

New Institutionalism: Public Agents' Choices Based on Individual Interests

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Abstract

This essay aims to explore the emergence of new institutional theory based on the historical context of the formation of modern society with the change in basic cultural rules. It is observed that there is a change in the power to govern, which was previously given by God or inherited and now depends on the will of society. A movement of rationalization of choices emerges that end up leading to private interests. The vision of the matrix of classic sociological thinkers ends up influencing the intellectual orientations of the Western world and brings important statements to understand the organizations of modern society. The study concludes that the new institutional theory and the theory of public choice help to understand the actions of public agents in favor of their individual interests.

Keywords: neoinstitutional theory, new institutionalism, public choice theory, public agents choices

1. Introduction

Institutions are considered the rules of the game in a society. Institutional change ends up shaping the way societies evolve, therefore, institutions can be the key to understanding social, economic and political phenomena in a society (North, 1990).

For centuries the church and monarchs were the main dominant institutions. The right to govern and rules were established by these institutions until God-given or inherited power came to be threatened by scientific discoveries and humanist ideas.

This process of rationalization is explained by Weber (2020) in his work *Die Protestantische Ethik Und Der geits Des Kapitalismus*, in which there is a focus on modern and capitalist society. For Max Weber, the process of secularization caused modern society to abandon basic cultural rules that were based on religion.

Marx (2010, p. 2057) , in his critical work on Hegel's philosophy of law, referred to religion as “the sigh of the oppressed creature, the spirit of a heartless world, as well as the spirit of brutalized states of affairs. She is the opium of the people.” For Karl Marx there was an explanation for why people sought religion: the church was a dominant institution that used God to have the power to govern.

Denhardt (2017) explains the importance of the intellectual heritage of social theorists such as Karl Marx, Max Weber and Sigmund Freud, in the sense that it is necessary to present the thoughts of these theorists, to better understand the issues involving public organizations. The vision of these three thinkers ended up influencing the intellectual orientations of the Western world and brought important statements to understand the organizations of modern society.

Due to their complexity, public organizations are better understood when they are examined in parts, analyzing their entire composition. The modern study of public organizations involves the understanding of some theories, such as: organization theory, market theory, theory of democratic control of bureaucracies and theory of limited rationality. These theories involve several areas of social sciences (sociology, economics, accounting, political science) and provide the basis for understanding institutional theory, which is the critical intersection of these concepts (Frederickson et al., 2012).

For Scott (2014), this intercession of institutional theory has been growing since the beginning of the 1970s and has transformed areas of management, organizational sociology and institutional economics, in addition to having

a significant impact on studies focused on politics, international business and accounting. Therefore, there is a continuous need to expand studies so that we can understand not only institutions, but institutional processes, as there remains a vast field to be explored in relation to the idea, beliefs, emotions and feelings of individuals that can explain their actions.

The new institutionalism emerged in the early 1980s, motivated by a response to rational choice theory. It developed in political science amid reactions to the excesses of the behaviorist revolution (Schmidt, 2008; Scott, 2014).

Powell and Dimaggio (1991) cite Durkheim's encouragement to study "social facts as things", where it is possible to watch society organized based on its functions. For the authors, the new institutionalism is a reaction against the behavioral revolution of recent decades, which are related to collective policies and economic behavior as an agglomerated consequence of an individual choice.

2. Theoretical Framework

The article was built based on the new institutional theory, public choice theory, with a focus on public agents seeking choices that prevail their individual interests.

2.1 New Institutional Theory

For some time now, institutional theory has provided theoretical support to social science studies, accounting has been highlighted in this research, given that it is a science that integrates government and organizational actions, with society being one of the main stakeholders in the performance of institutions and agents (Matias-Pereira, 2021).

The first institutional arguments emerged in Germany and Austria at the end of the 19th century, through the famous *Methodenstreit* or battle of methods that launched debate about scientific method in the social sciences. Issues in economic theory were constantly debated through a dispute between two scholars with differing opinions (Scott, 2014; Louzek, 2011).

From the study by Matias-Pereira (2021) it is possible to observe that institutional theory has become more relevant in social practices. Therefore, the range of international research that deals with the topic ends up giving robustness to its applicability in the field of social sciences, and in the field of accounting science, the areas of public accounting and controllership deserve to be highlighted, as they are areas that, clearly, involve public agents.

Meyer (1977) was one of the first theorists who began to look at the new institutionalism. The study sought to explain how education forms individuals who end up affecting society through their actions. Next, Meyer and Rowan (1977) study the formal structures of organizations and the main problem that theories face. Therefore, Powell and Dimaggio (1991) contribute significantly to the new theoretical perception and advance the development of new institutionalism.

The work of Powell and Dimaggio (1991) *The New Institutionalism in Organizational* brings many considerations so that one can understand the institutional perspective on organizations and the axes of the new institutional theory. To this end, the authors consolidate a series of articles, divided into three parts that address the initial concepts of organizations, the refinement of institutional theory and empirical investigations.

Studies of organizational and political change clearly clarify that it is difficult to reconcile the rational actor and the functionalist, where administrators and politicians start to defend programs that are established and are not implemented (Powell & Dimaggio, 1991).

Institutions can be formal or informal in nature. Formal institutions are based on the written laws and rules of a society, while informal institutions are based on the values, beliefs, ethics and code of conduct of a society, they are part of the collective consciousness. The rules intentionally created by individuals to deal with social, economic and political issues end up constituting formal institutions. These rules end up partially responding to the increase in the complexity of organizational structures (Meyer & Rowan, 1977; North, 1990).

Pierson (2000) highlights that it is increasingly common for social scientists to describe political processes as "path dependence", which is related to the new institutionalism and which is treated in politics as a situation in which the agent's choice is shaped or directed by institutional paths of choices made in the past. For the author, political development is accentuated by critical moments or economic situations that end up affecting the life of society.

There are several key elements to new institutionalism, new institutionalists observe all types of individuals interacting in socially organized environments. These environments are guided by a set of rules, regulations,

standards and definitions that restrict and shape the actions of all actors who need to comply with these rules.

At the basis of the new institutionalism, Schmidt (2008) highlights discursive institutionalism, which offers a vision of the role of ideas and discourse in politics. For him, the process of discourse, which is constantly used by political actors, is a form of interaction that enables the transmission of ideas with the public.

For effective organizations, it is necessary to understand how organizations constrain individuals from acting in their own self-interest. Furthermore, there are several ways in which informal structures influence the formal structure of the organization.

Thus, it is possible to observe the behavioral changes of individuals through neglect of the social context and the durability of agents in power. The durability of social life also began to impact institutions, as demographic issues end up increasing the cost of institutions, not only because they become larger, but also because they become even more complex (Powell & Dimaggio, 1991).

For Powell and Dimaggio (1991), individuals seek to maximize their behavior in relation to stable and consistent preference orders. Thus, it is possible that this behavioral maximization is due to cognitive limit issues, incomplete information or difficulties in monitoring and enforcing agreements, however some people behave in an opportunistic manner and end up interfering with rationality.

In modern societies, organizational structures emerge in an institutionalized way, where professions, politics and government programs are rationally directed towards the creation of products or services. Institutionalized policies, products, services or programs end up functioning as powerful tools for maximizing individuals (Powell & Dimaggio, 1991).

2.2 Public Choice Theory

Administration Science and Political Science are related, the first being the result of the second. Administration is the most evident form of government action, where on one side there is the State and on the other society, which demands public goods and services and has increasingly participated in the conduct of administration through public opinion (Wilson, 1946).

Public Choice Theory is considered a phenomenon of Political Science, being the political theory that most influenced government practice in the 20th century (Andrews, 2004). For Piano (2019), the study of public choice theory is related to the “economic approach and human behavior”, making it necessary to understand the actors, institutions and political processes.

Borges (2001) highlights that the theory of public choice understands that public agents do not behave in a utilitarian manner nor seek the public interest and that the interested party (voter) seeks to choose agents that can offer political proposals that are capable of maximizing their functions. individual utility in the short term.

Borges (2001) concludes that due to distributive issues and the light of neoclassical economics, democracy and efficiency are incompatible. and decisions on public goods and services should be decided through voluntary and unanimous decisions by the interested group, to ensure that the majority coalition does not deprive the director of a minority.

The study by Jones and Baumgartner (2005) presents empirical evidence on budget distributions. For the authors, this budget distribution never follows normality and it is clear that the public budget is not incremental, which ends up deconstructing the idea of one budget being prepared based on another. The incremental budget, in Brazil, for example, would bring benefits to complying with the spending ceiling adopted by the Union and other federated entities, considering that this practice addresses both planning issues (continuity of government plans/programs) and the balance of public accounts, the basis for compliance with the Fiscal Responsibility Law.

The fact is that Public Choice Theory explains this action of behavioral change in budgets brought by Jones and Baumgartner (2005) because they are public choices that involve private interests. Therefore, the direction of spending does not follow a normal pattern because it varies according to the majority interest of individuals, and the public agent is interested in serving these groups, not because demand is decisive for solving a problem, but because the service that specific audience can bring you a particular return.

According to Ostrom and Ostrom (2004), the problem also lies in the fact that decision makers often make political decisions within the restrictions of a set of collective choice rules. These decisions end up impacting the eligibility of the agent who participates in policy formulation or prepares the rules that will be used to formulate policies.

3. Final Considerations

Neoinstitutionalists look at the interorganizational interactions and formal structures in which all political practice

procedures come to play, but they also look at the entire organizational field. Changing institutions end up shaping the way societies live. This behavioral change influences the evolution of institutions, which in turn impacts the performance of economies.

Institutional theory ends up being an intersection between several theories involving social sciences. It is worth noting that the studies clarify the distinction between organizational theory is not similar to institutional theory and that the new institutional theory and new institutionalism comprise rational actor models and cultural and cognitive issues.

The public choice theory of public choice relates to the new institutional theory, when interest groups start to make choices that do not meet previously planned government programs. There is an intentionality in directing public spending to benefit the individual in power, putting the democratic state into question, due to the inefficiency of managing public resources.

The main objective of this article was to explore the emergence of new institutional theory based on the historical context of the formation of modern society with the change in basic cultural rules. It is possible to observe the importance of classical sociological thinkers in the development of organizations and institutions. Neoinstitutionalists believe in the legitimacy of the organization being based on the stability of persistence and order and, therefore, any type of action must maintain this same stable environment. The focus of analysis in old institutionalism is informal interactions within organizations.

They realized that organizations seek legitimacy and acceptance from society at large so they have a defined standard of rules, as is the case with most theories, subsequent theorists discovered that the old theory of institutionalism did not explain everything, so criticisms are adopted the old institutionalist approach because it does not consider the influence of cognition and learning on human behavior and motivation.

It is possible to highlight some considerations based on the theoretical study: institutions can be the key to understanding social, economic and political phenomena in a society; Monarchs and the church had their power to govern weakened due to scientific discoveries and humanist ideas; studying “social facts as things” can explain the behavioral revolution of recent decades and cultural and cognitive issues can explain the behavior of individuals in seeking to maximize their returns.

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