



Theorizing change revisited: An amended process model of institutional innovations and changes in institutional fields



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ABSTRACT

The recent abandonment of old taxis and the introduction and diffusion of new taxis and car ride-sharing services of Uber and the sharing economy in general shows that institutional environments change. This paper provides a review on institutional change based on 29 previously published case studies. Based on this review and the Uber case an overview of antecedents for institutional change is developed. Furthermore, an existing model describing the process of institutional change (Greenwood et al., 2002) is validated and extended. This extended process model describes the development and different phases of institutional change. This paper aims to enrich our theoretical understanding of institutional change and to provide insights for change agents.

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1. Introduction

Societies and organizations are breaking away from their old ways of thinking and aim to create sustainable and equitable solutions, which include new or improved production processes, products and services. An important aspect of these solutions is that they interact with their institutional environment (e.g., Suzuki, 2015), which in turn can facilitate or prevent the learning, acceptance and implementation of these solutions (e.g., Levänen, 2015). These external and institutional environments are defined as “systems of established and embedded social rules that structure social interactions” (Hodgson, 2006, p.2).

Recent examples and cases discuss the potential for sustainability advances in the “sharing economy” (Sunderarajan, 2013; Zervas et al., 2013). The principle behind the sharing economy is that, based upon communication and IT, consumers can jointly make use of products to the extent that eventually less products are needed (Hamari et al., 2015). Consequently, less production takes place, less emissions and use of resources, and less waste. Examples

range from commonly used tools (NeighbourGoods), bicycles (Liquid), internet access (Fon), to cars (RelayRides) and houses (AirBnB). However, the use and consumption in the sharing economy is also related to changes in the perception of products and possession. The sharing economy demands a consumption habit wherein the consumer perceives satisfaction on the basis of using a product, not on the basis of possession (c.f. Woodward, 2011; Afshar, 2014). In other words: The informal institutions that describe individual consumption patterns need to change in order to allow for a transgression from the possession economy to the sharing economy.

An ambivalently discussed example for the sharing economy, which illustrates the importance and potential impact of these interactions with the institutional environment, is the taxi and car ride-sharing services offered through Uber with their apps for mobile devices, which started in 2010 in San Francisco. Individuals can register as a “cap” driver¹ with this organization and can use their own car to drive other individuals. Individuals that want a ride can use the app to request a driver, which is notified through the app

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¹ The organization makes, amongst others, a distinction of services offered by a certified cap driver or individuals with a driver's license but no cap driver certification.

of the pick-up location. A driver that is available can confirm the ride and at that time the individual that has requested the ride gets information on the driver (including a picture and reviews of previous individuals) and the exact time of arrival. Payment is done through the app and the costs of the ride are usually about half the price of traditional cab rides. One of the expected environmental advantages of this initiative is the reduction of the number of cars on the road, due to the ride-sharing, and thereby a reduction in CO₂ emissions. The services of Uber are currently offered in 67 countries and are available in more than 369 cities (www.uber.com) and the company is valued \$40 Billion (December 2014). At the end of 2015 there were world-wide more than 1.1 million drivers, both professional and amateurs (Uber, 2015a) and more than a billion car rides with passengers were provided up till that point (Uber, 2015b).

However, the UberPop service (i.e., services offered by drivers without a cap driver certification) is a much debated service in many countries in the world (e.g., France, The Netherlands, Belgium, Germany, Switzerland, China, Brazil: see e.g., CNN, 2015; Washingtonpost, 2015). Existing taxi organizations complain about unfair competition and the lack of driver certification, which is legally required in many cities, and are “rallying together against what they consider to be unfair competition” (Sustainable-mobility, 2014). Consequently UberPop is considered illegal in many US and EU cities and the EU has prohibited the use of this service (Europe online, 2015; NBC news, 2015). Subsequently Uber is involved in many international law suits (e.g., CNN, 2015). Nonetheless, the US state California has changed the law to allow organizations like Uber to run their business (Washingtonpost, 2015) and the EU is currently investigating the possibility to change the taxi laws at the EU level as well.

Uber is exemplary for the sharing economy and its sustainability aspects. The principle idea is a better and thus more efficient use of resources. Uber facilitates this shared use by providing effective communication and information exchange at low costs and high speed. The partners to an exchange thus can exchange at extremely low transaction costs. Furthermore, their exchange is characterized by the absence of negative external effects. However, the exchange system shows perceived negative effects for those who hold a quasi-monopolistic position in the formerly established system of personal transportation services. Classical taxi companies are often assumed to be the victim of Uber which also shows in several protests and boycotts initiated by taxi drivers. Hence, this situation is an example for a perceived superiority of an established institutional field whereas the system that Uber provides is designed to be more efficient in terms of sustainability and user preferences.

This example illustrates the importance the institutional environment can have on sustainable businesses, products or services. For the UberPop services to be accepted, the existing environment will need to change with regard to two aspects. On the one hand and with regard to social acceptance, the service cannot be successful as long as consumers will not perceive it as acceptable; on the other hand and with regard to rules and laws, the service will fail if state legislation will not adopt the law to make the Uber service legal.

Since most organizations are part of an institutional field (e.g., a collective of organizations), these fields change over time and these changes can have a significant impact on the organizations in the field, it is relevant to investigate the following research question: *what are antecedents and mechanisms of change in institutional fields?* Institutional change in institutional fields is thus a complex process between many organizations that evolves over a long time period. As a result the vast majority of the existing academic

literature on institutional change at the field level consists of a number of highly detailed retrospective case studies (e.g., Vermeulen et al., 2007). At present, these case studies, on the topic of institutional change, are rather diverse and wide-spread. Such case studies, like the Uber case, can provide detailed insights into institutional mechanisms (i.e., the antecedents and mechanism of change) for that case, however at the cost of generalizability of the results.

To contribute to the generalizability of the knowledge on antecedents and the mechanisms of change at the institutional field level, the aim of this paper is to provide an overview and syntheses of what is currently known about this and is thereby an attempt to integrate and aggregate the diverse and detailed (previously published) case studies. To prevent the exclusion of relevant case studies and theoretical perspectives we not only focus on studies that investigate change with regard to sustainability or the sharing economy, but also incorporate other cases.

As such we aim to provide a number of contributions. The first main contribution of this paper is an overview of antecedents causing institutional change, which is developed, based on 29 highly detailed published case studies and our theorizing. Second, this paper relates these case studies and the Uber case to a model of change in institutional fields that was previous developed by Greenwood et al. (2002). Even though this model is positively referred to (e.g., Battilana et al., 2009; Hardy and Maguire, 2008), the model has never been tested empirically. Therefore, and based on these 29 case studies, the Uber case, and other conceptual papers, this study validates this model and complements it, resulting in an amended model.

Although some recent interesting work has been conducted with regard to institutional change, like the role, impact and process of institutional entrepreneurship (e.g., Battilana et al., 2009; Hardy and Maguire, 2008), there is no systematic analysis generalizing antecedents and the mechanisms of change in the institutional field level. This is surprising since a better understanding of institutional change should benefit organizations, change agents, politicians and academics. As such, this is an important research gap that this paper fills. By doing so, we also respond to DiMaggio (1988) criticism that scholars are not focusing on the formation of institutions and the mechanisms of institutional change.

2. Institutions, institutional fields and institutionalization

We base our theorization and analysis on institutional theory. An institutional field consists of “those 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, p. 148–149). An important focus in this definition is on “those organizations” that interact and influence each other and form rules and a collective social reality that structures their social interactions. Hence, changes of members of an organizational field (like the example of Uber) also imply changes with regard to interactions and influences within the respective field (Oliver, 1992). Institutional change in this context is defined as: “a difference in form, quality, or state over time in an institution” (Hargrave and Van de Ven, 2006: 866).

Institutions are the rules of society that can be either formal (laws and contracts) or informal (culture, customs, habits). For this distinction between formal and informal institutions, see North (1990). Scott (1995) uses a similar distinction between “coercive” and “normative”. Institutions consist in commonly shared norms, values, understandings and beliefs, which enhance predictability

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