

INSTITUTIONAL CHANGE:

Transforming the Structures of Society

William E. Halal

What is Institutional Change?

This largely unrecognized field is often confused with organizational change. But the difference is enormously important because major institutions around the world are in upheavals of various types that go way beyond sheer organizational change. How does institutional change differ from the well-known study of organizational change and why should anybody care?

Institutional change (IC) transcends *organizational change* to focus on *entire classes of organizations* serving different societal functions (business, government, education, etc.) and how they are being transformed in response to a rapidly changing world. Unlike the “management” focus of organizational change – process design, teamwork, leadership, etc. – institutional change focuses on the underlying *social rules or norms* that define how these societal functions are structured and governed.¹

Perhaps the most striking example is the profit motive, which remains the organizing principle of corporations in the U.S. and much of the world. Profit served as the dominant goal of business in the Industrial Age because the main task was to build a physical infrastructure of manufacturing, which primarily required capital. But an Information Age is organized around knowledge.² This crucial shift in the economic landscape is slowly moving corporations toward a broader “quasi-democratic” form of governance based on collaboration with various stakeholders to gain the support and knowledge central to successful enterprise.³

There are many other prominent examples of social rules governing institutions. Hierarchy was once thought to be essential for managing people. Women were considered unacceptable for high-level positions. Quality was assured by inspections after all the work was done. Some of these rules have passed and others are in the process of transformation.

Some social rules are unique to specific institutions. For instance, the medical profession continues to believe its role is to prolong life under any circumstance, even as most people today would rather see a loved one put to rest painlessly rather than suffer a prolonged, agonizing death. The military holds honor and other values in highest esteem.

1. Douglas North, *Institutions, Institutional Change, and Economic Performance* (Cambridge U. Press, 1990)

² Halal, “The Infinite Resource: Creating the Knowledge Enterprise,” (Jossey-Bass, 1998). “The Logic of Knowledge” (A working paper)

³ Halal, “The Collaborative Enterprise,” *Journal of Corporate Citizenship* (2001) Vol. 1, No. 2

Most of us take the vast infrastructure of social institutions for granted because it is as ordinary and invisible as the air we breathe. But those who advocate changes are usually greeted with strong doubts and objections, which signals subtle barriers operating at the subjective level of cultural values and beliefs. These are the social norms governing institutions at a higher domain lying above the rational level of objective knowledge.

Ordinary change takes place within these institutional boundaries and it can be addressed in a rational manner usually. But IC provokes confusion and resistance because it violates these strongly held norms. Try challenging the concept of hierarchy or the profit motive, for instance, and your most persuasive arguments will usually fall on deaf ears. Institutional concepts are so deeply engrained in the prevailing social culture that they seem inviolate, accepted as matters of faith, the only reasonable way the world is presumed able to function effectively. Institutional rules are the sacred cows of society.

What Do We Need to Learn?

My goal is to dispel this confusion with the experience and insight that has led to change in various institutions. I hope to identify these often unspoken but rock-hard social rules that govern institutional conduct and to understand how they operate. All institutions are interconnected in any society, so we are also interested in mapping out this nexus of social rules. For instance, the profit-motive causes business to ignore social impacts, thereby requiring government welfare programs and regulation. But if firms were “quasi-democratic” they could be self-regulated while serving society better. This interlocking set of institutional rules forms the structure of society itself operating at the *mesoeconomic* level lying above microeconomics and below macroeconomics.⁴

I am particularly interested in how institutions change over time, especially as information technology (IT), globalization, higher-order social values, and other historic forces exert relentless pressure for transformation. Much has been said about this wave of change, but it has focused on the relatively minor aspects of organizational change rather than the underlying social rules. When and how do these more powerful rules begin to shift? How long is the process, and what initiates it? How much IC is taking place today, and to what extent will it grow? Where are the implacable forces of technology and globalization leading?

The Power of the Institutional Level

One of the main conclusions of this line of study is that institutions are social artifacts designed to suit a period of time, and these revolutionary forces have been transforming all institutions for decades, with the biggest hurdles lying ahead. Working in this higher domain of the institutional level may be more difficult, but it also offers more powerful strategies for leveraging change across entire segments of society.

For instance, the superiority of American military power is attributable to a “Force Transformation” to “Network Centric Warfare,” notably seen in the battles of Afghanistan and Iraq.

⁴ I am indebted to Professor Lee Preston of the University of Maryland for the concept of mesoeconomics

Meanwhile, Enron, WorldCom, and other corporate scandals have heightened the urgency of redefining corporate governance. State and Federal agencies are being reinvented and moving toward e-government, health care is in upheaval, K-12 education continues to struggle with poor performance and universities with distance learning. Publishing, financial investment, and other “information-intensive” industries are all moving to the Internet.

This is a slow, agonizing, historic process. But if one grasps the newly emerging logic driving this change and how it is translated into institutional forms, it is then possible to understand the significance of what is happening to our social order and to anticipate how it will look and work in a knowledge-based world.

A Special Issue of *On-the-Horizon*

I had an opportunity to edit a special issue of the journal, *On-the-Horizon*, focusing on this topic (2005, No. 1), and I invited a distinguished group of authorities to help in understanding how institutions are changing today. Following is a quick summary of their backgrounds and the central point of their papers:

Willam E. Halal, the editor, offered a conceptual model integrating this field of study into three central themes describing major trends in IC.

Ian Wilson, one of our “deans” in strategy and future studies, drew on his seminal work with GE and other firms to argue that a “new corporate social contract “ is coming

Harlan Cleveland, another of our “deans,” summarized insights from his experience in government policy to note how the Information Age is creating various paradoxes.

Arthur K. Cebrowski, Director of the U.S. Office of Force Transformation, provided seven principle strategies for transforming large institutions like the military.

Jonathan Peck, Vice President of the Institute for Alternative Futures, punctured the claims of medical technology to argue that an aging population must accept death as part of healthcare.

Sohail Inayatullah, a renowned Asian Scholar, summarized his work with corporations and governments to provide a different view focusing on vision, culture and spirit.

William H. White, a change consultant, used living case studies to take us inside of the transformation process at some of his organizational clients.

Conclusions of this Study

What did we learn from this wealth of knowledge?

One of our major conclusion is that the contributors generally support Halal's framework of three central features, or themes. In fact, the first of these – “e-organization – is considered rather obvious by our authors, to the point that it is assumed to be almost here now. **E-Organization** represents the *technological dimension* of institutions. It defines the movement of the information processing function from paper and telephone within a hierarchical chain-of-command toward fully integrated IT networks operating in real time – “telework” among “virtual teams,” automation of the entire supply-chain, “e-tailing” directly with clients via the Internet, and “real-time management.” However, Harlan Cleveland took issue with the assumption that e-organization can really automate much of the complex work of government.

The theme of “self-organizing systems” is also thought on target. **“Self-Organizing Systems”** represent the *economic dimension*. The traditional hierarchy can be best understood as a “planned economy” controlled by executives, but there is a general move toward an “internal market economy” of small, self-managed units. The growth of organizational networks, self-managed teams, performance pay, entrepreneurship, internal enterprises, and other trends point in this direction that has been articulated most cogently by Russell Ackoff, Gifford Pinchot, Ray Miles, Gary Hamel, and many executives. Ian Wilson thought this concept is at work in the network structures of dynamic corporations. Admiral Cebrowski noted that the military is using self-led teams of special operatives behind enemy lines. And Sohail Inayatullah saw the need for self-organizing systems in building capacity for innovation in corporations and governments.

The third theme of **“Stakeholder Collaboration”** represents the *political dimension* of the knowledge institution. It is now clear that organizations are essentially political in that they must form a working coalition of investors, employees, clients, and other stakeholders to succeed. The implication is that all of these groups should be engaged in collaborative policy decisions to gain their unique resources, support, and knowledge. This concept is central to Wilson's call for a new corporate contract that serves society as well as financial gain. Cleveland noted the interweaving of the public and private sectors. And the need to form a “corporate community” of stakeholders is another of the issues arising in Inayatullah's organizational workshops.

My main conclusion, however, is that other factors play a greater role than these three “structural” features. Almost all of our contributors focused on the powerful forces of knowledge, vision, culture, and spirit in originating and driving transformation. Wilson used the concept of a “social contract” to capture the full meaning of the emerging social role for business. Cleveland organized his entire analysis on the pivotal foundation of knowledge in the emerging economic system. Cebrowski was impressed with the central roles played by language, the media, and culture in transformation. Inayatullah noted time and time again the role of provocative ideas, symbols, aspirations, and a host of other ways of expressing an organizing vision. Jonathan Peck thought the entire foundation of health care must shift to accepting a positive attitude toward death.

Another insightful perspective can be seen in the attempts to understand the rather mysterious process of transformation itself. Wilson thought it is driven by external trends, especially economic pressures, relentlessly grinding away at the barriers to change. Cleveland was impressed with how political forces move government forward in time, albeit with great uncertainty and tentativeness. Cebrowski is concerned with using any tool available to overcome the unyielding inertia of the status quo. Inayatullah focused on the power of positive images and visions to draw an organization

forward. And William White provided an inside appreciation of the arduous, turbulent challenge of transformation, while noting that it is basically a natural organic process.

Recommendations

This study confirms a conceptual framework outlining three central themes in the evolution of institutions, and it highlights the major role played by subjective factors of knowledge, ideas, culture, vision, and spirit. We also have sketched out a rough map of the transformation process, and there is a general sense that modern nations like the U.S. are in the grips of profound transformations in all social institutions.

While this is not surprising, it lays a concrete foundation for the study and practice of institutional transformation that has resisted analysis, largely because it is inherently subjective. Hopefully, scholars and policy-makers may be able to approach this delicate field grounded in knowledge rather than myth and confusion. Social institutions should no longer be considered invisible foundations of society not to be questioned, but a form of “social technology” designed to serve social needs best. We are not used to thinking in these terms, though it makes sense from a scientific view. Just as physical technology is the product of physical science, social technology is the result of studies in the social sciences.

It would be healthy if the adoption of progressive social structures could be openly acknowledged and actively managed, just as industry now manages (even forecasts) technological innovation. Major changes are almost certain over the next few decades, largely of the type that Admiral Cebrowski thinks we should accept as “inevitable.” Rather than struggling to approach the issue with misgivings, policy-makers should consider redesigning social institutions purposefully with good planning to serve all needs better.

Today’s social order comprised of a network of interlocking institutions is in an accelerating stage of historic change that is badly misunderstood and even less carefully planned. If we do not learn how to control this process, the process may control us.