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Elaborating the Conceptual Difference between Conventions and Institutions

Rainer Diaz-Bone

Abstract: »Die Ausarbeitung der konzeptionellen Differenz von Institution und Konvention«. The article elaborates the conceptual difference between two core concepts of the French approach of economics of convention (EC), namely convention and institution. It is argued that modern institutionalisms and neo-institutionalisms need to delimit the meaning of the notion institution as EC does. Then it is possible to work out the relations of institutions and other forms of cultural or structural resources. A proposal for such an elaboration is done by differing four perceived situations for institutional analysis. This elaboration could be used to enhance the explanatory capabilities of EC.

Keywords: conventions, economics of conventions, neo-institutionalism, North.

"Pragmatically, conventions are […] prior to institutions. We do not need to marshal the whole institutional arsenal to buy bread at the bakery. Similarly, to know what we have to do at a given moment in our job, we do not have to consult a whole battery of regulations and laws defining the job and its specific tasks before taking action" (Salais 2011, 223).

1. Introduction

In France, the socio-economic approach of the “économie des conventions” (economics of convention, in short EC) was invented in the 1980ies and developed in the following time by a growing number of researchers (Salais and Thévenot 1986; Salais and Storper 1993; Storper and Salais 1997; Favereau and Lazega 2002; Orléan 2004; Eymard-Duvernay 2006a, 2006b). EC can be conceived as a new pragmatic institutionalism. In EC, the difference between the concept of conventions and the concept of institutions, as well as their

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† The arguments in this contribution are based on the preparation for the monograph on the économie des conventions (Diaz-Bone forthcoming) and on the work done with Robert Salais (Diaz-Bone and Salais 2011) and Laurent Thévenot (Diaz-Bone and Thévenot 2010). The author is thankful for critical comments given by Sigrid Quack (as given comment at the workshop “Conventions and institutions from a historical perspective”, see also the introduction to this HSR Focus) and Christian Bessy (this HSR Focus).
interrelationship are part of the pragmatic foundation of its institutional theory. Ordinary understandings of institution normally subsume “convention” under the notion of “institution”. But insisting on the difference – as EC does – opens up a relational space between two distinct phenomena.

The renaissance of institutionalisms in economic and social sciences corrected the deficiencies of atomistic explanations in neo-classical theory. Nowadays, different neo-institutionalist approaches are established in the social sciences. But as side effects of this success, there is a plurality of concepts and their notions of “institution” vary in meaning, precision and in scope. This article will present the notion of institution from the standpoint of EC, claiming that it is important to denote and to elaborate what institutions are, what institutions are not (!). This article tries to sketch the relations between institutions and conventions in the final part.

2. Problems of Contemporary Institutionalist’s Notions of Institution

As Laurent Thévenot noted, since its beginnings, sociology has used (Thévenot 2007, 2011) a cognitivist foundation for the interpretation of institutions. Referring to Emile Durkheim, one can say that sociology was introduced as the social science of institutions and Durkheim identified the collective consciousness and the collective pre-consciousness as the realms of institution (Durkheim 1950, 1982). Since then, Neo-Durkheimians like Mary Douglas (1986) or Pierre Bourdieu (1979, 1984) have argued that cognitive structures (as social classifications) act as institutions. Different notions of institutions have had their careers in social sciences. During the 20th century, the influence of institutionalisms decreased for some decades, but new institutionalist movements have (re)emerged since the 1980ies. Amongst the latter, the so called economic neo-institutionalism and the sociological neo-institutionalism gained the most international recognition.²

2.1 Economic Neo-Institutionalism

In 1937, Ronald Coase posed the famous question “Why do firms exist?” (Coase 1937). The highly influential answer is that firms (economic organizations) are one solution to tackle transaction costs in cases of transaction costs impeding the pure market as ideal institutional arrangement. Oliver Williamson (1985) elaborated this argumentation into a – seemingly – all embracing theory

² In the case of Germany the sociological neo-institutionalism dominates especially in the field of new economic sociology and organizational analysis over “German” traditions.
(for the evaluation) of the best institutional arrangements for different products. Its evaluation consists in its performance in controlling and reducing transaction costs. As demonstrated in the introduction to special issue “Conventions and institutions from a historical perspective” of Historical Social Research 36.4 (Diaz-Bone and Salais 2011), the most advanced version of this tradition was developed by Douglass North (1990, 1994, 2005).

This approach has undeniable advantages like a clear distinction between its concept of institution and other concepts – thereby opening explanatory capabilities arising from the different possible relations, between culture, institutions and actions in the course of history and in different economies.

However, in the perspective of EC, important problems persisted. Economic neo-institutionalism reduced its understanding of economy to an extension of the market model to all others areas – including organizations and contracts. Organizations are seen by Coase and Williamson as corrections for market failure: in their view, organizations are better institutional settings to control economic exchanges and to generate economic development under condition of raising transaction costs. Societal progress on the other hand is understood as the inventing of institutions reducing transaction costs. Thus, this institutionalism reduces the plurality of possible economic logics to one single one and its idea of societal progress is normative in character – progress as aiming for economic efficiency. This explanatory strategy is too simplifying.

The mainstream of this economic neo-institutionalism focused its analyses on economic institutions while the role of culture was downplayed, regarding culture only as broad context for institutions (Williamson 2000). Studies by Douglass North included culture and cognition into this approach. North (and co-workers) included concepts like “shared mental models”, “shared beliefs” and “distributed cognition” (North 1994, 2005; Denzau and North 1994; Knight and North 1997). In contrast to Oliver Williamson – who regards firms, organizations and relational contraction as most important institution (Williamson 1985, 15) –, Douglass North does not regard organizations as institutions. In North’s view institutions are “the rules of the game” and organizations are the “players” (North 1990). In “Understanding the process of economic change” Douglass North (2005) has presented an almost all-embracing theory, including genetics, language, human history. But the realization of empirical research of the relation of culture/cognition and institutions remains opaque. And there is another critical aspect: Douglass detaches institutions from market exchange and from the market model.

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4 The model of North is not teleological, i.e. implying a form of economic change (“development”) towards more efficient economies (North 2005, 61).
5 This mainstream can be identified with “transactions cost economics” (Williamson 1985).
6 In the field of economic history the approach developed by Douglass North is also known as new historical institutionalism (NHI).
from culture/cognition by distributing them to different realms (North 2005, chap. 5). Also this style of analysis keeps focusing the role of institutions as rules and as devices to control transaction costs and to enhance economic efficiency. Economic neo-institutionalism regards institutions still as external constraints for economic action (Salais 1998; Bessy 2002a, 2011; Bessy and Favereau 2003). Institutions are conceptualized as external in the sense of given facts for economic action and coordination, thereby detaching institutions as rules from its usage (i.e. interpretive practices) and overlooking the incompleteness of rules and norms (Favereau 1989). Instead, EC analyses the pragmatic reality and relevance of culture and cognition (i.e. conventions) in real situations where actors have to cooperate/collaborate (Salais and Storper 1993; Storper and Salais 1997). This institutionalism assigns culture and institutions to the external environment of the process of action and coordination. Thus, the far reaching model for understanding the process of economic change does not prepare the analyses of the process of economic change, because it lacks the methodology for the detailed empirical research of real economic situations.

The majority of economic paradigms suffer from positivism. In the case of economic neo-institutionalism, asset specificities and the value of products are given properties (Williamson 1985). This is a positivist assumption. Optimal institutional arrangements for production and coordination then have to follow the requirement of these properties. EC turns it the other way round. Instead of claiming pre-given entities and pre-given qualities, EC analyses empirically how in specific situations, actors deal with institutions, objects and interpretations in a way which collectively constructs properties and qualities of economic products. In this view, asset specificities emerge as result of convention-based collaboration/cooperation with institutional arrangements. In sum, EC criticizes economic neo-institutionalism for lacking constructivist sensitivity.

The work of Douglass North developed economic neo-institutionalism in a fascinating way, broadening the understanding of what economic history is about (Diaz-Bone and Salais 2011). But the problems mentioned above in fact weaken its explanatory power. In its empirical historical research, the relation of culture/cognition and institutions/action is analyzed ex post and at the macro level – thereby failing to grasp the specific processes as well as the complexity of the relations between institutions and culture/cognition.

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7 Coase analyzed economic law in its role for antitrust policies. But again the focus was on economic institutions – here economic organizations and markets (Coase 1960).
8 See for the methodological standpoint of EC Diaz-Bone (2011).
9 The discussion here fails to present the advancements of North’s work; see Diaz-Bone and Salais (2011). For shared positions and convergence see Bessy (2002b) and Dequech (2005).
2.2 Sociological Neo-Institutionalism

In 1977 and 1983, two seminal papers initiated the successful establishment of sociological neo-institutionalism (Meyer and Rowan 1977; DiMaggio and Powell 1983). Headed by John Meyer and Paul DiMaggio, sociological neo-institutionalists connected analysis of economics with analysis of culture. Economies and economic institutions were seen as rooting in cultural and cognitive practices and structures (DiMaggio 1994, 1997). This approach can be conceived as a neo-Weberian approach claiming unifying tendencies of rationalization in the different economic fields (Diaz-Bone 2012). The authors of sociological neo-institutionalism identified mechanisms as isomorphic processes, which contribute to the unification of organizational structures in markets and branches (DiMaggio and Powell 1983). Furthermore, Meyer and Rowan argued that claims for “efficiency” and “economic rationality” are part of legitimatory discourses (Meyer and Rowan 1977). Thus, this strand of institutionalism is positioned in opposition to economics and economic neo-institutionalism. Moreover, it gained remarkable merits in pointing at the societal and cultural foundations of economies where it shared some positions with EC (Diaz-Bone 2012).

But from EC’s point of view – and similar/parallel to the case of economic neo-institutionalism – important problems remain.

Sociological neo-institutionalism focused mainly on organizations as institutions, leaving markets undertheorized. Rather, the notion of “field” is used to model the structure of a market or branch (DiMaggio and Powell 1991). However, fields are not as systematically constructed in analysis as in the research tradition of Pierre Bourdieu.

In this strand of neo-institutionalism, the notion of “institution” loses its distinguishing power since almost every pattern or structure is labeled “institution”. The difference between culture, norms, values, and institution almost vanished. The former strength of this approach – to integrate culture into the analysis – started to become one of its main deficiencies with institutions turning into “culture”.

This form of institutionalism remains mainly a kind of macro-analytic institutionalism. In other words: the methodological standpoint of sociological neo-institutionalism consists of holism unable to theorize situational constellations. Agency is understood as the performance of actors which are “equipped” and “engaged” through culture (Meyer 2009). But this is not only a theoretical problem but also a methodological one. Still today, there exists no coherent

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10 See for a German introduction Hasse and Krücken (2005).
11 Together with EC, the works of Harrison White and Mark Granovetter, the sociological neo-institutionalism is part of the new economic sociology (Diaz-Bone 2012).
12 Cf. Diaz-Bone (2012).
methodology of neo-institutional analysis which would be necessary in order to analyze not only the “macro-level” but also the micro-processes converging into stable coalitions of objects, ways to act, and ways to evaluate.

Thus, several problems can be identified and the problems mentioned weaken the explanatory power of this approach. In its empirical sociological research, the relation between culture/cognition and institutions/action is explained at the macro level and this institutionalism fails to deliver a compatible methodology.\footnote{See for this critique Knoll (2012).} The precision of the notion of “institution” is eroded and the difference between culture and institutions is “short circuited”. One has to ask “what is not an institution?”

Some of the problems of economic neo-institutionalism and sociological neo-institutionalism show similarities. Furthermore, both forms of institutionalism share a methodological lack to relate macro level theory to empirical investigation of micro analysis (situational analysis of coordinating practices). Also, both forms of neo-institutionalism share a way of thinking about institutional forms which overrides the coexisting plurality of coordination logics in empirical situations.\footnote{But there are alternative developments in sociological neo-institutionalism as the approach of different “institutional logics”. An institutional logic consists out of practices, objects and values, and cognitive structures by which actors and organizations construct (and share) meaning to the processes of organizational activities [Thornton, Ocasio and Lounsbury 2012].} Yet, the two institutionalisms locate the assumed unifying tendency (institutional logics) at different levels. In economic neo-institutionalism, all institutional arrangements are compared to the neoclassical model of markets. This model constitutes the implicit reference and evaluation benchmark. Here, the unifying tendency is located in the way of evaluating. In sociological neo-institutionalism, there is a variety of possible institutional arrangements but in markets and in branches, a unifying tendency is postulated as an empirical process: organizations are oriented to each other seeking to adopt the most legitimate institutional form from other organizations.

3. Relating Institutions and Conventions

From the standpoint of EC, the analysis of successful economic coordination is not completed by stating the existence of institutions or by pointing at the “functioning” of institutions. Instead, institutions have to be delimited and their situational recognition and interpretation is subjected to analyses constituting the point of departure for empirical explanations. Institutions as organizations or rules (contracts) are not regarded as agents or acting entities but as disposi-
Bessy and Favereau (2003) regard money, language and law as important economic institutions. Because the use and the functioning of institutions are not determined – institutions and rules are perceived as incomplete by EC – conventions are required for pragmatic handling of institutions in given situations. For EC, the way of interpreting and usage of institutions depend on conventions, which actors apply situationally. Therefore, the difference of institutions and conventions is essential in EC to develop explanatory capabilities.

In the following, a proposal for such a development of the explanatory capabilities will be sketched out (and it still has to be critically discussed, applied, adjusted and thereby tested).

North subsumes conventions under the category of informal institutions (North 1990). This is only possible if conventions are reduced to something like customs, traditions or informal standards (and in this way misunderstood). In EC, conventions constitute culturally established resources for the coordination applied by actors in order to interpret situations and to evaluate persons, objects, processes to achieve a common goal (Salais and Storper 1993; Storper and Salais 1997). Socio-economic analysis has to explain why institutions do “work” (in specific situations) or do “not work” (in other situations) for such a collective intentional. And this judgement is part of the evaluation done by competent actors who can exert critique about the functioning of an institution. Luc Boltanski and Laurent Thévenot developed this sociological pragmatism of critique and justification in their theory of value (Boltanski and Thévenot 1991, 2006). Distinguishing between institutions and conventions opens up a space for different possible relations between institutions and conventions. These relations can be classified if convention and institution do conform to each other or appear to be incoherent. There can be many reasons for coherent relations like the co-evolution of conventions and institutions. An example is the co-evolution of enterprises as family businesses and the domestic convention.17 There are also many reasons possible for incoherent relations. Examples are economic institutions, governments designed for a certain purpose and a specific intentionality, which are applied by enterprises in a countervailing way, undermining the government’s aims and leading to the opposite outcome. Unemployment insurance was designed to secure employees against risks of un-

15 In the French social sciences and humanities concepts of dispositif (dispositif) are established and widely used. A dispositif is a device or a tool that can be used by actors for strategic purposes. For an application in EC see Thévenot (1989, 149).
16 This is an important difference to the institutionalist theory of North (1990) who regards also organizations as actors. But EC and North have in common differentiating institutions from other cultural resources and cognitive structures. This is an important difference to Neodurkheimian theories of institutions.
17 Early enterprises were family based and located in family homes and then became ateliers as Thuderoz (2005) has noted.
employment and to keep them employable but it can be misused by enterprises dismissing employees in times of insufficient levels of production and re-employing them again when more orders are coming in (cf. Salais 2007 for this example). This situation is unacceptable for the government and the public. In general, incoherent relations should be expected to be unstable.

If these relations (categorized into two categories) are used in judgments of the functioning of institutions (also categorized into two categories), then four possible situations can be distinguished in a table.18

Table 1: Four Perceived Situations

<table>
<thead>
<tr>
<th>relation of institution and convention(s) is:</th>
<th>functioning of institution is judged as:</th>
</tr>
</thead>
<tbody>
<tr>
<td>coherent</td>
<td>&quot;uncritical&quot;</td>
</tr>
<tr>
<td></td>
<td>normality / reliability</td>
</tr>
<tr>
<td></td>
<td>&quot;critical&quot;</td>
</tr>
<tr>
<td></td>
<td>blockage / hegemony</td>
</tr>
<tr>
<td>incoherent</td>
<td>&quot;uncritical&quot;</td>
</tr>
<tr>
<td></td>
<td>dynamic / change</td>
</tr>
<tr>
<td></td>
<td>&quot;critical&quot;</td>
</tr>
<tr>
<td></td>
<td>crisis / failure</td>
</tr>
</tbody>
</table>

Situation (1): The first situation can be characterized as an uncontested “normality”. Actors judge the functioning of institutions as uncritical and the way institutions are pragmatically handled does not cause problems because practices are matching with institutions. Institutions “do work” (for the purposes actors pursue) and there is no reason for changing them. The interrelation between convention(s) and institution is perceived as mutually stabilizing. Correspondingly, there is a cognitive coherent link between institution and judgment. Objects, people and institutions are made to “hold together”.19

Situation (2): The first situation immediately changes into the second when actors judge the functioning of institutions as critical. Actors know how to appropriately handle the institution and how to use it for coordination, but they experience both as not matching with their collective interest. Then critique will be mobilized because actors perceive the coherent relation of convention(s) and institution as a problem. In this situation, it is not easy to criticize the institution because it is “backed up” by (at least) one convention. The situation is perceived as “blocked”, actors can perceive themselves as “dominated” by this coherent “coalition” of convention(s) and institution. All in all, this situation is most uncomfortable for actors because the whole situation is not easy to change and they have to develop a new couple of convention(s) and institution.

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18 Laurent Thévenot has also used (a similar) table to analyze situations were actor meet using different conventions (Thévenot 1989, 150).

19 Alain Desrosières (1990) has worked out the details of this perspective for the field of social statistics.
Situation (3): The next situation is different from the first and the second one since convention(s) and institution are not related in a coherent way. But this can be the consequence of new strategies of actors exchanging conventions in relation to institutions so that new opportunities, outcomes and value may be produced/may emerge. Therefore, actors do not criticize this incoherence but see the opportunity of the situation. In this case, the incoherence can be the result of a divergent evolution of the relation of convention and institution or it can be the result of a “revolutionary” strategy, which exchanged convention(s) or institution(s). This situation will cause further future change until it converges again into a (more) coherent relation.

Situation (4): The fourth situation is seen as a problem and now the critique of the malfunctioning of the institution has more impact because of the incoherence between convention(s) and institution. From the actors’ point of view, the institution has failed and this is not to justify. Now, cognition turns into the recognition of a real crisis of the institution.

Situation (3) and (4) can be conceived as transitory and unstable situations, both tend to transform into the first situation. Situation (2) has more inertia in societies, organizations or fields with different social groups opposing each other or the elite (managers, leaders, politicians) failing to design (“reform”) the institution.

The attention in empirical studies done in the field of institutionalism has mainly focused on situations like (4) and (3) and to a smaller extent on situation (2). Conventionally, situation (1) and the transitions between the four different forms of situations are not analyzed.

The explanatory capability of EC could be developed by reconstructing institutional dynamics as a set of transitions (between the four sketched situations) thereby analyzing the upcoming tensions as well as the strategies of (de)stabilizing the coherence of the relation between convention(s) and institution which drive the transitions and therefore institutional dynamics.

But real situations tend to be more complex. The first reason for this consists in the plurality of conventions and sets of different objects involved in real situations. Empirically, the plurality of conventions can take different forms. No convention manifests itself in pure form, rather, they constitute ideal types present to everyday actors in everyday situations and not only scientific models (Diaz-Bone 2011). Stabilized forms of coordination rely on compromises of conventions. Another complexity is caused by the interrelation of different levels. On the personal level Laurent Thévenot (2006, 2007) has identified different forms of engagement and Robert Salais (2007) has analyzed the state as convention. The consequence is a multi-level model focusing on actors in specific situations.

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20 See also Diaz-Bone and Thévenot (2010), Diaz-Bone (2009).


