

## INTERPLAY OF INSTITUTIONAL AND CULTURAL THEORIES OF ORGANIZATION

### Međusobni uticaj institucionalne i kulturalne teorije organizacije

*ABSTRACT: In this paper, similarities and differences between the institutional theory of organization and organizational culture theory are analysed, and how these theories complement each other is highlighted. This study posits that both the institutional and cultural theories of organizations have the same research subject and that they approach it from the same research paradigm. The level of analysis distinguishes the two, and therefore, an interaction between the institutional and cultural theories of organizations is useful. Organizational culture theory supports the institutional theory in explaining the underlying factors and the forms of the implementation of institutional pattern in organizations. The institutional theory of organizations supports the organizational culture theory to expand its findings regarding the sources of organizational culture.*

**KEYWORDS:** institutional theory, organizational culture, organizational structure, organization

*APSTRAKT: U radu se analiziraju sličnosti i razlike između institucionalne teorije organizacije i teorije organizacione kulture i ukazuje se na način na koji se ove dve teorije dopunjuju. U radu se tvrdi da obe teorije imaju isti objekt istraživanja i da mu pristupaju iz iste istraživačke paradigme. Ono što ih razlikuje jeste nivo analize i zbog toga je njihova međusobna interakcija korisna. Teorija organizacione kulture pomaže institucionalnoj teoriji u objašnjenju faktora i oblika implementacije institucionalnog obrasca organizacije. Institucionalna teorija organizacije pomaže teoriji organizacione kulture da proširi svoja saznanja u vezi sa izvorima organizacione kulture.*

**KLJUČNE REČI:** institucionalna teorija, organizaciona kultura, organizaciona struktura, organizacija

## Introduction

During the second half of the twentieth century, organizational theory was an area of considerable debate, with a very interesting turn of events. After a relatively long period in which rationalist and objectivist theories of organizations prevailed, two theories emerged that explained the structuring and functioning of organizations from a completely opposite viewpoint (Kondra and Hurst, 2009; Pedersen and Dobbin, 1997, 2006). From the 1950s to the 1970s, the dominant theoretical explanation of the structure and processes of all organization types, especially business organizations, was based on the assumption that objective factors and the rationality of decision makers had an impact on organizations. Thus, the contingency theory of organizations explained that the structuring and functioning of organizations resulted from the impact of objective, external factors (contingencies) such as environment, (Lawrence and Lorsch, 1969), technology and size (Woodward, 1965), stage of an organization's life cycle (Greiner, 1972), or strategies (Chandler, 1962). The process of organizations' structuring and of shaping the processes within them was treated as a rational decision-making process, in which the organization's leader played a key role. The result of such an approach is a configurational perspective of organizations, according to which the organizational structure is actually a configuration of internally consistent components that are congruent to external factors (Mintzberg, 1979). However, since the 1980s, two very interesting theories have emerged, representing an antipode to the prevailing rationalist and objectivist theories: institutional theory of organizations and organizational culture theory. Both theories explain the structuring and shaping of processes within organizations in terms of interpretivism and social interactions, and not rational decision making. Unlike the rationalist and objectivist theories of organizations, both the organizational culture theory and institutional theory of organizations (hereinafter the institutional and cultural theories of organizations) find the ultimate source of organizational structure and functioning in the meaning of the reality that an organization's members create in the process of social interaction, as described by Berger and Luckmann (1967). The process of organizational structuring is, in both theories, a subjective process of creating meanings through social interactions. Accordingly, the focus of the institutional and cultural theories of organizations is no longer as much on formal organizational structure, as was the case with the contingency theory of organizations, as it is on behavioural patterns, regularities in organizational functioning, and the models of interaction within organizations (Pedersen and Dobbin, 2006). For both theories, the most important discussion point is the stable pattern of processes, decisions and interactions within organizations. This is because they determine the output, regardless of whether they are also formally sanctioned through structure, systems or procedures. Therefore, the institutional and cultural theories of organizations have the same object of research, which they approach in a similar manner and from a similar perspective (Kondra and Hurst, 2009; Pedersen and Dobbin, 2006). Thus, it could be assumed that researchers

dealing with the institutional and cultural theories of organizations constantly communicate and exchange concepts and ideas; however, this is not the case in practice. The academic communities around the two theories are separate: they do not interact and do not exchange ideas and concepts. Such a state of affairs is unsatisfactory, and the cause of it is that, despite important similarities, there are also very significant differences between the institutional and cultural theories of organizations. These differences lie in the level of analysis applied by the two theories; however, it should not result in insufficient intellectual interaction and the lack of mutual exchange of ideas between their respective advocates. Both theories would have much to gain if interaction between them could be established in both a theoretical and empirical plan.

The basic hypothesis of this paper is that a mutual exchange of ideas and concepts between the institutional and cultural theories of organizations would be beneficial to both. This paper identifies their similarities and differences as well as the potential contributions that they could make to each other. The contribution of the paper is twofold. It shows how the theory of organizational culture can improve the institutional organizational theory by explaining the process of acceptance and implementation of institutional patterns within organizations and how the institutional theory of organizations can improve the organizational culture theory by explaining the process underpinning the creation of organizational culture.

This paper is based on the previous works of Kondra and Hurst (2009) and Pedersen and Dobbin (2006), which deal with the relationship between the institutional and cultural theories of organizations. However, whereas Kondra and Hurst (2009) develop only the impact of institutionalization on the creation of organizational culture, this paper also analyses the impact of organizational culture on institutionalization. In addition, the process of institutionalization of organizational culture is explained somewhat differently. Furthermore, Pedersen and Dobbin (2006) view the relationship between the institutional and cultural theories of organizations only through the issues of organizations' isomorphism and uniqueness, whereas in this paper the said relationship is more widely observed.

The paper is organized as follows: first, the basic postulates of the institutional and cultural theories of organizations are presented. Next, their similarities and differences are explained in more detail. Finally, how the institutional theory of organizations can, through its concepts, improve organizational culture theory, and vice versa, is pointed out.

## **Institutional theory of organization**

Institutional theory primarily developed within sociology and political science with pioneering institutionalists such as Spencer, Sumner, Cooley, Hughes, Marx, Weber, Durkheim and Parsons (Scott, 2001). In the 1940s, institutional theory entered the field of organization with the appearance of the first organizational institutionalists: Selznick, March, and Simon. Then, in the second half of the twentieth century, neo-institutionalists emerged in

both economics and political science. The key concepts of organizational neo-institutionalism were set by Meyer and Rowan (1977), Zucker (1977, 1983), DiMaggio and Powell (1983), Scott (1987, 1991, 2001), Oliver (1991, 1992), and Greenwood and Hinings (1996). This stream of institutionalism and organizational theory remains alive and active, producing a great number of works as well as new concepts and models.

The central argument of institutional theory is that in modern, post-industrial societies the implementation of institutional pattern replaces rationality as the basis for ensuring legitimacy of organization in the process of social resource allocation (Deephouse and Suchman, 2008; DiMaggio and Powell, 1983; Meyer and Rowan, 1977; Scott, 1987, 2001; Scott and Meyer, 1994). In industrial societies with early and developed capitalism, the legitimacy of organizations in using social resources was based on technical and economic rationality or efficiency measured by the inputs–outputs ratio. However, in modern, post-industrial societies, technical rationality and economic efficiency, as the basic criterion for organizations' legitimacy, are replaced by the implementation of institutionalized pattern of structure and functioning of the said organizations (Scott, 1991, 2001). Organizations in many sectors of modern society prove their legitimacy of being a social resources user not by shaping their structure and functioning according to technical rationality and economic efficiency criteria, but by adjusting them to the institutional patterns developed in their environment. Institutional patterns are created in the process of institutionalization in certain sectors of society.

The key concept of institutional theory is 'institution' and its role in regulating processes in society. According to this theory, institution is a 'rationalized truth' or myth about how certain processes and structures in some sectors of society must be implemented (Meyer and Rowan, 1977): it is a chain of standardized social interactions legitimized by a particular set of assumptions and values. Institution is a social order or pattern that has achieved a certain degree of stability and self-perpetuation. Institutions are 'socially constructed systems of roles or programs that produce routines' (Jepperson, 1991: 149). Institutionalization is a process through which some activity, interaction, or structure in society becomes an institution. This process has social construction of reality as its basis (Berger and Luckmann, 1967) and consists of three phases: externalization, objectification and internalization (Scott, 2001). In modern societies individuals and organizations jointly 'construct reality' by determining the meanings of occurrences and events that surround them. Therefore, if some innovation applied by one organization in the sector to its structure, processes or outputs, is interpreted, in the process of social construction of reality, by other organizations in that sector as rational and efficient, then it will gain a value connotation (Ashworth, Boyne and Delbridge, 2007; DiMaggio and Powell, 1983). As such, 'infused with value', this action or innovation will be applied by other organizations in the sector (DiMaggio and Powell, 1983). It will be interpreted as rational and efficient and will slowly be institutionalized, that is, turned into an imposed standard, pattern, rule, 'rationalized myth' or 'social, impersonal prescription' of what organizations in the field should do (Meyer and Rowan, 1977; Zucker, 1977). However, it is

very important to understand that the institutionalized action or innovation is disseminated throughout the sector, not because it is technically rational or economically efficient, but because it is labelled as such in the process of social construction of reality (Jepperson, 1991; Meyer and Rowan, 1977). In this case, organizations do not have much choice; they must accept and implement the institutionalized patterns of structure and processes to prove their legitimacy as users of social resources. The consequence of institutionalization in a sector is, therefore, that all organizations within it implement the same institutionalized patterns in their structures and functioning. Thus, organizations become increasingly isomorphic, that is, their structures and way of functioning resemble each others more (DiMaggio and Powell, 1983).

In organizational institutional theory, there is general agreement on the three basic types of institution that constitute institutional pattern of structure and functioning of organizations: regulative, normative and cultural-cognitive. Scott (2001) calls them the 'pillars of institutions'. In fact, these are three different forms of the same thing: the institutionalized rules regulating the life and work within an organization. The regulative pillar of institution relies on formal regulations, such as laws and similar rules enacted by formal authorities, and compliance is enforced by formal sanctions. The normative pillar relies on values and norms developed within a particular profession that are imposed on organizations in which those professionals work (Ashworth et al., 2007). The cultural-cognitive pillar refers to institutions emerging directly from a mutual construction of reality and influencing organizations' members through cognitive maps (Scott 2001).

As there are three basic types or elements of institution, there are also three mechanisms through which they are imposed on organizations: coercive, normative and mimetic (DiMaggio and Powell, 1983). Regulative patterns are imposed on organizations through a coercive mechanism based on rewards and punishments and enforced by a specific authority, most often the government. Normative patterns are imposed on organizations through normative mechanisms, which comprise creating and accepting professional values and standards of behaviour in a particular area of work. The basis of normative mechanisms is the commitment that the members of a certain profession develop to standards and rules governing that profession. Cognitive-cultural patterns are imposed on organizations through a mimetic process. The essence of mimetic process is objectification of values, norms and beliefs that have been created by the leading organizations in the sector. The consequence of these three mechanisms for imposing institutional patterns is regulative, normative and mimetic isomorphism (DiMaggio and Powell, 1983; Scott 2001), that is, organizations in one sector becoming increasingly alike because they are structured and function according to the same institutional pattern.

The final important point to consider in institutional theory is the reaction of organizations to an imposed institutional pattern (Oliver 1991). This is not so often discussed in the literature, since during the early development of the institutional theory of organizations, the dominant assumption was that organizations had no choice but to accept the imposed institutional pattern of

structure and functioning to prove their legitimacy. The exception was the concept of decoupling that correlated this process to a situation in which an organization was put under pressure to implement a technically irrational pattern (Meyer and Rowan, 1977). Later, the most comprehensive summary of organizations' possible reactions to the imposition of institutional structures and practices was presented by Oliver (1991). In her view, organizations may react to pressures from the institutional environment in five basic ways that vary according to the degree of an organization's activism: 1) conforming, or accepting the requirements and implementing the institutionalized rules, practices and structures; 2) compromise, or obeying the institutional requirements but adjusting them to the organization's own capacities; 3) avoidance, or only symbolically accepting and implementing practices and structures, while in reality continuing with existing practices (this corresponds with decoupling); 4) defiance, or publicly refusing to implement the institutional patterns of structures and functioning; and 5) manipulation, or trying to influence the institutional environment, that is, negotiate and acquire special treatment for the organization that would enable it to not implement the institutionalized rules. In addition, the classification of organizations' possible reactions to pressures from the institutional environment, developed by Pedersen and Dobbin (2006), should also be mentioned.

A summary of the basic arguments of the institutional theory of organizations can be viewed in Figure 1.

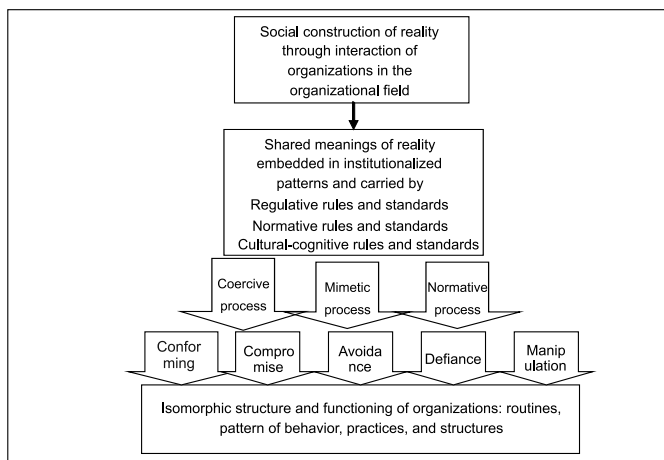


Figure 1. Basic contributions from the institutional theory of organization to the understanding of structure and functioning of organization

### Cultural theory of organization

The concept of organizational culture first appeared in the academic literature for business administration during the early 1980s, having originated in anthropology (Meek, 1988). Over the following three decades, organizational culture developed into one of the most popular concepts in organizational



behaviour and became a theory in its own right: a theory of organizational culture (Alvesson, 2002). However, many authors view an entire organization from the perspective of organizational culture (Alvesson, 2002; Martin, 2002); for example, in the mid 1980s, Morgan (1985) regarded culture as a metaphor for organization. Hence, this new perspective in organizational theory can be called 'a cultural theory of organizations'.

The importance of organizational culture lies in the fact that it is a kind of reservoir for collective meanings in an organization, which determine every collective and individual action and decision (Louis, 1985; Peterson and Smith, 2000; Smircich, 1983a, 1983b). Organizational culture is the most powerful means for understanding human behavior in organizations (Alvesson, 2002). The comprehensiveness of organizational culture impact on people's behavior in organizations emerges from every single action, reaction or decision of each member of organization being, in some degree, conditioned by the meanings imposed on people in the organization by the organizational culture. .

Here, organizational culture is understood as a system of assumptions, values, norms and attitudes (Schein 1985), manifested through symbols (Dandridge, Mitroff and Joyce, 1980) that members of an organization have developed and adopted through mutual experience (Schein, 1985), and which help them determine the meaning of the world around them and how to behave in it (Smircich, 1983b). Organizational culture emerges in the process of social construction of reality within organizations (Geertz, 1973; Schein, 1985; Smircich, 1983b; Smircich and Morgan, 1982). All organizations face the same problems, specifically, external adaptation and internal integration (Schein 1985). Solutions to these problems are found through the process of social interaction between organizations' members, in which members construct the reality inside and outside the organization by assigning specific meanings to things, occurrences and events, as described by Berger and Luckmann (1967). Organizational culture emerges when specific meanings shared by the majority of an organization's members are created and established, and then used to reach a consensus on how to resolve the problems of external adaptation and internal integration. This process of creating collective meanings is conducted through externalization, objectification and internalization (Schein 1985).

A summary of numerous theoretical and empirical works, the aim of which was to identify the content of organizational culture, reveals that this content may be structured in two large and heterogeneous groups of components: cognitive and symbolic (Berger and Luckmann, 1967; Schein 1985). The main difference between them is in their nature. Cognitive components of organizational culture include the cognitive structures of an organization's members with their elements: assumptions, values, attitudes and norms. These cognitive structures represent a source for the mutual meanings that the members assign to the world surrounding them, which form the basis of every organizational culture (Schein, 1985). Symbolic components represent the visible part of organizational culture that can be heard, seen or felt, and that manifests, represents and communicates the meanings produced by the cognitive components (Dandridge et al., 1980; Rafaeli and Worline, 2000).

Organizational culture has several important characteristics that facilitate the understanding of its nature and effects (Alvesson, 2002; Hofstede, Neuijen, Ohayiv and. Sanders, 1990; Martin, 2002). First, it is a social category, because the meanings at its core are in fact socially constructed, developed in the process of social interactions between members of an organization (Smircich, 1983a). Second, most researchers agree that organizational culture determines the way in which the organization and its members perceive and interpret the world around them, and consequently, how to behave in it (Louis, 1985; Smircich, 1983b). Third, organizational culture develops through a long-running process of social interactions between members of an organization, and therefore, is related to tradition, history and a long period of functioning of an organization as a social system.

The content of organizational culture is also unique and idiosyncratic (Alvesson, 2002; Martin, 2002). Although all organizations face the same problems of external adaptation and internal integration, each finds its own, specific answer to those problems. These answers emerge in a very unpredictable but sophisticated process, whereby problems are solved by social interaction, and necessarily contain idiosyncratic meanings of reality (Louis, 1985; Smircich, 1983b; Smircich and Morgan, 1982). Therefore, every organizational culture contains assumptions, beliefs, norms and attitudes as well as symbols that are unique to it and its members. Thus, organizational culture responds to the human need for identity and distinctiveness with respect to the environment (Pedersen and Dobbin, 2006). Another important characteristic of organizational culture is that it brings consistency, certainty, sense and order to the human understanding of the world around us (Alvesson, 2002). Finally, most authors consider organizational culture as a stable category (Schein, 1985).

The basic arguments of organizational culture theory can be represented as in Figure 2.

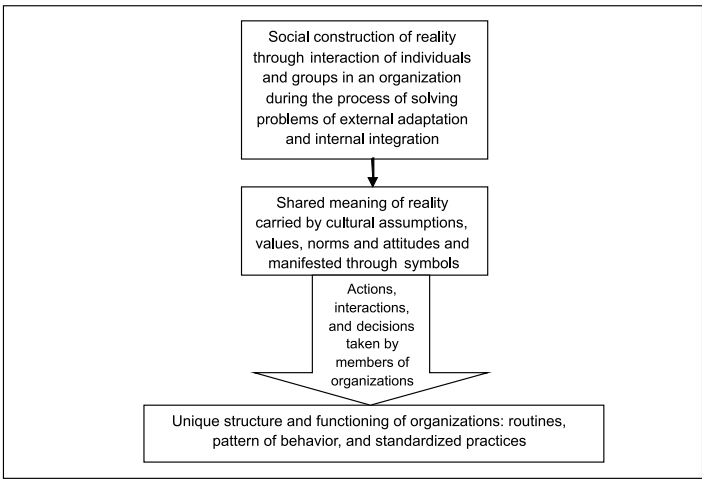


Figure 2. Basic contributions from organizational culture theory to the understanding of structure and functioning of organization



## Similarities and differences between institutional and cultural theories of organization

A summary of the basic postulates of institutional and cultural theories of organizations imply that the two have significant similarities as well as differences. Similarities emerge from the research subject, while differences emerge from the different level of analysis applied by each (Kondra and Hurst, 2009; Pedersen and Dobbin, 2006). The main similarities and differences between the institutional and cultural theories of organizations will be briefly presented here.

The key similarity between the two theories is the fact that both study the same phenomenon within the framework of the same research paradigm: both theories study the structures and functioning of organizations as a stable pattern of behaviour, regularities of actions, and routines or standardized practices. The aim of both is to discover the causes and factors of the stable pattern of behaviour, which shapes organizational structures and processes. In fact, the institutional and culture theories of organizations have the same answer to the question of what is the source of stable pattern of behaviour in organizations. Both theories start with the assumption that the source of a stable pattern of actions, interactions and decisions lies in the collective meanings that are created in the process of social construction of reality (Berger and Luckmann, 1967). This is also a significant difference to the objectivist and rationalist theories that dominated from the 1950s to the 1970s, which assumed that the structuring and functioning of organizations was an objective process based on rationality. However, in the institutional and cultural theories, organizational structuring and functioning is regarded as a subjective process based on interpretation. Therefore, the nature of organizations is not rational but ideological: the structuring and functioning of organizations emerge from a stable pattern of thinking and behaviour of the organization as a whole and its individual members, and this pattern emerges from collective meanings that are created in the process of social construction of reality through interactions. In both theories, the process of social construction of reality involves three phases: externalization, objectification and internalization.

In summary, the institutional and cultural theories of organization have the same understanding of the structuring and functioning of organizations (Kondra and Hurst, 2009; Pedersen and Dobbin, 2006). This understanding is that a subjective, interpretative process of creating collective meanings through social interactions leads to stable patterns of thinking and behaviour by the organization as a whole as well as each member: that stable pattern then determines organizational structures and processes. This is the most important common point of reference between the two theories.

Table 1. Similarities and differences between institutional and cultural theories of organizations

	Institutional Organizational Theory	Organizational Culture Theory
<b>Similarities</b>		
Nature of organization	Ideological, not rational	Ideological, not rational
Research object	Stable pattern of behaviour, regularities of actions, interactions and decisions	Stable pattern of behaviour, regularities of actions, interactions and decisions
Source of stable pattern of behaviour	Collective meanings	Collective meanings
Mechanism of creating collective meanings	Social construction of reality	Social construction of reality
Process of social construction of reality	Externalization, objectification, internalization	Externalization, objectification, internalization
Nature of structuring process	Subjective, based on interpretation	Subjective, based on interpretation
<b>Differences</b>		
Level of analysis	Sectoral or organizational field	Organization
Source of meanings	External, institutional environment, interaction of organizations	Internal, organizational environment, interaction of individuals
Purpose of social construction of reality	Legitimacy through uniformity	Identity through uniqueness
Nature of organizational structure and processes	Isomorphic	Idiosyncratic
Organizations as systems	Open	Closed

As discussed, the institutional and cultural theories of organizations share the same subject of research and approach it from the same paradigm. However, each explores the subject at a different level of analysis (Pedersen and Dobbin, 2006), a key difference between the two theories. The institutional theory of organization explores the structure and functioning of organizations as a result of collective meanings that emerge through the social construction of reality at the level of organizational sector. Social interaction in which institutional pattern of structure and functioning is created occurs at the sectoral level. Thus, the source of collective meanings determining the structure and functioning of organization is external because they come from the institutional environment. Organization in this theory is therefore viewed as an open system, in which the institutional pattern that directs the structuring and functioning of organizations, is created outside organizations and imposed on them. The consequence is that this stable pattern is the same for all organizations at the sectoral level, that is, all organizations within the sector have isomorphic structures and functioning.

In contrast, organizational culture theory implies that the collective meanings, which produce a stable pattern of organizational structure and processes, are created within the organization itself. Social construction of reality occurs through the social interactions between individuals and groups inside the organization. Therefore, the source of collective meanings and patterns

of behaviour is internal and organization is viewed as a closed system. Social construction of reality through interactions between organizational members is transformed into a unique experience for them, from which a unique set of collective meanings emerges. This set of collective meanings not only determines members' interpretation of reality but also their actions, interactions and decisions; in other words, their behaviour. Consequently, both the consciousness and behaviour of organizational members are unique, just as their experience in social construction of reality, and thus, the structure and functioning of every organization are idiosyncratic.

The institutional and cultural theories of organization differ not only in the level at which they analyse social construction of reality but also in the actual purpose of the process (Pedersen and Dobbin, 2006). According to institutional theory, the main problem facing organizations is to prove their legitimacy as users of social resources, and by the very implementation of the institutionalized pattern of structure and functioning, organizations can prove their legitimacy. Since all organizations within a sector must implement the same institutionalized pattern, their structures and functioning are uniform, and according to institutional theory, the purpose of social construction of reality is legitimacy through uniformity. However, according to organizational culture theory, the main problem facing organizations is creating an identity as a social unit (Pedersen and Dobbin, 2006), which is achieved by organizational members participating in the process of social construction of reality through interpersonal interactions. From this process, members gain a unique experience, which is transformed into a unique set of collective meanings, followed by a unique pattern of thinking and behaviour. Since every organization deals with its problems of external adaptation and internal integration in its own way, this idiosyncratic pattern creates an idiosyncratic model of structure and functioning in every organization, and thus, an organization's identity. Therefore, the purpose of social construction of reality, according to organizational culture theory, is to create a unique identity.

## **Mutual contributions of institutional and cultural theories of organization**

### *Contribution of the theory of organizational culture to the institutional theory of organization*

Organizational culture theory may contribute to the development of the institutional theory of organization by being considered as one of the factors that determine whether and how an organization will implement the institutionalized pattern. As seen in the overview of the institutional theory, a relatively small number of authors have studied the problems of implementing institutionalized patterns in organizations. Greenwood and Hinings (1996), Hinings and Greenwood (1988), Oliver (1991) and Pedersen and Dobbin (2006)

pointed out a range of possible reactions by organizations to pressure from the institutional environment to accept the imposed pattern. These include different types of organizational behaviour: from total rejection to total acceptance and implementation of institutionalized patterns. What remains to be discovered are the factors determining the behaviour of organizations, that is, their reaction to pressure from the institutional environment to accept institutionalized rules, structures and practices.

There have been several attempts in the literature to answer this question. By integrating the theory of resource dependence with institutional theory, Oliver (1991) has identified five factors on which the reaction of an organization to the imposition of institutionalized structures and processes depends: cause, constituency, content, control and context. These factors stem from the technical and economic rationality of institutionalized models; however, they also include characteristics of the environment, power of the organization, power of the institutional authority as well as the mutual relationship between each. Determinants of an organization's reaction obviously carry an element of resource dependence theory, by means of which they can be identified. Thus, it is not surprising that they are focused on the question of power and dependence, remain at the level of organizational sector and include no internal organizational factors among them.

In several works focused on institutional changes, Greenwood and Hinings, by using an intra-organizational level of analysis, have developed a concept of factors on which the implementation of institutionalized archetypes of organizations depends (Greenwood and Hinings, 1996; Greenwood, Díaz, Li, and Lorente, 2010; Hinings, Greenwood, Reay and Suddaby, 2004). According to them, these factors of implementation are mainly related to the characteristics of the organization itself: the compatibility between the meanings that the new institutional archetype carries and the existing meanings within the organization, the power structure within the organization, the interests of various groups within the organization and the capability of the organization to implement the institutional archetype.

Scott (2001) identified several factors that influence the shaping of an organization's reaction to pressure from the institutional environment. First, the longer the period between the institutionalization of a practice and its implementation in an organization, the greater the pressure on that organization, and the more ready it is to accept the practice; however, only at a symbolic level. Second, some characteristics of an organization influence the implementation of institutional patterns. Scott (1991) argued that big and state organizations, more often than small and private ones, will implement institutional patterns in their operations. Finally, as the interconnections and networking between organizations increases their power, the probability that they will implement the institutionalized practices reduces.

Casile and Davis-Blake (2002) identified the factors determining the implementation of accreditation standards and the institutionalized rules of functioning for universities. The key factor is the economic rationality of

institutional (accreditation) standards from the perspective of the organization (university) implementing them. If institutionalized rules, such as accreditation standards, are irrational from an organization's perspective, then the probability of their implementation is lower, at least with regard to the form in which the rules have been developed. Also, the social pressure from organizations that have already implemented the institutional standards has proven to be an important factor in an organization's decision to implement the standards.

Research into the factors determining the implementation of institutional patterns in organizations has shown that they may be divided into three groups: factors related to the pattern itself (technical or economic rationality), factors related to the power relationship between the organization and the institution imposing the pattern, and factors related to the characteristics of the organization implementing the pattern (e.g. internal power structure, competencies and value commitment). Until recently, organizational culture was not included in the factors that determine the probability that, or the way in which, institutional patterns would be implemented. However, it is reasonable to assume that implementing an institutional pattern, which by definition carries certain values, would depend on the values that already exist within an organization. This shortcoming in the institutional theory of organizations can be rectified with the knowledge acquired through research into organizational culture.

Organizational culture, with its values and norms, imposes a certain behaviour pattern on the members of an organization. On the other hand, acceptance and implementation of a specific institutional pattern as a set of rules, practices and routines also require a specific form of behaviour from organizational members. When these two behaviour patterns are consistent, they will reinforce each other. Thus, organizational culture will have a positive impact on the acceptance and implementation of institutional patterns of organizational structure and functioning. Also, if those institutional patterns that are being imposed by the institutional environment are in accordance with the values and norms of an organization's culture, then its members will accept them as legitimate, beneficial and justified and support their implementation within the organization. In this case, as far as organizational culture is concerned, institutional patterns will be implemented completely. The reaction of the organization will then be conforming (Oliver, 1991) or an imitation (Pedersen and Dobbin, 2006).

It should be mentioned that organizational culture is not the only factor behind implementation of institutional patterns of organizational structure and functioning. Other factors are also present, such as perceived rationality of the pattern itself, technical competence and an organization's capacity to implement the pattern as well as the position of power held by an organization in relation to the institutional authority imposing the pattern. Due to this, it can also be the case that an institutional pattern compatible with the organizational culture fails to be implemented. Depending on other factors behind the implementation, an organization in this situation may react in several other ways: compromise, avoidance, rejection (Oliver, 1991), immunization, hybridization and transmutation (Pedersen and Dobbin, 2006).

A different situation arises when the implementation of an institutional pattern of structure and functioning requires a set of behaviours from an organization's members that is in contrast with its internal cultural values and norms. In this case, the organizational members perceive the institutionalized rules, standards and behaviours as illegitimate, unjustified, unnecessary and harmful; the behaviour required by the implementation is considered unacceptable. Consequently, the institutional pattern will probably not be implemented, at least not entirely. Where there is inconsistency between the institutional pattern and organizational culture, an organization will seek a way to defend its cultural identity while avoiding any possible consequences to its legitimacy by rejecting the institutional pattern. In such circumstances, an organization has several options. The first option is compromise (Oliver, 1991) or hybridization (Pedersen and Dobbin, 2006), whereby the organization accepts and implements some elements of the institutional pattern and simply rejects others. The criterion for which institutional pattern elements will be accepted or rejected is determined by the degree of their consistency with internal cultural values. The second option is decoupling (Meyer and Rowan, 1977) or avoidance (Oliver, 1991), when the organization will actually avoid implementing the institutional pattern and continue to function in the usual way. The organization will, however, create symbols through which it will prove to the institutional environment that it has accepted and implemented the institutional pattern. Another version of this reaction is that the organization assigns new meanings to its existing structures and processes, and thus, complies with the institutionalized pattern. In this case, the organization claims that its previous behaviour is compliant with the new requirements of the institutional environment (Pedersen and Dobbin, 2006). Of course, the third option, rejection or manipulation (Oliver, 1991), is also possible. This means that the organization, more or less, publicly and openly refuses to accept and implement the institutionalized pattern and may even actively apply pressure in the opposite direction, that is, try to manipulate the institutional authority into changing an institutional pattern that is not in accordance with its own organizational culture. In the case of inconsistency between organizational culture and institutional pattern, whether an organization will only apply a pattern at the symbolic level usually depends on its position of power in relation to the institutional authority and the efficiency with which the institutional authority controls the implementation of institutional patterns in that sector. In addition, organizations' reactions are affected by other factors, such as the degree of technical (ir)rationality of the institutionalized pattern, the capacity and competency of an organization to implement it, value orientation and interests of the leader and the power coalition within the organization.

### *Contribution of the institutional theory of organization to the theory of organizational culture*

The institutional theory of organizations may contribute to the development of the theory of organizational culture by using its findings on the implementation of institutional patterns in organizations to understand the source and emergence of organizational culture. Institutional theory reveals that



an institutional pattern, which has been created within a sector and imposed on all organizations within it, is infused with value. However, thus far, this has been neglected in the literature on organizational culture. The implementation of a pattern in an organization implies that the meanings on which it is based are also introduced into that organization and these meanings can be a very important source of organizational culture. In other words, the institutional environment and the institutionalized rules, practices, structures and routines created within it may be a very important factor in creating organizational culture.

The question of the source of organizational culture has so far been of secondary importance in the literature, whereas the process of creating organizational culture through social construction of reality has received much more attention (Alvesson, 2002; Martin 2002; Schein, 1985). However, three possible sources of the meanings that constitute the content of organizational culture have been identified. First is national culture: a set of assumptions, values, norms and symbols shared by all the members of a single nation (Hofstede, 2001). As most members of an organization are also members of the same national culture, they bring the assumptions and norms acquired in childhood into their organization. Hence, the assumptions and values of the national culture will be the deepest layer of culture within the organizational framework (Hofstede, 2001). The second source of organizational culture is the economy sector, which affects organizational culture through the characteristics of the market, workforce and technology used (Deal and Kennedy, 2011). Understanding the impact of the sector in this way resembles, but does not match, the impact of the institutional sector on organizational culture. Finally, the organization's leader is also a source of its culture (Schein, 1985) because they are in the best position to transform their personal understanding of reality and its meanings into the content of organizational culture.

Based on the current findings of institutional theory of organizations, an assumption can be made that the institutional environment is also a source of organizational culture and that at least part of the meanings within the content of the culture originates from this environment (Kondra and Hurst, 2009). The mechanism through which institutional environment shapes organizational culture is twofold: direct and indirect. It is worth considering further the assumptions that the cultural-cognitive pillar directly introduces external meanings into an organization and its culture, the regulatory pillar indirectly shapes the culture of organizations within that environment and the normative pillar does all this both directly and indirectly.

Cultural-cognitive institutions emerge as a direct result of social construction of reality within the sector, and as such, they are accepted by other organizations in that sector. Their strength lies in a mutual understanding of reality and a unique set of shared, basic assumptions about the reality among all organizations in the same sector. Therefore, the meanings contained within cultural-cognitive institutions must be taken into consideration when analyzing the sources and emergence of organizational culture. The cultural-cognitive segment of institutional patterns refers to the segment that is 'taken for granted', and as such, is implemented without question (Scott, 2001). In addition, the meanings that this institutional pattern carries are also adopted in a 'taken for granted' manner and then directly built into the organizational culture. If we accept Schein's

(1985) version of creating organizational culture through solving the problem of external adaptation and internal integration, then it could be assumed that the meanings imposed by the cultural-cognitive segment of institutions represent the frame of reference in which solutions to these problems lie. In other words, the cultural-cognitive pillar of institutions determines where the solutions to the problem of external adaptation and internal integration can be found.

The regulatory pillar of institutions implies that those institutionalized structures, standards, practices and routines developed by formal authorities are also enforced by the power of the law and similar regulations. As such, this regulatory aspect of institutionalized standards may be an indirect source of organizational culture. By implementing regulatory institutionalized standards within an organization, its members are forced to adapt their behaviour to comply with the institutionalized pattern. When institutionalized standards are based on the meanings of reality that are compatible with those of an organization's culture, then implementation of the institutionalized pattern will not be a problem, at least as far as organizational culture is concerned. In fact, the institutionalized patterns being imposed by the regulatory mechanisms of the institutional environment will be perceived inside the organization as legitimate. The implementation will, in this case, strengthen the organizational culture, because any action will be compatible with the existing cultural content of the organization and part of members' everyday behaviour. However, when institutionalized patterns are based on the meanings of reality that are contrary to those contained in an organization's cultural assumptions and values, implementation will require members to behave in a manner that is unacceptable, illegitimate and irrational to them. Implementation of institutionalized patterns that are based on the meanings of reality contrary to those contained within their own interpretative schemes, leads to members entering a state of cognitive dissonance (Fiske and Taylor, 1991): a state in which their actions and behaviour are contrary to the basic assumptions and values they consider important. Since this state is unpleasant, people strive to escape it as soon as possible. Thus, if an organization's position of power in comparison to that of the formal authorities imposing the institutional pattern is strong, and/or if the formal authorities' control mechanism for implementing the pattern is inefficient, then the members can quickly leave the state of cognitive dissonance; this is done either by stopping the implementation or implementing it symbolically only. This situation is what was described in the previous section, in which the culture of an organization becomes a barrier to implementing an institutional pattern. However, if the position of power is relatively weak, and if the control mechanism for implementation is efficient, then members will have to implement the institutionalized standards, structures, routines and practices over a longer period of time. Therefore, as they cannot continue with their previous behaviour, due to pressure from the institutional environment, members can only leave the state of cognitive dissonance by changing their assumptions and values to comply with their behaviour. Consequently, the regulatory aspect of institutionalized standards will, through cognitive dissonance, become the source of organizational culture and the meanings of reality that it carries.

The normative pillar consists of values and norms that are developed within professions and imposed on members of those professions within the

organizations. The normative pillar has a technical and value component. The technical component comprises explicit rules and standards for work and behaviour that are imposed on members of a certain profession in organizations. The value component refers to values and norms which are shared by members of a certain profession in society and represent the basis and framework for creating technical, explicit professional rules. Throughout their professional training, members adopt the value component of the normative pillar and then implement it in their organizations, thus developing their identity as members of a certain profession. The value component of the normative pillar is, therefore, directly built into the culture of organizations, in which the professionals' work and has a direct impact on the emergence of organizational culture. Some of the meanings, from which the content of organizational culture is composed, are then derived from institutionalized professional standards, that is, the normative pillar of institutions. On the other hand, the technical component of the normative pillar implies that the members of certain professions within organizations perform their role in a predetermined way. As in the case of the regulatory pillar, the behaviour that professional standards impose on members of a profession within an organization can also be compatible or incompatible with the values and norms of that organization's culture. If the professional standards are contrary to the organization's cultural assumptions and values, then members of that profession within that organization will enter the state of cognitive dissonance. If they escape this state by changing their organization's cultural values and assumptions, then this means that the normative pillar of institutions has indirectly influenced the shaping of organizational culture.

A summary of the mutual contributions from the institutional and cultural theories of organizations is shown in Figure 3.

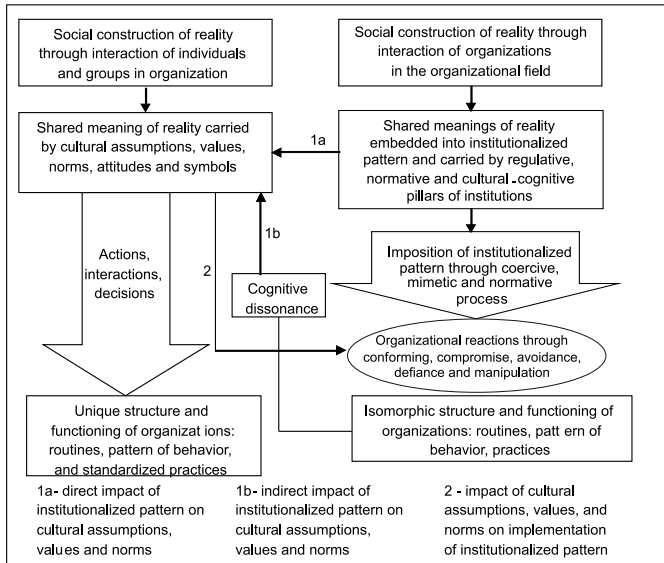


Figure 3. Mutual contributions of the institutional and cultural theories of organizations.

## Conclusions

The institutional theory of organizations and theory of organizational culture represent an antithesis to the rationalist and objectivist theories of organizations that were dominant from the beginning of the twentieth century to the mid 1980s. Both of these theories see the process of structuring and functioning of organizations as subjective, interpretative and interactional. Organizational structures and processes, according to the postulates of both theories, are a result of social construction of reality, which occurs during social interactions within and outside organizations. This is a dramatically different view of organizational structuring compared to that of contingency theory.

The institutional and cultural theories of organizations have many similarities, which highlights the need for and usefulness of interaction and communication between the two academic communities. Both theories focus on the patterns of behaviour, routines and practices that emerge through the subjective, interpretative process of creating collective meanings. The creation of collective meanings is achieved through social interactions, from which emerge stable patterns of thinking and behaviour by the entire organization and its members. However, the differences between the two theories lie in the level at which each conducts its analysis. The institutional theory of organizations starts from the assumption that the creation of collective meanings occurs during the interactions between organizations at the level of organizational sector. On the other hand, the theory of organizational culture assumes that this process occurs within the organization itself through the interactions between its members. However, the differences between institutional and cultural theories of organization should not prevent an exchange of ideas that would be useful to both theories. Indeed, the interplay of these two theories would facilitate a better explanation of certain issues in both. Thus, the theory of organizational culture could help institutional theory explain the factors for and forms of reactions of organizations to pressure from the institutional environment to implement an institutional pattern. Organizational culture can be a significant factor in whether an organization faced with the imposition of an institutional pattern will react with acceptance and implementation, compromise and modification or rejection. On the other hand, the institutional theory of organizations could help the theory of organizational culture expand its findings in terms of the sources of collective meanings that form the core of organizational culture. Regulatory, normative and cultural-cognitive pillars of institutions directly or indirectly create, at least in part, organizational culture.

## References

- Alvesson, M. 2002. *Understanding Organizational Culture*. London, UK: Sage.
- Ashworth, R., Boyne, G. and Delbridge, R. 2007. Escape from the Iron Cage? Organizational Change and Isomorphic Pressures in the Public Sector. *Journal of Public Administration Research and Theory*, vol. 19:165–187. doi:10.1093/jopart/mum038

- Berger, P., and Luckmann, T. 1967. *The Social Construction of Reality: A Treatise on the Sociology of Knowledge*. Garden City, NY: Doubleday.
- Casile, M. and Davis-Blake, A. 2002. When Accreditation Standards Change: Factors Affecting Differential Responsiveness of Public and Private Organizations. *Academy of Management Journal*, vol. 45:180–195. doi:10.2307/30692
- Chandler, A. 1962. *Strategy and Structure, Chapters in the History of the Industrial Enterprise*. Cambridge, Ma: MIT Press.
- Dandridge, T., Mitroff, I. and Joyce, W. 1980. Organizational Symbolism: A Topic to Expand Organizational Analysis. *Academy of Management Review*, vol. 15: 77–82. doi:10.5465/AMR.1980.4288894
- Deal, T. and Kennedy, A. 2011. *Corporate Cultures: The Rites and Rituals of Corporate Life* 2<sup>nd</sup> ed. New York, NY: Perseus Books Publishing.
- Deephouse, D. and Suchman, M. 2008. Legitimacy in Organizational Institutionalism, in Greenwood, R., Oliver, C., Sahlin, K. and Suddaby R. (eds.). *The Sage Handbook of Organizational Institutionalism*. Thousand Oaks, CA: Sage Publications.
- DiMaggio, P. J. and Powell, W.W. 1983. The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields. *American Sociological Review*, vol. 48: 147–160. doi: 10.1016/S0742–3322(00)17011–1.
- Fiske, S. T. and Taylor, S.E. 1991. *Social Cognition*. New York, NY: McGraw Hill.
- Geertz, C. 1973. *The Interpretation of Cultures*. New York, NY: Basic Books.
- Greenwood, R., Díaz, A.M., Li, S.X. and Lorente, J.C. 2010. The Multiplicity of Institutional Logics and the Heterogeneity of Organizational Responses. *Organization Science*, vol. 21: 521–539. doi:10.1287/orsc.1090.0453.
- Greenwood, R., Oliver, C., Sahlin, K. and Suddaby, R. 2008. Introduction, in Greenwood, R., Oliver, C., Sahlin, K. and Suddaby R. (eds.). *The Sage Handbook of Organizational Institutionalism*. Thousand Oaks, CA: Sage Publications.
- Greenwood, R. and Hinings, C.R. 1996. Understanding Radical Organizational Change: Bringing Together the Old and the New Institutionalism. *Academy of Management Review*, vol. 21: 1022–1054. doi:10.5465/AMR.1996.9704071862.
- Greiner, L. E. 1972. Evolution and Revolution As Organizations Grow. *Harvard Business Review*, vol. 50, no.4:37–46. Retrieved from: <http://ssrn.com/abstract=1504482>.
- Hinings, C. R. and Tolbert, P.S. 2008. Organizational Institutionalism and Sociology: A Reflection, in Greenwood, R., Oliver, C., Sahlin, K. and Suddaby R. (eds.). *The Sage Handbook of Organizational Institutionalism*. Thousand Oaks, CA: Sage Publications.
- Hinings, C. R., Greenwood, R., Reay, T. and Suddaby, R. 2004. Dynamics of Change in Organizational Fields, in Poole M.S. and Van de Ven A. (eds.). *Handbook of Organizational Change and Innovation*, Oxford, UK: Oxford University Press.

- Hinnings C. R. and Greenwood, R. 1988. *The Dynamics of Strategic Change*. London: Basil Blackwell.
- Hofstede, G. 2001. *Culture's Consequences* (2<sup>nd</sup> ed). Thousand Oaks, CA: Sage.
- Hofstede, G., Neuijen, B., Ohayiv, D.D. and Sanders, G. 1990. Measuring Organizational Culture: A Qualitative and Quantitative Study across Twenty Cases. *Administrative Science Quarterly*, vol. 35: 286–316. <http://www.jstor.org/stable/2393392>.
- Jepperson, R. L. 1991. Institutions, Institutional Effects and Institutionalism, in Powell W.W. and Di Maggio P. J. (eds.). *The New Institutionalism in Organizational Analysis*. Chicago, IL: The University of Chicago Press.
- Kondra, A. Z. and Hurst, D. C. 2009. Institutional Processes of Organizational Culture. *Culture and Organization*, vol. 15: 39–58. doi:10.1080/14759550802709541.
- Kostova, T. 1999. Transnational Transfer of Strategic Organizational Practices: A Contextual Perspective. *Academy of Management Review*, vol. 24: 308–324. doi:10.5465/AMR.1999.1893938.
- Lawrence, D. and Lorsch, G. 1969. *Organization and Environment*. Homewood, IL: Richard D. Irwin.
- Louis, M. R. 1985. Sourcing Workplace Cultures: Why, When and How, in Kilmann, R. H., Saxton, M. J., Serpa R. and Associates (eds.) *Gaining Control of the Corporate Culture*. San Francisco, CA: Jossey-Bass.
- Martin, J. 2002. *Organizational Culture: Mapping the Terrain*. London: Sage.
- Meek, V. L. 1988. Organizational Culture: Origins and Weaknesses. *Organization Studies*, vol. 9: 453–473. doi: 10.1177/01708406880090040.
- Meyer, J. W. and Rowan, B. 1977. Institutionalized Organizations: Formal Structure as Myth and Ceremony. *The American Journal of Sociology*, vol. 83: 340–363. Retrieved from. <http://www.jstor.org/stable/2778293>.
- Mintzberg, H. 1979. *The Structuring of Organizations*. Englewood Cliffs, NJ: Prentice Hall.
- Morgan, G. 1985. *Images of Organization*. Beverly Hills, CA: Sage.
- Oliver, C. 1992. The Antecedents of Deinstitutionalisation. *Organization Studies*, vol. 13: 563–588. doi:10.1177/017084069201300404.
- Oliver C. 1991. Strategic Responses to Institutional Processes, *Academy Of Management Review*, vol. 16:145–179. doi:10.5465/AMR.1991.4279002.
- Pedersen, J.S. and Dobbin, F. 2006. In Search of Identity and Legitimization: Bridging Organizational Culture and Neoinstitutionalism. *American Behavioral Scientist*, vol. 49: 897–907. doi:10.1177/0002764205284798.
- Pedersen, J. S. and Dobbin. F. 1997. The Social Invention of Collective Actors. *The American Behavioral Scientist*, vol. 4: 431–43. doi:10.1177/0002764297040004006.
- Peterson, M. and Smith, P. 2000. Sources of Meaning, Organizations and Culture: Making Sense of Organizational Events, in Ashkanasy, N. M., Wilderom, C. P. M. and Peterson M. F. (eds.) *Handbook of Organizational Culture and Climate*. Thousand Oaks, CA: Sage Publications.



- Rafaeli, A., and Worline, M. 2000. Symbols in Organizational Culture, in Ashkanasy, N. M., Wilderom, C. P. M. and Peterson M. F. (eds.) *Handbook of Organizational Culture and Climate*. Thousand Oaks, CA: Sage Publications.
- Schein, E. 1985. *Organizational Culture and Leadership*. San Francisco, CA: Jossey-Bass.
- Scott, R. W. 2001. *Institutions and Organizations*. Thousand Oaks, CA: Sage
- Scott R. W. 1991. Unpacking Institutional Arguments, in Powell W. W. and DiMaggio P. J. (eds.) *The New Institutionalism in Organizational Analysis*. Chicago, IL: The University of Chicago Press.
- Scott, R. W. 1987. The Adolescence of Institutional Theory.” *Administrative Science Quarterly*, vol. 32, no. 4: 493–511. Retrieved from <http://www.jstor.org/stable/2392880>.
- Scott, W. R., and Meyer, J.W. eds. 1994. *Institutional Environments and Organizations: Structural Complexity and Individualism*. Thousand Oaks, CA: Sage.
- Smircich, L. 1983a. Concepts of Culture and Organizational Analysis. *Administrative Science Quarterly*, vol.28, no.3: 339–358. Retrieved from <http://www.jstor.org/stable/2392246>.
- Smircich, L. 1983b. Organizations as Shared Meanings, in Pondy, L., Frost, P., Morgan G. and Dandridge T. (eds.) *Organizational Symbolism*. Greenwich, CT: JAI.
- Smircich, L. and Morgan G. 1982. Leadership: The Management of Meaning. *Journal of Applied Behavioral Science*, vol. 18: 257–273. doi: 10.1177/002188638201800303.
- Thornton P. H. 2002. The Rise of the Corporation in a Craft Industry: Conflict and Conformity in Institutional Logics. *Academy of Management Journal*, vol. 45: 81–101. doi:10.2307/3069286.
- Woodward, J. 1965. *Industrial Organization: Theory and Practice*. London, UK: Oxford University Press.
- Zucker L. G. 1977. The Role of Institutionalization in Cultural Persistence. *American Sociological Review*, vol. 42:726–743. Retrieved from <http://www.jstor.org/stable/2094862>.