

# Intersecting Three Muddy Roads: Clarification and Integration of Institutional Theory, Organizational Legitimacy, and Environmental Enactment

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## Abstract

Given the many decades of research by multiple academic disciplines of institutional theory, organizational legitimacy, and environmental enactment, many of the related constructs have become murky as these various disciplines defined terms differently. The purpose of this research is to clarify and integrate institutional theory, moral organizational legitimacy, and environmental enactment into a cohesive whole to assist those pursuing cross-disciplinary research. These constructs are related in that institutionalization implies stability, legitimacy implies approval, and environmental enactment implies change.

How organizations respond to and shape the larger social systems in which they are embedded is a topic that has intrigued sociologists, organizational theorists, historians, and others for decades (e.g., Chandler, 1962; Parsons, 1956, 1960; Selznick, 1957). Along the way, theories such as institutional theory (e.g., Broom and Selznick, 1955), organizational legitimacy (e.g., Suchman, 1995), and environmental enactment (e.g., Weick, 1979), have described specific aspects of these organization-social system relationships. As this body of literature has grown, researchers from various disciplines have adapted their own vocabularies in describing these phenomena. While this has contributed to theoretical development, it has also resulted in researchers talking past one another, defining the associated terminology according to each discipline's language and research traditions and sometimes overlooking subtle nuances of meaning when transferred across disciplinary boundaries. What should be clear often becomes muddled as the various disciplines develop their own definitions and applications.

Although others have suggested relationships among institutional theory, organizational legitimacy, and environmental enactment (e.g., Glenn, Barr, and Dacin, 2000; Scott, 1998: 143), the current literature lacks a formal integration of these perspectives. Given the need for clear definition and theoretical integration, the purpose of this research is to clarify and integrate institutional theory, moral organizational legitimacy, and environmental enactment into a cohesive whole. Rather than provide an exhaustive review of each, this research highlights characteristics that are applicable across a variety of scholarly disciplines in an effort to increase the multidisciplinary utility of ongoing efforts to research such organizational phenomena.

To clarify meanings, each term is carefully defined as we progress toward integration in the final section of this research. Table 1 lists a brief definition of each construct discussed throughout this paper. DiMaggio and Powell (1983: 150), in their discussion of types of institutional isomorphism, stress that “this typology is an analytic one: the types are not always empirically distinct.” In this same line of thinking, consistent conceptualizations are more theoretically informative than precise empirical operational definitions for the purposes of this research. With this in mind, the definitions throughout this research and in Table 1 should be considered useful conceptual descriptions rather empirical operational definitions.

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The following three sections define each theoretical perspective followed by a more extensive explanation and attempts to concisely but accurately capture the primary differences and interrelationships of institutional theory, organizational legitimacy, and environmental enactment in what is intended to be a useful means of communicating about related organizational phenomena within and across academic disciplines. To guide the reader toward the final conclusion, I offer this brief summary in hope of disentangling the overlap of the constructs that will be addressed: institutionalization implies stability, legitimacy implies approval, and environmental enactment implies change.

### **Institutional Theory**

Broom and Selznick (1955: 238) refer to institutions as “the emergence of orderly, stable, socially integrating patterns out of unstable, loosely organized, or narrowly technical activities.” Others have viewed institutions in a slightly different manner; Trice and Beyer (1993) describe a condition where social circumstances provide normative guidance for social behavior, circumscribing the boundaries of approved action. Scott (1998: 133) sees institutions as consisting of “cognitive, normative, and regulative structures and activities that provide stability and meaning to social behavior.” Note that these definitions may include both formal and informal channels for communicating social norms. Formal channels may include items such as minutes from boards of directors meetings, written organizational policies, and applicable local, state, and federal laws. Informal channels may include such items as religious values, cultural norms, and generally speaking, “the way we do things around here.” Because an organization, no matter how formalized, can “never succeed in conquering the nonrational dimensions of organizational behavior” (Selznick, 1948: 25), informal channels are not subjugated to lesser status, but are on equal par with formal channels of institutionalizing behavior.

As noted in the previous definition of institutions, W. Richard Scott suggests that the institutional theory literature has developed along three distinct lines including regulative, normative, and cognitive (1995) or cognitive-cultural (1998) dimensions or “pillars” in Scott’s terminology. Regulative institutions arise from disciplines such as economics and law. For example, Douglass North (1990) considers institutions from a historical economic perspective, suggesting that institutions are the rules of the game in which organizations are the actors. This perspective takes a rational approach to organizational responses to institutional forces, but includes formal and informal rules as having institutional effects on organizational actions.

The influential sociologist Phillip Selznick considers institutions from a normative perspective. The extent to which an organization is institutionalized, or structured in a way that it conforms to socially integrating patterns, is partly contingent on its patterns of decisions over time. It is not so much the decisions themselves, however, that institutionalize an organization, but rather the distinctive organizational character that emerges as a result of such patterns (Selznick, 1957). Selznick’s early research on the Tennessee Valley Authority (TVA) illustrates the goal displacement that can occur when institutional forces coopt to garner support resulting in reconstitution of original goals and subsequently exert enough influence to change an organization’s distinctive character (Selznick, 1949). In this sense, institutionalization is an organization’s conformance response rather than its efficiency response. That is, institutionalization is the organizational response of taking on characteristics that are dictated by socially acceptable norms (Stern and Barley, 1996) rather than for purposes of technological production efficiency. Zucker explains that the rise of organizational form, while created for production efficiency during the United States’ period of industrialization, has taken on a life of its own so that “the rapid rise and continued spread of the organizational form is best interpreted as an instance of institutionalization: early in the process, the organizational form is adopted because it has unequivocal effects on productivity, while later it becomes seen as legitimate to organize formally, regardless of any net benefit” (1983:13).

The cognitive or cognitive-cultural perspective is somewhat of a misnomer; the focus is not on individual cognition, but on the taken for granted socially constructed realities that guide organizational actions (Zucker, 1977). The anthropologist Clifford Geertz elaborates on the symbolism inherent in social action, suggesting that social actors suspend themselves in “webs of significance” (1973: 5) that the actors themselves have developed. The result of such “webs of significance” is what Berger and Luckman (1967) and McLeod and Chaffee (1972) consider negotiated social agreement and what Weick (1979) considers the social construction of reality, a topic considered in more depth in the later discussion of environmental enactment.

While each perspective varies in its emphasis, the results are similar. Institutionalization brings about stability. Organizations function and are embedded in a social system. There are reciprocal forces from the social system on the organization, but also from the organization on the social system. Whether from law, economics, sociology, anthropology, or any of the other myriad disciplines that have informed our thinking on institutions and organizations, the result of institutions is to maintain order and stability in the wider social system (Zucker, 1988).

Yet, institutions should not be considered set in stone despite Scott's reference to institutional pillars. As Droege and Brown-Johnson (2007) explain in what they term meso-institutions, institutions may morph into varying patterns when prevailing ideologies are fractured, actions become the rules of the game rather than the rules of the game dictating actions, and whether or not actions are assessed as legitimate is done retrospectively rather than proactively by those holding formal power. Closely related is the idea of organizational legitimacy to which we now turn.

## **Organizational Legitimacy**

Institutionalization implies stability; organizational legitimacy implies approval. The relationship between the two is that in seeking legitimacy, organizations evolve toward the stability inherent in institutionalization. Organizations that seek legitimacy engage in change, but change directed toward approval (Ruef and Scott, 1998), which in turn is directed toward stability. Organizational legitimacy, the "generalized perception or assumption that actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995: 574), thus implies that organizations valuing approval but falling outside of these socially constructed norms, values, beliefs, and definitions will attempt to move within these bounds. Despite its conceptual accuracy, such a definition of organizational legitimacy is so encompassing that it makes specificity of examples either so broad that the construct of organizational legitimacy remains ambiguous or so narrow that it is difficult to see how a specific example fits into the wider social context. The wider social context is important because it is here that legitimacy judgments are made. If this sounds strikingly similar to how one might define institutionalization, it is because there is a great deal of overlap between the two. Indeed, within institutional perspectives, "legitimacy and institutionalization are virtually synonymous" (Suchman, 1995: 576). However, there are fine-grained nuances highlighted in this section that tease out the distinctions. As we will see, legitimacy, while closely related to institutionalization, is a construct in its own right. An understanding of the differences helps clarify the murkiness that has plagued this stream of literature. This section draws heavily from Suchman's (1995) work concerning moral, pragmatic, and cognitive legitimacy as well as others to describe these differences, followed by a special case of legitimacy-seeking behavior, that of institutional isomorphism (DiMaggio and Powell, 1983).

Suchman (1995) disaggregates the broad construct of organizational legitimacy and suggests a typology for considering variations. The variations in this typology are moral, pragmatic, and cognitive legitimacy. Pragmatic legitimacy is a calculative, self-interest focused form of organizational legitimacy involving the benefits accrued to actors in exchange and influence relationships. Consistent with Pfeffer and Salancik's (1978) power dependence perspective, *pragmatic legitimacy* is present when exchange relationships appear fair and more powerful organizations refrain from taking advantage of weaker actors.

*Cognitive legitimacy* is based on the taken-for-granted notion from society's viewpoint that the organization is useful and essential and that its purpose and actions are prosocial in nature. Organizations display cognitive legitimacy through such things as professional associations, certifications, and formalized operations. Cognitive legitimacy is attained when the larger social community accepts these proxies as evidence of the organization's legitimacy.

Like cognitive legitimacy, *moral legitimacy* is a prosocial form of legitimacy based on conformance to societal standards of right and wrong, where the societal audience judges such conformance. Moral legitimacy differs from pragmatic legitimacy because “it rests not on judgments about whether a given activity benefits the evaluator, but rather on judgments about whether the activity is ‘the right thing to do’” (Suchman, 1995: 579). These judgments, in turn, usually reflect “beliefs about whether the activity effectively promotes societal welfare, as designed by the audience’s socially constructed value system” (Suchman, 1995: 579). Moral legitimacy differs from cognitive legitimacy in that its focus is on prosocial “rightness” whereas cognitive legitimacy takes for granted that an organization’s purpose and actions possess prosocial rightness without making a deliberate assessment of whether or not this is so.

Moral legitimacy may be further divided into consequential, procedural, structural, and personal legitimacy. Society judges an organization by what it accomplishes in consequential legitimacy. The societal value of outputs is judged in terms of how valued such outputs are to the larger social system. However, this is not an absolutely rational judgment; whether or not outputs have social merit is itself socially defined (Meyer and Rowan, 1977). An additional ambiguity in defining societal value of outputs is that some outputs are not given to measurement. Social welfare agencies, for example, are often judged according to their value to society, but the outputs of such organizations are often difficult to measure either quantitatively or qualitatively. As a result, attempts to determine social merit become morally proscribed (Hinings and Greenwood, 1988). *Consequential legitimacy*, then, is the value society places on an organization’s outputs, but this judgment of value is morally proscribed when outputs are not easily measured.

*Procedural legitimacy*, legitimacy that is derived from the use of socially acceptable procedures, is similar to but different from consequential legitimacy. It is similar to consequential legitimacy in the sense that legitimacy can be obtained even though procedures are difficult to quantitatively or qualitatively assess, for instance, in activities such as health care services. On the other hand, procedural legitimacy differs from consequential legitimacy in that the focus is on procedures rather than outcomes.

*Structural legitimacy*, termed categorical legitimacy by Zucker (1986), is legitimacy that arises from conformance to socially accepted organizational structures without direct consideration of whether or not outputs or procedures provide societal value. The clearest example is public schools. Public schools may gain legitimacy simply by having classrooms in which to teach, playgrounds on which to have recess, grade levels to organize students, and teachers and principals to organize hierarchies. In this sense, legitimacy is not based on progressive teaching methods (procedural legitimacy) nor on high student achievement (consequential legitimacy), but rather on whether structures are in place that define what society calls a “school.” Such structures give society a means to evaluate the legitimacy of organizations when outcomes and procedures are ambiguous (Scott and Meyer, 1991).

*Personal legitimacy* depends on a charismatic personality judged by society to bring value to the larger social community through actions and accomplishments. Because it is based on individual rather than organizational characteristics, such legitimacy tends to have less stability than consequential, procedural, and structural legitimacy. And despite its transitory nature, personal charisma can provide organizational legitimacy even though the effects may be short-lasting: “Whether valid or not, the perception that charismatic individuals can transcend and reorder established routines often allows organizations to dodge potentially stigmatizing events” (Suchman, 1995: 581).

To return to the first point in this section, institutions provide stability; legitimacy provides approval. Organizations gain legitimacy by doing the right things as judged by various stakeholders. A question arises concerning how organizational actors can determine the “right thing to do.” If it is true that there is safety in numbers, one way is simply to do as others are doing. This brings our attention now to DiMaggio and Powell’s view of what social systems look like when organizations mimic one another.

**Institutional isomorphism.** DiMaggio and Powell (1983), following Hannan and Freeman’s (1977) population ecology study focusing on organizational homogeneity, are among the most influential theorists to address how institutional forces relate to general organizational legitimacy, placing particular emphasis on the question of what accounts for organizational similarity, or as they refer to it, institutional isomorphism, the similarity of organizations within the same organizational field. Isomorphism is one mechanism by which organizations in an organizational field may gain legitimacy (Dacin, 1997; DiMaggio and Powell, 1983). Similar to Scott and Meyer’s (1991) societal sectors and Hirsch’s (1985) industry systems, an organizational field refers to “organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products” (DiMaggio and Powell, 1983: 148). Organizational isomorphism reduces the variation present in organizational fields as numerous organizations respond similarly to institutional demands in an effort to gain legitimacy. Organizational fields thus constitute a systems perspective by bringing in the connections among organizations (Laumann, Galaskiewicz, and Marsden, 1978) as opposed simply to organizations individually.

DiMaggio and Powell (1983) suggest three isomorphic mechanisms by which organizations attempt to achieve legitimacy—coercive, normative, and mimetic. Coercive isomorphism is most closely related to the present narrative and will be considered in more depth after briefly defining normative and mimetic isomorphism. *Normative isomorphism* is the similarity of organizations resulting from professionalization of an industry. For example, the configuration of the textbook publishing industry is in large part dictated by professional standards of university professors (Coser, Kadushin, and Powell, 1982). *Mimetic isomorphism*, stemming from environmental uncertainty, is similarity resulting from imitating organizations that are perceived to be more legitimate or successful. Tyack (1974), for example, discusses changes by less successful public schools that mimicked the processes of more successful schools.

*Coercive isomorphism* is similarity among organizations in an organizational field that results from both formal and informal forces imposed both by other organizations as well as by social norms. Coercive isomorphic pressures may come, for example, from governmental organizations in the form of regulations, cultural expectations from society as to environmental responsibility, competitor expectations as to what constitutes fair practice, or supplier pressure for efficient supply chain management. The common legal environment shared by organizations in an organizational field is a clear example of direct coercive isomorphism, while conformity to societal norms for avoiding employee layoffs is an example of less formal, implicit coercive isomorphism.

Meyer and Rowan (1977) address the conformity of organizations to the wider institutional environment in terms of dominant organizations expanding their influence over broader areas of society. In the same manner, these researchers suggest the influence of the state as rationalized systems of law increasingly regulate organizational action. This is consistent with Weber's (1947) idea that organizations move toward bureaucracy as complex, rationalized systems of contract law are adopted. While coercive isomorphism does not necessarily predict movement toward bureaucracy as suggested by Weber, it does suggest similarity as found by Meyer and Rowan (1977).

The point of much of the work on institutional isomorphism is that organizations gain legitimacy by virtue of the fact that they are similar to others. We have so far considered stability and legitimacy, but clearly organizations change. The next section addresses how changes fit into a schema of stability and legitimacy.

### **Environmental Enactment**

Institutionalization implies stability; organizational legitimacy implies approval; environmental enactment implies change. A crucial distinction must be made at the outset—environmental enactment is related to, but different from, social construction of reality (Weick, 1979). This distinction will be illustrated by first considering social construction of reality, then comparing and contrasting this to environmental enactment.

**Social construction of reality.** Social construction of reality is the process of selective perception of elements of the environment, cognitive and often retrospective sense-making of those features selected for perception, and interpretation of this perception negotiated through social agreement (e.g., Berger and Luckman, 1967; McLeod and Chaffee, 1972). From an organizational perspective, social construction of reality can include making sense of previous decisions in which such sense-making is both an interpretive and a constraining process. It is interpretive in that it provides explanations, whether real or artificial, that make sense of decisions and events that have already occurred. It is constraining in that the interpretations chosen to explain the past bias perceptions of available choice sets for the present and future. An extreme but less prevalent view of social construction is that of Mehan and Wood (1975) wherein reality does not exist except for that which is socially constructed.

Although with the social construction of reality the main focus is on interpretations rather than specific actions, nevertheless there is an element of action associated with social construction of reality. The notion that interpretation is constructed suggests action. This action, however, is the creation of interpretive meaning, not the creation of the environment. That is, social construction of reality involves primarily creation of meaning, and only to a much lesser extent the creation of environment. Certainly the way an organization perceives its position in the wider social context provides constraints, often self-imposed through interpretation, while also directing sources of future action. The socially constructed interpretation provides these constraints, and these constraints to some extent govern future action through the availability of perceived choice sets. The presence of socially constructed meaning resulting in constraining choice sets does not, however, also imply action outside the creation of the interpretation. To consider organizational action in the sense of shaping the environment, we must turn to environmental enactment.

**Environmental enactment.** Social construction of reality is part of environmental enactment, but environmental enactment contains some features that are not included in social construction of reality. Environmental enactment, “the process by which individuals, in interaction, construct a picture of their world, their environment, and their situation” and “recognizes that organizational members not only selectively perceive but also directly influence the state of their environments through their own actions” (Scott, 1998: 98), contrasts with social construction of reality in two primary ways. First, there is a difference in the organization’s relation to its environment. The social construction of reality sees the organization and the environment as separate entities, with the environment imposing itself on the organization. The organization’s role is to adjust, through creation of meaning, to the environmental constraints perceived. Environmental enactment views the overlapping of organization and environment such that one may not be decisively separated from the other. Second, environmental enactment suggests that the environment, tightly intertwined with the organization, is to some extent created rather than simply perceived and interpreted as in social construction of reality.

Thus environmental enactment encompasses social construction of reality in the first part of the definition—“the process by which individuals, in interaction, construct a picture of their world, their environment, and their situation.” It is the second part of the definition—“organizational members not only selectively perceive but also directly influence the state of their environments through their own actions”—that makes environmental enactment distinct from the social construction of reality. The critical distinction is that social construction of reality interprets the environment while environmental enactment both interprets and creates the environment. In this sense, social construction of reality occurs during and after the times that organizations shape, that us, enact, their environments. Environmental enactment is thus organizations’ part in creation of their own environment. When an organization interprets its environment, part of the interpretation involves giving meaning to previous actions and the consequences of those actions on the wider social system. But it is an enacted environment that is, at least partially, interpreted in the social construction of reality.

By taking the perspective that organizations enact their environments, one may then view organizations themselves as part of and contributors to the institutional environment. That is, through environmental enactment organizations become part and parcel of the institutional environment. When organizations socially construct reality, they interpret and give meaning to the institutional environment they helped shape. Therefore, at least to some extent, social construction of the institutional environment involves interpretation of the environment that organizations have enacted.

This is not to suggest that the institutional environment is composed completely of the environment that has been shaped by organizations. Certainly other institutional forces such as regulations, social norms, and economic policy contribute to the institutional environment. But this perspective allows us to entertain the idea that organizations, through environmental enactment, constitute part, but not all, of the institutional environment. In addition, multiple organizations in the same organizational field contribute to enactment of the shared environment. Organizations, responding to the changes created in the environment by other organizations, further change the environment by their responses (Schelling, 1978). The totality of environmental changes enacted by multiple organizations creates the new environment in which all organizations within an organizational field operate.

Therefore institutionalization implies stability, legitimacy implies approval, and environmental enactment implies change.

## Conclusion

The previous discussion elucidates the nuances and subtle interrelationships among institutional theory, organizational legitimacy, and environmental enactment. These interrelationships represent the intersection of three muddy roads having blurred boundaries as a result of decades of idiosyncratic language that has necessarily resulted from the multitude of various research traditions. This narrative is an attempt to clarify these muddy roads, bringing more distinct boundaries to constructs that have unfortunately become rather amorphous over decades of research.

Because each construct is found to varying degrees within the same social system, they are inextricably related. The goal of this narrative has been to untangle these differences in a way that is helpful to researchers across disciplines.

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TABLE 1  
Construct Definitions

Construct	Definition
Culture	The transmission from one generation to the next, via teaching and imitation, of knowledge, values, and other factors that influence behavior (Boyd and Richardson, 1985: 2)
Environmental enactment	The process by which individuals, in interaction, construct a picture of their world, their environment, and their situation” and it “recognizes that organizational members not only selectively perceive but also directly influence the state of their environments through their own actions” (Scott, 1998: 98).
Institutional isomorphism	The similarity of organizations within the same organizational field (Dacin, 1977; DiMaggio and Powell, 1983)
Coercive isomorphism	The similarity among organizations in an organizational field that results from both formal and informal forces imposed by both other organizations as well as by social norms in which the organization exists (DiMaggio and Powell, 1983)
Mimetic isomorphism	Stems from environmental uncertainty and results from imitating organizations that are perceived to be more legitimate or successful (DiMaggio and Powell, 1983; Tyack 1974)
Normative isomorphism	The similarity of organizations resulting from professionalization of an industry (Coser, Kadushin, and Powell, 1982; DiMaggio and Powell, 1983)

Institutionalization	The emergence of orderly, stable, socially integrating patterns out of unstable, loosely organized, or narrowly technical activities (Broom and Selznick, 1955: 238); a normative social condition that guides social behavior and sets boundaries on acceptable patterns of organizational conduct (Selznick, 1992; Trice and Beyer, 1993); “cognitive, normative, and regulative structures and activities that provide stability and meaning to social behavior” (Scott, 1998: 133)
Cognitive institutional forces	Taken for granted ways of accomplishing organizational goals; certain ways of doing things are taken for granted as the best course of action (Scott, 1995)
Normative institutional forces	Social and moral obligation; the appropriateness of actions as judged by norms of social and moral conduct (Scott, 1995)
Regulative institutional forces	Legal processes that provide legally sanctioned modes of operating, competing, and owning organizations (Scott, 1995)
Organizational field	Organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products (DiMaggio and Powell, 1983: 148)
Organizational legitimacy	The generalized perception or assumption that actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions (Suchman, 1995: 574)
Cognitive legitimacy	The taken-for-granted notion from society’s viewpoint that the organization is useful and essential and that its purpose and actions are prosocial in nature (Suchman, 1995)
Consequential legitimacy	Society judges an organization by what it accomplishes; the societal value of outputs is judged in terms of how valued such outputs are to the larger social system. However, this is not an absolutely rational judgment; whether or not outputs have social merit is itself socially defined (Meyer and Rowan, 1991; Suchman, 1995)

Moral legitimacy	Judgments about whether an activity is the right thing to do. These judgments, in turn, usually reflect beliefs about whether the activity effectively promotes societal welfare, as judged by the audience's socially constructed value system (Suchman, 1995: 579)
Pragmatic legitimacy	A calculative, self-interest focused form of organizational legitimacy (Suchman, 1995)
Procedural legitimacy	Legitimacy that is derived from the use of socially acceptable procedures (Suchman, 1995)
Structural legitimacy	Legitimacy that arises from conformance to socially accepted organizational structures without direct consideration of whether or not outputs or procedures provide value (Suchman, 1995; Zucker, 1986)
Personal legitimacy	Legitimacy that arises from a charismatic personality judged by society to bring value to the larger social community through his or her actions and accomplishments (Suchman, 1995)
Social construction of reality	The process of selective perception of elements of the environment, cognitive and often retrospective sense-making of those features selected for perception, and interpretation of this perception negotiated through social agreement (Berger and Luckman, 1967; McLeod and Chaffee, 1972)