Institutionalized Organizations: Formal Structure as Myth and Ceremony[1]

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Many formal organizational structures arise as reflections of rationalized institutional rules. The elaboration of such rules in modern states and societies accounts in part for the expansion and increased complexity of formal organizational structures. Institutional rules function as myths which organizations incorporate, gaining legitimacy, resources, stability, and enhanced survival prospects. Organizations whose structures become isomorphic with the myths of the institutional environment—in contrast with those primarily structured by the demands of technical production and exchange—decrease internal coordination and control in order to maintain legitimacy. Structures are decoupled from each other and from ongoing activities. In place of coordination, inspection, and evaluation, a logic of confidence and good faith is employed.

Formal organizations are generally understood to be systems of coordinated and controlled activities that arise when work is embedded in complex networks of technical relations and boundary-spanning exchanges. But in modern societies formal organizational structures arise in highly institutionalized contexts. Professions, policies, and programs are created along with the products and services that they are understood to produce rationally. This permits many new organizations to spring up and forces existing ones to incorporate new practices and procedures. That is, organizations are driven to incorporate the practices and procedures defined by prevailing rationalized concepts of organizational work and institutionalized in society. Organizations that do so increase their legitimacy and their survival prospects, independent of the immediate efficacy of the acquired practices and procedures.

Institutionalized products, services, techniques, policies, and programs function as powerful myths, and many organizations adopt them ceremonially. But conformity to institutionalized rules often conflicts sharply

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with efficiency criteria and, conversely, to coordinate and control activity in order to promote efficiency undermines an organization's ceremonial conformity and sacrifices its support and legitimacy. To maintain ceremonial conformity, organizations that reflect institutional rules tend to buffer their formal structures from the uncertainties of technical activities by becoming loosely coupled, building gaps between their formal structures and actual work activities.

This paper argues that the formal structures of many organizations in postindustrial society (Bell 1973) dramatically reflect the myths of their institutional environments instead of the demands of their work activities. The first part describes prevailing theories of the origins of formal structures and the main problem the theories confront. The second part discusses an alternative source of formal structures: myths embedded in the institutional environment. The third part develops the argument that organizations reflecting institutionalized environments maintain gaps between their formal structures and their ongoing work activities. The final part summarizes by discussing some research implications.

Throughout the paper, institutionalized rules are distinguished sharply from prevailing social behaviors. Institutionalized rules are classifications built into society as reciprocated typifications or interpretations (Berger and Luckmann 1967, p. 54). Such rules may be simply taken for granted or may be supported by public opinion or the force of law (Starbuck 1976). Institutions inevitably involve normative obligations but often enter into social life primarily as facts which must be taken into account by actors. Institutionalization involves the processes by which social processes, obligations, or actualities come to take on a rulelike status in social thought and action. So, for example, the social status of doctor is a highly institutionalized rule (both normative and cognitive) for managing illness as well as a social role made up of particular behaviors, relations, and expectations. Research and development is an institutionalized category of organizational activity which has meaning and value in many sectors of society, as well as a collection of actual research and development activities. In a smaller way, a No Smoking sign is an institution with legal status and implications, as well as an attempt to regulate smoking behavior. It is fundamental to the argument of this paper that institutional rules may have effects on organizational structures and their implementation in actual technical work which are very different from the effects generated by the networks of social behavior and relationships which compose and surround a given organization.

PREVAILING THEORIES OF FORMAL STRUCTURE

A sharp distinction should be made between the formal structure of an organization and its actual day-to-day work activities. Formal structure is

a blueprint for activities which includes, first of all, the table of organization: a listing of offices, departments, positions, and programs. These elements are linked by explicit goals and policies that make up a rational theory of how, and to what end, activities are to be fitted together. The essence of a modern bureaucratic organization lies in the rationalized and impersonal character of these structural elements and of the goals that link them.

One of the central problems in organization theory is to describe the conditions that give rise to rationalized formal structure. In conventional theories, rational formal structure is assumed to be the most effective way to coordinate and control the complex relational networks involved in modern technical or work activities (see Scott 1975 for a review). This assumption derives from Weber's (1930, 1946, 1947) discussions of the historical emergence of bureaucracies as consequences of economic markets and centralized states. Economic markets place a premium on rationality and coordination. As markets expand, the relational networks in a given domain become more complex and differentiated, and organizations in that domain must manage more internal and boundary-spanning interdependencies. Such factors as size (Blau 1970) and technology (Woodward 1965) increase the complexity of internal relations, and the division of labor among organizations increases boundary-spanning problems (Aiken and Hage 1968; Freeman 1973; Thompson 1967). Because the need for coordination increases under these conditions, and because formally coordinated work has competitive advantages, organizations with rationalized formal structures tend to develop.

The formation of centralized states and the penetration of societies by political centers also contribute to the rise and spread of formal organization. When the relational networks involved in economic exchange and political management become extremely complex, bureaucratic structures are thought to be the most effective and rational means to standardize and control subunits. Bureaucratic control is especially useful for expanding political centers, and standardization is often demanded by both centers and peripheral units (Bendix 1964, 1968). Political centers organize layers of offices that manage to extend conformity and to displace traditional activities throughout societies.

The problem. *Prevailing theories assume that the coordination and control of activity are the critical dimensions on which formal organizations have succeeded in the modern world.* This assumption is based on the view that organizations function according to their formal blueprints: coordination is routine, rules and procedures are followed, and actual activities conform to the prescriptions of formal structure. But much of the empirical research on organizations casts doubt on this assumption. An earlier generation of researchers concluded that there was a great gap between the formal and the informal organization (e.g., Dalton 1959; Downs 1967; Homans 1950). A related

observation is that formal organizations are often loosely coupled (March and Olsen 1976; Weick 1976): structural elements are only loosely linked to each other and to activities, rules are often violated, decisions are often unimplemented, or if implemented have uncertain consequences, technologies are of problematic efficiency, and evaluation and inspection systems are subverted or rendered so vague as to provide little coordination.

Formal organizations are endemic in modern societies. There is need for an explanation of their rise that is partially free from the assumption that, in practice, formal structures actually coordinate and control work. Such an explanation should account for the elaboration of purposes, positions, policies, and procedural rules that characterizes formal organizations, but must do so without supposing that these structural features are implemented in routine work activity.

INSTITUTIONAL SOURCES OF FORMAL STRUCTURE

By focusing on the management of complex relational networks and the exercise of coordination and control, prevailing theories have neglected an alternative Weberian source of formal structure: the legitimacy of rationalized formal structures. In prevailing theories, legitimacy is a given: assertions about bureaucratization rest on the assumption of norms of rationality (Thompson 1967). When norms do play causal roles in theories of bureaucratization, it is because they are thought to be built into modern societies and personalities as very general values, which are thought to facilitate formal organization. But norms of rationality are not simply general values. They exist in much more specific and powerful ways in the rules, understandings, and meanings attached to institutionalized social structures. The causal importance of such institutions in the process of bureaucratization has been neglected.

Formal structures are not only creatures of their relational networks in the social organization. In modern societies, the elements of rationalized formal structure are deeply ingrained in, and reflect, widespread understandings of social reality. Many of the positions, policies, programs, and procedures of modern organizations are enforced by public opinion, by the views of important constituents, by knowledge legitimated through the educational system, by social prestige, by the laws, and by the definitions of negligence and prudence used by the courts. Such elements of formal structure are manifestations of powerful institutional rules which function as highly rationalized myths that are binding on particular organizations.

In modern societies, the myths generating formal organizational structure have two key properties. First, they are rationalized and impersonal prescriptions that identify various social purposes as technical ones and specify in a rulelike way the appropriate means to pursue these technical purposes

rationally (Ellul 1964). Second, they are highly institutionalized and thus in some measure beyond the discretion of any individual participant or organization. They must, therefore, be taken for granted as legitimate, apart from evaluations of their impact on work outcomes.

Many elements of formal structure are highly institutionalized and function as myths. Examples include professions, programs, and technologies:

> Large numbers of rationalized professions emerge (Wilensky 1965; Bell 1973). These are occupations controlled, not only by direct inspection of work outcomes but also by social rules of licensing, certifying, and schooling. The occupations are rationalized, being understood to control impersonal techniques rather than moral mysteries. Further, they are highly institutionalized: the delegation of activities to the appropriate occupations is socially expected and often legally obligatory over and above any calculations of its efficiency.
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> Many formalized organizational programs are also institutionalized in society. Ideologies define the functions appropriate to a business—such as sales, production, advertising, or accounting; to a university—such as instruction and research in history, engineering, and literature; and to a hospital—such as surgery, internal medicine, and obstetrics. Such classifications of organizational functions, and the specifications for conducting each function, are prefabricated formulae available for use by any given organization.
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> Similarly, technologies are institutionalized and become myths binding on organizations. Technical procedures of production, accounting, personnel selection, or data processing become taken-for-granted means to accomplish organizational ends. Quite apart from their possible efficiency, such institutionalized techniques establish an organization as appropriate, rational, and modern. Their use displays responsibility and avoids claims of negligence.

The impact of such rationalized institutional elements on organizations and organizing situations is enormous. These rules define new organizing situations, redefine existing ones, and specify the means for coping rationally with each. They enable, and often require, participants to organize along prescribed lines. And they spread very rapidly in modern society as part of the rise of postindustrial society (Bell 1973). New and extant domains of activity are codified in institutionalized programs, professions, or techniques, and organizations incorporate the packaged codes. For example:

> The discipline of psychology creates a rationalized theory of personnel selection and certifies personnel professionals. Personnel departments and functionaries appear in all sorts of extant organizations, and new specialized personnel agencies also appear.
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> As programs of research and development are created and professionals with expertise in these fields are trained and defined, organizations come under increasing pressure to incorporate R & D units.
>
> As the prerational profession of prostitution is rationalized along medical lines, bureaucratized organizations—sex-therapy clinics, massage parlors, and the like—spring up more easily.
>
> As the issues of safety and environmental pollution arise, and as relevant

professions and programs become institutionalized in laws, union ideologies, and public opinion, organizations incorporate these programs and professions.

The growth of rationalized institutional structures in society makes formal organizations more common and more elaborate. Such institutions are myths which make formal organizations both easier to create and more necessary. After all, the building blocks for organizations come to be littered around the societal landscape; it takes only a little entrepreneurial energy to assemble them into a structure. And because these building blocks are considered proper, adequate, rational, and necessary, organizations must incorporate them to avoid illegitimacy. Thus, the myths built into rationalized institutional elements create the necessity, the opportunity, and the impulse to organize rationally, over and above pressures in this direction created by the need to manage proximate relational networks:

Proposition 1. *As rationalized institutional rules arise in given domains of work activity, formal organizations form and expand by incorporating these rules as structural elements.*

Two distinct ideas are implied here: (1*A*) As institutionalized myths define new domains of rationalized activity, formal organizations emerge in these domains. (1*B*) As rationalizing institutional myths arise in existing domains of activity, extant organizations expand their formal structures so as to become isomorphic with these new myths.

To understand the larger historical process it is useful to note that:

Proposition 2. *The more modernized the society, the more extended the rationalized institutional structure in given domains and the greater the number of domains containing rationalized institutions.*

Modern institutions, then, are thoroughly rationalized, and these rationalized elements act as myths giving rise to more formal organization. When propositions 1 and 2 are combined, two more specific ideas follow: (2*A*) Formal organizations are more likely to emerge in more modernized societies, even with the complexity of immediate relational networks held constant. (2*B*) Formal organizations in a given domain of activity are likely to have more elaborated structures in more modernized societies, even with the complexity of immediate relational networks held constant.

Combining the ideas above with prevailing organization theory, it becomes clear that modern societies are filled with rationalized bureaucracies for two reasons. First, as the prevailing theories have asserted, relational networks become increasingly complex as societies modernize. Second, modern societies are filled with institutional rules which function as myths depicting various formal structures as rational means to the attainment of desirable ends. Figure 1 summarizes these two lines of theory. Both lines suggest that the postindustrial society—the society dominated by rational organization even more than by the forces of production—arises both out of the

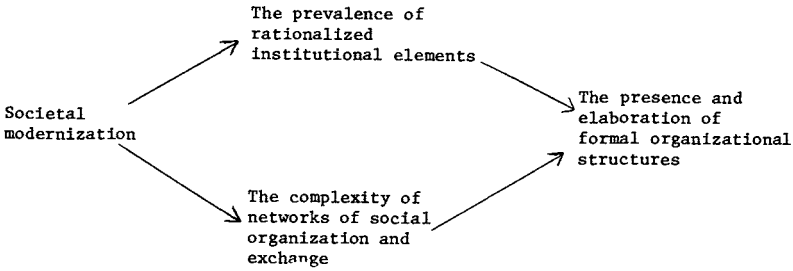

FIG. 1.—The origins and elaboration of formal organizational structures

complexity of the modern social organizational network and, more directly, as an ideological matter. Once institutionalized, rationality becomes a myth with explosive organizing potential, as both Ellul (1964) and Bell (1973)—though with rather different reactions—observe.

The Relation of Organizations to Their Institutional Environments

The observation is not new that organizations are structured by phenomena in their environments and tend to become isomorphic with them. One explanation of such isomorphism is that formal organizations become matched with their environments by technical and exchange interdependencies. This line of reasoning can be seen in the works of Aiken and Hage (1968), Hawley (1968), and Thompson (1967). This explanation asserts that structural elements diffuse because environments create boundary-spanning exigencies for organizations, and that organizations which incorporate structural elements isomorphic with the environment are able to manage such interdependencies.

A second explanation for the parallelism between organizations and their environments—and the one emphasized here—is that organizations structurally reflect socially constructed reality (Berger and Luckmann 1967). This view is suggested in the work of Parsons (1956) and Udy (1970), who see organizations as greatly conditioned by their general institutional environments and therefore as institutions themselves in part. Emery and Trist (1965) also see organizations as responding directly to environmental structures and distinguish such effects sharply from those that occur through boundary-spanning exchanges. According to the institutional conception as developed here, organizations tend to disappear as distinct and bounded units. Quite beyond the environmental interrelations suggested in open-systems theories, institutional theories in their extreme forms define organizations as dramatic enactments of the rationalized myths pervading modern societies, rather than as units involved in exchange—no matter how complex—with their environments.

The two explanations of environmental isomorphism are not entirely inconsistent. Organizations both deal with their environments at their boundaries and imitate environmental elements in their structures. However, the two lines of explanation have very different implications for internal organizational processes, as will be argued below.

The Origins of Rational Institutional Myths

Bureaucratization is caused in part by the proliferation of rationalized myths in society, and this in turn involves the evolution of the whole modern institutional system. Although the latter topic is beyond the scope of this paper, three specific processes that generate rationalized myths of organizational structure can be noted.

The elaboration of complex relational networks.—As the relational networks in societies become dense and interconnected, increasing numbers of rationalized myths arise. Some of them are highly generalized: for example, the principles of universalism (Parsons 1971), contracts (Spencer 1897), restitution (Durkheim 1933), and expertise (Weber 1947) are generalized to diverse occupations, organizational programs, and organizational practices. Other myths describe specific structural elements. These myths may originate from narrow contexts and be applied in different ones. For example, in modern societies the relational contexts of business organizations in a single industry are roughly similar from place to place. Under these conditions a particularly effective practice, occupational specialty, or principle of coordination can be codified into mythlike form. The laws, the educational and credentialing systems, and public opinion then make it necessary or advantageous for organizations to incorporate the new structures.

The degree of collective organization of the environment.—The myths generated by particular organizational practices and diffused through relational networks have legitimacy based on the supposition that they are rationally effective. But many myths also have official legitimacy based on legal mandates. Societies that, through nation building and state formation, have developed rational-legal orders are especially prone to give collective (legal) authority to institutions which legitimate particular organizational structures. The rise of centralized states and integrated nations means that organized agents of society assume jurisdiction over large numbers of activity domains (Swanson 1971). Legislative and judicial authorities create and interpret legal mandates; administrative agencies—such as state and federal governments, port authorities, and school districts—establish rules of practice; and licenses and credentials become necessary in order to practice occupations. The stronger the rational-legal order, the greater the extent to which rationalized rules and procedures and personnel become

institutional requirements. New formal organizations emerge and extant organizations acquire new structural elements.

Leadership efforts of local organizations.—The rise of the state and the expansion of collective jurisdiction are often thought to result in domesticated organizations (Carlson 1962) subject to high levels of goal displacement (Clark 1956; Selznick 1949; and Zald and Denton 1963). This view is misleading: organizations do often adapt to their institutional contexts, but they often play active roles in shaping those contexts (Dowling and Pfeffer 1975; Parsons 1956; Perrow 1970; Thompson 1967). Many organizations actively seek charters from collective authorities and manage to institutionalize their goals and structures in the rules of such authorities.

Efforts to mold institutional environments proceed along two dimensions. First, powerful organizations force their immediate relational networks to adapt to their structures and relations. For instance, automobile producers help create demands for particular kinds of roads, transportation systems, and fuels that make automobiles virtual necessities; competitive forms of transportation have to adapt to the existing relational context. But second, powerful organizations attempt to build their goals and procedures directly into society as institutional rules. Automobile producers, for instance, attempt to create the standards in public opinion defining desirable cars, to influence legal standards defining satisfactory cars, to affect judicial rules defining cars adequate enough to avoid manufacturer liability, and to force agents of the collectivity to purchase only their cars. Rivals must then compete both in social networks or markets and in contexts of institutional rules which are defined by extant organizations. In this fashion, given organizational forms perpetuate themselves by becoming institutionalized rules. For example:

> School administrators who create new curricula or training programs attempt to validate them as legitimate innovations in educational theory and governmental requirements. If they are successful, the new procedures can be perpetuated as authoritatively required or at least satisfactory.
>
> New departments within business enterprises, such as personnel, advertising, or research and development departments, attempt to professionalize by creating rules of practice and personnel certification that are enforced by the schools, prestige systems, and the laws.
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> Organizations under attack in competitive environments—small farms, passenger railways, or Rolls Royce—attempt to establish themselves as central to the cultural traditions of their societies in order to receive official protection.

The Impact of Institutional Environments on Organizations

Isomorphism with environmental institutions has some crucial consequences for organizations: (*a*) they incorporate elements which are legitimated externally, rather than in terms of efficiency; (*b*) they employ external or

ceremonial assessment criteria to define the value of structural elements; and (*c*) dependence on externally fixed institutions reduces turbulence and maintains stability. As a result, it is argued here, institutional isomorphism promotes the success and survival of organizations. Incorporating externally legitimated formal structures increases the commitment of internal participants and external constituents. And the use of external assessment criteria—that is, moving toward the status in society of a subunit rather than an independent system—can enable an organization to remain successful by social definition, buffering it from failure.

Changing formal structures.—By designing a formal structure that adheres to the prescriptions of myths in the institutional environment, an organization demonstrates that it is acting on collectively valued purposes in a proper and adequate manner (Dowling and Pfeffer 1975; Meyer and Rowan 1975). The incorporation of institutionalized elements provides an account (Scott and Lyman 1968) of its activities that protects the organization from having its conduct questioned. The organization becomes, in a word, legitimate, and it uses its legitimacy to strengthen its support and secure its survival.

From an institutional perspective, then, a most important aspect of isomorphism with environmental institutions is the evolution of organizational language. The labels of the organization chart as well as the vocabulary used to delineate organizational goals, procedures, and policies are analogous to the vocabularies of motive used to account for the activities of individuals (Blum and McHugh 1971; Mills 1940). Just as jealousy, anger, altruism, and love are myths that interpret and explain the actions of individuals, the myths of doctors, of accountants, or of the assembly line explain organizational activities. Thus, some can say that the engineers will solve a specific problem or that the secretaries will perform certain tasks, without knowing who these engineers or secretaries will be or exactly what they will do. Both the speaker and the listeners understand such statements to describe how certain responsibilities will be carried out.

Vocabularies of structure which are isomorphic with institutional rules provide prudent, rational, and legitimate accounts. Organizations described in legitimated vocabularies are assumed to be oriented to collectively defined, and often collectively mandated, ends. The myths of personnel services, for example, not only account for the rationality of employment practices but also indicate that personnel services are valuable to an organization. Employees, applicants, managers, trustees, and governmental agencies are predisposed to trust the hiring practices of organizations that follow legitimated procedures—such as equal opportunity programs, or personality testing—and they are more willing to participate in or to fund such organizations. On the other hand, organizations that omit environmentally legitimated elements of structure or create unique structures lack acceptable

legitimated accounts of their activities. Such organizations are more vulnerable to claims that they are negligent, irrational, or unnecessary. Claims of this kind, whether made by internal participants, external constituents, or the government, can cause organizations to incur real costs. For example:

> With the rise of modern medical institutions, large organizations that do not arrange medical-care facilities for their workers come to be seen as negligent—by the workers, by management factions, by insurers, by courts which legally define negligence, and often by laws. The costs of illegitimacy in insurance premiums and legal liabilities are very real.
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> Similarly, environmental safety institutions make it important for organizations to create formal safety rules, safety departments, and safety programs. No Smoking rules and signs, regardless of their enforcement, are necessary to avoid charges of negligence and to avoid the extreme of illegitimation: the closing of buildings by the state.
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> The rise of professionalized economics makes it useful for organizations to incorporate groups of economists and econometric analyses. Though no one may read, understand, or believe them, econometric analyses help legitimate the organization's plans in the eyes of investors, customers (as with Defense Department contractors), and internal participants. Such analyses can also provide rational accountings after failures occur: managers whose plans have failed can demonstrate to investors, stockholders, and superiors that procedures were prudent and that decisions were made by rational means.

Thus, rationalized institutions create myths of formal structure which shape organizations. Failure to incorporate the proper elements of structure is negligent and irrational; the continued flow of support is threatened and internal dissidents are strengthened. At the same time, these myths present organizations with great opportunities for expansion. Affixing the right labels to activities can change them into valuable services and mobilize the commitments of internal participants and external constituents.

Adopting external assessment criteria.—In institutionally elaborated environments organizations also become sensitive to, and employ, external criteria of worth. Such criteria include, for instance, such ceremonial awards as the Nobel Prize, endorsements by important people, the standard prices of professionals and consultants, or the prestige of programs or personnel in external social circles. For example, the conventions of modern accounting attempt to assign value to particular components of organizations on the basis of their contribution—through the organization's production function—to the goods and services the organization produces. But for many units—service departments, administrative sectors, and others—it is utterly unclear what is being produced that has clear or definable value in terms of its contribution to the organizational product. In these situations, accountants employ shadow prices: they assume that given organizational units are necessary and calculate their value from their prices in the world outside the organization. Thus modern accounting creates ceremonial production

functions and maps them onto economic production functions: organizations assign externally defined worth to advertising departments, safety departments, managers, econometricians, and occasionally even sociologists, whether or not these units contribute measurably to the production of outputs. Monetary prices, in postindustrial society, reflect hosts of ceremonial influences, as do economic measures of efficiency, profitability, or net worth (Hirsch 1975).

Ceremonial criteria of worth and ceremonially derived production functions are useful to organizations: they legitimate organizations with internal participants, stockholders, the public, and the state, as with the IRS or the SEC. They demonstrate socially the fitness of an organization. The incorporation of structures with high ceremonial value, such as those reflecting the latest expert thinking or those with the most prestige, makes the credit position of an organization more favorable. Loans, donations, or investments are more easily obtained. Finally, units within the organization use ceremonial assessments as accounts of their productive service to the organization. Their internal power rises with their performance on ceremonial measures (Salancik and Pfeffer 1974).

Stabilization.—The rise of an elaborate institutional environment stabilizes both external and internal organizational relationships. Centralized states, trade association, unions, professional associations, and coalitions among organizations standardize and stabilize (see the review by Starbuck 1976).

Market conditions, the characteristics of inputs and outputs, and technological procedures are brought under the jurisdiction of institutional meanings and controls. Stabilization also results as a given organization becomes part of the wider collective system. Support is guaranteed by agreements instead of depending entirely on performance. For example, apart from whether schools educate students, or hospitals cure patients, people and governmental agencies remain committed to these organizations, funding and using them almost automatically year after year.

Institutionally controlled environments buffer organizations from turbulence (Emery and Trist 1965; Terreberry 1968). Adaptations occur less rapidly as increased numbers of agreements are enacted. Collectively granted monopolies guarantee clienteles for organizations like schools, hospitals, or professional associations. The taken-for-granted (and legally regulated) quality of institutional rules makes dramatic instabilities in products, techniques, or policies unlikely. And legitimacy as accepted subunits of society protects organizations from immediate sanctions for variations in technical performance:

> Thus, American school districts (like other governmental units) have near monopolies and are very stable. They must conform to wider rules about proper classifications and credentials of teachers and students, and of topics of study. But they are protected by rules which make education as defined

by these classifications compulsory. Alternative or private schools are possible, but must conform so closely to the required structures and classifications as to be able to generate little advantage.

Some business organizations obtain very high levels of institutional stabilization. A large defense contractor may be paid for following agreed-on procedures, even if the product is ineffective. In the extreme, such organizations may be so successful as to survive bankruptcy intact—as Lockheed and Penn Central have done—by becoming partially components of the state. More commonly, such firms are guaranteed survival by state-regulated rates which secure profits regardless of costs, as with American public utility firms.

Large automobile firms are a little less stabilized. They exist in an environment that contains enough structures to make automobiles, as conventionally defined, virtual necessities. But still, customers and governments can inspect each automobile and can evaluate and even legally discredit it. Legal action cannot as easily discredit a high school graduate.

Organizational success and survival.—Thus, organizational success depends on factors other than efficient coordination and control of productive activities. Independent of their productive efficiency, organizations which exist in highly elaborated institutional environments and succeed in becoming isomorphic with these environments gain the legitimacy and resources needed to survive. In part, this depends on environmental processes and on the capacity of given organizational leadership to mold these processes (Hirsch 1975). In part, it depends on the ability of given organizations to conform to, and become legitimated by, environmental institutions. In institutionally elaborated environments, sagacious conformity is required: leadership (in a university, a hospital, or a business) requires an understanding of changing fashions and governmental programs. But this kind of conformity—and the almost guaranteed survival which may accompany it—is possible only in an environment with a highly institutionalized structure. In such a context an organization can be locked into isomorphism, ceremonially reflecting the institutional environment in its structure, functionaries, and procedures. Thus, in addition to the conventionally defined sources of organizational success and survival, the following general assertion can be proposed:

Proposition 3. *Organizations that incorporate societally legitimated rationalized elements in their formal structures maximize their legitimacy and increase their resources and survival capabilities.*

This proposition asserts that the long-run survival prospects of organizations increase as state structures elaborate and as organizations respond to institutionalized rules. In the United States, for instance, schools, hospitals, and welfare organizations show considerable ability to survive, precisely because they are matched with—and almost absorbed by—their institutional environments. In the same way, organizations fail when they deviate

from the prescriptions of institutionalizing myths: quite apart from technical efficiency, organizations which innovate in important structural ways bear considerable costs in legitimacy.

Figure 2 summarizes the general argument of this section, alongside the established view that organizations succeed through efficiency.

INSTITUTIONALIZED STRUCTURES AND ORGANIZATIONAL ACTIVITIES

Rationalized formal structures arise in two contexts. First, the demands of local relational networks encourage the development of structures that coordinate and control activities. Such structures contribute to the efficiency of organizations and give them competitive advantages over less efficient competitors. Second, the interconnectedness of societal relations, the collective organization of society, and the leadership of organizational elites create a highly institutionalized context. In this context rationalized structures present an acceptable account of organizational activities, and organizations gain legitimacy, stability, and resources.

All organizations, to one degree or another, are embedded in both relational and institutionalized contexts and are therefore concerned both with coordinating and controlling their activities and with prudently accounting for them. Organizations in highly institutionalized environments face internal and boundary-spanning contingencies. Schools, for example, must transport students to and from school under some circumstances and must assign teachers, students, and topics to classrooms. On the other hand, organizations producing in markets that place great emphasis on efficiency build in units whose relation to production is obscure and whose efficiency is determined, not by a true production function, but by ceremonial definition.

Nevertheless, the survival of some organizations depends more on managing the demands of internal and boundary-spanning relations, while the survival of others depends more on the ceremonial demands of highly institutionalized environments. The discussion to follow shows that whether an organization's survival depends primarily on relational or on institutional demands determines the tightness of alignments between structures and activities.

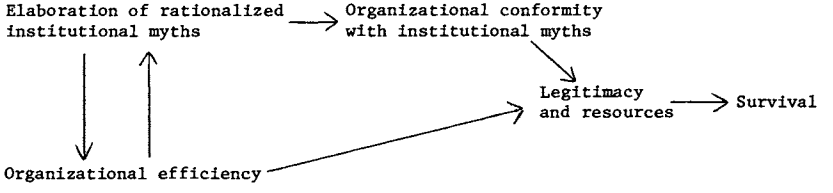

FIG. 2.—Organizational survival

Types of Organizations

Institutionalized myths differ in the completeness with which they describe cause and effect relationships, and in the clarity with which they describe standards that should be used to evaluate outputs (Thompson 1967). Some organizations use routine, clearly defined technologies to produce outputs. When output can be easily evaluated a market often develops, and consumers gain considerable rights of inspection and control. In this context, efficiency often determines success. Organizations must face exigencies of close coordination with their relational networks, and they cope with these exigencies by organizing around immediate technical problems.

But the rise of collectively organized society and the increasing interconnectedness of social relations have eroded many market contexts. Increasingly, such organizations as schools, R & D units, and governmental bureaucracies use variable, ambiguous technologies to produce outputs that are difficult to appraise, and other organizations with clearly defined technologies find themselves unable to adapt to environmental turbulence. The uncertainties of unpredictable technical contingencies or of adapting to environmental change cannot be resolved on the basis of efficiency. Internal participants and external constituents alike call for institutionalized rules that promote trust and confidence in outputs and buffer organizations from failure (Emery and Trist 1965).

Thus, one can conceive of a continuum along which organizations can be ordered. At one end are production organizations under strong output controls (Ouchi and McGuire 1975) whose success depends on the management of relational networks. At the other end are institutionalized organizations whose success depends on the confidence and stability achieved by isomorphism with institutional rules. For two reasons it is important not to assume that an organization's location on this continuum is based on the inherent technical properties of its output and therefore permanent. First, the technical properties of outputs are socially defined and do not exist in some concrete sense that allows them to be empirically discovered. Second, environments and organizations often redefine the nature of products, services, and technologies. Redefinition sometimes clarifies techniques or evaluative standards. But often organizations and environments redefine the nature of techniques and output so that ambiguity is introduced and rights of inspection and control are lowered. For example, American schools have evolved from producing rather specific training that was evaluated according to strict criteria of efficiency to producing ambiguously defined services that are evaluated according to criteria of certification (Callahan 1962; Tyack 1974; Meyer and Rowan 1975).

Structural Inconsistencies in Institutionalized Organizations

Two very general problems face an organization if its success depends primarily on isomorphism with institutionalized rules. First, technical activities and demands for efficiency create conflicts and inconsistencies in an institutionalized organization's efforts to conform to the ceremonial rules of production. Second, because these ceremonial rules are transmitted by myths that may arise from different parts of the environment, the rules may conflict with one another. These inconsistencies make a concern for efficiency and tight coordination and control problematic.

Formal structures that celebrate institutionalized myths differ from structures that act efficiently. Ceremonial activity is significant in relation to categorical rules, not in its concrete effects (Merton 1940; March and Simon 1958). A sick worker must be treated by a doctor using accepted medical procedures; whether the worker is treated effectively is less important. A bus company must service required routes whether or not there are many passengers. A university must maintain appropriate departments independently of the departments' enrollments. Activity, that is, has ritual significance: it maintains appearances and validates an organization.

Categorical rules conflict with the logic of efficiency. Organizations often face the dilemma that activities celebrating institutionalized rules, although they count as virtuous ceremonial expenditures, are pure costs from the point of view of efficiency. For example, hiring a Nobel Prize winner brings great ceremonial benefits to a university. The celebrated name can lead to research grants, brighter students, or reputational gains. But from the point of view of immediate outcomes, the expenditure lowers the instructional return per dollar expended and lowers the university's ability to solve immediate logistical problems. Also, expensive technologies, which bring prestige to hospitals and business firms, may be simply excessive costs from the point of view of immediate production. Similarly, highly professionalized consultants who bring external blessings on an organization are often difficult to justify in terms of improved productivity, yet may be very important in maintaining internal and external legitimacy.

Other conflicts between categorical rules and efficiency arise because institutional rules are couched at high levels of generalization (Durkheim 1933) whereas technical activities vary with specific, unstandardized, and possibly unique conditions. Because standardized ceremonial categories must confront technical variations and anomalies, the generalized rules of the institutional environment are often inappropriate to specific situations. A governmentally mandated curriculum may be inappropriate for the students at hand, a conventional medical treatment may make little sense given the characteristics of a patient, and federal safety inspectors may intolerably delay boundary-spanning exchanges.

Yet another source of conflict between categorical rules and efficiency is the inconsistency among institutionalized elements. Institutional environments are often pluralistic (Udy 1970), and societies promulgate sharply inconsistent myths. As a result, organizations in search of external support and stability incorporate all sorts of incompatible structural elements. Professions are incorporated although they make overlapping jurisdictional claims. Programs are adopted which contend with each other for authority over a given domain. For instance, if one inquires who decides what curricula will be taught in schools, any number of parties from the various governments down to individual teachers may say that they decide.

In institutionalized organizations, then, concern with the efficiency of day-to-day activities creates enormous uncertainties. Specific contexts highlight the inadequacies of the prescriptions of generalized myths, and inconsistent structural elements conflict over jurisdictional rights. Thus the organization must struggle to link the requirements of ceremonial elements to technical activities and to link inconsistent ceremonial elements to each other.

Resolving Inconsistencies

There are four partial solutions to these inconsistencies. First, an organization can resist ceremonial requirements. But an organization that neglects ceremonial requirements and portrays itself as efficient may be unsuccessful in documenting its efficiency. Also, rejecting ceremonial requirements neglects an important source of resources and stability. Second, an organization can maintain rigid conformity to institutionalized prescriptions by cutting off external relations. Although such isolation upholds ceremonial requirements, internal participants and external constituents may soon become disillusioned with their inability to manage boundary-spanning exchanges. Institutionalized organizations must not only conform to myths but must also maintain the appearance that the myths actually work. Third, an organization can cynically acknowledge that its structure is inconsistent with work requirements. But this strategy denies the validity of institutionalized myths and sabotages the legitimacy of the organization. Fourth, an organization can promise reform. People may picture the present as unworkable but the future as filled with promising reforms of both structure and activity. But by defining the organization's valid structure as lying in the future, this strategy makes the organization's current structure illegitimate.

Instead of relying on a partial solution, however, an organization can resolve conflicts between ceremonial rules and efficiency by employing two interrelated devices: decoupling and the logic of confidence.

Decoupling.—Ideally, organizations built around efficiency attempt to

maintain close alignments between structures and activities. Conformity is enforced through inspection, output quality is continually monitored, the efficiency of various units is evaluated, and the various goals are unified and coordinated. But a policy of close alignment in institutionalized organizations merely makes public a record of inefficiency and inconsistency.

Institutionalized organizations protect their formal structures from evaluation on the basis of technical performance: inspection, evaluation, and control of activities are minimized, and coordination, interdependence, and mutual adjustments among structural units are handled informally.

Proposition 4. *Because attempts to control and coordinate activities in institutionalized organizations lead to conflicts and loss of legitimacy, elements of structure are decoupled from activities and from each other.*

Some well-known properties of organizations illustrate the decoupling process:

> Activities are performed beyond the purview of managers. In particular, organizations actively encourage professionalism, and activities are delegated to professionals.
>
> Goals are made ambiguous or vacuous, and categorical ends are substituted for technical ends. Hospitals treat, not cure, patients. Schools produce students, not learning. In fact, data on technical performance are eliminated or rendered invisible. Hospitals try to ignore information on cure rates, public services avoid data about effectiveness, and schools deemphasize measures of achievement.
>
> Integration is avoided, program implementation is neglected, and inspection and evaluation are ceremonialized.
>
> Human relations are made very important. The organization cannot formally coordinate activities because its formal rules, if applied, would generate inconsistencies. Therefore individuals are left to work out technical interdependencies informally. The ability to coordinate things in violation of the rules—that is, to get along with other people—is highly valued.

The advantages of decoupling are clear. The assumption that formal structures are really working is buffered from the inconsistencies and anomalies involved in technical activities. Also, because integration is avoided disputes and conflicts are minimized, and an organization can mobilize support from a broader range of external constituents.

Thus, decoupling enables organizations to maintain standardized, legitimating, formal structures while their activities vary in response to practical considerations. The organizations in an industry tend to be similar in formal structure—reflecting their common institutional origins—but may show much diversity in actual practice.

The logic of confidence and good faith.—Despite the lack of coordination and control, decoupled organizations are not anarchies. Day-to-day activities proceed in an orderly fashion. What legitimates institutionalized organizations, enabling them to appear useful in spite of the lack of technical valida-

tion, is the confidence and good faith of their internal participants and their external constituents.

Considerations of face characterize ceremonial management (Goffman 1967). Confidence in structural elements is maintained through three practices—avoidance, discretion, and overlooking (Goffman 1967, pp. 12–18). Avoidance and discretion are encouraged by decoupling autonomous subunits; overlooking anomalies is also quite common. Both internal participants and external constituents cooperate in these practices. Assuring that individual participants maintain face sustains confidence in the organization, and ultimately reinforces confidence in the myths that rationalize the organization's existence.

Delegation, professionalization, goal ambiguity, the elimination of output data, and maintenance of face are all mechanisms for absorbing uncertainty while preserving the formal structure of the organization (March and Simon 1958). They contribute to a general aura of confidence within and outside the organization. Although the literature on informal organization often treats these practices as mechanisms for the achievement of deviant and subgroup purposes (Downs 1967), such treatment ignores a critical feature of organization life: effectively absorbing uncertainty and maintaining confidence requires people to assume that everyone is acting in good faith. The assumption that things are as they seem, that employees and managers are performing their roles properly, allows an organization to perform its daily routines with a decoupled structure.

Decoupling and maintenance of face, in other words, are mechanisms that maintain the assumption that people are acting in good faith. Professionalization is not merely a way of avoiding inspection—it binds both supervisors and subordinates to act in good faith. So in a smaller way does strategic leniency (Blau 1956). And so do the public displays of morale and satisfaction which are characteristic of many organizations. Organizations employ a host of mechanisms to dramatize the ritual commitments which their participants make to basic structural elements. These mechanisms are especially common in organizations which strongly reflect their institutionalized environments.

Proposition 5. *The more an organization's structure is derived from institutionalized myths, the more it maintains elaborate displays of confidence, satisfaction, and good faith, internally and externally.*

The commitments built up by displays of morale and satisfaction are not simply vacuous affirmations of institutionalized myths. Participants not only commit themselves to supporting an organization's ceremonial facade but also commit themselves to making things work out backstage. The committed participants engage in informal coordination that, although often formally inappropriate, keeps technical activities running smoothly and avoids public embarrassments. In this sense the confidence and good faith

generated by ceremonial action is in no way fraudulent. It may even be the most reasonable way to get participants to make their best efforts in situations that are made problematic by institutionalized myths that are at odds with immediate technical demands.

Ceremonial inspection and evaluation.—All organizations, even those maintaining high levels of confidence and good faith, are in environments that have institutionalized the rationalized rituals of inspection and evaluation. And inspection and evaluation can uncover events and deviations that undermine legitimacy. So institutionalized organizations minimize and ceremonialize inspection and evaluation.

In institutionalized organizations, in fact, evaluation accompanies and produces illegitimacy. The interest in evaluation research by the American federal government, for instance, is partly intended to undercut the state, local, and private authorities which have managed social services in the United States. The federal authorities, of course, have usually not evaluated those programs which are completely under federal jurisdiction; they have only evaluated those over which federal controls are incomplete. Similarly, state governments have often insisted on evaluating the special fundings they create in welfare and education but ordinarily do not evaluate the programs which they fund in a routine way.

Evaluation and inspection are public assertions of societal control which violate the assumption that everyone is acting with competence and in good faith. Violating this assumption lowers morale and confidence. Thus, evaluation and inspection undermine the ceremonial aspects of organizations.

Proposition 6. *Institutionalized organizations seek to minimize inspection and evaluation by both internal managers and external constituents.*

Decoupling and the avoidance of inspection and evaluation are not merely devices used by the organization. External constituents, too, avoid inspecting and controlling institutionalized organizations (Meyer and Rowan 1975). Accrediting agencies, boards of trustees, government agencies, and individuals accept ceremonially at face value the credentials, ambiguous goals, and categorical evaluations that are characteristic of ceremonial organizations. In elaborate institutional environments these external constituents are themselves likely to be corporately organized agents of society. Maintaining categorical relationships with their organizational subunits is more stable and more certain than is relying on inspection and control.

Figure 3 summarizes the main arguments of this section of our discussion.

SUMMARY AND RESEARCH IMPLICATIONS

Organizational structures are created and made more elaborate with the rise of institutionalized myths, and, in highly institutionalized contexts,

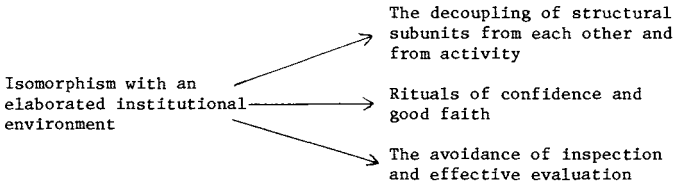

FIG. 3.—The effects of institutional isomorphism on organizations

organizational action must support these myths. But an organization must also attend to practical activity. The two requirements are at odds. A stable solution is to maintain the organization in a loosely coupled state.

No position is taken here on the overall social effectiveness of isomorphic and loosely coupled organizations. To some extent such structures buffer activity from efficiency criteria and produce ineffectiveness. On the other hand, by binding participants to act in good faith, and to adhere to the larger rationalities of the wider structure, they may maximize long-run effectiveness. It should not be assumed that the creation of microscopic rationalities in the daily activity of workers effects social ends more efficiently than commitment to larger institutional claims and purposes.

Research Implications

The argument presented here generates several major theses that have clear research implications.

1. Environments and environmental domains which have institutionalized a greater number of rational myths generate more formal organization. This thesis leads to the research hypothesis that formal organizations rise and become more complex as a result of the rise of the elaborated state and other institutions for collective action. This hypothesis should hold true even when economic and technical development are held constant. Studies could trace the diffusion to formal organizations of specific institutions: professions, clearly labeled programs, and the like. For instance, the effects of the rise of theories and professions of personnel selection on the creation of personnel departments in organizations could be studied. Other studies could follow the diffusion of sales departments or research and development departments. Organizations should be found to adapt to such environmental changes, even if no evidence of their effectiveness exists.

Experimentally, one could study the impact on the decisions of organizational managers, in planning or altering organizational structures, of hypothetical variations in environmental institutionalization. Do managers plan differently if they are informed about the existence of established occupations or programmatic institutions in their environments? Do they plan differently

if they are designing organizations for more or less institutionally elaborated environments?

2. Organizations which incorporate institutionalized myths are more legitimate, successful, and likely to survive. Here, research should compare similar organizations in different contexts. For instance, the presence of personnel departments or research and development units should predict success in environments in which they are widely institutionalized. Organizations which have structural elements not institutionalized in their environments should be more likely to fail, as such unauthorized complexity must be justified by claims of efficiency and effectiveness.

More generally, organizations whose claims to support are based on evaluations should be less likely to survive than those which are more highly institutionalized. An implication of this argument is that organizations existing in a highly institutionalized environment are generally more likely to survive.

Experimentally, one could study the size of the loans banks would be willing to provide organizations which vary only in (1) the degree of environmental institutionalization, and (2) the degree to which the organization structurally incorporates environmental institutions. Are banks willing to lend more money to firms whose plans are accompanied by econometric projections? And is this tendency greater in societies in which such projections are more widely institutionalized?

3. Organizational control efforts, especially in highly institutionalized contexts, are devoted to ritual conformity, both internally and externally. Such organizations, that is, decouple structure from activity and structures from each other. The idea here is that the more highly institutionalized the environment, the more time and energy organizational elites devote to managing their organization's public image and status and the less they devote to coordination and to managing particular boundary-spanning relationships. Further, the argument is that in such contexts managers devote more time to articulating internal structures and relationships at an abstract or ritual level, in contrast to managing particular relationships among activities and interdependencies.

Experimentally, the time and energy allocations proposed by managers presented with differently described environments could be studied. Do managers, presented with the description of an elaborately institutionalized environment, propose to spend more energy maintaining ritual isomorphism and less on monitoring internal conformity? Do they tend to become inattentive to evaluation? Do they elaborate doctrines of professionalism and good faith?

The arguments here, in other words, suggest both comparative and experimental studies examining the effects on organizational structure and

coordination of variations in the institutional structure of the wider environment. Variations in organizational structure among societies, and within any society across time, are central to this conception of the problem.

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