992; 571).

Lastly, Scott (1995) frames the institutional isomorphic pressures under three pillars: regulative, normative and cognitive. These pillars are in one way broader as they do not address explicit pressures and thereby leave more room for the confuse interconnectedness of pillars, but are in another way more specific as they refer more explicitly to the source of pressure (written, unwritten, and unconscious 'taken for granted' rules). The regulative pillar refers to actors or actions that establish rules,

inspect conformity and impose sanctions, with governments or governmental bodies being the most likely actors to fulfill this role. The normative pillar refers to rules that introduce a prescriptive, evaluative and obligatory dimension into social life.

Normative institutions include both values and norms, with values as preferred or desirable situations, and norms specifying how things should be done. Scott's cognitive pillar is concerned with socially constructed taken for granted rules which will often unconsciously determine 'how things are done'.

Many studies since have framed institutional processes in the wordings of spheres, realms or levels, to do justice to the very different underlying dynamics of the competitive and institutional processes, and to loosely attribute these processes to different levels. By discussing processes in terms of wider spheres or levels, more room is left for the multi-faceted character of pressures that are exerted within these spheres. Barley & Tolbert 1997 for instance distinguish between the institutional and action realm and distinguish between pressures that, in line with Giddens (1984, in Barley & Tolbert, 1997) can structure due to communication (interpretation, norms and values), power (resources) or sanctions (rules and regulations) whereas Oliver 1997 structures these processes according to three levels: The individual level (norms and beliefs), firm level (organizational culture and politics) and inter-firm level. Holm 1995 in a similar vein conceptualizes it as a nested system in which there is the political and practical level, whereas Leblebici and Slancik (1991) speak of the macro and micro order, and Geels (2004) and Beckert (2010) again phrase these as spheres which are conceptualized in line with Scott's pillars (cognitive, normative and regulative sphere).

Whereas there is thus agreement on the complex multi-level nature of institutional pressures, which varies between sense-making processes in people's heads (personal, micro-level), to interactive sense-making and cultures within firms

(inter-personal, organizational level), to the inter-organisational level of power struggles and political processes (inter-firm, meso-level) and formal rules and regulations or economic 'facts' like stock prices and credit ratings (impersonal, macro level), the concrete categorization and attribution of pressures to spheres remains unclear. This makes the measurement of pressures difficult as indicators across firms are hard to design (McCool & Stankey, 2004; Zucker, 1987).

In figure 2 a schematic representation is given of the pressures and how they are attributed to spheres. The social sphere describes the micro-level at which people and organizations make sense of their environments. The social sphere refers to the personal, cognitive level, and to the inter-personal network level and it contains:

1. Cognitive pressure as resulting from personal mental maps and interpretive schemes (Meyer & Rowan, 1977; Scott, 1987). They can consist of taken for granted norms and values, habits and routines but also personal understandings and beliefs. These cognitions to a large extent determine how people interpret, act and react.
2. Social normative pressure as resulting from social norms and values of how things are done or should be done in a certain population (Meyer & Rowan, 1977; Scott, 1995). This will often be taken for granted (shared beliefs or understanding) but will become conscious when values are breached. At that point, active exchange of viewpoints and opinions will take place. Social norms and values develop in a society and are exchanged through informal networks and e.g. the media, interest groups and NGO's. The more attention there is for a topic (hype), the greater the pressure to conform to shared understandings and the faster norms and values

will diffuse. In this way, social normative pressures can become self-reinforcing as the mass media helps to co-create the social reality around events (Schulz 2011).

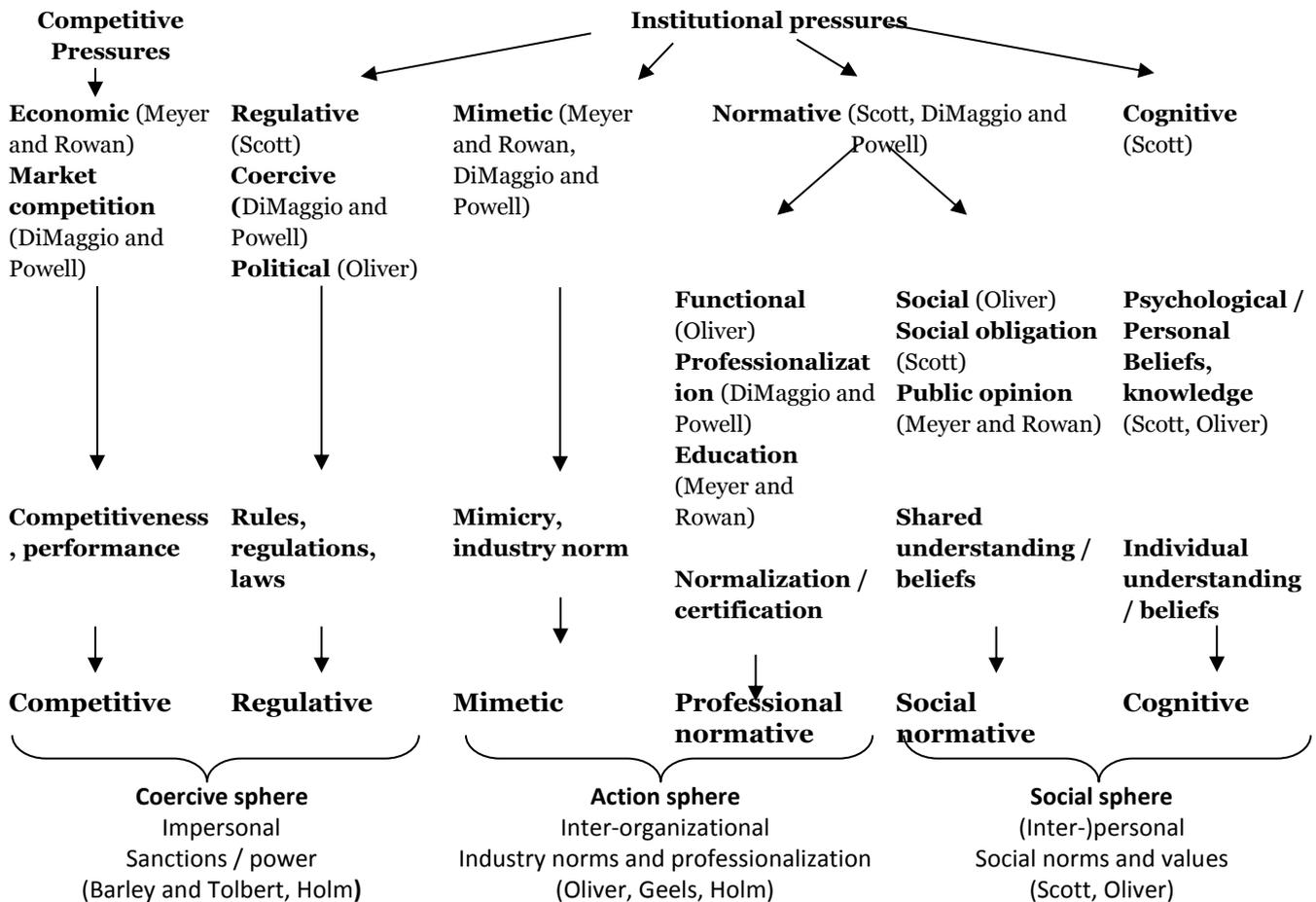


FIGURE 2. Categorization of competitive and institutional pressures

The action sphere describes the (inter-)organizational level, and contains:

3. Professional normative pressure as the professional norms of how things can and should be done, resulting from progress of (technological) knowledge and experience determining the 'state of the art' in a certain field (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Oliver, 1992; Scott, 1995). The norms are formed through educational curricula, occupational standards and are spread through for instance experts and professional organizations and can be formalized in industry

norms and standards. This includes technologies, tools, knowledge and methods as defined by Leblebici et al. (2001). Professionalization can be interpreted as “the collective struggle of members of an occupation to define the conditions and methods of their work, to control “the production of producers”, in (Larson, 1977: 49-52, in Dimaggio & Powell, 1983: 152).

4. Mimetic pressure as a response to uncertainty. Mimicry is a response to uncertainty and anxiety, which makes the focal organization mimic behavior of more successful organizations. “When organizational technologies are poorly understood (March and Olson, 1976), when goals are ambiguous, or when the environment creates symbolic uncertainty, organizations may model themselves on other organizations” (Dimaggio & Powell, 1983: 151) to be “no better or worse than any organization” in the field (Kondra & Hinings, 1998: 745-8). The wider practices are spread through a field, the greater the pressure to conform, by which this pressure becomes self-reinforcing. Mimetic pressures lead to rationalized standard practices as defined by (Leblebici et al., 1991).

The coercive sphere refers to the macro level and is impersonal by nature as it embodies the pressures of the underlying spheres in concrete ‘facts’ as prices, credit ratings, rules and regulations. Coercive institutional isomorphism relates to the pressures exerted by other organizations on which the focal organization is dependent: “Coercive isomorphism results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organization function” (Dimaggio & Powell, 1983: 150). This sphere contains:

5. Competitive pressure as resulting from market competition and relative performance of organizations vis-à-vis the industry norm (Dimaggio & Powell,

1983; Meyer & Rowan, 1977) and specific powerful stakeholders on which an organization is dependent (Dimaggio & Powell, 1983). Such stakeholders can be shareholders and rating agencies, but also large clients that can use their purchasing power to enforce certain behavior.

6. Regulative pressure as resulting from formal rules and regulations that can be inspected and sanctioned, with as most likely source of pressure governmental bodies (Dimaggio & Powell, 1983; Scott, 1995). This pressure includes also rights and obligations (Leblebici et al., 1991).

Different in the categorization as yet derived from the existing literature is first that all pressures are included that have so far been distinguished in the literature and that pressures have been attributed to spheres / a broad level of analysis. This forms the basis of the remainder of this article in which a theory is build on how institutional pressures can be conceptualized in interaction as an explanation for both the room for agency of individual organizations, and how the interaction between pressures can provide an alternative explanation for institutional change.

Second, a distinction is made between the social and professional normative pressures. Whereas this distinction is implicitly present in most other categorizations, there is value in making this distinction explicit as institutional processes are increasingly influenced by social pressures from e.g. the media, NGO's, and social networking sites. In the banking industry for example, social upset over bonuses set in motion processes in the action sphere (which industry norms should be set) and the coercive sphere (which actions should be taken if the sector does not self-regulate?). As the mass and social media have gained considerable ground since the publication of the works of the founding authors of institutional theory, the

addition of social normative pressure as a separate institutional pressures is of crucial importance to the understanding of institutional processes.

Character And Interaction Of Pressures

The main aim of this article is to provide a model of how pressures interact, and what the effect is of this interaction, to shed more light on the chains of cause and effect in processes of isomorphism *and* change. Whereas the current understanding of institutional theory is one in which an explanation of isomorphism is central, this article theorizes how the interaction between pressures can both create seeds of change, and can provide an additional explanation of why the diffusion of novelty (new templates, practices) is dampened or aggravated (Heugens & Lander, 2009).

A thorough theoretization and or analysis of the interaction between pressures is thus far lacking (Beckert, 2010; Heugens & Lander, 2009). After their study of 160 empirical papers on institutional pressures, Mizruchi and Fein (1999: 664) conclude that: "... researchers are positing a particular process that results in a behavioral outcome, but they are measuring only the outcome while assuming the process. The problem here is that the focus on one isomorphic process leads to a failure to consider that an alternative process might be operative". Many studies are done in retrospect and on the macro-level which that the chain of actions and reactions, pressures and counter-pressures are difficult to empirically distinguish and that is therefore difficult to distinguish between cause, process, and effect (McCool & Stankey, 2004; Zucker, 1987). It is therefore important to operationalize and measure a more complete set of pressures and make explicit how pressures relate to each other, how pressures feed-in or feed-back to each other, and how they dampen or reinforce each other.

There seems to be widespread consensus that pressures from the coercive sphere are strongest as they can simply not be resisted. These pressures are generally exerted by the government or companies' shareholders and have to be adopted even if a firm does not want to (Clemens & Douglas, 2006; Devereaux & Zandbergen, 1995; Scott, 2001; Zucker, 1987). Coercive pressures can work in two ways: reactively by conforming to existing, and pro-actively by anticipating future (expected) rules and regulation or shareholder and market expectations (Aragon-Correa & Sharma, 2003; Bansal & Roth, 2000). In the latter situation, organization can create a competitive advantage by staying ahead of their competitors thereby creating stakeholder and shareholder value, (Bansal & Clelland, 2004; Porter & van der Linde, 1995), and prevent avoid expensive capital refits by staying ahead of legislation (Clemens & Douglas, 2006; Lampe, Ellis, & Drummand, 1991). New pollution regulations are an example of how organizations are reactively forced to adopt new practices and work to higher standards (Lampe et al., 1991; Vredenburg & Westley, 1993). The fact that organizations can work to these higher standards, at the same time legitimizes the rules and regulations.

Important to note is that, whereas coercion can be a strong accelerator for change, as new norms, rules or regulations can be enforced on large populations, they are no origin of change. It is the other spheres, with new ideas, values, knowledge and innovations, that can inspire new rules and competitive standards. Coercion can increase the pace and unavoidability of these processes and is thereby a force that reproduces rather than generates institutions (Zucker, 1987).

H1a: Pressures from the coercive sphere are powerful enough to force individual organizations to strategic responses.

H1b: Pressures from the coercive sphere are powerful enough to enforce institutional change.

The effects of pressures from the social sphere on strategic responses are much more debated (Bansal & Roth, 2000; Lawrence & Morell, 1995). Stakeholders for instance, may encourage organizations to certain behavior, however, if there are no coercive elements supporting such claim, this often leads to ceremonial adoption (Clemens & Douglas, 2006). An example are Shell's operations in the Niger Delta that have been characterized by much social upset as a result of major events such as the kidnapping of Shell's employees, low life expectancies of the local Ogoni due to pollution, and the execution of Ogoni human rights activist Ken Saro-Wiwa (Bührman, 2011). Despite the media attention and court cases that have followed from these events, the local situation has in broad lines remained unchanged over a period of about 30 years. In this example, the pressures from the social sphere were unable to set in motion pressures from other spheres: Shell's economic performance was not substantially affected, industry standards were not changed, nor were international regulations introduced that could change the situation (Bührman, 2011).

H1c: Pressures from the social sphere are a necessary but not a sufficient condition for organizational compliance. They will often need the support of pressures from the coercive and or action sphere to enforce compliance.

The influence of the social sphere may not have an effect in the short run, and on the organizational level, but can - in the long run – have a strong effect on the field level. In a way, cognitive pressures on the individual level are underlying all others, as all 'rationalized myths' in the form of rules, norms or values, are formed by people

that bring their own interpretive schemes, beliefs, knowledge and experiences when interacting with others. These cognitive maps build up cultures, shared understandings and beliefs on the inter-personal and societal level, which opinions can be aired in the public domain. These personal and inter-personal opinions and preferences feed-in to the action sphere as individuals take their beliefs and opinions with them to work, and these form the basis for the knowledge they aim to acquire, and for instance the practices they consider acceptable. In that way, cognitive and social normative pressures from the social sphere feed into the action sphere. In that way, the social sphere forms a generally slow, but potentially strong seed for change in the other spheres.

H1d: Pressures from the social sphere form a seed for institutional change as they feed into the action and coercive sphere.

Pressures from the action sphere can, in a similar manner, slowly feed into the coercive sphere. Recent developments in our thinking about sustainability illustrate this process. As knowledge developed on the dangers of climate change and scarcity of resources (Hart, 1995), these insights fed into the business world, politics and the social sphere. Individuals and interest groups campaigned for sustainability and the social attention increased the pressure for further research and the development of new business models. Organizations, in response, implemented new business models and new forms of standardization and certification were developed (e.g. ISO 14000) to signal conformity to external pressures (Bansal, 2005; Bansal & Roth, 2000). Analogous to this process, governments and inter-governmental bodies absorb new knowledge and see what front-runners are capable of. They use this information to 'up' the industry standards and use it as inspiration for new rules and regulations (Aragon-Correa & Sharma, 2003; Clemens & Douglas, 2006). Characteristic of this

process is that, just like influences from the social sphere, professional normative pressures emerge slowly and indirectly feed into institutional processes through adaptations of educational curricula, professional standards, networks, conferences, consultants and other such routes (Greenwood et al., 2002). This is hence a slow process that will mostly be in the background of other more visible pressures.

H1e: Pressures from the action sphere form a seed for institutional change as they feed into the social and coercive sphere

Analogous to social normative pressures that may be fast and fierce but can quickly fade, mimetic pressures may also come fast in management hypes and ceremonial adoption of business fads, but fade just as rapidly (Rao, Greve, & Davis, 2001). Real change hence depends on the bottom up influence exerted by new knowledge and new business practices.

The hierarchy of pressures will not always be the same. The goods that are being transacted will determine the problems faced, and the solutions will have to fit with the conditions as set by the institutional and competitive restraints (Leblebici et al., 1991). As DiMaggio and Powell (1983) already noticed, competitive pressures may play a dominant role in highly competitive markets, whereas normative institutions play a larger role in the public domain. The hierarchy will also differ across fields and countries, as the general context in which actors operate differ. Bansal and Roth (2000) for instance conclude that strategic responses to institutional pressures differ between Japanese and British companies, with Japanese firm reacting predominantly to formal authorities such as Keidanren¹ and MITI², and British firms primarily avoiding bad publicity.

¹ Japan Business Federation

² Ministry of International Trade and Industry

The upward and downward dynamics of the competitive and institutional pressures and spheres is schematically represented in Figure 3.

The current conceptualization of pressures feeding into other pressures and spheres helps to describe and examine the interaction between pressures, and to examine how the dynamic interplay between pressures affects both organizations and the field. The conceptualization creates a loose hierarchy of upward logic of pressures that feed-in to each other to form a process of institution generation, and a downward logic of reinforcement of existing institutions (reproduction). The coercive sphere is solely aimed at reproduction (Zucker, 1987), whereas the social and action sphere are can both generate and reproduce institutions.

With this logic comes the conclusion that a positive echoing of one pressure in another pressure will strengthen the joint pressure and will reinforce both the force towards isomorphism, and change. To illustrate this with an example, if social developments call for more sustainable businesses, state-of-art knowledge makes clean production possible, and rules and regulations sanction pollution, the joint force of these pressures will be much bigger than when individual pressures are at work. To further theorize this idea, the analogy is sought in a wave metaphor.

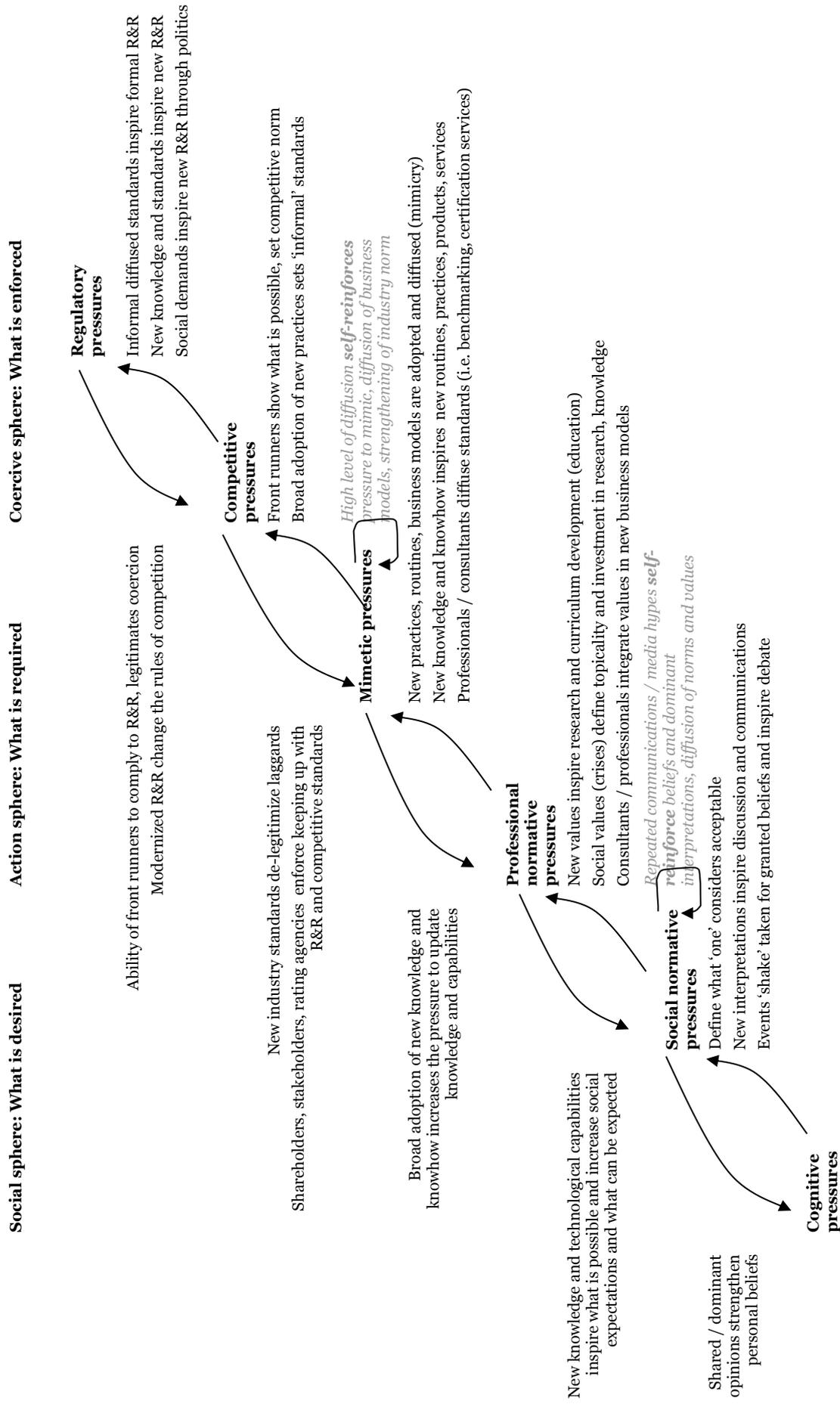


FIGURE 3. The upward and downward dynamics of pressures

WAVES OF CHANGE

Imagine a stone thrown into the water. It is the stone that sets the water in motion, however, it is the strength and the interaction between waves that determine how far the influence of that single event will reach. Competitive and institutional pressures can be conceptualized in a similar way; as waves of pressure that propagate through a field that die out, or get reinforced so that they can bring about change.

The central concept from wave theory is interference which is the interaction between two or more waves. This interaction can lead to the creation of a new wave pattern, the amplification of wave strength when crests meet crests (positive interference), or the reduction of wave strength when waves cancel each other out (negative interference).

Interesting analogies and insights can be obtained from this metaphor, some of which have already been described in current studies on institutional theory, others that inspire new insights. First, thinking in waves emphasizes that it is not a single wave that can create newness or change, as one wave in itself cannot create interference. Analogous to this, one could argue that in our socially constructed reality it is not the single actor or event that can create change, but should rather be seen as a starting point, that in interaction with other events and actions can create a momentum for change. This process has been described by for instance Munir (2005) and Greenwood et al (2002) who emphasize the process of co-creation of institutions in processes of theoretization, negotiation and institutionalization. Even a seemingly revolutionary event, that 'as one wave' appears to enforce conformity or change a field, should be conceptualized as being carried by a sea of small events and actions.

Second, interference of waves can create new patterns, which inspires the thought that the confrontation between spheres and pressures (different insights,

beliefs, knowledge and experience) can create novelty. This is well known insight from innovation theory (Schumpeter, 1934), but has so far not been examined in institutional theory as pressures are usually not studied in combination and novelty is assumed to come from outside, or the fringes of, a field, rather than from the interaction of pressures within the field (Leblebici et al., 1991).

Third, whereas individual pressures might not be of much significance, they can be amplified if they are met by similar pressures that move in a similar direction (positive interference). The opposite can also happen. If pressures conflict with each other (actors have different interests, it is not clear in which direction a development should go), even strong pressures can be cancelled out as the pressure is not supported or is challenged by other actors, actions and/or developments (negative interference). The wave metaphor hence inspires an additional conceptualization of institutional processes: next to the explanations of variation and institutional change that have been suggested in existing studies, it adds the idea that the interaction of pressures leads to different outcomes than simply the sum of pressures. Interactions can lead to novelty, to increased momentum for change, and to pressures cancelling each other out.

Pressure Interaction and The Room For Agency

As argued previously, in most studies the room for agency of organizations has been explained by one or two institutional pressures relative to the strength of organizations. Invariably, Oliver's (1991) 'cause-constituents-content-control-context' framework has been used to map the process in which organizations can vary their strategic reactions to institutional pressures. This does not paint the full picture though as pressures do not work in isolation. Pressures interact and their interactive effect cannot only have a different effect on the organization under pressure but also

on the field when organizations respond individually and collectively to these pressures. Three situations can occur:

First, pressures can function in isolation when only one pressure is active, e.g. rules and regulations are set by the government and companies simply have to comply, or customers demand more ethical behaviors of the banks and banks have to reconsider their bonus schemes as a result. For this situation, the framework of Oliver (1991) can adequately predict how the room for agency of an organization is determined by the relative strength of a pressure and the power of an organization. The weaker the enforcement mechanisms are, and the larger the incongruence between external demands and technical imperatives, the more room for agency organizations will have to construct their own meaning of compliance and implement deviant strategies (Oliver, 1992).

H1a: An organization's room for agency will be determined by cause-constituents-content-control-context' (Oliver, 1991).

In the next two situations, also the interaction between pressures is included, leading to an additional explanation for the room for agency of organizations.

Second, pressures can reinforce each other when one pressure sets the other in motion and one or more pressures, jointly, pressurize an organization. While one type of pressure on its own might still be defied, the joint effect of pressures in a similar direction might lead to a pressure so inescapable that organizational agency is very limited. An example of this is the Shell-SEC³ reserve crisis (Taminiau, Oegema, Klein Woolthuis, Kleinnijenhuis, & Schouten, 2008; Taylor, 2006). In 2004 Shell was found not to book its reserves conform the SEC rules. Despite the fact that Shell was a

³ SEC is the official Federal Agency U.S. Securities and Exchange Commission that control and sanctions compliance to rules and regulations.

powerful player, that the rules were outdated and heavily contested, and that nearly all other oil companies were also only ceremonially complying to the rules, Shell did not get any room for agency because the SEC had sanctioning power, and the shareholders and direct stakeholders in the financial markets demanded conformity of Shell. In other words, the coercive pressures (regulative and competitive) started reinforcing each other which gave Shell no other choice but to conform to external demands.

H1b: An organization's room for agency decreases when pressures mutually reinforce each other.

Third, pressures can cancel each other out when pressures contradict each other, leaving an organization uncertain which pressure to conform to. For example, whereas many consumers and NGO's fight for more sustainable industry practices (such as organic food, no child labor), industry norms and regulations do not widely support these social demands, and markets for these products are often still marginal. The variance within and between the institutional and competitive demands steering in different directions, leaves an organization with uncertainty which pressures to comply to and hence with more room for agency. An organization can react in two ways. First, in the face of uncertainty an organization may mimic more successful organizations (DiMaggio & Powell, 1983) in which way isomorphism will be increased. Second, an actor might covertly or openly use its room for agency by which act isomorphism will be decreased. Covertly an organization can decouple: it can pretend to conform to external pressures whereas in reality it adopts a strategy that is best for internal core functions (Scott, 2001; Westphal & Zajac, 2001). Such act is also described as ceremonial adoption, window dressing or buffering (Clemens &

Douglas, 2006; Oliver, 1991). Organization may also decide to only conform to the demands of one, or the most powerful stakeholders.

H1c: An organization's room for agency increases when pressures cancel each other out.

In all three situations organizations might choose a same strategic action, from compliance to resistance, but the process leading to this action might differ considerably. Whereas the *cause-constituents-content-control-context* logic explains the room for agency as the degree to which organizations can resist single pressures, our proposed framework adds the interaction of pressures as an additional explanation. The exclusion of this interaction in earlier studies can in our view lead to a misinterpretation of events and entrepreneurial actions, as alternative explanations for strategic actions are not considered and outcomes can for instance be attributed to 'institutional entrepreneurs' whereas the underlying processes were much more complex. Suddaby (2010) also points to this risk and states that the current focus on institutional entrepreneurship seems to have led to a story of super-heroes.

Pressure Interaction and The Creation Of Change

In this article, the origin of change is seen as the stone thrown into the water. It is something or someone that creates a new situation that can potentially lead to the questioning and change of existing institutions. This starts with new ideas, ways of thinking, or actions and interactions that are different from the existing. There are four options for the creation of variation in a field:

Entrepreneurial and strategic action: Entrepreneurs, large organizations, NGO's or other actors can create an impetus for change by individual and/or collective action (Dimaggio, 1988; Greenwood et al., 2002; Leblebici et al., 1991; Leca

et al., 2008). Organizations can choose to defy or actively manipulate the rules of the game (Oliver, 1991). Such actions can merely be in response to developments as they evolve (e.g. new social requirements) or in anticipation of new, expected institutions such as future rules and regulations. Actors can also choose to become an institutional entrepreneur because their cognitive frame tells them that this is 'the right thing to do' (Bansal & Roth, 2000). It is found that in practice, the introduction of novelty mostly comes from outsiders or the fringes of a field, as those actors have less to lose (Leblebici et al., 1991).

Decoupling events: A second start for change can be an event that brings to light widespread decoupling of practices (Scott, 2001; Westphal & Zajac, 2001). Decoupling can be the result of unintentional actions, e.g. if practices have come into disuse (Leblebici et al., 1991), or it can be intentional defiance of institutional requirements (Oliver, 1991). Decoupling strategies can lead to change in two manners. First, if the decoupling practice becomes widespread, the new, informal institution may delegitimize and de-institutionalize the 'outdated' one (Greenwood et al., 2002; Oliver, 1992). Second, if the decoupling practice leads to positive results, for instance better performance, this will lure competitors to mimic their practices, and as a result force the front-runners to 'really' implement the practice to stay ahead of their imitators.

Crisis events: A third source of change are disasters in our natural environment such as tsunamis or earth quakes, plant explosions or for instance large oil spills. A good example is the earth quake and resulting tsunami that seriously damaged Fukushima's nuclear plant. This disaster led to a shockwave of fear and led Germany to stop its nuclear program.

Interference of pressures: The fourth source for change is the previously described interaction between pressures. Already in 1934, Schumpeter observed that

innovation is mostly the result of new combinations (Schumpeter, 1934). This also applies to the co-creation of new institutions. For instance, social desires can inspire new industry standards, and scientific insights from one discipline can cross over to another creating new knowledge. These interactions are not limited to a field: pressures can be nationwide or cross borders, and people and insights from different industries, countries, and cultures can mix and jointly create new ideas, products and eventually institutions. The conclusion from Leblebici et al. (1991), that change is most likely to come from the fringe of a field, should hence be extended to that change can also originate from interaction within and between pressures, spheres and fields.

H2: Strategic actions, wide spread decoupling practices, disasters and/or pressure interactions can form a start for change.

Conditions for the Diffusion Of Change

More important than the origin of change though, is the diffusion of novelty that can lead to institutional change. Not all events or (inter)actions have the potential to set off a change process: for instance, many entrepreneurial actions go unnoticed, and many events only create short lived media hypes without real consequences. What can explain why some events, actions or interactions do lead to change, while others do not?

First of all it is important to note that events or actions do not take place in a vacuum, but are most likely the visible manifestation of an undercurrent of all sorts of developments and interactions. Van Gestel and Hillebrand (2011) describe how periods of apparent institutional stability are characterized by disagreements and ongoing negotiations behind the scenes. Leblebici et al., (1991) in a similar vein conclude that institutional arrangements solve coordination problems but thereby

also introduce distributional outcomes that are not advantageous for all, with intensified competition and lobbying for adjusting the 'rules of the game' as a result. Seo and Creed (2002: 226) conclude that these underlying contradictions are not only a driving force of institutional change but are also key to resolving the paradox of embedded agency, and they hence call for theoretical frameworks that unveil how actions by embedded agents can lead to institutional change. Conceptualized in this manner, institutional processes always carry within them the seeds of change, without needing external explanations (such as entrepreneurs). The question remains why sometimes change comes about, and sometimes not.

Substance: Contradictions as driver of change.

Novelty arising from actions, events or interactions, will only lead to change if the novelty carries enough substance. Substance refers to the essence of the matter. The novelty that was introduced (be it a discussion, product, thought, or controversy) has to have meaning to constituents, so that an active interaction of thoughts, ideas, opinions follows in a process of negotiation, influence, bargaining and perhaps even coercion. If novelty does not carry this quality, it will be unable to set into motion processes of de- and institutionalization. Munir (2005) argued how not the event, but the theorization was crucial to explain change. A crucial condition for the institutional change is hence that the introduced novelty has enough substance to allow for theorization. Take three famous oil crises:

The Exxon Valdez created a large oil spill near Alaska in 1989. In this case it was the personal failure of the ship's captain, who was charged with misdemeanor, that was responsible for the disaster. The case did not bring to light underlying structural problems with the industry, but did inspire a new standard for ship

building which now must be built with double hulls, so that if the outer skin is punctured, no oil will leak.

The Shell-SEC case over oil reserve bookings in 2004 had more implications, despite the fact that no damage was done to ‘normal’ people. This crisis brought to light a major contradiction within the industry, being the fact that oil companies had widely adopted new oil reserve estimation techniques, whereas the regulating authorities still operated on the basis of the old rules. Whereas in the short run Shell had to conform to external pressures, six years after Shell’s ‘wrongdoing’ the SEC rules were modernized. The new rules were written in a joint consultation process between the SEC, oil experts, and oil companies (Reijn, 2010). Decoupling in the action sphere hence set in motion developments the coercive sphere, as new knowledge and practices inspired modernization of rules. In the long run thus, not the event, but the process it set in motion led to institutional change.

The BP Deepwater Horizon oil spill in 2010 brought about most change though as the spill unveiled several contradictions: the spill brought to light out of date safety practices, an ill functioning regulating and controlling authority MMS⁴, and social and political discussion of the desirability of deep sea mining (Bührman, 2011). The case is similar to the Shell case in the sense that in the short term BP has no room for maneuver as the joint pressures are large (BP saw its stock value drop over 54% in 2010), but in this case, the chains of actions and reactions leading to institutional changes are much faster as it set in motion all spheres and pressures. The spill severely affected nature, the fishery industry with a fishing ban in the Gulf and the tourism industry of the coastal states of Alabama, Louisiana, Mississippi and Florida

⁴ Minerals Management Services, a federal agency within the interior department of the United State of America, that has been accused of failing to inspect off shore oil leases and relying too much on industry data for the collection of royalties and other fees related to oil and gas. This as a result of their questionable double task of 1) giving out licenses and collecting royalties and fees for these, and 2) controlling rules and regulations.

in fear of the arrival of oil on the beaches thereby setting in motion the social sphere. It also set in motion the coercive and action sphere. Already in 2010 lawmakers were seeking to pass legislation to increase the liability for oil spills (to make BP pay more of the damage and increase the penalty for future spills), and a six month moratorium was enforced by the United States Department of the Interior (DOI) forbidding offshore drilling below 150 meters. This moratorium suspended work on 33 rigs which affected other oil companies, in Louisiana for example 17 percent of all jobs are in the oil industry, and formed the upshot for a new offshore drilling moratorium and the introduction of a new energy reform bill in the United States House of Representatives for considering a company's safety record for leasing decisions. Also the MMS⁵ was

These three cases illustrate how events can set in motion spheres depending on the extent to which the event unveils discrepancies between what is desired, required or enforced. Whereas the Exxon-Valdez 'only' unveiled the technical weakness of the then prevailing ship building standard, which was a consequence adjusted (contradiction within the action sphere), the Shell crisis sets in motion the action and coercive sphere as it unveils the decoupling between regulation (coercive sphere) and practices (action sphere), and the BP crisis sets in motion all spheres. The contradictions within and between spheres can be seen in figure 4.

⁵ Minerals Management Service, the agency that gives out licenses to oil companies to exploit wells and controls compliance to rules, regulations and safety standards. As a result of the crisis, and the unveiling of the inherent conflict of interest between licensing and controlling functions, the MMS was split up into Bureau of Ocean Energy Management, Bureau of Safety and Environmental Enforcement, and Office of Natural Resources Revenue .

Diffusion: Pressure interference as a driver of change

Next to novelty being created, and having substance to allow for theoretization, novelty must also be diffused. This can only be the case if novelty is adopted, either voluntarily or enforced. Pressures towards change will still be stronger when complementary forces are at work. For positive interference to take place between pressures, certain conditions should be met. This will be the case when:

- a. actors and/ or fields have a *connection* through networks or other forms of communication or influence, which is also referred to as interconnectedness (Benson, 1977; Seo & Creed, 2002). In short, there should be actors or other mechanisms that ‘transport’ change. Much emphasized is the role of networks in transferring beliefs, myths and professional practices (e.g. Fiss & Zajac, 2004; Meyer & Rowan, 1977)
- b. pressures are exerted in a similar *direction*, i.e. when there is relative consensus on the direction in which a field should develop in all spheres. Pressures should not contradict each other thereby canceling out the waves’ pressure. An example of positive interference is when regulations formalize social demands regarding corporate social responsibility by organizations, whereas an example of pressures cancelling each other out is when new developments are frustrated by vested interest (e.g. old rules and regulation or shareholder’s short term financial interests block change).
- c. pressures have a similar *timing* so that they can strengthen each other, i.e. media attention in the social sphere can be fierce but is mostly short lived, whereas the development of new knowledge and educational curricula is slow and takes place behind the scenes. The different nature of these waves,

characterized by their own rhythm and logic make it unlikely that they reinforce each other over a short time period.

This is not the full story though. In physics, waves can have different frequencies but the same amplitude and direction, for instance, a second wave may wander, temporarily decreasing the level of correlation between the waves. This still enables the waves to interfere positively at those moments that the waves are in phase and crests meet crests. Translated into institutional theory this implies that (as an example) if societal forces require the educational system to change, this may be a slower process than the public likes, but if the desired change is of the same character and in the same direction, these fast (media) and slow (educational programs) waves of change are likely to positively reinforce each other in the long run. Additionally, some pressures are direct and often fast through one-on-one control relationships (shareholders, regulators) and others are indirect and often slow as they can only exert influence (education, social preferences).

H3b: Events and/or entrepreneurial actions will only lead to institutional change if the pressures they unleash reinforce each other because their direction and timing is similar and because there are connections through which influences can be transported.

CONCLUSION

The inclusion of pressure interaction into the institutional framework helps to understand how pressure and response chains are formed and how institutions are not only frameworks for action but also the products of action (Holm, 1995). The insights and hypotheses developed in this article contribute to existing insights in various manners:

First, the categorization and ordering of competitive and institutional pressures in a framework, and ascribing pressures to spheres and a level of analysis provides a basis for a more thorough separation between pressures, thereby enabling future empirical work on the interaction between pressures, and pressures and responses. The ordering has also coined additional hypothesis on the hierarchy of pressures, and their potential to reproduce or generate intuitions.

Second, this article examines how – by including the interaction between pressures and spheres – one finds additional insight into central questions in institutional theory: the structure versus agency debate (Heugens & Lander, 2009; Oliver, 1991) and the paradox of embedded agents (Holm, 1995). In this article it is theorized that the room for agency is not only a function of the willingness and ability of organizations to conform to certain pressures, but that it is co-determined by the joint effect of pressures which may be different, greater or smaller than the (sum of) individual pressures. With regards to the paradox of embedded agents, it is theorized that the origin of change cannot only be found in strategic actions, but also in the interaction between pressures and spheres. Through the confrontation between pressures and spheres, novelty can be created much along the lines of Shumpeter's (1934) new combinations. The role of agency and agents, should hence be considered in the light of these additional arguments. This does not mean that structure is an iron cage from which no escape is possible (Heugens and Lander 2009), but does entail that agents and agency are a necessary but no sufficient condition for institutional change.

Furthermore, the diffusion of change is not only seen as a product of professionalization and for instance mimicry, but also conceptualized as the result of pressure interaction, by which interaction pressures can be amplified or cancelled out, depending on whether there are connections through which influence can be

'transported', there is a shared understanding of the desired direction for change, and a similar timing of pressures being exerted.

Lastly, it is claimed, that actions or events can only lead to institutional change if they bring to light contradictions between pressures or spheres. Only in those cases the novelty being introduced in a field will have enough substance to enable theoretization, and as a result of that, de- and re-institutionalization.

NOTES FOR FURTHER RESEARCH

The proposed theoretical framework opens up many avenues for further research. Future research could reproduce existing studies on processes of institutionalization and de-institutionalization while including all pressures, also competitive pressures. As Heugens and Landers (2009) and Muzruchi and Fein (1999) point out, current studies cannot convincingly attribute outcomes to institutional forces, as they do not measure all institutional pressures, nor include competitive pressures that might be accountable for the outcome.

Studies that include all pressures, could empirically test the hypotheses on the interaction of pressures; whether they can indeed lead to the creation of novelty, and whether one can empirically prove that pressures can reinforce each other or cancel each other out. Such insights would provide a richer insight into institutional processes and would do justice to the acknowledgement of the importance of these interactions from as early onwards as 1983 (almost 30 years).

Another focus could be on the hierarchy of pressures and its stability across fields, time and geographical locations. As Bansal and Roth (2000) indicated, organizational responses do vary in different geographical regions. Likewise, DiMaggio and Powell argued that the importance of pressures might differ in more or less competitive environments (1983). Furthermore, time might play a role. An

interesting study would be to see how the introduction of social media changes the institutional landscape as it give unorganized powerless individuals, the possibility to create a joint 'voice' to counter existing pressures (e.g. the Arab spring).

A last recommendation for further research would be the further development of the concept of substance. Whereas contradictions are in one way or another acknowledged to play a crucial role in the creation of change (Benson, 1977; Seo & Creed, 2002; van Gestel & Hillebrand, 2011), the conceptualization and 'quantification' of how much contradiction is needed to lead to change could be strengthened. This calls for the study of events, starts of institutional change processes, or entrepreneurial actions *that did not lead* to institutional change. What went wrong? Why did those not set in motion pressures that overthrew old, and established new institutions? There have been no studies on this, with which there is a serious risk that the criticism of Suddaby (2010) that the current focus on institutional entrepreneurship has led to stories of superheroes, can be extended to the general conclusion that the exclusion of failure stories can likely lead to conclusions that do not capture the full story.

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