

## Structure, Agency and the Role of Values in Processes of Institutional Change

*Wilfred Dolfsma and Rudi Verburg*

**Abstract:** Research on institutional change has flourished ever since the debate on agency and structure has moved away from the previously uncompromising positions in which either agency or structure was emphasized. A conceptual compromise is sought here in a focus on the processes of institutionalization, which allows one to move beyond the idea that institutions are mere mental constructs or the point of view that behavior is the mere reproduction of institutional patterns. Contributing to an understanding of the processes of institutional change, this paper analyzes institutional change as instigated by tensions, triggered by agents' discrepancies between concrete institutional settings and the socio-economic values these are to represent. The Social Value Nexus that is presented introduces an emphasis on the perceived legitimacy of institutions. Describing (types of) tensions between socio-cultural values and institutional settings, the paper explores how structure, agency and values interact in processes of institutional change.

**Keywords:** institutional change, socio-cultural values, structure and agency, legitimation.

**JEL Classification Codes:** D79, D02, Z10, B52, A13

The idea that institutions matter, nowadays, is commonplace. This should not be taken to imply that widespread agreement exists among the social sciences or even within disciplines about the nature and the role of institutions. Following the process of differentiation between the social sciences in the nineteenth century, each discipline has seen its own theoretical development, which has colored each perspective on institutions. Now that the notion of institution is widely recognized as

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a foundational concept in social theory, and an important subject of research in sociology, economics, history, politics, organizational theory, etc., it proves a difficult task to fit the various bits and pieces together. The fact that despite renewed attention to the institution concept, Hodgson (2006) recently published an article with the title "What are Institutions?" may be a case in point.

One important reason, we believe, for this disarray is the variety of perspectives on the "polarity between the individual and the social" (Burman 1979, 374-5), or between agency and structure. This issue concerns conflicting views on how social phenomena are to be studied and explained. The agency point of view takes the explanation of social facts to be rooted at the level of the individual, i.e. an explanation is to be built from the (given) preferences, expectations and motives or behavior of rationally acting individuals. It is argued that social phenomena are to be understood as the result of individual actions oriented toward the (expected) actions of others. This point of view is handsomely captured by Elster, when he claimed that "there are no societies, only individuals who interact with each other" (1989, 248). Objecting that social phenomena cannot be reduced to the properties of the individual parts but ought to be studied within the social system in which they occur, adherents of the structural approach emphasize that society is a reality *sui generis*. Individual behavior, interdependent and interwoven with behavior of others, unintentionally gives rise to structured regularities in processes, relatively autonomous with regard to the intentions and preferences of individuals. As Durkheim expressed this point of view: "The first and fundamental rule is: Consider social facts as things" (Durkheim [1895] 1947, 14).

This paper proceeds as follows. The setting for the agency-structure debate is briefly laid out in the first section without any intention to discuss exhaustively the vast literature on this central issue in the social sciences. The next section elaborates on how the concept of the institution is implicated in this discussion, introducing the notion of tension, perceived to exist by actors between institutions and their legitimation in the socio-cultural values subscribed to by a society or community. Given that such tensions need to be activated to induce institutional change, a following section argues the importance of the three constituent elements of order and institutions – interests, power and social-cultural values – in this respect. Taking social-cultural values and the legitimation these supply for institutional settings as a point of entry in our analysis of institutional change, the next two sections explore how perceptions of tensions that arise between institutions, concrete practices and behavior may be seen to produce such change. The sixth section discusses three types of tensions, drawing out the conditions of institutional change within our theoretical perspective, while section seven offers two exemplary cases. A concluding section ensues.

### ***Agency and Structure***

Given that in the social sciences opinions range from the view that structures or institutions “determine” individual behavior on the one end to the idea that social structures or institutions are the unplanned outcome of the interplay of individual behavior at the other end of the spectrum, divergent explanations of institutions and institutional change abound. Prompted by a growing dissatisfaction with the unrealistic nature of the assumption that economic processes take place within a cognitive, motivational and institutional vacuum, from the seventies onward the notion that institutions should be incorporated into economic analysis gained support. With the rise of new institutional economics, built on the same foundations as orthodox economic theory, it is generally assumed that institutions are to be explained as the outcomes of purposeful actions by instrumentally-oriented individuals.

Even though sociologists emphasize that social action has a logic of its own, it would be a misrepresentation to suggest that the differences between economists and sociologists may be cast in terms of agency versus structure. The agency - structure issue already figured as a bone of contention between sociologists Durkheim and Weber as well. While Durkheim ([1895] 1947; [1893] 1964) developed a structural (collectivistic) approach and referred to sociology as the theory of institutions, Weber ([1922] 1964) adopted an individualistic perspective, arguing that sociology is about meaningful action, and hence individual action, as only individuals can give meaning to action.

The same issue draws dividing-lines between old and new institutionalism in economics. New institutional economics sets the stage for analysis by assuming that institutions emerge out of the interactions of cost minimizing agents within a set context of institutions designed such that societally optimal outcomes result. Structure and agency thus having been predefined, the emergence of different types of economic institutions is explained in terms of different characteristics of transactions. Notwithstanding the behavioral and situational amendments to include institutional arrangements in economic analysis, the agency-based approach of neo-classical explanation has remained intact. Presented as solutions to problems of organization, institutions are seen to enhance efficiency, create predictability and reduce uncertainty, imposing barriers or constraints on behavior that affect the range of options open to the individual (Ingram and Clay 2000).

Adherents to evolutionary/institutional economics, in which the research program(s) of institutionalists like Veblen, Commons, Mitchell and Ayres have been revived, emphasize the role in economic decision-making of pre-existing habits and rules, values and cognitive frames and typically argue that the individual does not make decisions in isolation, but decisions are predefined by the social context in which the agent finds herself. Institutions have emergent properties that cannot be explained in reference to individual attributes or motives.

The same difference in explanatory perspective surfaces if views on institutional change are compared. An example of a structural approach is Veblen’s account of

institutional change as the result of the dynamics of technological change. An opposite view has been developed by North (1990), identifying changes in relative prices and changes in preferences as major sources of institutional change that drive political or economic entrepreneurs to actions that alter the institutional framework.

In view of this, Hay and Wincott have argued that “if institutionalism is to develop to its full potential, it must consider the relation between structure and agency” (1998, 951). As long as the structure-agency struggle continues, mainstream economics seems content to await future developments, in the meantime practicing an agency-based perspective. Williamson, for instance, has shown in a number of papers (1993; 1998; 2000) his growing awareness of the importance and influence of sociological factors such as values, norms and legal rules on the selection of (governance) structures, but assigned the task of analyzing and explaining this environment to other social sciences, boldly asserting that the insights from other social sciences may be fitted into his framework.

While mainstream economics purportedly contends itself with an agency-based perspective (cf. Davis 2003), the institutional approach has taken up the challenge, tending to a central position between the extremes of either agent or structure, rather than emphasizing their interactive relationship. As Lawson (1987, 969) put it: “individual agency and social structure and context are equally relevant for analysis – each presupposes each other. Thus any reductionist account stressing analytical primacy for either individual agents or for social ‘wholes’ must be inadequate.” The same point is made by Hodgson (1988).

### ***Institutions***

This, however, is easier said than done and often either contributions to the structure-agency debate prohibit possibilities to give substance to the idea of institutional change, or the issue is likely to resemble the well-known Russian dolls in the sense that contributions to the theory of institutional change tend to reproduce the agency-structure debate at a different level of aggregation.

Criticizing theories that either take the individual/agent or society/structure as their point of departure, Giddens developed his theory of structuration to overcome the shortcomings of both these polar views. Central to structuration theory is the concept of “duality of structure” or the notion that agency and structure are to be considered as inextricably interwoven. Agents in interaction use the rules and resources that make up structures, and in doing so, they produce and reproduce such structures. “The constitution of agents and structures are not two independently given sets of phenomena, a dualism, but represent a duality . . . the structural properties of social systems are both medium and outcome of the practices they recursively organize” (Giddens 1984, 25-6). Structure, rules, resources and roles only exists in the day to day routines of people (Jackson 2005), while interaction between agents is framed by the rules and resources that make up structures. According to Giddens, these are recurrent social practices where individuals and society meet and in which both are constituted.

In Archer's opinion, Giddens fails in his attempt to describe the interactive relationship between agency and structure. In the individualistic perspective structure is reduced to agency while the structural approach reduces agency to structure. Giddens, in Archer's estimation, fails because structuration theory "deprives both elements of their relative autonomy, not through reducing one to the other, but by compacting the two together inseparably" (Archer 1988, 688). If Archer is right, the problem with Giddens' theory is that, structure and agency being inseparable, one cannot conceptualize institutional change in terms of *interactions* between structure and agency.

Moreover, if not compacted, attempts at bridging agency and structure tend to assume the compatibility of agency and structure. Such compatibility is said to imply that institutions are ontologically indistinct from behavior in the sense that

- *institutions are merely mental constructs, which have no ontological status apart from behavior, . . .*

Thus Neale (1987), for instance, claimed "[a]n institution is a mental construct. . . . the components of an institution may be observed, but an institution itself cannot be observed as a whole. Rather, what one can observe are the activities of people in situations" (1987, 1184). A similar stance is taken by Sjöstrand who defined an institution as "a human mental construct for a coherent system of shared (enforced) norms that regulate individual interactions in recurrent situations. . . . institutions are not objective phenomena but mental constructions of human beings in their (inter) actions" (1993, 9; cf. Nelson and Sampat 2001).

- *behavior is the reproduction of institutional patterns, . . .*

In Parsons's structural functionalistic approach, society is taken as an organic whole of interdependent, functional parts, each contributing to the maintenance and integration of society (Parsons 1937, 1951). Stability and cohesion, based on a consensus on values and norms, in which individuals are socialized through institutional arrangements, are taken as characteristic of the normal condition of the social system. Reasoning from the perspective of the social system, Parsons (1951) and Parsons and Shil (1951) thus argued that human actions are embedded in an institutional system and therefore follow patterns in accordance with norms, directed at the preservation of that order. Social order may be said to be secured to the extent that those actions are institutionalized, that is, sanctioned by the social system and internalized by individuals. This institutionalized system of norms is an expression of the consensus about what is just, good and desirable (values). Ultimately in Parsons' conception, it is the common value-system, the normative structure of society that makes social order possible. Parsons' model has been criticized for assuming a common framework of shared values and norms and for its "oversocialized conception of man," in the words of Wrong (1961).

Or . . .

- . . . some (sequential) combination of these two possibilities is postulated.

In *The Social Construction of Reality*, Berger and Luckmann (1966), for example, argue that institutions are the product of a dynamic (or dialectic) process in which interactions between actors become habitualized and patterned, when through negotiations, expectations and interpretations of behavior become generalized. These evolving patterns in human interactions develop into templates for action and actor, which makes it unnecessary to define each situation anew and, in limiting choice, provide stability and predictability. In this process the objectivity of institutional arrangements “hardens” as individuals internalize these objective social realities, take them for granted and recreate them in their ongoing interactions.

Defining institutions as “systems of established and prevalent social rules that structure social interactions,” (2006, 2), Hodgson criticizes attempts to define institutions as mental constructs, which have no ontological status separate from behavior. They are misleading in suggesting “that institutions no longer existed if their associated behaviors were interrupted” (3), even though some frequency in behavior is likely to be required and institutions are only observable through manifest behavior. Wilson (2006) further explains that the definition of institutions as behaviors is the heritage of the positivist twist in institutionalism to operationalize allegedly unscientific concepts by reducing unobservables such as motives and values into empirically manifest behavior.

In this paper, we want to draw attention to another line of criticism. The problem with defining institutions in terms of behavior, we submit, is that it predefines the nature of institutional change. If behavior is the reproduction of institutions, institutional change takes place at the level of the institution, driven by autonomous or exogenous processes, such as population growth or technological progress, inducing behavioral responses to a changing environment. If, on the other hand, institutions are merely mental constructs, institutional change is seen to result from changing preferences and/or expectations of individuals. This way the nature of institutional change is conditioned by the concept of institutions and the agency-structure debate is reproduced at a different level of aggregation. Only if institutions are seen as distinct from behavior, both structure and agency can properly be said to induce change. For the true hallmark of a solution to the structure-agency issue is that “[i]nstitutions mold, and are molded by, human action” (Hodgson 1998, 181). Even if it is recognized that a theory of institutional change requires an adequate concept of the individual as well as of an institution, however, contributions often are seriously unbalanced; some are strong on institution (as socially embedded rules system) at the same time that they are weak on the concept of the individual (stimulus-response model or habit/instinct psychology).

Thus, in our view, institutions are irreducible to behavior. The irreducibility of both institutions and behavior to one another implies the possibilities of *tensions*. These tensions are permanently possible as discrepancies between what is prescribed

by institutions, possibly in specific situations where a number of institutions come together in a practice<sup>1</sup> on the one hand, and what an individual agent may aspire to on the other hand, arise. John Rawls' (1955, 3) definition of practice is in line with Veblen's (1961, 236) concept of institutional furniture and naturally leads one to reject an argument that starts from a purported "state of nature" that is an institutional void (Hamilton 1932; cf. Hayden 1988). Even though institutions allow for amendments – Hamilton's zone of tolerance – there is likely to be some friction between an institution and its specification or manifestation in a specific practice where agents "live." as Veblen has it, and can exert an influence.

### ***Social Order and Change***

The bigger question is: what triggers tensions to become manifest and potentially induce institutional change? We submit that institutional change or *transformation*, as distinct from institutional continuity, necessitates some intervening phenomenon, which interferes with what would otherwise be the continuous (and perhaps unintentional) *reproduction* of institutions. In the literature three models of social order, and by implication of disorder, can be distinguished. Each model has its own perspective on what constitutes and changes order and thus represents such an intervening phenomenon:

(1) A *conflict or coercion model of society* order has developed from Hobbes' ([1651] 1986) argument that given man's egoistic inclinations and struggle for eminence, order is to be maintained by the state's exercise of power. In the elaboration of this model by Marx ([1859] 1970; Marx and Engels [1846] 1947), Weber ([1922] 1964) and Dahrendorf (1959) order is seen as a precarious equilibrium of *relations of power* between status groups.

(2) In the *consensus model*, inspired by Comte (1975), and Durkheim ([1893] 1964, [1895] 1947), society is taken as an organic whole of interdependent, functional parts, each contributing to the maintenance and integration of society. Stability and cohesion, based on a consensus on values and norms, in which individuals are socialized through institutional arrangements, are taken as characteristic of the normal condition of the social system.

(3) The *exchange or cooperation model*, which originates in the work of Locke ([1690] 1980), Smith ([1759] 1982, [1776] 1981), and was elaborated by Homans (1961), understands society as a competitive network of exchange (market) relations between individuals, through which individual interests unintentionally are harmonized with the general interest and order is tentatively and unintentionally brought about.

In summary, the following differences in views on order can be discerned as shown in Table 1.

These perspectives may be distinguished on the primacy of either norms and values, coercion, or interests as the constituent element of order. Each model, moreover, has developed a compatible model of man and consequently tends to emphasize its conceptual consistency. However, this emphasis on consistency has

narrowed down the scope of each model in studying institutional change. As such they present a clear example of the way the adequacy of the concepts of structure and agency have been decided upon the model's internal consistency rather than its potency to explain institutional change. However, as Cohen (1968, 32) reminded us: "All social order rests on a combination of coercion, interest and values."

**Table 1: Models of Social Order**

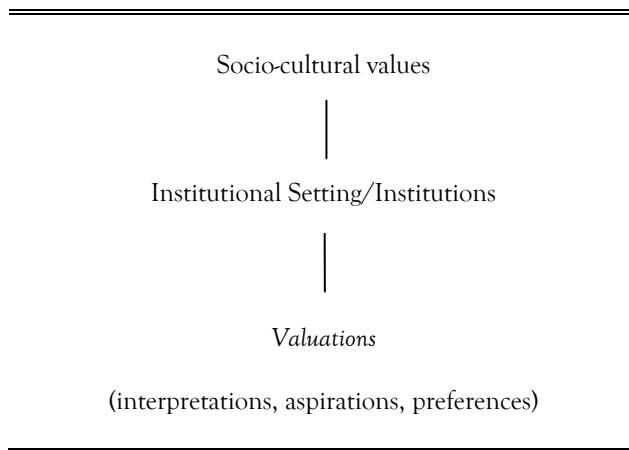
	Model of Social Order	Order Generating Institution	Primary Bond of Social Order	Source of Rules	Model of Man
Hobbes	Conflict	state	political	power	homo lupus
Smith	Cooperation	market	socio-economic	interests	homo economicus
Comte / Durkheim	Consensus	society / community	Cognitive	values / norms	homo sociologicus

### ***The Process of Institutional Change***

The irreducibility of both institutions and behavior to one another allows for the possible existence of tensions between institutions and practices on the one hand and behavior and perceptions of individual agents on the other. We have argued in the previous section that these tensions become manifest when triggered by a change in the constellation of the elements of order: values, interests and power. In this paper, we focus on "socio-cultural values" as potentially intervening phenomenon, which may expose "tensions" between institutions and the valuations by specific individuals or players involved in ongoing activity (in a practice), and thereby trigger a process of institutional change. To catch this aspect of processes of institutional change, we submit the Social Value Nexus (Figure 1).

Following the process of specialization between the social sciences in which the exchange model became the frame of reference, economics has almost exclusively focused attention on the element of interests. In this model of rational choice and (self) interest, it is assumed that the economic agent will opt for that course of action among alternatives that may be expected to serve his interest best, given his preferences and his perception of the relevant situational constraints. Institutions and rules within this model are seen as choice-constraining factors. Values, if recognized at



**Figure 1: The Social Value Nexus**

Source: Dofsma (2004).

all, are seen as embodied in institutional arrangements, and are thus part of the situational constraints. Attention then focuses on the valuations of economic agents aiming to maximize satisfaction; the workings of institutions are only noticeable through demand and supply interactions, and ultimately in prices, thus generating the parameters of choice.

However well-suited to understand market processes, clearly this is a very limited perspective to understand institutional change. A more encompassing perspective requires that the examination of processes of change include elements of values and power or, that values and power are not pinned down within parameters of choice but influence and are influenced in these processes.

Focusing on the element of values, the first thing to note is that processes of institutional change are, conceptually, imbued with issues of legitimacy or sense-making and interpretation (cf. Berger and Luckman 1967; Scott 1995; Zilber 2004). Besides the question of *how* people behave, the *why*-issue is an essential element of any theory of institutional change (Ullmann-Margalit 1978). Being reflexive, people's perception of their own behavior is implicated in how they behave.<sup>2</sup> Meanings and actions are mutually constitutive and intimately associated. Institutions build upon socio-cultural values in the sense that such values are "translated" into or applied to (a constellation of) them. The socio-cultural values are implicitly or explicitly referred to when agents try to understand, act according to, and legitimize institutions. A translation from socio-cultural values to institutions is a tentative process, and instantiation of abstract values to a specific problem situation develops gradually as increasingly standard responses become points of reference in individual decision-making. Institutions emerge or change with reference to socio-cultural values, which give them their legitimacy and ensure that they are adhered to by individuals. In

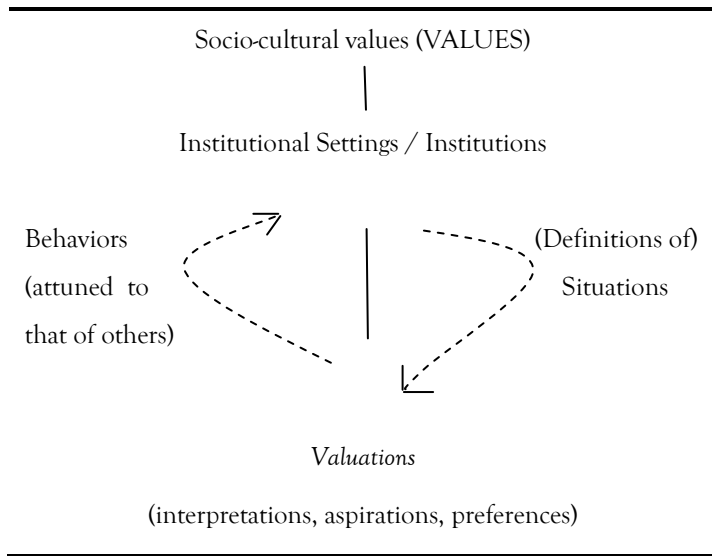
trying to make sense of what happens in our surroundings, in attempting to understand why others do certain things, in making decisions about what to do ourselves, we invoke what might be called socio-cultural values (Hofstede 1980; Inglehart 1990; Klamer 1996; and Kluckhohn 1951). As Rockeach (1979, 50) observed “[socio-cultural] values are socially shared cognitive representations of institutional goals and demands.” Socially shared conceptions of “the desirable” are learned by individuals who are subject to the external and internal “forces” of socialization on the one hand, and imitation, or the urge to belong to a particular group of people on the other (Rockeach 1979, 48). An institutional practice lacking a firm normative foundation in shared socio-cultural values will be perceived as empty and may soon be abandoned. As such, the concept of socio-cultural values is not simply a subjective notion (cf. Hitlin and Piliavin 2004). At the same time, however, values do not strictly determine behavior either (Hitlin and Piliavin 2004). The Social Value Nexus of Figure 1 indicates that people make sense of a constellation of specific institutions (a practice) and the socio-cultural values that provide legitimation for them.

There is considerable confusion concerning the term “value.” Value is a central notion in ethics; economists equate it with “price,” and some other scientists think of normative science when the word “value” is used. A distinction between socio-cultural values on the one hand, and *valuations*, on the other, seems necessary. Socio-cultural values denote strong underlying convictions many people in a group or in society hold, consciously as well as unconsciously, most of which would be considered of an ethical, cultural, or philosophical nature. These include matters of justice, beauty, love, freedom of will, autonomy, rightful ways of government and governance, social standing and behavior, and personal identity (see amongst others, Campbell 1987; Cowen 1998; Dolfsma 2004). The socio-cultural values that “live” in a society or community, and are expressed in its institutional settings, may change over time (Inglehart 1990), but are likely to be persistent (Hofstede 1980; Campbell 1987). The socio-cultural values as shared in a community point to the kind of things that one can (is socially allowed to) aspire to; they point to the kind of things that are preferably pursued and the direction in which society in general moves (Kluckhohn 1951). Valuations, on the other hand, denote the meanings or importance that individuals as individuals ascribe to particular situations, behavior or goods (Zilber 2004; Dolfsma 2004).

The distinction between socio-cultural values on the one hand and valuations on the other is rooted in institutional (economic) theory and (economic) sociology. Durkheim ([1893] 1964; [1895] 1947), Weber ([1922] 1964), and Parsons ([1937] 1968; 1951), for instance, argued that norms, ideals and ultimate ends should be considered if a social scientist is to understand society and the economy (cf. Beckert 2002; Davis 2003; Bush 1987; Neale 1987). Valuations, including people’s aspirations and preferences, take place in institutional settings or situations that are instantiations of socio-cultural values (Bush 2008; Zelizer 1985; 1979; 1997; Tool 1991). The way in which valuations are expressed differs between different institutional settings where possibly different socio-cultural values are expressed (see e.g., Wildavsky 1987). As

much of the actions of agents does not actively question or inadvertently create tensions for existing institutional furnitures, research can in many cases focus on the interactions within a given “actor constellation” or institutional furniture drawing on specific socio-cultural values (Scharpf 1997). Figure 2 graphically presents the argument that valuation, aspirations, and behavior need to be understood in view of locally institutionalized expressions of socio-cultural values deeply rooted in a society or community as understood by agents.

**Figure 2: The Agent in the Social Value Nexus**



### ***The Agent in Institutional Change***

We acknowledge the affinity with Hayden’s (1988) account of the relationship between cultural values, beliefs and attitudes, part of the building materials of his social fabric matrix (Hayden 1982). Our distinction between socio-cultural values and valuations (social value nexus) corresponds with Hayden’s cultural values and attitudes, respectively. Beliefs are described as constituent elements of institutions. Hayden argues that with a change in patterns and requirements of institutional activities, occasioned for instance by the introduction of a new technology, the conflict that is created between almost immutable cultural values and institutions is solved when beliefs and attitudes adapt to serve both masters. Focusing on institutional change, we both elaborate upon and diverge from Hayden’s account. On

the one hand, we further explore this idea of a conflict – tension – in the context of values and valuations and how it induces institutional change; on the other hand, we draw attention to the role of the agent in institutional change. Hayden is unable to do so. He argues that “through attitude theory . . . the human factor is brought into institutionalist theory,” even though “attitudes originate outside the individual” (1988, 421). While taking a perspective that tends to emphasize the structuralist approach, rather inconsistently at the same time Hayden refers to Neale’s definition of institutions in terms of “normal *behavior*,” implying a view of institutions as mental constructs. To avoid such confusion, we have argued the irreducibility of both institutions and behavior and stated the idea of tension in these terms. It is from this alternative notion of tension that we discuss institutional change.

Many have contributed to the theory of institutional change, although not all of these would acknowledge the role socio-cultural values play in the way that we suggest here (Scott 1995; Hodgson 1993; North 1990; Boulding 1956; Wrenn 2006). It would appear that the antecedents of and goals for, rather than the process of institutional change, have often been emphasized (cf. Bush 1987). We submit that analyzing processes of institutional change necessitates an understanding of individuals as agents who interpret and perceive their situation, consisting of institutions, rooted in socio-cultural values, forming valuations (aspirations, preferences) that they act on. Agency may show in a number of different ways. Agents can exert their relative autonomy in relation to an existing institutional environment by (1) opting for a particular instantiation of values in one of a number of different specific institutional settings (institutional furniture, practice) – possibly exiting from others – ; (2) interpreting and seeking the boundaries for acceptable behavior within an existing institutional setting;<sup>3</sup> (3) erecting an alternative institutional setting for a given practice, as is typically done by institutional entrepreneurs. Most pertinently, however, agency may show by (4) changing an *existing* institutional setting.<sup>4</sup> As Hays (1994, 69) has argued, however, “most agency is reproductive of social structure,” even when “reproduction is never automatic” (Sewell 1992, 19).

Perspectives that emphasize structure typically argue that institutions define the situation to which the individual reacts as well as the appropriate behavioral responses to that situation. Perspectives departing from agency, on the other hand, tend to emphasize that (institutional) regularities in behavior develop as people for pragmatic reasons tend to attune behavior to one another. Both perspectives amount to the same insight if it is assumed that there is a perfect match between people’s valuations and the instantiated values incorporated in an institutional setting. Figure 2 allows the possibility that these valuations do not coincide with socio-cultural values incorporated in a practice and shows how both perspectives are complementary in focusing on the process of institutional change. Such a focus allows for agency, not just to exploit the “zone of tolerance” (Hamilton 1932) or partly open scripts that existing institutions offer, but also to seek to alter existing institutions.

Based on socio-cultural values and the institutional setting of a particular practice, people have expectations about the workings of institutional structures. Such

a performance is the material outcome of the ways socio-cultural values, within a particular constellation of relations of power and interests, are translated into a practice. It is here that the individual becomes aware that tensions exist: the performance of a practice does not live up to expectations because valuations of this material outcome to the individual are felt to be incongruous with (1) the general socio-cultural values or (2) the (change of the) way these socio-cultural values have been instantiated in a practice. The framework presented is not deterministic. Socio-cultural values, constellation of power and interests stand in an interactive relationship with the institutional setting they produce – in turn they are affected by the institutional settings themselves. Change can and does go in both directions. The relation between institutions and socio-cultural values may change, questioning the legitimacy of institutions. Implicitly or explicitly, the *perception* by the individual of a *tension* between an institutional setting and the socio-cultural values it refers to triggers a process of institutional change (cf. Wildavsky 1987; Dolfsma 2004). To some extent disparities will always occur; in many cases they will result from personal circumstances. If an agent aims at changing an existing institutional setting or practice not only does she have to (1) resist the pressure to conform, but (2) she will also have to relate to the shared understanding of that setting to indicate a tension, as well as (3) persuade others that the setting needs to be changed. An agent will need to act in situations in a way that is recognizable to others. An existing institutional setting allows others to understand divergence from particular institutions, and allow them to perceive of, understand and conceive new institutions as well.<sup>5</sup>

### ***Triggers and Tensions: Tracking the Process of Institutional Change***

Institutions are not mere mental constructs, nor are behaviors simply the mindless reproduction of institutional patterns. Such an understanding implies the irreducibility of institutions and behavior to one or the other. In the previous sections the notion of “tension” emerged as a possible idea to understand institutional change. From among the three order generating mechanisms of interests, power and socio-cultural values distinguished earlier, we place relatively more emphasis on the latter as the Social Value Nexus indicates.

As Figure 2 indicated, if tensions become manifest, agents come to perceive a disparity between how institutions define a situation and behavior of agents in that practice. Resisting the pressure to conform, they may attempt to change an existing practice. The concrete form of the process of institutional change may be said to depend on the origin of the tensions involved. Taking these tensions from the perspective of socio-cultural values and valuations as point of entry for our analysis, we identify three (ideal) types of tensions, each becoming manifest in disparities between instantiated values within an institutional setting or practice and the valuations of individuals. Fully aware that our theoretical account requires further elaboration by including interests and power, we believe that our initial analysis allows us to gain a deeper understanding of the process of institutional change and the way agency and structure interact in this process.

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- A. Value tensions,
  - B. Institution tensions, and
  - C. Value-Institution tensions.
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It is, notably, individuals who perceive the tensions, and who can act on them, as the pragmatist philosopher John Dewey (1916, 346, italics in original) argues as well:<sup>6</sup>

Every *new* idea, every conception of things differing from that authorized by current belief, must have its origin in an individual. New ideas are doubtless always sprouting, but a society governed by custom does not encourage their development. On the contrary, it tends to suppress them, just because they are deviations from what is current. The man who looks at things differently from others is in such a community a suspect character . . .

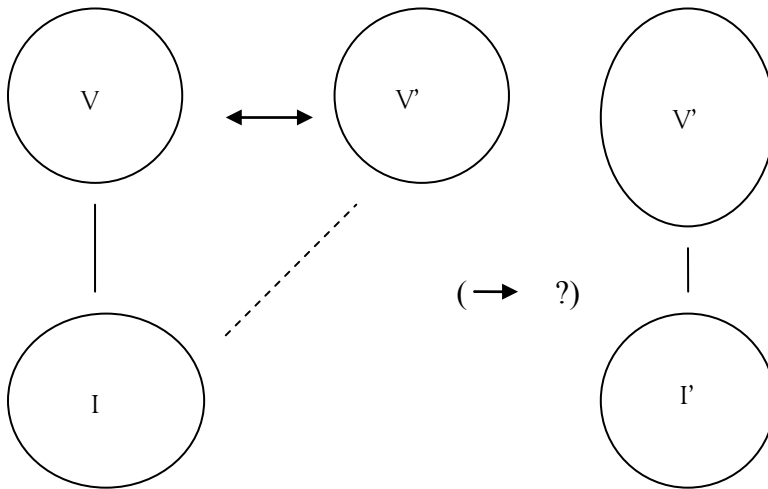
Individuals can change institutional settings only when the tension perceived is shared in a community, and a proposed alternative institutional setting is believed sufficiently justified by reference to (some of the) socio-cultural values subscribed to by the community.

Rather than extensively reviewing the literature on institutional change, we thus submit a proposal for understanding institutional change, obviously drawing substantially on institutional economic literature (Bush 1987; 2008; Hodgson 2006; Neale 1987). We will discuss these different tensions, and the types of institutional changes to which they give rise. In a subsequent section we elaborate on specific examples of institutional change.

### *Value tensions (A)*

At any given moment, socio-cultural values (*V*) that live in a community associated with differing institutional settings (*I*) may come into conflict with a different set of socio-cultural values (*V'*) that (some) members of the community believe should (also) be reflected in the practice. This gives rise to value tensions. If it appears to a community that increasingly conflicting socio-cultural values are alluded to in a practice, *V* and *V'* may be perceived to come into sharp contrast, setting off a process of institutional change to resolve this value tension by forming institutional setting *I'* for that particular practice to reflect the new socio-cultural values associated with it. As suggested by Bush's (1987) principle of minimal dislocation, a return to the *V - I* situation is also possible, while elements from *V* or from *I* may be incorporated into a new constellation *V'-I'* as well. Figure 3 visualizes this.

Figure 3: Institutional Change and Type A Tensions



### *Institution tensions (B)*

Institution tensions arise when related institutions or institutional settings that build, albeit differently, on the same socio-cultural values, (are) (suddenly) (perceived to) come into conflict, inducing pressure for institutional change. While in this case socio-cultural values are not at issue or questioned, a process of institutional change is triggered when the legitimacy of an alternative practice has gained support to the effect that the conventional practice is no longer perceived to be self-evident and is “reconstructed” to abate tensions – see Figure 4. It would seem likely that  $I'$  will supplant  $I$ .

### *Value-Institution tensions (C)*

An institutional “furniture,”  $I$ , originating in a particular (combination of) socio-cultural values,  $V$ , may drift away in the course of time from these values ( $V$ - $I$  to  $V'$ - $I'$ ; arrow 1). Over time institutions may be adjusted to and come to represent other socio-cultural values. They come to be re-valued (Böröcz 1995). In such a case, focusing on a particular practice, tension builds between the original socio-cultural values,  $V$ , that some agents immersed in the practice ( $I$ ) as well as some outsiders still refer to on the one hand, and the newly emerged institutional setting  $I'$  building on  $V'$  that others have in mind on the other hand. Such tension, in turn, triggers a change of institutional practice to align again with  $V$  (arrow 2'), or a new set of socio-cultural values  $V'$  will be subscribed to (arrow 2''), as indicated in Figure 5.

Figure 4: Institutional Change and Type B Tensions

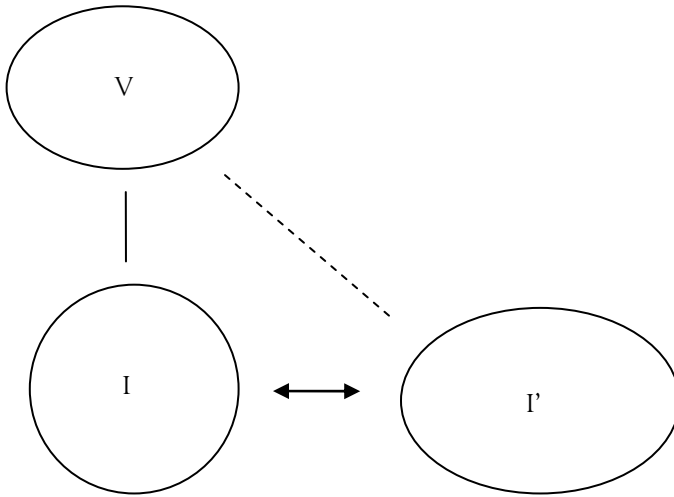
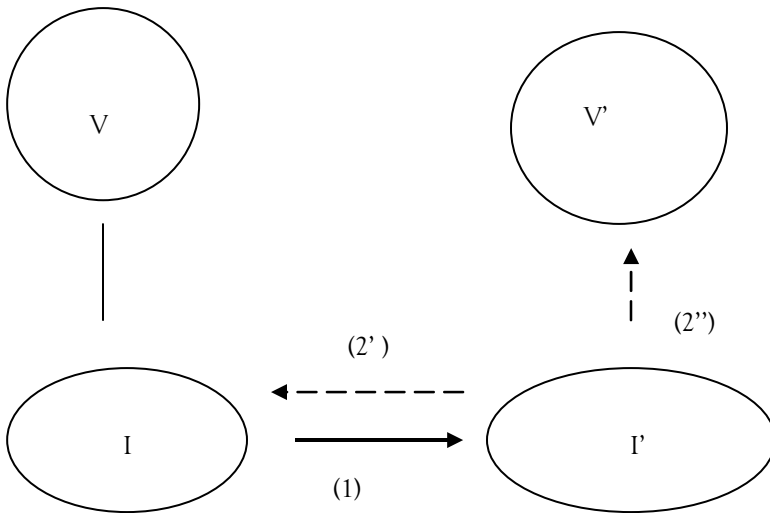


Figure 5: Institutional Change and Type C Tensions





### ***Two Illustrations: Rock Music and Health Care***

In empirical research the three types of tensions we presented in the previous section and the institutional change that they provoke may not be easily distinguished. As the following illustrations show, however, identifying and tracking these types of tensions does allow one to improve one's understanding of processes of institutional change.

*Rock music* alludes to highly modernist socio-cultural values such as novelty, speed, autonomy, independence, pleasure, success, and youth (Frith 1996; Dolfsma 2004). Such values came to be associated with music in the 1950s. Until then, popular music, mainly big band and crooner music consumed through the radio and the music press, was taken to refer to a different set of socio-cultural values, including aesthetic values, order, authority, and hierarchy. From the 1950s onward tension built between  $V$  and  $V'$ , ultimately triggering institutional change from  $I$  to  $I'$ . Conventional values were challenged when selections of music by experts were rejected (authority), definitions of what constituted "taste" in music were called into question (aesthetic values) and experts were no longer accepted as the knowledgeable outsider standing above rather than being part of the peer group (hierarchy). Dissatisfied with ongoing practices that discriminated against rock music, appeals were made for more democratic procedures in the allocation of (playing) time, considering that music is not necessarily a means to cultivation, allowing room for the view that taste in music is subjective. This shift in views and preferences of agents and the consequent tensions resulted in the rise of the "chart," a new institutional practice that build on the newly emerging values such as autonomy and novelty within more democratic procedures. Pirate radio stations, entrepreneurs in the magazine business, and hosts of radio programs played a role in this, experimenting with different formats for charts. Presenting music in the form of chart listings, the institutionalized role of the host also changed: the disk jockey (DJ) arrived on the scene, a peer filling in the time intervals between songs rather than some conventional figure of authority dictating proper tastes (Dolfsma 2004).

Not instrumental in promoting the tastes of a privileged group, the institution of charts allows music fans to claim their proper share in playing time on the radio in line with their own valuations, and to distance themselves from those with other preferences or experts who seek to educate their listeners in "proper" taste and manners. Hence, a process of institutional change started to resolve this value tension between  $V$  and  $V'$  by forming an institutional setting  $I'$  that reflects the new socio-cultural values associated with rock music.

Tracking changes in institutional practices also brings out some attempt to minimize institutional dislocation, most notably by the Billboard Company, even as institutions were molded to conform to the socio-cultural values that were associated with rock music ( $V'$ ). In compiling charts, Billboard pre-structured the information flow they were to receive from record stores on record sales. For instance, the "chart position" set-up pigeon-holed music into specific categories (Kloosterman and Quispel 1990). It also only allowed record stores to fill in the number of records sold by artists, and only allowed sales figures for songs Billboard had included in its list to be

filled in. This institutional arrangement was undermined by a “unit sales” system to compile record sales introduced by a company called Soundscape in the 1990s (Anand and Peterson 2000). The socio-cultural values ( $V'$ ) related to rock music or the institution of the chart as such were uncontested and the conflict that emerged was about how charts were to be compiled, a case of tension between institutional practices. Allowed by technological innovations that made the collection, storage and analysis of digital information easy and inexpensive, Soundscape pioneered a new institutionalization for a chart that included sales figures for all records, not just figures of pre-arranged lists of records. Such a chart made the system even more democratic against attempts by players in the market to gain a measure of control after the advent of rock music had seriously shaken the sector.<sup>7</sup> Anand and Peterson show that institutions in the market are important for participants to make sense of the market, creating a shared focus of attention, a “market information regime.”<sup>8</sup> A full discussion of the elements of “interests” and “power” suggests itself, but here our concern is to bring out how structure, agency and values interact in the process of institutional change.

This is also the case in our second illustration: recent developments in European *health care* systems presenting an example of type C tension. Most health care systems in Europe are built upon the value of solidarity: cost of health care are shared by all in the community, even though there are great differences in the extent to which people make use of health care services at any given moment in time and across time ( $V$ ). Of course, the institutional framework through which the value of solidarity is translated into a health-care system differs between countries. One of its aspects concerns the way the system of health care is financed ( $I$ ). There are national, collectively financed systems (National Health Service in the UK (McMaster 2002), there are (partly collective, partly private) insurance schemes and systems that have a compulsory and collective basic care insurance, which may be (privately) supplemented, as in Germany and the Netherlands (Grit and Dolfsma 2002).

Health care systems across Europe and elsewhere are, however, very much under pressure. Tensions build with the ongoing process of individualization whereby persons feel less strongly related to and responsible for others (family, neighborhood, church, society). Given the growing emphasis on individual responsibility and reciprocity, the legitimacy of the solidarity-based health care system has weakened substantially. Gradually a different set of socio-cultural values,  $V'$ , has emerged, which gains in strength. Costs rising to ever-increasing heights because of the rising number of elderly, consumerism from well-informed and assertive clients, growing medical knowledge and technical possibilities has created a widening gap between expectations of and demands on the health care system on the one hand, and the limited and conditional nature of its supply on the other. Due to a government that wants to control the budget for health care expenditures, supply of health care services has lagged behind people's expectations.

The scarcity that has resulted puts strains on solidarity as a principle for structuring health care. Attempts to save the solidarity-based ( $V$ ) health care system from collapse, has induced a gradualist policy of downsizing and rationing, trying to

minimize institutional dislocation (Bush 1987). Such developments have led to the introduction of new principles of allocation and distribution in health care systems. This is more akin to I, but traditional boundaries between institutional settings (I as compared to I') become blurred. As increasingly institutions of type I', inspired by such socio-cultural values of choice, individual responsibility, financial incentive along lines of V' were introduced, people came to feel the tension between the foundational value of solidarity still used to shape and legitimize a health care system (V) and values embodied in the institutional practice of a market-based system (V').

The abovementioned pressures have thus made policy makers instigate novel institutional settings. Activities, formerly a responsibility of the system, have been outsourced to the private (market) sphere or redefined as a private responsibility (Grit and Dolfsma 2002; 2007), as governments leave it to market players, such as insurance companies, to re-arrange the system of health care such that a system of "managed competition" arises (Enthoven 1988; Cutler 2002). Moving the financial responsibility for the use of health care services to the individual may be needed to prevent free riding. By addressing people as knaves thereby undermining their "knightly" (intrinsic) motives (Le Grand 2003; Frey 1997), however, it is equally a threat to the solidarity upon which the system was founded and has functioned for decades.

One example of a new institutional arrangement is the so-called personal care budget, an institutional arrangement (I') inspired by market-like socio-cultural values (V'). Those needing long term care are given a fixed sum of money each year that they can spend hiring care givers themselves. The criteria for being eligible for such a budget, the rules to spend it, and the rules to account for your spending are elaborate (Van den Berg and Hassink (forthcoming)). Informal care givers such as grandparents, husbands, *et cetera* get to understand that they may as well be "hired" to provide the same care that they give free of charge, as they do sacrifice substantial amounts of time, effort and opportunities foregone to provide the same care some others are paid for. Professional care givers are concerned about "their" market and claim the superiority of professional care, at the same time that the competition among professional caregivers pressurizes to the extent to which quality standards are upheld. As rules and regulations were introduced to maintain quality standards, increasingly informal caregivers have to qualify themselves to provide the care they used to provide as a matter of courtesy beforehand. Others reduce their supply of informal or home care, feeling it is not up to them to suffer the consequences of supplying informal care while the benefits accrue to unknown, less public spirited, others in the system (cf. LeGrand 2003).

Thus, the provision of health care is increasingly fragmented into separate institutional furnitures - public and private responsibilities, among the latter between different budgets that have their own rationales - that each draw on different socio-cultural values, as visualized in Figure 5. Health care systems have moved from a solidarity based system (V- I) toward a market-oriented systems based on competition, emphasizing individual interest and responsibility (V'- I'). Socio-cultural values underlying one part of the practice as reflected in the institutions are at odds with

those of another part of the practice. Ostensibly, however, the socio-cultural values the system is founded in are, still, largely those of solidarity, at least for many participants in the system and not just patients and health care providers (Grit and Dolfsma 2002). Consequently, the attempts to introduce market institutions have been rocky (Grit and Dolfsma 2007). A shift toward an “American” system (I') with its emphasis on choice, freedom and accountability (V') at some point will be perceived by individuals to have caused a tension of type C. Either a new ground for legitimating institutions of health care is sought (in V'), or the institutional setting moves back from I' to I again. Since health care is a large sector in the economy and central to society, the actions by players in dealing with these tensions are visible in just about any developed country and too numerous to discuss in full. We do submit, however, that the framework we have proposed allows us to gain an understanding of such processes of institutional change.

### ***Agency, Institutional Structure and the Role of Values***

Research on institutional change was opened up when uncompromising positions on the structure-agency controversy were abandoned for a conceptual compromise that focused on the process of institutionalization. Even though individuals cannot escape institutions, behavior is more than the mere reproduction of institutional patterns, nor are institutions merely mental constructs to change when behavior changes. Because institutions and behavior are irreducible to one another, tensions may exist that set off a process of institutional change. Such tensions can be triggered by changes in constellations of interests, power and values. Focusing on the role of (socio-cultural) values in processes of institutional change, we submit that a coherent set of institutions defining a practice or institutional furniture need to be perceived by members of a community as being legitimate. The Social Value Nexus we introduced explores how structure, agency and values interact in processes of institutional change, indicating how (three types of) tensions as perceived by agents in a given practice may arise. In case of tension between extant institutional furnitures and the socio-cultural values referred to for legitimation, individuals can attempt to change an institutional setting.

### ***Notes***

1. A practice is “. . . any form of activity specified by a system of rules [institutions] which defines offices, roles, moves, penalties, defenses, and so on, and which gives activity its structure” (Rawls 1955, 3).
2. Cf. Carrithers (1990), Dunbar (1998), and Givón (2005). See also Searle (2005). The human brain seems particularly attuned to complex social behavior, especially in relation to the use of language to understand and express higher-order intentions.
3. Zilber (2004 236) emphasizes this easily ignored category of “interpretation as an active choice.” A given institutional setting always leaves room for individuals to exert their agency, no institutional “script” is completely closed (Akrich 1992; Gioia and Poole 1984; Barley and Tolbert 1997; Philips, Lawrence and Hardy 2004).
4. Beckert (1999, 784) pertinently says that “highly stable environments make it possible to look for strategic alternatives” to be taken advantage of by what he calls “institutional entrepreneurs.”

5. Emphasizing interpretation and perception implies an understanding of knowledge that does not equate it to accumulated pieces of information, the Bayesian view of knowledge and knowledge acquisition (Berger and Luckmann 1966; Bandura 1986; Dolfsma 2004; 2008).
6. Boulding (1956, 75) makes this point as well, referring to what he calls "image" ("the total cognitive, affective, and evaluative structure of the [individual], or its internal view of itself and the universe"): "To a very large extent changes in the image comes about through the impact on society of unusually creative, charismatic or prophetic individuals."
7. See Peterson (1990), and Burnett (1993). Combined market share for the few big record companies fell by some 40% in just three years as rock music emerged around 1955.
8. In this particular case, the unit sales chart made direct comparisons across genres possible, strengthened the position of the larger record labels/companies (despite fear they had that their position would be hurt), and created more possibilities for segmentation of the market for the marketing department to take advantage of. In addition, country music came to be represented stronger in the charts, while the charts themselves grew more volatile.
9. As perceived by many players in Europe. Given that Medicare and Medicaid do provide collective coverage for health care in the United States for large groups of citizens, and also as a number of presidential candidates perceive of the European system as an example to imitate, this characterization may not be accurate.

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