Institutional Theory and Human Resource Management

Ali Najeeb

The study of institutions traverses the academic fields of economics, sociology, political science and organisational theory. The common denominator for institutionalism in various disciplines appears to be that of, 'institutions matter' (Kaufman 2011). An underlying assumption in the study of institutions is that organisations are deeply embedded in the wider institutional context (Powell 1988; DiMaggio & Powell 1991). Thus, "organisational practices are either a direct reflection of, or response to, rules and structures built into their larger environment" (Paauwe & Boselie 2003, p. 59).This institutional environment is the source of legitimisation, rewards or incentives for, as well as constraints or sanctions on, organisational activities (Meyer & Rowan 1977). The relevance of institutional theory to Human Resource Management (HRM) was initially derived from this view (Rosenzweig & Nohria 1994).

The institutional approach used in organisational analysis is referred to as organisational institutionalism (Greenwood et al. 2008). Organisational institutionalism deals with the overall question: 'What does the institutional perspective tell us about organisational behaviour?' Institutional theory is a useful lens to analyse organisational behaviour because it can respond to empirical mismatch, where, 'what we observe in the world is inconsistent with the ways in which contemporary theories ask us to talk' (March & Olsen 1984, p.747).The theory is credited with its emphasis on the contextual, historical and processual aspects in which organisational actions take place(Currie 2009).

The roots of institutional theory can be traced back to the 19[th]century (Scott 1995). Greenwood et al. (2008) note that, "institutional theory evolved as an antidote to the overly rationalist and technocratic perspective of 1960s". In the early years of its development, institutional theory was closely associated with neo-classical economics theory (Hodgson 2004; Sayilar 2009), resource dependence theory and ecology theory (Greenwood et al. 2008), and has more recently been associated with structuration theory (Scott 2008).

Institutional theory gained prominence in organisational sociology in the 1980s when a group of US-based sociologists, e.g. Meyer and Rowan 1977; Zucker 1977; DiMaggio and Powell 1983; Meyer and Scott, 1983, presented themselves as neo-institutionalists.

Two seminal papers on institutional theory were released in 1977: Meyer and Rowan (1977) and Zucker (1977). Meyer and Rowan (1977) embraced the view of the institution from a macro perspective, seeing it as a web of cultural roles, whereas Zucker's (1977) study was focused on the micro foundations of institutions, with the power of cognitive aspects guiding the behaviour of individuals (Scott 2008). Studies that followed these seminal papers (DiMaggio and Powell 1983; Scott and Meyer 1983) focused on the macro-analytical perspective in understanding organisations (Scott 2008). DiMaggio and Powell (1983) brought a new dimension to the discussion of institutions by introducing isomorphism (structural similarity), while Meyer and Scott's(1983) study proposed that both technical and institutional forces shape organisations. These contributions are often regarded as substantive work on the institutions-organisations nexus in the context of organisational theory.

Institutional research in the 1950s is often referred to as 'old institutionalism', while the work on institutional theory in the late 1970s and early 1980s is referred to as 'new institutionalism'. 'Old institutionalism' is concerned with how concrete social processes regulate social behaviour (Selznick 1949), focusing on how power, coalitions, and informal structures influence organisational behaviour (Greenwood & Hinings 1996). In contrast, the focus of 'new institutionalism' is on the cognitive processes that create the taken-for-granted structures that

establish legitimacy around certain ideas. DiMaggio and Powell (1991) draw a distinction between, and provide a comprehensive comparison of, old and new institutionalism. Since they made this distinction, institutional theory has developed significantly, forging links with other aspects of management studies.

According to Bray et al. (2009), the link between institutional theory and Industrial Relations (IR) can be traced back to the work of scholars such as Webb (1894) and Commons (1913). Since then, institutional theory has widely been applied to IR research. However, consistent with mainstream IR research, institutional theory-IR research has also been largely empirically descriptive, contributing little to theoretical development in the institutional theory-IR nexus.

Human Resource Management (HRM) scholars started to recognise the applicability of institutional theory to HRM research in early 1990s. Wright and McMahan (1992) were first to note this. Following this, Oliver (1997) and Purcell (1999) incorporated elements of the institutional framework in relation to HRM in their research. Paauwe and Boselie (2003) were the first to apply new institutionalism systematically in HRM, and developed an initial proposition for HRM and institutional research based on the framework illustrated in Figure 1.
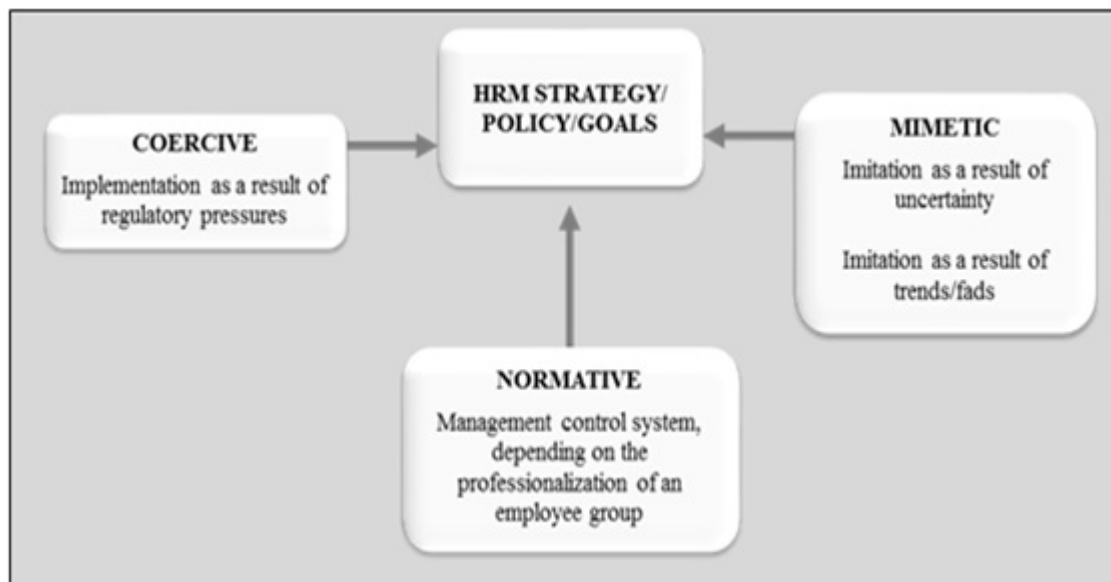

Figure 1: Institutional mechanisms and HRM; Source: Paauwe and Boselie (2003, p.61)

Institutional legitimacy is defined as, 'a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions' (Suchman 1995). Hence, an organisation's response to institutional pressure is crucial for its success and survival. Emphasising field-level structuration processes, DiMaggio and Powell (1983) argue that organisations increasingly become similar as rational actors try to change them.

The terminology that best explains this process of homogenisation is isomorphism (Paauwe and Boselie 2003), which is, 'a constraining process that forces one unit in a population to resemble other units that face the same set of institutional conditions' (DiMaggio & Powell, 1983). Isomorphism is an outcome of both competitive and institutional pressures (DiMaggio & Powell 1983). According to Scott (2008), it is challenging to distinguish between institutional and competitive pressures using institutional theory. Competitive pressures assume a system of rationality, and emphasise market competition and niche changes; organisations subject to these

pressures are expected to do business effectively and efficiently (Scott & Meyer 1991). Much of the HRM literature prioritises competitive pressure, as if this is the only form of pressure facing organisations. However, 'organizations compete not just for resources and customers, but for political power and institutional legitimacy, for social as well as economic fitness' (DiMaggio & Powell, 1983).

Institutional isomorphism results from organisations being members of a common organisational field, which is defined as those organisations that, in the aggregate, constitute a recognised area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organisations that produce similar services or products (DiMaggio & Powell 1983). According to these authors, institutional isomorphism takes three forms: coercive, normative and mimetic. Each of these has implications for HRM.

Coercive isomorphism results from both formal and informal pressures exerted on organisations by other organisation which depend on and are informed by cultural expectations in the society within which they operate (DiMaggio & Powell 1983). Organisations can receive these pressures as force, persuasion or invitation to join in collusion (Meyer & Rowan 1977). They are mainly, 'embedded in regulatory processes, which can manifest themselves in different forms, and differ in their degree of enforcement' (Paauwe & Boselie 2003). Coercive mechanisms related to HRM include the influence of social partners (trade unions and work councils), employment legislations and the government, e.g. policies. These mechanisms can be visible at different levels (international, national and industry). International-level pressures may include different ILO conventions; national-level regulatory pressures include employment laws; and industry-level regulatory pressures include sector-wide collective-bargaining agreements (Paauwe & Boselie 2003). Organisations may have to bring changes to their HRM policies and practices in response to coercive pressures (Tsai 2010).

Normative isomorphism refers to, 'relations between the management policies and the background of employees in terms of educational level, job experience and networks of professional associations' (Paauwe & Boselie 2003). It is associated with professionalisation, which is often interpreted as, 'the collective struggle of members of an occupation to define conditions and methods of their work, to control "the production of producers" , and to establish a cognitive base and legitimacy for their occupational autonomy' (DiMaggio & Powell 1983). The degree of professionalisation of employees affects the nature of the management-control system (DiMaggio & Powell 1983). Norms and values that professionals develop through formal education and professional networks increase the similarity of the skills and knowledge of the total workforce in a given organisational field (Boon et al. 2009). Professionals from highly institutionalised professions (accountancy) can occupy similar positions in various organisations in the field; they can bring their professional norms and values into organisations, which might lead to similar organisational behaviour. Likewise, if HR professionals working in the same industry receive education from the same institutions and associate with the same trade associations, organisations that employ these professionals tend to adopt similar HRM practices (Tsai 2010).

Mimetic isomorphism results from the organisational response to uncertainty. According to DiMaggio and Powell (1983), 'when organisational technologies are poorly understood, when goals are ambiguous, or when the environment creates symbolic uncertainty, organisations may model themselves on other organisations' in the organisational field, which are perceived to be successful and legitimate. Organisations may do so 'without being fully cognizant of the means-ends relationships that reside within the structures and processes' (Grewal & Dharwadkar 2002).For example, HR managers in organisations may imitate the HRM practices of a competitor as a result of uncertainty, or fads in the field of management. For example,

organisations may adopt the HR scorecard and some practices of high-performance work systems due to uncertainty, or to cope with competition (Paauwe &Boselie 2003).

Although institutional theory has been applied in a plethora of HRM studies, until the mid-2000s, institutional theory-HRM research viewed organisations as products of social constructions. This view has started to change as institutional theory has been applied in research into Multi-National Corporations (MNC) or into international HRM (Bjorkman 2006; Kostova et al. 2008). Issues covered in international HRM with the help of institutional theory include, but are not limited to, isomorphic pressures from host-country and home-country institutional environments; such research has investigated concepts such as institutional distance and institutional duality (Ferner & Quantanilla 1998; Kostova & Roth 2002; Rosenweig & Nohria 1994); the transfer of HRM practices from headquarters to overseas subsidiaries and the role of headquarters management in the transfer of practices (Gooderham et al. 1999); and the varying degrees of interaction between actors and institutions – for instance, the role of subsidiary managers in the transfer of HRM practices (Almond et al. 2005).

References and links

Almond, P, Edwards, T, Colling, T, Ferner, A, Gunnigle, P & Muller-Camen, M 2005, 'Unraveling home and host country effects: An investigation of the HR policies of an American multinational in four European countries', *Industrial Relations*, vol.44, no. 2, pp. 276-306.

Bjorkman, I, (ed)2006,*International human resource management research and institutional theory Handbook of Research in International Human Resource Management*, Cheltenham, Edward Elgar Publishing Limited.

Boon, C, Paauwe, J, Boselie, P & Den Hartog, DN 2009, 'Institutional Pressures and HRM: Developing Institutional Fit', *Personnel Review*, vol.38, no. 5, pp. 492-508.

Bray, M, Waring, P& Cooper, R2009, *Theory and Practice, Employment Relations*, McGraw Hill Australia Pty Limited.

Currie, W2009, 'Contextualising the IT artefact: Towards a Wider Research Agenda for IS using Institutional Theory', *Information Technology & People*, vol.22, no. 1, pp.63-77.

DiMaggio, PJ & Powell, W 1983, 'The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields', *American Sociological Review*, vol. 48, no. 2, pp. 147-160.

DiMaggio, PJ & Powell, W 1991,'Introduction',*The New Institutionalism in Organizational Analysis*, DiMaggio, PJ & Powell, WW, The University of Chicago Press, Chicago.

Ferner, A & Quintanilla, J1998, 'Multinationals, national business systems and HRM: the enduring influence of national identity or a process of Anglo-Saxonisation', *Journal of Human Resource Management*, vol. 9, no. 4, pp. 710-731.

Gooderham, PN, Nordhaug, O& Ringdal, K1999, 'Institutional and Rational Determinants of Organizational Practices: Human Resource Management in European Firms', *Administrative Science Quarterly*, vol. 44, pp. 507-531.

Greenwood, R & Hinings, CR 1996, 'Understanding Radical Organizational Change: Bringing together the Old and the New Institutionalism', *Academy of Management Review*, vol. 21, no. 4, pp. 1022-1054.

Greenwood, R, Oliver, C, Sahlin, K & Suddaby, R 2008, 'Introduction', in R Greenwood, C Oliver, K Sahlin & R Suddaby (eds.),*The Sage Handbook of Organizational Institutionalism*, SAGE Publications, London.

Grewal, R& Dharwadkar, R2002, 'The Role of the Institutional Environment in Marketing Channels', *Journal of Marketing*, vol. 66, no. 3, pp. 82-97.

Hodgson, GM2004, 'Darwinism, Causality and the Social Sciences', *Journal of Economic Methodology*, vol.11, no. 2, pp. 175-194.

Kaufman, BE2011, 'Comparative Employment Relations: Institutional and Neo-institutional Theories', in M Barry & A Wilkinson (eds.), *Research Handbook Of Comparative Employment Relations*, Edward Elgar Publishing.

Kostova, T& Roth, K2002, 'Adoption of an Organizational Practice by Subsidiaries of Multinational Corporations: Institutional and Relational Effects', *Academy of Management Journal*, vol. 45, no. 1, pp.215-233.

Kostova, T, Roth, K & Dacin, MT 2008, 'Institutional Theory in the Study of Multinational Corporations: A Critique and New Directions', *Academy of Management Review*, vol. 33, no. 4, pp. 994-1006.

March, JG& Olsen, JP1984, 'The New Institutionalism: Organizational Factors in Political Life', *The American Political Science Review*, vol.78, no. 3, pp. 734-749.

Meyer, JW & Rowan, B 1977, 'Institutionalized Organizations: Formal Structure as Myth and Ceremony', *American Journal of Sociology*, vol. 83, no. 2, pp. 340-363.

Meyer, JW& Scott, WR1983,*Organizational Environments: Ritual and Rationality*, SAGE Publications, Beverly Hills.

Oliver, C1997, 'Sustainable competitive advantage: Combining institutional and resource-based views', *Strategic Management Journal*, vol. 18, no. 9, pp. 697-713.

Paauwe, J& Boselie, P2003, 'Challenging 'Strategic HRM' and the Relevance of the Institutional Setting', *Human Resource Management Journal*, vol. 13, no. 3, pp. 56-70.

Purcell, J1999, 'Best practices and best fit: chimera or cul-de-sac?', *Human Resource Management Journal*, vol. 9, no. 3, pp. 26-41.

Rosenzweig, PM & Nohria, N 1994, 'Influences on Human Resource Management Practices in Multinational Corporations', *Journal of International Business Studies*, vol. 25, no. 2,pp. 229-251.

Sayilar, Y2009, 'Moderating Effect of Normative Institutional Mechanism on the Relationship between Business Strategy and HRM Model', *Akdeniz . .B.F. Dergisi*, vol. 17, pp. 154-188.

Scott, WR1995,*Institutions and Organizations*, SAGE Publications, Thousand Oaks.

Scott, WR2008,*Institutions and Organisations*: Ideas and Interests, SAGE Publications, Inc., Thousand Oaks.

Scott, WR& Meyer, JW 1991,The Organization of Societal Sectors: Propositions and Early Evidence, in PJ DiMaggio & WW Powell (eds.),*The New Institutionalism in Organizational Analysis*, The University of Chicago Press, Chicago, pp. 108-142.

Selznick, P1949,*TVA and the Grass Roots*, University of California Press, Berkeley.

Suchman, M1995, 'Managing Legitimacy: Strategic and Institutional Approaches', *Academy of Management Review*, vol. 20, no. 3, pp. 571-610.

Tsai, CJ2010, 'HRM in SMEs: homogeneity or heterogeneity? A study of Taiwanese hightech firms', *The International Journal of Human Resource Management*, vol. 21, no. 10, pp. 1689-1711.

Wright, PM& McMahan, GC 1992, 'Theoretical Perspectives for Strategic Human Resource Management', *Journal of Management*, vol. 18, no. 2,pp. 295–320.

Zucker, L. G. 1977, 'The Role of Institutionalization in Cultural Persistence', *American Journal of Sociology*, vol. 42, no. 5, pp. 726-742.

Further readings

Najeeb, A (forthcoming) 'Institutional perspectives in HRM and MNC research: A review of key concepts' , International Journal of Employment Studies.

Najeeb, A2011, 'HRM in paradise: similar or different? A study of tourist resorts in the Maldives' , *Employment Relations Record*, vol.11, no. 1, pp. 1-18,<http://ro.uow.edu.au/commpapers/3116/>.