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Diversity of Institutions: Institutional Economics as an Economic Theory of Culture

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ABSTRACT

Institutional economics isn't coherent. Every institutional approach has its own conception of behavior. In a first step we do select and list the different approaches, finding two meta-approaches: the Northian and the Buchanan-Williamson-institutional clusters. Every institutional theory models their own behavioral world. But in the markets behavior is different; we have to be aware of interactions of different behaviors and different rules in competition. What about the fact we have to deal with different behaviors within the same theory? I institutional economists very nearly overlook the fact *that actors do not operate in only one institution but in several simultaneously* (irrespective of their simultaneous presence in several networks). We will give some insight in the problem my network theory.

Keywords: Institutions, culture, diversity, spectrum of behavioral diversity, heterogeneity of theories, markets as pools of different institutions and behaviors, network theory

INSTITUTIONS

Economics has no explicit theory of culture (cf. approach by Guido et al. 2008)but use the theory of institutions as a model of informal institutions for the purposes of cultural embedding. Institutions assume the role and function of standards (cf. Tabellini 2008). The institutional concept is, however, incomplete and, above all, incompatible with theoretical cultural concepts of other disciplines (Priddat 2000, 2003, 2004a.d). But an adjustment towards institutional diversity is possible.

Equilibrium theories in economics had their heyday in the first half of the 20th century; the second half, or at least the latter part of it, again witnessed a somewhat stronger focus on institutions and institutional requirements for business. The insight (re)emerged that institutions support markets in an enormous variety of ways, or even constitute them in the first place *property rights* (Brazil 2002), *firms, contracts* (Coase 1937, Williamson 1985), *constitutions* (Buchanan 1997), *distribution* (Acemoglu 2009).North presented a comprehensive theory of institutions and their historical changes (North 1990, 2010; also Greif 2006).

Institutional economics - according to, e.g., North, Williamson, or Buchanan – operate with types of actors who are different from (neo) classical market economics, mainly with *bounded rational actors* (of the Simon type (Simon 1982)). Nevertheless they differ from each other depending on their specific characterization of institutions. Here we are dealing with different actor-institution nexuses, which are only partially compatible. They generate diversified actor-cultures.

THE WORLD OF NORTH AND SIMON

Institutional economics according to North operate with *bounded rational actors*.[1]Institutions are structures akin to rules which limit the actors' scope of activity: only rule-consistent actions are

[1]*Bounded rational actors* operate within a limited scope of alternatives only. If institutions constitute adherence to rules then the institutional actors' scope of activity is limited to the rule and adherence to it. In this case *their boundedness* is a specific limitation to the rule without options (unless they choose a different kind of institutional participation).

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permitted (*institutions as constraints*) (Mantzavinos 2001; Richter and Furubotn 2005; cf. Priddat 2004b). This restriction has the advantage of permitting rule-following behavior: collective rule orientation eliminates individual uncertainty, or more exactly: what an actor does not decide individually out of competitive insecurity he will dare in concordance with others.[2]His activity environment becomes more complex and thereby reduced.

Institutions assume the role and function of standards, and they are considered as stable (or at least intransigent) in terms of time. Rational actors tune in to a *modus collectives* the validity of which appears to be based exclusively on a coherence to jointly comply with a rule: reduction of uncertainty. What the institutional stakeholders expect from each other becomes the standard that governs their actions (A. Dixit speaks of 'prosocial preferences' (Dixit 2009: 11)). Are we dealing with a functional morality here? It seems that institutions are without alternative. And it seems as if the actors form part of only one institution respectively. With what or whom do they compete?

The methodical construction of institutional economics conceals this state of affairs by always analyzing just one dimension of individual/institution without addressing the co-presence of alternative arrangements and realizable change or interference. Comprehensive literature is available on *institutional change* (North 2010; Mahoney and Thelen 2009; Morgan et al. 2006; Mantzavinos 2001; Priddat 2004b); the authors mainly address a diachronic change of institutions, and not questions of institutional synchrony and actors changing between institutions (in contrast to White 2008).

Basically, actors always move within institutions. Institutions are, however, not limited to extra-market bodies, on the contrary: markets in general are *institutionally embedded* or *institutionally stringed*, i.e. pervaded with institutions and/or a network of rules. What is immediately evident for legal institutions also refers to a large number of informal institutions which are interlaced in market processes. Institutions define the cultural-theoretical dimension of economics (institutions as *cultural heritage* (cf. Priddat 2003 based on North)); Herrmann-Pillath writes that informal institutions at any rate are *based on social networks* (Herrmann-Pillath 2010: 193); cf. Priddat 2004c).

Institutions demand their own rationality of conduct: *rule following* instead of *choice*. Those who follow a rule, thereby expecting others to follow the same rule (equilibrium of expectations (Aoki 2001); more exactly: Kabalak 2011), waive the option of deciding at any time whether to follow other rules, or none at all, or even a personal, individual decision). From the strictly systematic perspective *rule following* means the exclusion of competition in its field. Institutions are stable only in the adherence to this *shared mental model* (Denzau and North 1994; North 2010; Priddat 2004b).[3]In earlier publications North had perceived the joint adherence to rules as represented in *ideologies*; later he conceived the concept of the *shared mental model* (Denzau and North 1994 and North 2010). We may interpret this as a *common belief*: everybody expects that others comply with the rules, the same as others expect that you comply with them yourself (functionally similar to the *common knowledge* in game theory).[4]

When actors operate as rational actors in the markets, and when markets are institutionally interweaved, the same actors will comply with rules in the same market in parallel, i.e. they represent two forms of action synchronously, which are neither identical nor compatible. They operate as duplex actors: there are at least *two different modes of action in evidence which must be associated*

[2] It appears that *institution as constraint* is an inappropriate reduction since there is a creative dimension to institutions: as a collective enabling of individuals who otherwise would remain passive. Moreover, where individuals act within institutional rules they enjoy complementary options of moving in unregulated spheres of activity.

[3] Actors complying with institutions and rules follow a rule on condition that all others do the same. They waive alternative actions, which implies that they must be protected from others making use of this compliance. In case of formal institutions, this is ensured via sanctions, and in case of informal institutions through the mutual expectation that others, like we ourselves, see adherence to rules as reasonable. In this sense, institutions are based on trust and will stabilize only if this trust in adherence is confirmed.

[4] We must distinguish clearly between formal and informal institutions: formal ones do not require a notable *common belief*, since *disincentives* enforce adherence to rules: non-adherence will be punished. Obviously, the aspect of personal conviction of participation is of secondary importance. In contrast, informal institutions gain validity through mutual acceptance. This requires rational agreement, or an equivalent, such as trust.

*with the same actors at the same time.*We can no longer assume that economic actors represent homogenous types. Actors have multiple identities (cf. also Akerlof andKranton 2010). In the institutional dimension actors follow rules, whereas they operate as *rational actors* in markets. Both may be described as Simon-actors (with limited rationality); but the Simon-qualities which Simon-actors reveal in institutions differ from those they show in markets: the differentiation *rule versus choice* is essential.

North's institutional economics operate with Simon-actors, i.e. those with *bounded rationality* who grasp only partial sections of the world (the alternatives) (in another diction we speak of *frames*) (Simon 1982). Institutions provide clear rules of conduct to actors in uncertain situations. Basically, North uses Heiner-actors, with the only difference that North or institution actors do not follow any individual or private empirical rule)) but a 'shared mental model' (this is the definition of Heiner-actors (Heiner 1990), or an 'ideology' (Denzau and North 1994). Institutions are collective rules, in the sense that several or many North-Simon-actors jointly follow a rule (frequently in path dependency) as a functionally defined standard or its substitute.

Simon-actors differ from Heiner-actors in terms of their expanded roundedness which is open to social observation and information. More specifically: Heiner-actors are one-dimensional Simon-actors and characterized by a retreat to adherence to private empirical rules (and recently in the expanded variant of Selten-Gigerenzer-actors (Gigerenzer andSelten 2001)). Both Heiner- as well as Simon-actors are reduced rational actors; but Heiner-actors are oriented to experience and thereby to the past (*memory-guided*), whereas Simon-actors operate with reference to the presence (*situation-guided*).

North-actors differ from Simon-actors in so far as their *roundedness* renders them explicitly open to social rule orientation (to some extent communication-guided (cf. interpretation of the 'shared mental models' as communication in: Denzau / North 1994)). When North explains institutions with the aid of *shared mental models* he assumes that a *common belief* has emerged.[5]This is a mild form of cooperativeness based on the belief of all participants that all will adhere to the rules, assuming that all accept the reasons for having those rules. It is the specific of North's institution that this (cooperativeness) is generated implicitly or explicitly, i.e. via communication. *It is a mode of interaction, i.e., it depends not only on individual decisions to follow the rule, but on others deciding the same thing – a form of cooperative rationality* (cf. Kabalak 2011).

North's institutions operate with Simon-actors. But these turn into North-actors: in the context of institutional rules they integrate their *roundedness* into a focal point (cf. Schelling 1960), i.e. they inclose in a rule (and its adherence) what *bounded rationality* leaves open to the individual decision. Simon-actors have their individual *frames*, whereas North-actors focus on a *frame* within the *shared mental model* (their *frame* is institutionalized and, as a consequence, homogenized and focalized). *Institutions consolidate the frame openness of Simon-actors through reliable social validity, or validity of rules* (cf. above: as a quasi standard, or *common belief*).[6] Becoming North-Simon-actors, they constitute a new form of collective rationality which, however, does not swing back to the standard form of Arrow/Debreu-*rationality* but as *rule following* assumes a behavior mode of its own (methodically, the focal coherence of all North actors means the establishment of *frame stability* as coherence formation of their Simon properties).

Rule following is a significant and different behavioral structure that differentiates institutions from markets with a rational-choice format. But the thus postulated institutional quality is not self-

[5]*Common belief* is not identical with *common knowledge* from game theory, although similar. *Common knowledge* assumes that the theoretician designing the model, and the actors know which strategies the others pursue. But they cannot really know, they can only assume (*common belief* instead of *common knowledge* (cf. Kabalak 2011)). Here the theory must replace sentences like 'I know that …'by sentences like 'I believe that …' (Bacherach 1986). There is a significant difference, since actions based on *common belief* constitute a form of cooperation (Kabalak 2011).

[6]Dixit's evaluation of the validity of 'prosocial preferences' must therefore be reviewed: North-actors 'have' no *prosocial preference* in the sense that they hold it as a cultural variant in their portfolio of preferences; rather, it emerges as a self-stabilizing mutual expectability which would disintegrate with the erosion of the institution. *Prosocialpreference* is an interaction mode, not a quality of independent actors (on interaction process structures cf. White 2008).

sustaining, it is a result of concurrent processes: "We contend that an effective analysis of institutions needs to take account of three analytic sites in which linkages occur between different orders of social experiences, those specifying the linkage of agency to structure, of culture to practice and of linkages across levels of social organizations. First we propose that the stickiness of institutions, those qualities of institutional life that lead them to be particularly enduring, is directly related to their capacity to effectively bridge these types of divides. Second, we argue that the undoing of institutional stability, including the possibility for significant institutional change, may be dependent uponthe sustained juxtaposition of multiple styles within the same institutional site. In a sense then, institutional stability derives from bridging while instability is the result of over-bridging" (White 2008: 4). But this would constitute an independent research project which is not addressed in this context.

MULTIPLE ACTORS

Economic science has tried to limit institutional economics to institutions outside the market, to avoid the parallel application of two fundamentally different action modalities. Markets (and their rationality modalities) are seen as separate from institutions which, other things being equal, are treated methodically as quasi-external preconditions for markets. But it has become apparent that markets are *institutionally stringed*, i.e. interwoven by a network of institutions. This includes not only the classical legal-formal institutions (with the legal status of a contract assigned to each transaction) but – in the shape of informal institutions - all conventional elements, all trust-relations within contracts (cf. Priddat 2004b), all moral rules and norms etc. The *rational actor*, independent and free as to methodology, is an institutionally embedded actor *at the same time.*

Assuming markets as institutionally stringed, in this moment we are already dealing with actors who must have at least two behavioral dispositions – the *institutional rule follower*, and the *(bounded) rational chooser*. Both dimensions are served in parallel (*parallel processing*); we may speak of a super positioning of actors. The *rational actor* e.g. cannot be described as separate from his adhering to legal rules as an *institutional actor* in market transactions; or integrating his religious beliefs, or excluding specific alternatives as a moral consumer (Priddat 2006). The institutional-economic change in economics already differentiates the range of actors – without additional assumptions, only through the validity of institutions in markets, with the following systematic consequence:

If we sharethe hypotheses of neoclassical market theories that individual actors are *rational actors*, i.e. act with a (relatively) complete understanding of their sphere of action (the markets) then we are dealing with a basically institution-free world. This does not mean that institutions are denied, but they are located outside the markets, conditional (markets imply legal institutions for example) but not intervening.

But wherever institutions are relevant *within markets* we may assume that market actors are limited in their options, e.g. those of the Simon-actor type (or Akerlof-actors qua asymmetric information (Akerlof 1984) their specific *boundedness* will, again specifically, be complemented by institutional rules. *We may say that institutions constitute a necessary complementarily for Simon-actors* (by assuming the form of Simon-North-actors). Each actor in this variant of a market economy is defined by a complementarily: as Simon-actors with a specific *bounded rationality* which is annulled by a specific inclusion of rules, not by a modulation of *bounded rationality* but by a transformation into a different mode of action: *rule following* instead *of choice*.[7]

This designates a break in the relative methodical coherence of market economy which is by no means accepted by (neoclassical) market economy nor enforced by institutional economics with any methodical succinctness. As Simon-actors, the market actors are reduced to acting in specific sections of the (alternative) world. This means they remain basically uncertain which section is relevant. *Due to this uncertainty, Simon-actors are susceptible to institutions,* i.e. they accept rules that they hope will remove these specific uncertainties, by collectively formatting the individual epistemes (*frames*

[7] In the context of North institutions, the limited *frame* of Simon-actors is focused coherently to one rule adhered to by everybody. The *frames* of North-Simon-actors are thus homogenized but at the same time their basic options are curtailed. *The frame they adhere to as a shared mental model or common belief covers one alternative only: follow the rule.* In this sense the Simon-actors as North–Simon-actors are deprived of their albeit reduced options. As suggestively defined by a different terminology:they have been placed in a regular path dependency.

as bounded epistemology) (*shared mental model*; Arrow speaks of a *convergence of beliefs* (Arrow 1979)).

By regulating within the institution what you may expect mutually (institutions = equilibrium of expectations (Aoki 2001)),*at the same time you regulate the epistemological field in which the frame is apparently clarified collectively as a shared mental model or as common beliefs.*

In a world of institutionally stringed markets the standard for actors cannot be limited to a rational actor; he has necessarily a duplex nature, i.e. he is *rational actor* and *institutional actor* at the same time. As a *rule follower* the *institutional actor* explicitly is no *rational actor*. How does this duplex operate in markets?

As a consumer, for example, he may follow a rule (such as: buy only brands, not explicitly choose between alternatives and always buy the same alternative). Although nominally a *rational actor*, he behaves like an *institutional actor* (of the North type). But the *rational actor's* freedom and independence remain latent; any time the consumer may switch to a true choice (although reduced to a *frame* as a Simon-actor). This switch is encouraged communicatively by a third element to which we will return later: networks. Brands – as informal institutions *within markets* - generate adherences to rules which we may also label as conventions. The term institutions, however, is more appropriate since what we are dealing with is not so much an individual convention but the parallel adherence to rules by many consumers who all buy this brand. Forms of communication are involved here (including advertising) which provide mutual validation and stabilize the institutional element.

THE WORLD OF WILLIAMSON AND BUCHANAN

What has been defined as coordinated coherence (*common belief* as *shared mental model*) for the North institutions is handled with greater flexibility in the case of Williamson institutions (*firms as nexus of contracts* (Aoki et al. 1990) in *relational contracts* (Williamson 1985)): firms are organizations with specific *governance structures* of their own (Williamson 2002). As organizations they are opportunistic-flexible; only their *governance* is institutionalized (cf. also Dixit 2009). It will be remembered that Williamson derived his basic idea from Coase and from J.M. Buchanan (Williamson 2002). Buchanan's *theory of constitutional choice* differentiates between *constitution* as the rule of the game and the actions of the respective actors as moves *within the rule* (Buchanan 1997). Williamson transfers the concept from *public choice theory* to the *theory of the firm* which he develops beyond Coase. The 'constitution' of a firm has an institutional format as a defined *governance structure*; employees and managers, however, are free in their decisions on day-to-day operations provided in doing so they remain within the *governance structure* (this idea also forms the basis of, e.g. the various *codices*, *value systems* and *sustainability concepts* of *corporate governance* etc.).

There is a significant difference between the Williamson institution and the North institution: company employees do not follow any rules; they must be free to act opportunistically so that they can adapt to changing market situations. Their business activities are regulated in the wider context of *governance* – a kind of regulatory framework (something like a *business constitution* or *business design*). Instead of classical *rule following behavior* (= passive conclusive coordination), the Williamson institution is marked by adaptive rule following (Gintis 2009) (= proactive adaptive coordination). Simon-Williamson-actors differ from Simon-North-actors in terms of a regulatory framework / rule following variance[8]- the modified classical Buchanan model (whereas Simon-North-actors may learn over time (Mantzavinoset al. 2004) but present a simple invariance to rule / rule following in their behavior = path dependency). While North-Simon-actors are focused on their rule, Williamson-Simon-actors are focused on their *governance* within which, however, they retain the ability to make flexible choices. In the world of Williamson-Simon the rule / institution has been transposed into the business constitution while North-Simon-actors behave in immediate obedience to rules. *Evidently we are dealing with different institutional cultures.*

INSTITUTIONS AND COMMUNICATION

In effect there are two different institutional models involved:

[8] More precisely: Williamson operates with relational, i.e. open contracts bound by management within the *governance structure* and binding agreements (*credible commitments*). Depending on how this relationship of openness and boundedness is handled *(= management*) will the firm prove survivable and successful.

a) North institutions, and

b) Buchanan-Williamson institutions.

What North institutions must mobilize by learning (Mantzavinoset al. 2004) without actually doing so methodologically: *pseudo-historic institutions* (Priddat 2004a), has been included in the structural dynamics of the Williamson institutions – they may rather be conceived as processual and elastic.

Understanding the Williamson institutions in a broader sense and taking them out of the (narrow) context of the firm, there remains no definite *governance structure* (no defined management, no *board* etc.) What constitutes *governance* in a business must remain open in a generalized Williamson institution, e.g. in markets. This does not mean that the function remains empty; it takes a completely different form. While institutional economics refer to *shared mental models* and rules, we argue that the validity and time-intransigent stability of rules is not path dependent but *a process with communicative governance.* Williamson institutions – we use this term here for a general institutional structure, derived from the Williamson firm with the purpose to offset the relative rigidity and inflexibility of North institutions – find their functional equivalent in a communication structure that permits all participants to discover, discuss and consolidate the respective framework for action.[9]In this sense, the rule is not set, as in the case of North institutions, but requires continuous processual confirmation until a stable *common belief* has been generated. It can be argued that North institutions constitute a specific type which has served to clarify the *shared mental model* of all participants, or their *common belief*. In contrast, Williamson-Buchanan institutions – taken out of the commercial context (Williamson) or the political context (Buchanan) and defined as a general type –have not set out the elements of their *constitutionality* but must generate them. They achieve what we deemed to be critical or missing in North institutions: they leave open the development of mutual confirmation that a rule shall apply.

North institutions then are clarified or stable Williamson-Buchanan institutions, the rules of which are followed conventionally, whereas Williamson-Buchanan institutions represent the process of the *making of common belief*. They represent different institutional types respectively which, however, may be linked up with each other: various stages of institutionalization.

Rule following as behavior differs significantly from *rational choice*. But previous explanatory approaches are insufficient: institutional behavior is no blind rule following. Aoki's term 'equilibrium of expectations' refers to a process where institutional participants watch each other for adherence to rules. This mutual observation is in itself a particular form of communication (relational sociology (Fuhse/Mützel 2010); economically substantiated: Kabalak 2011), expanded to extensive communication when participants agree on what is understood as rule following, what has been modified, whether to follow the modification or retain the original position, etc. The 'equilibrium of expectations' is neither a dogma nor a postulate but takes the form of a steady state with permanent deviations, variations; comments and revisions (cf. White 1008). Institutions are

a) processes which

b) Re-regulate themselves in circular and emergent processes (cf. Herrmann-Pillath 2010: 198).

Rigid rule following obviously is a frequent phenomenon: repetitive behavior that takes on conventional forms (conformity with rules is a form of conventional behavior (Young 1996; Jagd 2004)).

The institutional framework of this coupling of free choice and rules is regulated in consumer markets via brands, e.g. (brands are signs and symbols of *shared meaning*; they generate coherent *belief structures*). Actors have taken to buying brands exclusively to minimize the costs of choice (cf. Priddat 2004 d + 2006). Since brands have validity for many, such actors move within an institutional

[9] A closer look is worthwhile: North institutions have a communicative element, too. The rule adhered to by all evolves in informal institutions – formal institutions will decree it and enforce it via sanctions – through the mutual agreement that it is rational to follow a rule. These are no individual decisions but become valid only through mutual confirmation – a communicative mode even if it is non-verbal, i.e. through mutual anticipation that everybody will act like you intend to act yourself. This may succeed meaningfully only via an understanding on when and to which purpose a rule is to be applied (for a more in-depth analysis of meaning, communication, stories and networks cf. White 2008; White/Godart 2007a+b).

field where all stakeholders confirm each other in the opinion that it is valid and right to buy the brand. In this way they mutually confirm that it is right to take the individual decision 1) repetitively (diachronic-conventionally) and 2) communicatively (synchronic-conventionally). Insofar the decision is no longer individual (free and autonomous) but embedded in context, and no longer just institutional. If 2) applies, communicative verification processes become effective which North terms communicative – without further explanation - but which may be subsumed under a different mode: *the network mode.*

Institutions are sets of rules whose validity can be repeated and confirmed via communication; but in fact such communicative systems of verification operate through networks (*peers*: friends, acquaintances, relatives, colleagues, clubs, the community, etc.) (Burt 2010). And: the *governance* of a relational open Williamson institution consists of network structures (Burt 1995) (as a medial core structure of institutional dynamics). This connotation is a relative novelty.

NETWORKS AND INSTITUTIONS

Williamson-Buchanan institutions – and this is an essential difference compared to North institutions – can admit all possible types of actors within their regulatory frame; their *shared mental models* are *meta-frames* or *conceptual schemes* that refer to the operational framework exclusively and not to individual actions themselves (for North-actors it is one and the same thing). Institutions – North, Aoki, and Williamson-Buchanan institutions alike – *focus the frames of the participating Simon-actors*. They generate models for arenas of action which reduce the various potential fields of action. If networks are added to the mix (Granovetter actors (Granovetter 2005)), the problem expands further –what stabilizes North-actors as such (and through them the institution) if they have several modes of action available? How stable is their respective modality?

Rule following as a type of action is different from network behavior. Members of networks communicate for positioning and *connectivity*; networks are arenas of reputation.[10]Moreover, the structures of networks are based on reciprocity: what you may expect from others is what you may have to offer yourself (at least in the dispositive sense. Nobody must settle successful mediations immediately, but the others must be entitled to expect that settlement is possible). Within networks, the action potentials of markets and institutions are communicated and evaluated. Market success can be communicated in a positive manner (but also in a negative one, e.g. with envy etc.). Participation in institutions is communicated if these are socially border line or if a participant obviously violates rules (specifically in case of informal institutions of justice). An economic theory of morality may be mentioned at this point (as we know from *behavioral economics*: actors follow rules of fairness (Güth / Kliemt / Ockenfels 2003; Fehr / Fischbacher 2004; Fehr / Klein / Schmidt 2007; in the sense of 'prosocial preferences' (Dixit 2009). cf. also Priddat 2006).

Networks as loose couplings, i.e. as explicit non-institutions, are suitable for generating beliefs with action-oriented competences, above all if you can improve your own position compared to others in this way. Networks thus function as a matrix of social positioning.[11]*But networks have the potential to intervene and / or disturb institutional stabilities due to their communicative structure.* They communicate different options for action, different evaluations and criteria (and thus possibly an exit from the institution). Everything what actors do and decide may be bent in the network communication. Communications form their own centers of gravity (*issues*) which may permit variations or modifications (also intensifications) of what has to be done according to the actors' particular rationalities.

This is significant insofar as we are dealing with a combination of institution and network, or a transition that explains what institutions cannot explain since by definition they have to fix on the validity of the rule: namely, how to generate and perpetuate their institutional nature or validity of rules. Networks communicate meanings which they affirm – or do not affirm, as the case may be – continuously. They constitute a kind of communicative arena for meanings (*semantic generators*).

[10] But not as competitive as in the context of Fred Hirsch's positioning competition (Hirsch 1995; Reisch 1995).

[11] Fred Hirsch's positioning competition (Hirsch 1995) is conceived as a market – an insufficient format for a problem of high relevance. Only the network theory permits an appropriate conception of social positioning as a specific communication of acknowledgement. The format is not competitive but social: as an arena of participation and attentiveness (Burt 1995; 2010).

What North institutions assume as given is continuously regenerated via networks. Institutions are no (ontic) givens but emerging processes (which may of course sink into states of mimetic repetition, and without a reflexive agent into conventional states).

Networks are no institutions but 'provide' institutions with acknowledgements of their validity.[12]This fact becomes relevant in multiple environments where we can no longer assume established rules to apply (this is why we presume that North renovates older types of companies without addressing the diversity of modern companies in a form required to clarify why institutions may remain stable nevertheless. Do institution theories tend towards conservative company forms - as a consequence of the path dependency theorem?)

Networks operate with Granovetter-Burt-actors (Granovetter 2005; Burt 2010). They are guided by neither benefit nor (immediate) reciprocity in their activities. Networks coordinate addresses and responsiveness and they produce communications and mediations. Granovetter actors are disposed to be addressed and to respond but without being obliged (in this sense, reciprocity in networks is weak). Networks are essentially arenas of communications (media); they interfere with institutions via the communication of rule validity (Tacke 2000).

This may be described as follows: institutions are not self-reflective; they function while their Simon-North-actors follow the rules. Reflection of rules does not occur within the institution but outside – in networks which communicate valid rules (nor only of one but of many institutions). It is therefore important that actors participate as *multiple actors* in institutions and networks at the same time; they play specific roles within institutions as well as networks. These roles are marked as belonging together through a person-oriented identity, without forming an unequivocal identity of all roles. Modern persons tend to be *multiple selves* (cf. Akerlof / Kranton 2010). Here we see a repetition of the duplex role configuration we had already discovered as constituting the difference between rule-following / institutional behavior and market behavior.

If a North-Simon-actor assumes a stable role within an institution he may simultaneously be a Granovetter-Burt-actor in a network of institution-critical communications that induce him to leave the – in most cases – informal institution and join others (*institutional switching* instead of *institutional change*. This applies to informal institutions to a greater extent compared to formal ones, but reveals different institutional dynamics compared to mere institutional change.) Institutions do not erode as such but are abandoned because alternatives are communicated within networks institutional economics *sui generis* cannot explore this dimension if validity of rules is assumed as given. Networks constitute critical environments of institutions; they communicate what is relevant, and do so faster than members of the institution would individually start to reflect on the point of rule following.

Simon-actors are open to communication, with their specific *frame* openness; the network context can provide what they lack in information: in their parallel existence as Granovetter-Burt-actors they generate meanings that revise their *bounded rationality* (Andreas Ling has adopted JurijLotman's term "semiosphere" for these fields of communication in the variant of "institutional sphere" (Lingg 2013; on Lotman cf. Halle 1989)). Economic actors are involved in network communications which do not deprive them of their rationality but may in various ways explore and shift the meanings which rationality should focus on.

Consequently we must assume that economic actors who are designated as homogeneous individual *rational actors* in economics present the standard format of *triple agents*, in varying combinations of (1) *bounded rationality* (as Simon-actors), (2) network communication (as Granovetter-actors), and (3) institutional rule following (as North-Simon-actors) – three behavioral modalities which must be

[12]Granovetter defines networks as the social embedding of actors and calls them institutions. Seen in this way, they may be considered informal institutions of the North type. But we cannot apply North's definition of institutions to them since networks have rules but in themselves are not rules that must be strictly adhered to. It is enough to be disposed. Moreover, Granovetter institutions are marked by reciprocity as networks (= interactive), while North institutions are based on rule following (= coordinative). For North-actors it issufficient to followthe rule; Granovetter-actors must in addition be disposed to interaction. The rule for a Granovetter institution, so to speak, is to respond where appropriate, i.e. to communicate actively. For North-actors, however, it is enough to acknowledge the rule (= limited communication) by following it. This is indirect action, in contrast to direct action for Granovetter-actors.

assumed to apply de facto although they rarely occur simultaneously in one theory. The duplex structure we noted before - *rational actor* and *rule follower* at the same time – is complemented by a third structure: *networker*. Behavior observation does not determine with certainty in which mode they are acting at a given moment (behavioral ambiguity).

It turns out that the economic hypothesis of being able to explain complex economic and social constellations with the help of a single, albeit varied, type of actor (*rational actor; homo economics*) is inappropriate, so that we are beginning to base our deliberations on heterogeneous actors. Suitable descriptions of their behavioral modalities must reveal their interaction potentials as well as dissonances and conflict potential.

Generally speaking, however, we have reached a point in economic science where the analysis of autochthonous *rational actors* is abandoned in favor of complementary behavioral systems, such as a Simon / institution complementarily which we then expand by a Simon / Granovetter complementarily, and so on. This means that economists start considering actor/context relations, even if other actors (with different behaviors) form the context. The distinguishing criterion is no longer the degree of rationality but the rule followed by the actors (even Granovetter / network actors follow rules, although of a different kind compared with North-actors). This is what I mean by *diversification of institutions.* Only on this basis can provisional statements be made on an economic theory of behavioral norms which are not based on the untested stability of institutions.

INSTITUTIONAL CULTURES

Let us differentiate between weak and strong rules. North institutions are strong rules and designed to work. If institutions work, then actors will follow without undertaking rational deliberations of their own (*as a kind of mechanism design*). Weak rules are more like (behavioral) *constitutions* in the sense of Buchanan: they serve as institutional rules of the game within which actors may unfold their *rational choices* (if they do not transcend the control limits. The *roundedness* of Buchanan-actors is defined by the constitutional boundary, not by subjective bounded rationality (although it would be compatible with the Buchanan institution)). Like Williamson himself, we have designated his institutions as *governance*-determined: within the context of *governance* the actors have more freedom to make the most of their Simon-rationality. In contrast to a North institution, this reveals a more flexible, more dynamic institution.

A more generalized perspective (beyond Williamson's limiting definition to cover business organizations) suggests that North's rigid concept of rule following may be transposed to a more variable one where the rule has become the behavioral constitution which permits many different moves.

Actors of North institutions restrict the relative openness of their *bounded rationalities* via rigid adherence to rules; actors of Buchanan institutions do so via external limits. This is why Buchanan will not become a warrantor for North and his population of Simon-actors; he is more attracted by the subjective actors of the *Austrian economics* and prefers liberal, subjective deciders. Not their limitations are significant but their variance. We transfer Buchanan's concept to an expanded Williamson institution and thereby obtain a process description of how institutions may change in an emergent phase: by internal communicative shifts of what forms part of the rule and what does not. If we integrate this description into networks we gain an additional arena for communication (institutional sphere) to discuss those changes.

Such methodological deliberations form the basis on which we can include in our analysis the insights from *cognitive science*, linguistics, or philosophies of language that have explored the correlations between language-game */ conceptual scheme* / *semantics* and individual actors' scope for action (Herrmann-Pillath 2010; on meaning, stories styles, etc. cf. White 2008). Theories resulting there from serve to expand the relation between economics and culture. Culture is not a normative function to guide insecure actors on an institutional basis, but rather an open field of communicative confirmations of the rules that are to apply – not a functional equivalent of standards but a far more flexible field of rule participation and rule changes. The main point here is not institutional competition (cf. Bergh / Höijer 2008) but institutional elasticity: actors follow rules; but since rules are designed as *frames*, (network) communications open up rule evaluations and new foci which

a) permit actors to move away to other institutional arrangements, and

b) Reveal institutions in their communicative variance, not as stable but rather elastic entities.

The purpose of this study is to clarify a number of methodological questions in order to demonstrate that economic theory already provides sufficient resources which will permit the development of an economic theory of institutions as a cultural theory. The important point will be to integrate existing theories – a trans-lateral project.

AN ECONOMIC THEORY OF CULTURE?

Culture is not a clearly definable field; culture always broaches the issue of society intercepting itself (Baecker 2001). Culture does not make definitions but asks: which culture? In the context of what we describe as culture, a society intercepts itself with the question of what it describes as culture. And potentially modifies it (Baecker 2001).

Economists, however, believe culture to be a warranty to be upheld *ceteris paribus*. Rarely do they develop a sense of interpreting economics as a culture in itself. If they do – and institutional economics do so implicitly – then culture is an institutional setting which describes rules of a formal as well as informal type. But this is not sufficient (Priddat 2004a).

Institutional diversification is the term I use for the process which via coupling with communicating networks brings institutions into contexts of self-interception that permit *institutional switches* (instead of gradual, historic *institutional changes* exclusively). To give an example: actors operate in classical consumer cultures (with rules to optimize the price-performance ratio, etc.), but at the same time they move within environmentally-minded cultures which only permit ecologically impeccable consumption. Both rules run in parallel and depend on the respective context. A third rule, that of ecological optimization, is latently present but is applied less frequently; its development to an independent culture is no exclusive process, i.e. in a pure form in contrast to other cultures. We are rather dealing with an *institutional triple* (*or institutional nexus*) whose institutional bases will come into play depending on the circumstances. It would be too unspecific to use the term context for these circumstances. According to the above deliberations we may translate context into network communications; the institution which happens to be in the focus of current network communication would be activated in the *institutional triple*.

According to this description, actors behave like *multiple selves* who on their part activate other cultures in their communicative network relations. Institutions are largely stable, but actors tend to switch their presences (without giving up specific memberships). They operate within an institutional field which comprises many institutions. The regulatory culture they adhere to in each instance is not determined by the rules of the institutions (or only if they follow one of these) but by the surrounding communication (in networks). The culture which we explore in *economics* may then be explained with the help of that "theory of alternating currents in the institutional field" that works with *institutional switches*. Culture in this sense may for example be network communication that functions as a respective selection of institutional validity. Networks, in other words, have the tendency to modify *common belief*. What has so far been clearly accepted as *shared mental model* changes in communication and is subjected to critical scrutiny. Communication in networks (and in the media simultaneously) does not immediately change preferences (although this is a possibility) but *frames*, i.e. the selection range of what actors choose and which rules they follow.

Since North-Simon-actors subscribe to a single *frame*: "follow the rule", communication takes effect in the question whether this rule remains meaningful or significant. But you do not abandon institutions readily; this requires communication which induces many to question the institution itself. It remains stable as long as the number of dropouts remains small. It erodes only if their number exceeds a certain threshold. We may then speak of the role of Granovetter-actors dominating that of North-actors.

Since economic actors operate in many networks simultaneously, their economic activities are determined not by economics (= rationality) but by the contextual influence that is dominant in the respective instance. *Economics may determine what is economically relevant (= efficient). But it does not determine what is relevant.*

In addition, we have the phenomenon that actors adhere to several institutions at the same time – as far as possible (see the above example). What is possible will be agreed via network communication. The research question is whether complex, multi-regulatory (instead of mono-regulatory) institutions will evolve with field quality.

The focus here is not – and this differentiation is important - on communication between institutions but on the triangular communicative figure of actors who move in different institutions at the same time, via the medium of networks. Institutional stabilization would then no longer stand for the focal centering of singular institutions but for a *parallel processing* (again to be differentiated from approaches involving *institutional competition* (Berghe /Höijer 2008)). Interferences between these parallel institutional validities would have to be subjected to further research. Our hypothesis: actors operate opportunistically, depending on dominant rules / institutions, i.e. depending on which have the higher reputation in the networks. A further aspect is, however, that "institutional wealth", i.e. the simultaneous participation in several institutions may be perceived as an indicator of strong appreciation, i.e. of high reputation. Actors may boast a variety of *identity markers*.

But in this case we would give up the implicit structure; institutions would evolve a kind of regulatory governance in their core rule. In their parallel condition in the institutional field they evolve only specific rule foci, or rule cultures, whose potential for change, however, is characteristic of the modernized institutional form. This describes, in other words, the (cultural) competence to move more or less within the institutional field. I do not use the term meta- or supra-institution, since this is not about a new *governance* as a form of centering, but – if anything – communicative *governance*. Earlier we used the term superposition to describe the ability to be present in two or more states / institutions at the same time.

This, however, would mean to explore once again the relations between actor/institutions, actor/decision and decision/context (above all for our subject under consideration, i.e. institutions in the context of institutions).

Institutional economists very nearly overlook the fact *that actors do not operate in only one institution but in several simultaneously* (irrespective of their simultaneous presence in several networks).

Institutional economists study the behavior of individuals in institutions. In doing so they explore the institution under consideration almost exclusively.Their actors operate in several institutions at the same time, which means they have alternatives, ways out, escapes – in Toto, competitors and ambiguities (as to which rules are to apply, which guidelines to be followed). These decisions could not be coped with by one institution alone (unless they are adhered to in the conventional manner, which is empirically frequent but not systematically necessary). But the *tipping point* of change is not envisaged (in a rigidly conventional interpretation of institutions, as if its path dependency were enough to make all participants dependent). D.C. North's theoretical ambiguity of describing institutions as shared mental model on the one hand, and leaving them ambivalent between ideology and communication on the other, reveals his basic commitment to the traditional tenor of perceiving institutions as conventional rule following; we, in contrast, underline the more flexible character of institutions which maintain their validity in a stable condition only if they receive communicative confirmation.[13]Otherwise they undergo rule changes and *exits* of participants, which does not serve to maintain the regulatory warranty stressed by economists.

The culture of economics does not consist in order and path dependency but in emerging institutional diversity. This is hardly surprising if we explain economics as an ongoing risky process whose specific cultural dignity is its risk structure (Baecker 1996). Institutions do not constitute the cultural integration of risky market operations, nor their regulatory structure – something like a socio-legal dynamic compensation; rather, they are specific regulatory arrangements which provide actors with options even in those areas where they would not become active as individuals.

If, therefore, we perceive institutions not as rules and restrictions but as arrangements with a range of options then it is only appropriate to interpret institutions as multiple and communicative emergences, with their own risks. Only in this way will *institutional economics* be imbued with economic dynamics, and not be stylized as a regulatory framework that structures latently *unbounded markets* into paths and trails. Economic science, perceived as culture, constitutes its own interruption or self-interception as a culture (which brings us back to Baecker's suggestion (Baecker 2010)), which enabled us to interpret institutions – erroneously perceived as a cultural moment – as the divergent process of an institutional diversity.

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[13] Interpreting institutions via *common beliefs*, we must not forget that these *beliefs* may be changed through communication if a sufficient number follows the communication. *Beliefs* are not established knowledge but convictions which may be newly intermixed via communication. Perceiving them as *shared mental models*, we must ask what characterizes, and stabilizes, the element of *share*.

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