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Changing the Rules: Interests, Organizations, and Institutional Change in the U.S. Hospitality Industry

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North (1990, 3) defines institutions as "the rules of the game in a society or, more formally, the humanly devised constraints that shape human interaction." Nee and Ingram argue (in this volume) that this view of institutions is a promising base for building the new economic sociology. Combined with the simple and powerful behavioral assumption of rationality, the institutions-as-constraints position can explain a wide range of phenomena ranging from honesty in eleventh-century long-distance trade (Greif 1993), to modern business-government relationships (Hillman and Keim 1995).

As the number of demonstrations of institutional influence on action grows in sociology and other fields, the importance of explaining the creation and change of institutions increases. Complete institutional explanations require understanding not only the effect of institutions but also the origin of institutions (Brint and Karabel 1991; Alt and Shepsle 1990). Since institutions define the opportunities and incentives that determine outcomes for actors, and because institutions are humanly devised, we should expect actors to try to influence institutions. If institutions are the rules of the game that structure interaction, we should consider also a "supergame," where the rules themselves are the object of competition.

In this chapter, I examine the influence of organizations on institutional change. I argue that institutional dynamics and organizational dynamics are closely related and, in particular, that new organizational forms are an important source of institutional change. To illustrate this idea, I consider how hotel organizations affected change in the institutions in the United States related to training and education in the hospitality industry. There were a number of alternatives for the training and education of employees in this industry. The biggest question was whether such training should be provided by trade schools to low-level employees, such as clerks and waitstaff, or by universities to managers. The first alternative was favored by the traditional independent hotel and the second by the emerging hotel chains. Ultimately, university training prevailed.

ORGANIZATIONS AND INSTITUTIONAL CHANGE

Individuals, organizations, and other social groups are all affected by institutions and therefore have an interest in changing institutions in their favor. However, as Hannan and Freeman (1989, 3) observe, "almost all modern collective action takes place in *organizational* contexts; and organizations are the main vehicles for action in modern society" (emphasis in original). Therefore, organizations are a likely place to begin an explanation of institutional change.

North (1990, ch 9; 1993) also identifies organizations as the principal agents of institutional change. According to North (1993, 1), the key to institutional change is the generation and diffusion of skills and knowledge by competing organizations. "Competition in the overall economic setting of scarcity induces entrepreneurs and the members of their organizations to invest in skills and knowledge. Whether it is learning by doing on the job or the acquisition of formal knowledge, the key to survival is improving the efficiency of the organization relative to that of rivals" (3–4). Since the stock of knowledge in a society is the "deep underlying determinant of the performance of economies and societies . . . learning by individuals and organizations is the major influence on the evolution of institutions" (8).

North's basic assertion, that economic competition leads to investments in knowledge and that the advancement of knowledge leads to institutional change, is persuasive. However, there is a serious problem with this learning-based explanation of institutional change: it is grounded in a flawed micro theory. North's view of organizations, based on the economic theory of the firm, mischaracterizes the process by which organizations learn and generate knowledge. The root of the problem is that North, like most economists who talk about organizations, overestimates the capacity of organizations to change. North like other organizational and evolutionary economists holds a Lamarckian view of organizational change, that organizations can adapt to changes in their environment and respond to opportunities presented by new knowledge (Nelson and Winter 1982).

However, organizational sociologists have shown that the assumption of Lamarckian change is not supportable. Both internal and external factors make it difficult for organizations to change in substantial ways—organizations are inertial. Thus, change at the macro level often occurs when an organizational form replaces another, rather than through the transformation of existing organizations (Hannan and Freeman 1977). This Darwinian selection of organizations has implications for North's theory of institutional change. The process of institutional change begins, according to North (1990, 86), when an innovation through learning (or some other change in relative prices) causes one or more parties to an exchange to perceive that they can do better by altering their agreement or contract. Yet, if existing organizations cannot reliably change, they are unlikely to be the actors that exploit new knowledge and drive institutional change. Existing organizations cannot reliably benefit from a new institutional arrangement that facilitates the utilization of new knowledge because they cannot reliably reorganize themselves to incorporate this new knowledge or to fit into the new institutional arrangement. Rather than existing organizations, I argue, it is new organizations representing new organizational forms that exploit new knowledge and become the agents of institutional change.

Organizational Inertia

It is obvious that organizations are inertial to some degree at least. If they were perfectly adaptable, we would never see existing organizations fail or new ones founded. Still, the myth of perfectly adaptable organizations persists, so it is necessary to outline the argument for inertia. Hannan and Freeman (1984, 149) summarize the causes of inertia:

> Some of the factors that generate structural inertia are internal to organizations: these include sunk costs in plant, equipment, and personnel, the dynamics of political coalitions, and the tendency for precedents to become normative standards. Others are external. There are legal and other barriers to entry and exit from realms of activity. Exchange relations with other organizations constitute an investment that is not written off lightly. Finally, attempting radical structural change often threatens legitimacy; the loss of institutional support may be devastating.

The following example illustrates the concept of inertia. Floating Point Systems, which, prior to 1980, was the dominant firm in the array processor industry (array processors enhance the computational speed of mini- and mainframe computers), discovered a new architecture that would represent a quantum improvement in the computational speed of its products. North, and others who believe in the capacity of organizations to change in order to utilize discoveries, would have predicted that Floating Point would successfully introduce a product based on the new technology. But Floating Point did not adopt the new technology it had discovered. One former Floating Point executive explained his company's failure to exploit its discovery with an observation that supports Hannan and Freeman's identification of intraorganizational political dynamics as a source of inertia: "There was a lot of interest in preserving personal wealth and less interest in taking risks" (Neal 1984). Another explanation for a failure of this type might be that investments in old technology result in a cognitive commitment on the part of executives to that technology, distorting their evaluation of the new technology. Still another explanation is that markets and technologies are so complex that executives cannot reliably predict what will be effective, so they simply stay with the old familiar technologies.

Importantly, the behavioral assumption at the heart of the inertia argument, bounded rationality, is the same one used by North and other so-called new institutional economists. Cognitive biases account, for example, for the failure to disregard sunk costs (Kahneman, Slovic, and Tversky 1982). The legitimacy attached to organizational structures may result from attempts to make sense of a complex world with limited cognitive capacity. Moreover, if individuals were perfectly rational, any organizational change that would improve the aggregate level of utility of affected actors (any change worth making) would generate a surplus that could be divided in such a way that all parties would benefit from the change, thus eliminating resistance from political coalitions and exchange partners. So, differing views on organizational change do not result because new institutional economists and organizational sociologists assume different things about individuals—both recognize that individuals are boundedly rational. However, sociologists have gone much further in considering the implications of this recognition for complex forms of social organization.

Evidence that change puts organizations at risk of failure supports the inertia argument. In a study of organizational change among Finnish newspapers, Amburgey, Kelly, and Barnett (1993) found that changes in a newspaper's content and frequency of publication caused an immediate increase in the likelihood that the organization would fail, although the effect decreased with time. Moreover, there is important evidence in support of the inertia argument in the work on the

age dependence of organizational mortality. It is often argued that selection pressures that force failure apply mostly to young, small organizations but that large, powerful (and by implication, important) organizations adapt to their environment (Scott 1981, 204). Therefore, it is argued, organizations become less likely to fail as they grow older (Dosi 1995). The organizations subject to inertia are quickly weeded out, while those that "get it right" and avoid inertia grow larger, more powerful, and more robust as they age. This prediction is in direct conflict with the inertia argument—if inertia holds, organizations should become more antiquated and therefore more likely to fail as they age. The age dependence of organizational mortality has as a result been the subject of a vigorous empirical debate. The best recent evidence indicates that organizations are more likely to fail as they age, supporting the inertia position (Barron, West, and Hannan 1994).

Organizational Learning and Institutional Change in the Face of Inertia

If institutional change occurs because of advances in knowledge, then we must consider the effect of organizational inertia on the type of knowledge that organizations will seek. Since inertia makes it difficult for organizations to incorporate the new technologies and modes of exchange that drive institutional change, existing organizations are threatened rather than benefited by such advances in knowledge. We should therefore expect existing organizations to work to improve their efficiency through marginal improvements in existing modes of operation, rather than through more radical innovations that threaten their technical competencies and established organizational processes. This bias in organizational learning toward marginal improvements on old ways of doing things causes an organization's interests to be most closely aligned with existing institutions, which results in support for the status quo. Having been founded to exploit a given institutional framework, and with a limited capacity to change, existing organizations are favored by the stability of institutions. Therefore, existing organizations are a source of resistance to institutional change. Radical institutional change would render organizations designed to exploit an existing institutional framework obsolete. If such organizations are constrained from changing to conform with the new institutions, they will resist institutional change. Indeed, because existing organizations have an interest in institutional stability, they are an important source of the path dependence of institutions that North (1990) observes.

March (1991, 73) categorizes organizational learning efforts in a way that is applicable to this discussion of institutional change. He notes that organizations may engage in "exploitation" of existing knowledge and competencies or in "exploration" for new knowledge and competencies. The inertia argument suggests that organizations should favor exploitation over exploration, and March in fact argues that organizations favor exploitation, without explicitly considering inertia. He points out that "compared to returns from exploitation, returns from exploration are systematically less certain, more remote in time, and organizationally more distant from the locus of action and adaption." The implications of exploitation described by March support my argument that most organizational learning leads to path dependence and stability rather than to institutional change: "Each increase in competence at an activity increases the likelihood of rewards for engaging in that activity, thereby further increasing the competence and the likelihood."

If it is true that learning by existing organizations is generally limited to improving their existing activities, and therefore has minor implications for institutional change, what is the source of the new knowledge that generates significant institutional change? I argue that *new* (or even gestating) organizations are the source of this knowledge. New organizations are relatively free of the constraints that prevent existing organizations from benefiting from new knowledge. Until it is founded, an organization does not have a set organizational structure, a system of incentives, a network of relationships between employees, or political coalitions. Its founders are free to design all of these things to be congruent with the most attractive technological and operational activities. The managers of a new organization do not have investment histories in that organization that might lead them to fail to recognize or be biased against new opportunities. Thus, new organizations are relatively free of inertia. Some former Floating Point executives, for example, frustrated with Floating Point's failure to utilize the promising new technology it had developed, started a new company called Star Technologies. Since the executives of the new company did not have to rely on the old architecture to protect their positions, the new company could be designed to facilitate the introduction of the new array processor architecture. Star Technologies introduced the new architecture and within a few years, captured more than half the array processor market.

Because a new process or product that is an improvement over what existed before is valuable to a new organization designed to utilize it, the new organization is a likely source of pressure to change institutions to facilitate the new process or product. For example, such a new organization as Star Technologies might attempt to change U.S. government purchasing policies or the curricula of computer science schools to facilitate the market penetration of the new array processor architecture. Organizations that predate the new process or product may not be able to change to incorporate it due to inertia and will resist institutional changes that facilitate its use because such changes help new competitors and probably make it more difficult for existing organizations to use the processes and market the products they rely on. So, Floating Point Systems could be expected to resist attempts by Star Technologies to change U.S. government purchasing policies and the curricula of computer science schools because such changes would inhibit the marketability of the old array processor architecture that Floating Point relies on.[1]

INSTITUTIONAL CHANGE IN THE EDUCATIONAL SYSTEM OF THE U.S. HOSPITALITY INDUSTRY

The rest of this chapter focuses on a historical case to illustrate the idea that significant institutional change is championed by new organizations and resisted by existing organizations. I follow recent sociological works on institutional change in combining structural and historical analysis (Starr 1982; DiMaggio 1991; Brint and Karabel 1991). DiMaggio (1988) suggested that explaining in-

stitutional change requires attention to interest and agency, an idea consistent with the rationality assumption of the new institutionalism as expressed by North and others. Analysis of the organizational and institutional structure of industries, economies, and societies permits the identification of the institutional interests of actors and the power they have to pursue those interests. Historical analysis facilitates the connecting of directed human action to structural outcomes (Starr 1982, 8), a connection that must be made to support an account of institutional change based on rationality.

In presenting the case of institutional change in the educational system of the U.S. hospitality industry, I hope to illustrate the process by which new organizations cause institutional change. The new organizations in this case are hotel chains, which were a fledgling organizational form in the first quarter of this century. (There were three hotel chains in 1896, and twenty-five in 1918. In 1996, there were more than five hundred.) If new organizations do account for institutional change, they must somehow overcome the entrenched interests of older organizations, so I will also analyze the case so as to generate grounded theory about what makes actors effective in attempts to change institutions.

The Labor Problem in the U.S. Hospitality Industry

Complaints of a shortage of labor were one of the most common topics of discussion at gatherings of hoteliers in the early part of the twentieth century (AHMA Archives). The rapid growth of the industry combined with the lack of a training system for hotel employees created the problem (Inman 1993). With the outbreak of World War I, it became a critical problem. Previous to that, the largest hotel organizations had relied on employees trained in European hotel schools and in the apprenticeship system of the European hospitality industry to fill minor executive roles. These employees provided training for subordinates (AHMA Archives, IV 70). In 1914, many of these employees returned to Europe, and the supply of well-trained immigrants dried up.

After the war, the crisis continued. New U.S. immigration policies made it much more difficult for Europeans to enter the country. The labor problem was so severe that there were calls for the Hotel Association of New York City to use its influence to get the immigration restrictions eased (AHMA Archives, VI 27). The few European employees who could be acquired were no longer as valuable because the "Red Scare" caused the public they served to view them with suspicion. At least one hotel chain (the Boomer-Dupont System in New York City) went so far as to require foreign employees to study "Americanism" and to wear red, white, and blue ribbons to disassociate themselves from "Bolsheviks" and other "undesirable aliens" (AHMA Archives, VI 29).

The whole hospitality industry suffered from this shortage of labor, but the problem faced by the early hotel chains was even more notable. These organizations needed not only the traditional hotel employees but also a new type of hotel employee: the professional manager. Chandler (1977, 1) notes that management by a hierarchy of salaried executives is one of the defining characteristics of the modern multiunit business enterprise, of which hotel chains are an example. Hotel chains rely heavily on salaried executives or professional managers, and are (typically) larger and more geographically dispersed than independent hotels.

Therefore, training and personnel practices, planning and coordination, and control of employees are important to the success of a hotel chain, which must be "managed," as opposed to merely operated.

Alternative Solutions to the Labor Problem

There are four groups that might reasonably be expected to pay for the training of employees in an industry: the state, the industry, individual organizations, and the employees themselves. The U.S. hotel industry ultimately pursued a centralized training system. After failed attempts to convince federal and state governments to support this system, the industry itself provided the necessary financial support. While this chapter focuses on this system and its creation, we turn first to a brief discussion of why two alternative systems, in-house training and apprenticeship, were not adopted by the industry.

Hotel organizations could have responded to the shortage of labor by assuming the costs of training. They could have established in-house training programs, and some hotel chains did. The Fred Harvey System had such a program dating back to the late nineteenth century. The product of this system, the Harvey Girl, became a part of American folklore and was immortalized in a mid-1940s MGM movie (Moon 1980). United Hotels and Statler Hotels also attempted in-house training (Inman 1993). The reason that in-house training did not become institutionalized throughout the industry is probably because of the high mobility of labor among hospitality organizations. If employees were likely to change employers frequently, then any hotel organization that incurred the cost of their training would end up paying to train someone else's workers. A 1926 advertisement for the Holman Hotel in Athens, Georgia, with its boast that the hotel's manager was "Statler Trained," illustrated this risk (*Hotel Red Book* 1926, 124).

It might also have been possible to put the cost of training on the employee, through some form of apprenticeship system. After all, such a system was used with great success in Europe. The evidence, while not conclusive, seems to indicate that the apprentice system was a victim of the isolationist sentiment that seized the United States after World War I. In a February 29, 1936, letter to a European hospitality educator, Dean Howard Meek of Cornell's hotel school claimed that apprenticeships were not "the American way." He claimed that the apprentice system had been tried but that very few hotels would take students on an apprenticeship basis (CUA, 28/1/1803, 1–6). It is not obvious why apprenticeships should be thought (then and now) to be "un-American" but it is interesting to note that while many industries in Europe use apprenticeship systems, this is not the case in the United States.

Another reason why apprenticeships were not adopted is also suggested in Meek's letter. He asserted that Cornell was "trying to lay the groundwork for the production of well-qualified, well-rounded, real executives" and that European executives trained in the apprenticeship system were found to be too "domestic and service," as opposed to business, oriented. So, it may be that apprenticeship was capable of producing the traditional hotel executive but incapable of producing the professional manager that U.S. hotel chains were demanding in increasing quantities. This argument makes sense when the demands on traditional hotel executives are contrasted with those on hotel chain managers. An apprentice in a hotel may learn about service, manners, and patchwork furnace repair but cannot reasonably be expected to absorb the operational and strategic demands of a multiunit chain. Further, the proprietary information that a chain would have to disclose to an apprentice manager would discourage the use of an apprenticeship system.

The remaining alternative for training hotel employees was some kind of centralized system, but this raised two questions: Who would pay for it? and What type of training would be provided? Hoteliers were united in their hope that government would foot the bill. However, there was a critical disagreement about what type of training should be provided. The vast majority of hoteliers in the United States immediately after World War I operated small, independent hotels. These hoteliers wanted practical training at a level below college for clerks, waitstaff, and housekeepers. The small number of hotel chain operators favored university degree programs that would produce professional managers. This conflict between new and existing organizations with respect to institutional preference supports my theory in that (the new) hotel chains were championing a radical change in the industry's system of education to train a new type of worker, while (the existing) independent hoteliers wanted marginal improvements in the educational system, to train more of the workers hotels had traditionally relied on. The resolution of this conflict is the story of institutional change in this industry.

The History of the Educational Project

The earliest specific suggestions for an industry-supported educational system for hotel employees began just after the turn of the century. *Hotel Monthly* for October 1903 noted that a proposal had been made at the recent International Stewards Association (ISA) convention to establish a chair of hotel education at the Tuskegee Institute in Alabama. That same year, the editor of *Hotel Monthly*, John Willy, began campaigning for technical schools for hotel workers, suggesting that "perhaps a society of hotel employers may be formed covering all America, to contribute, say, one-tenth of one percent of their payroll" (Willy 1903).

In 1907, the ISA announced plans to build a hotel training school near Indianapolis. This plan was widely endorsed by hotel associations, but attempts to raise funds were unsuccessful (AHMA Archives, II 27). Also in 1907, John McFarlane Howie, proprietor of the Touraine Hotel in Buffalo, claimed to have conceived the idea of establishing chairs of gastronomy at state universities.

Between 1911 and 1916, state hotel associations gave increasingly more attention to the labor problem, and their members became convinced that "the best solution lay in an educational program which should be handled on the national level" (AHMA Archives, IV 68). In 1911, both Columbia University and New York University offered courses in home economics and accounting that were promoted as being appropriate for hotel employees. The private Lewis Hotel Training School, which is still in existence, was established as a correspondence school in 1916, later becoming a residential school in Washington, D.C.

The labor shortage that crippled hotels in the period after World War I also affected other industries, and in response, the federal government engaged in some postwar retraining efforts. Specifically, the Smith-Hughes Act provided federal funds for vocational training. This caught the attention of hoteliers, and there were a number of proposals for the hospitality industry to acquire a share of these funds by establishing training programs in high schools.

The various proposals for hotel education were presented at the 1920 meeting of the American Hotel Association (AHA). Professor Flora Rose, codirector (with Martha Van Rensselaer) of the School of Home Economics in the College of Agriculture at Cornell, made the case for a degree program at Cornell. John Howie then took up the cause, claiming that there was no reason for the AHA to raise a million dollars to finance a training institute when public universities could produce hotel executives capable of training their own workers. Those favoring nonuniversity programs also made their case:

> H.J. Bohn [the editor of *Hotel World*] . . . took the floor to plead for AHA support for some sort of lower level training school. Gilbert Cowan, President of the ACA [American Caterers Association], urged that the hotelmen help the caterers establish a school, especially for cooks and bakers, in the old Calumet Club in Chicago. Edwin Piper, of the Lewis School, sought official recognition for a school already flourishing, boasting of its fifty textbooks on hotel subjects, of the thousand students enrolled in its correspondence courses, and of the residential part of the school, opening in Washington, D.C. (AHMA Archives, VI 8).

The response of the convention was to adopt a resolution stating that since the labor situation had grown increasingly worse since 1914, and since the use of Smith-Hughes funds for vocational training in other fields was already leading bright young people away from hotel careers, the AHA approved and endorsed the proposition to found a National Hotel Institute. The form of this institute was left undetermined, with a committee of twenty-one created and empowered to investigate and act on behalf of the AHA on the matter.

The membership of this committee of twenty-one is one of the important determinants of the outcome of the education debate. On the committee were the presidents of the largest hotel chains in the country, including John Bowman (Bowman Hotels), Lucious Boomer (Boomer-Dupont Properties), Frank Dudley (United Hotels), Eugene Eppley (Eppley Hotels), Ford Harvey (Fred Harvey Co.), and E. M. Statler (Statler Hotels). In fact, ten out of twenty hoteliers on the committee, including the chairman, were the heads of hotel chains (the twenty-first member was from the hotel press). This was impressive, given the fact that there were only twenty-eight hotel chains in 1920, while there were more than twenty thousand independently owned hotels. This meant that a hotel chain was more than seven hundred times as likely to be represented on the committee that would determine the form of education in the hotel industry than an independent hotel.

Without officially disregarding alternative options, the education committee immediately concentrated its efforts on establishing a university degree program for hotel managers at Cornell University. The connection with Cornell grew out of a friendship between John Howie and Flora Rose and Martha Van Rensselaer of Cornell's Home Economics Department. By 1921, that department was already offering some institutional management courses that seemed appropriate as

building blocks for a hotel management program. Frank Dudley, the head of United Hotels (at that time the largest chain in the country), led the negotiations with Cornell. Albert Mann, the dean of Cornell's School of Agriculture, within which the hotel program would be operated, was most concerned that the money to operate the program should come from sources outside the university. Mann also wanted to establish a curriculum that minimized the number both of new courses and of courses outside the School of Agriculture that would be needed to satisfy hotel degree requirements.

For the AHA representatives, the issues were the curriculum and the association of the hotel program with home economics. Chain operators such as Lucious Boomer were adamant that the program should have a heavy emphasis on business courses. The curriculum first proposed by Cornell included three credit hours of accounting. When the program began in the fall of 1922, nine credit hours of accounting were offered, and six more hours were added in 1924 (CUA, 1/28/1803, 1–1). The concern over having hotel students under the control of the home economics department appears to have been the result of sexism. The hospitality industry was a pioneer in opening up job opportunities to women, but some hoteliers were averse to having the best and brightest young hotel managers study courses designed for women in a department operated by women (Inman 1993). Cornell did not respond to requests to establish the hotel program in another department, but it did agree to hire the strong-minded hotelier, Howard B. Meek, the AHA representatives recommended to head the program. From the beginning, Meek disregarded the vision of home economists and liberal educators and instead worked to establish the completely specialized, practical curriculum favored by chain operators such as Boomer.

The AHA originally hoped that the Cornell program would be financed by the New York state government. One reason for expecting such an outcome was that Frank Dudley, a member of the AHA committee, was a former state legislator, and his Ten Eyck hotel in Albany was a political center. AHA representatives and Dean Mann traveled to Albany in January 1922 to lobby the legislators, but their efforts were unsuccessful. The program nevertheless began that fall, with money put up by Dudley, Statler, and other chain owners.

From the beginning, Cornell's program had close ties with hotel chains. Even before the program accepted students, relationships with five hotel chains were established for training tours (CUA, 1/28/1803, 1–1). The chains also supported Cornell's program by paying for students to attend AHA annual meetings, lending executives to give lectures, and providing equipment (CUA, 1/28/1803, 1–6). Ninety percent of the summer placements of the first class were with hotel chains. Illustrative of the relationship of Cornell's program to the hotel chains is the June 17, 1924, letter from Professor Meek to United Hotels, in which he stated that he "wanted particularly to let [United] have the pick of our class" (CUA, 1/28/1803, 1–3). A February 24, 1936, letter from Meek to Walter I. Hamilton, an executive with Boomer-Dupont Properties, describes the careers of nine Cornell graduates, five of whom were executives with hotel chains. The January 4, 1935, issue of *Hotel and Catering Weekly* refers to the 232 living graduates of Cornell's program, 109 of whom held executive positions in hotel organizations. Today, the top executives of many hotel chains, including Holiday Inn, are graduates of Cornell's hotel school.

Other schools were also considered for hotel programs. At the 1922 AHA meetings, Dudley told those present that negotiations were "pending" with Harvard, Stanford, the University of Pennsylvania, and the state universities of Illinois, Iowa, and California (CUA, 1/28/1803, 1–1). Another group within the AHA had made a serious effort to establish a hotel school at the University of California, Berkeley, at the same time the Cornell program was being established, and Berkeley actually offered courses designed specifically for hotel students in the fall of 1921, a whole year before Cornell, making it the first university to do so. The first major hotel program established after Cornell's was at Michigan State University, and it is even now considered second only to Cornell's in the field. There are now more than one hundred four-year degree programs in hospitality management. Since 1922, these programs have been producing the type of manager that hotel chains require, but for which independent hotels have no use.

THE INGREDIENTS OF A SUCCESSFUL INSTITUTIONALIZATION PROJECT

The preceding account reveals the conflict of interest that existed between the new hotel chains and the older independent hotels. The question of how the hotel chains were able to change the institutions of the hospitality industry in their favor is central to my argument about institutional change—how do new organizations change institutions at the expense of older organizations that are more established, have greater legitimacy, and are more plentiful? One historian, amazed by the success of the hotel chain operators in establishing their educational program, wondered incredulously whether the authorities were "moved by the opinion that AHA educational policy should be determined by the heads of large groups of hotels located in large cities, despite the fact that most member hotels were then, and would continue for decades to be, small houses located far from the roaring streets of Manhattan" (AHMA Archives, VI 232–33).

Institutionalization projects are attempts by institutional entrepreneurs (actors who actively pursue their interests through institutional change) and their allies to establish the public theory that serves their interests (DiMaggio 1988, 14–15). In this instance, the chain operators engaged in a successful institutionalization project in the battle over education. Theirs was largely a political effort, requiring them to persuade hoteliers, governments, and universities that degree programs for hotel managers should be created and supported. By looking at this particular institutionalization project as an instance of collective action and by examining the conditions that allowed the upstart chains to overcome the interests of the much larger group of independent hotels, we can learn something about the nature of institutional change more generally.

Institutional Change as Collective Action

The reason that studies of institutional change often use the organizational form as a unit of analysis (as in this chapter, or as in DiMaggio 1991 on art museums, and Brint and Karabel 1991 on community colleges) is that an organizational form, that is, organizations with similar structures and strategies, represents a group of actors with the same interests with respect to the institutional framework. If an institution favors one organization, it favors other organizations of the same type. Thus, the organizational form represents a nexus of interests and is therefore a useful means of categorizing the actors subject to (and affecting) the institutional framework.

An institutional change that favors an organizational form favors all organizations of that form regardless of their contribution to the change and is therefore a public good (an asset that is not exclusive to those who contribute to its creation). Organizations of the same type can benefit from cooperation to change institutions in ways that favor them over other organizational forms with which they compete—hotel chains may cooperate to establish an educational system that favors them over independent hotels, and lumber producers in Washington State may cooperate to win import restrictions that favor them over Canadian lumber producers. However, since the products of such cooperation (the institutional change) benefit all hotel chains and all Washington lumber producers, it is not clear why any individual organization should contribute to the institutionalization project. This is the problem of collective action (Olson 1965).

Education of managers is certainly a public good for the hospitality industry. The stock of managers is a resource upon which all organizations in the industry may draw. However, some organizations benefit more directly than others. Hotel chains require professional managers but small, independently owned hotels do not. The process by which support for university hotel schools was mustered despite the apparent lack of interest on the part of independent hoteliers and the temptation for chain operators to free ride must be considered to understand why this instance of collective action was successful.

In order for university hotel schools such as Cornell's to become the institutionalized form of education in this industry, they needed two things: First, they needed the sanction of hoteliers, as expressed by the AHA. Why would independent hoteliers sanction university education for managers when their interests were served by a much more practical level of training? Probably because they were convinced that the university project would bring them something they desired more strongly than competent employees: the status of belonging to a profession. (The profession-building imagery used by those who tried to establish university hotel schools will be discussed in detail in the analysis of power and coalition building that appears later in this chapter.)

Second, they needed money. The problem of collective action with respect to gaining financial support for the education of managers is even more compelling. Hotel organizations would have the opportunity to hire university-educated managers even if they did not make a financial contribution to establish the educational program. It would seem rational for every hotel organization to have withheld financial support for the education of managers, in the hope of being able to free ride on the contributions of others. One solution to this free-rider problem might have been for a corporate body, such as the AHA, to coerce contributions from its members (Coleman 1990). But the AHA was not in a position to do this. Motions supporting the educational project made at the AHA annual meetings were supported by the membership, but always with the stipulation that the AHA make no financial commitment (AHMA Archives, VI 9). The problem was that the AHA had a heterogeneous membership, and there were rifts not only between chain hotels and independently owned hotels but also between geographical regions. Its existence was tenuous enough that a demand that members support a university educational project, especially one that was to start in the Northeast, would probably have destroyed the AHA.[2]

Since coercion was not feasible, the champions of university hotel schools had to find other means of financing. There were a number of campaigns to raise the necessary monies. As early as March 1906, a letter to the editor of the *Hotel Monthly* appealed to hoteliers to put up "a hundred dollars each toward establishing and maintaining a school for educating young men and women for hotel work." In 1909, the International Stewards Association established a committee to raise the $250,000 necessary to establish a school of cookery and food service (AHMA Archives, II 27). In November 1921, Frank Dudley, then chairman of the AHA's education committee, launched "a historic education fund-raising campaign, the like of which the hotel world had never seen and may never see again" (AHMA Archives, VI 111).

These campaigns were designed to solicit funds from a broad cross section of hotel organizations. Considering the free-rider problem mentioned earlier, it is not surprising that while these campaigns received many promises of contributions, they ultimately raised very little money (AHMA Archives, II 27). Many hoteliers liked the idea of an educational program but wanted someone else to pay for it. When efforts to raise money from the general hotel community failed, the chains had a simple choice: to finance the program themselves (and allow smaller organizations to free ride) or to give up the idea of university education for hotel managers. The eventual solution to the financing problem reflected the fact that university hotel education programs promised to benefit the large hotel chains much more than other hotel organizations. Thus, the large chains apparently thought it was worthwhile to incur the entire cost of establishing the Cornell program. The significant contributions to the educational fund were made by John Bowman, Lucious Boomer, Eugene Eppley, E. M. Statler and Frank Dudley—all presidents of large hotel chains (CUA, 28/1/1803, 1–44).

Interests, Coalitions, and Other Sources of Power

DiMaggio (1988) has argued that institutional change often requires coalitions of actors. Corresponding interests are a good basis for building coalitions if free-rider problems such as the one discussed in the preceding section can be overcome. Building coalitions is also facilitated by the ability of actors to present their interests as altruistic and by the consistency of proposed institutions with a society's basic values. An important reason for both of these coalition-building advantages is that they increase the likelihood of finding actors who share interests. For instance, if an institutional entrepreneur were organizing a coalition to establish an institution that defended a nationalistic sentiment (an example of an interest that is both altruistic and consistent with basic values in society), it should be easier for that person to find sympathetic others than if the institution promised only to make the institutional entrepreneur wealthier. Further, institutional entrepreneurs who champion altruistic interests and interests consistent with societal values have rhetorical advantages. Alexander and Smith (1993) suggest that there is a discursive structure of civil society, a democratic (and counterdemocratic) code that can be used to legitimate political activity—although in an important difference from the argument made here, they do not see the classifications of actors and actions according to such discourse as subject to debate and strategic maneuvering.

Applying these ideas about coalitions to the institutionalization of education in the hospitality industry begins with the recognition that the hotel organizations were divided into two (homogenous) groups. The hotel chains shared an interest in a university-level program to produce professional managers. Independent hotels had no use for professional managers but shared an interest in a program that would produce lower-level employees such as clerks, waitstaff, and housekeeping staff. So, it is not surprising that the owners of the early hotel chains cooperated to bring about university education for hotel managers. What has to be explained is how they were able to overcome the competing interest of the more than twenty thousand independent hoteliers.

The most direct determinant of the ability of chain owners to influence the institutionalization of an educational program was their domination of the AHA's education committees. As noted earlier, half the twenty-one members of the original committee were chain executives. Subsequent committees, which likewise were appointed by the AHA's president were smaller (nine and seven members), but chain executives always had about half of the seats. Further, the chairman and the most active members were in every case chain executives. One reason for this overrepresentation of chain executives may have been that since they employed professionals to manage their chains, they were less involved in the day-to-day operation of their organizations and therefore had more time to participate in political and professional affairs than the proprietors of independent hotels. It may also be that it was easier for the smaller group of chain operators to recognize and act upon their shared interest in professional education. It is surely easier to manage a coalition of twenty-eight actors (the number of hotel chains in 1921) as opposed to one of twenty thousand (the number of independent hotels). And although independent hotels were homogenous in terms of their need for lower-level employees, they were heterogenous in a number of other ways. Their different geographic locations affected what they wanted from an educational program. The independent hotels were different in terms of size, age, and quality. These differences may have inhibited their ability to cooperate to establish an educational program for lower-level employees.

However, the success of the chain operators was not simply a result of the failure of independent hotel owners to organize around their interests. It can be argued that independent hoteliers were co-opted: they were enticed to support the university-level educational program by its promise to provide them with status. One of the most effective strategies employed by the chain operators was their emphasis on this promise. By arguing that professional status was the purpose of the university-level educational program, chain operators could seem unselfish and supportive of the interests of all hoteliers. Status was a widely shared interest around which it was possible to rally the diverse actors in this industry.

Evidence of the growing importance of professional status to hoteliers was the election of E. M. Tierney to the AHA presidency in 1921. As an industry observer noted: "Coming to the AHA Presidency just when hotelmen began to dream of college degrees as a means of lifting their occupation to professional status, Tierney's supporters could recall dozens of his well publicized speeches in which he begged hotelmen to think and act as proud professional men, and he was reportedly the first college graduate to preside over that organization" (AHMA Archives, VI 83). Tierney recognized that the educational program being pushed by the chain operators was the surest means of raising the status of hoteliers. He gave Frank Dudley extensive powers over the establishment of the educational program when he put him in charge of a nine-member education committee, recognizing at the time that this appointment might be the most important decision of his administration (AHMA Archives, IV 93).

The dreams of independent hoteliers regarding increased professional status are illustrated in the vision of John McF. Howie, the only independent hotelier who was active in establishing the hotel school at Cornell and the man credited with the idea for hotel education at the university level. Howie disagreed with Lucious Boomer and other chain operators on what Cornell's curriculum should be. Howie (himself capable of quoting Shakespeare "by the yard") favored a liberal arts curriculum for the hotel students. He felt they should be educated in a manner likely to add polish (and thereby presumably raise the status of all hoteliers) rather than to increase their business acumen. In later years, Howie was extremely bitter about what the school had become at the hands of the chain operators. In 1945, shortly before his death, he observed, "It is sad that a great educational institution can prostitute itself for a million dollars" (CUA, 28/1/1803, 1–46).

There were of course other factors that helped the chain operators establish the institutional framework that favored themselves. Perhaps most important was the fact that they were richer than other actors. When alternatives for financing Cornell's hotel school failed to come to fruition, they contributed the necessary money themselves. Influential chain owners such as Dudley and Eppley each gave $25,000 in 1922, and other chain owners made similar contributions. E. M. Statler's will provided one million dollars to be used in "research work for the benefit of the hotel industry of the United States" (CUA, 28/1/1801, 5–14). Chain operators also had social networks that increased their power (Granovetter 1991). Frank Dudley was a former state legislator in New York, and the perception that this increased his ability to obtain state funding for the Cornell project was one reason he was given authority. In 1937, F. A. McKowne, then president of Statler Hotels, was able to convince National Cash Register (NCR) to donate equipment to Cornell for use in teaching accounting to hotel students.

CONCLUSION

This chapter enriches North's ideas (1990; 1993) about how organizations affect institutional change. I do not differ from North in the identification of the increase of knowledge as the engine of institutional change, but I place greater emphasis on *which* actors affect institutional change and how they do so. I have argued that new organizations are the actors that change institutions. Existing organizations are prohibited by inertia from implementing the kind of organizational change that creates the impetus for institutional change. Existing organizations protect their entrenched interests in old ways of operating by resisting institutional change.

The case of institutional change in the educational system of U.S. hospitality supports this view. Around the turn of the century, a new organizational form, hotel chains, was introduced. This organizational form had different requirements of the institutional framework than the long-established independent hotels—in particular, hotel chains required educated professional managers. A political contest for institutional control between chain entrepreneurs and independent hoteliers ensued. The chain entrepreneurs were favored by a decision-making structure that relied on committees they dominated, giving them greater influence in the industry association than their numbers warranted, and they were also able to appeal to the dreams of professional status held by both chain and independent hoteliers. Ultimately, the institutions that favored hotel chains were established.

There are other examples in the literature of the role of new organizations in changing institutions. DiMaggio (1991) found that the champions of a new form of art museum were instrumental in changing institutions surrounding museums, and Brint and Karabel (1991) analyzed the significant role that those who favored a new type of community college had on the institutions of U.S. higher education. The importance of this type of radical, political institutional change in relation to the incremental change resulting from learning by doing that North describes is still to be determined. Perhaps the two views could be incorporated in a dynamic model of the coevolution of institutions and organizational forms. Empirical studies testing generalizations from case studies about what makes for successful institutionalization projects would be useful. Certainly, there must be many instances where new organizational forms fail to change institutions, and these failures should be compared to the successes.

The conflict between new and existing organizational forms over institutions may be a specific case of a more general explanation for institutional change: that conflict over institutional change is rooted in the implication of institutions for the distribution of resources. North's attention to the distributional consequences of institutions is consistent with this general explanation, which is developed in more detail by Knight (1992). Even if this is true, however, I think that the conflict in interests between new and existing organizational forms has a central role in a more general theory of conflict and institutional change. Organizational forms are representative of the congealed distributional interests of individuals and therefore provide a systematic, a priori way to approach conflict over institutions.

Finally, besides offering a more realistic view of organizational action to North's theory of institutional change, the arguments in this chapter also inform North's important discussion of "adaptive efficiency" (1990), which is "concerned with the kinds of rules that shape the way an economy evolves through time" (80). North recognizes that the advance of knowledge is furthered by rules that encourage "trials, experiments and innovations." I would add that for new knowledge to be exploited, it is important to encourage trials and experiments in organization. As Hannan and Freeman (1989) observe, the set of solutions to society's challenges is largely a function of the diversity of existing organizations. To the extent that it can be made cheaper to create innovative organizations—and to disband them if they fail—adaptive efficiency will be improved.

Ultimately, institutional dynamics cannot be separated from organizational dynamics. Explaining institutional change therefore requires an understanding both of the effect of institutions on interests and capabilities, and of the complexities of the organizations through which most utility-seeking behavior occurs. This chapter succeeds if it illustrates not only the promise but also the necessity of a joint venture between economics and sociology to address the problem of institutional change.

The history on institutional change in the U.S. hospitality industry presented here is from my dissertation and benefited from the comments of my dissertation committee, John Freeman, Bob Gibbons, and Victor Nee. Mary Brinton and Bruce Western provided helpful comments on a draft of this paper. The theory presented here benefited from my work with Joel Baum, Crist Inman, and Victor Nee.

NOTES

1. This view of institutional dynamics parallels the "competency destroying" technological innovations studied by Tushman and Anderson (1986) and Anderson and Tushman (1990). Competency destroying technological innovations threaten organizations that predate them and are typically championed by new organizations. However, Tushman and Anderson also identify "competency enhancing" technological innovations, which are marginal improvements on existing technologies and favor the existing organizations that use those technologies. Certainly, there are institutional innovations that, like competency enhancing technological innovations, represent marginal changes of the preexisting order and favor existing organizations. North's learning arguments explain marginal institutional changes such as these, and to the extent that such changes accumulate to account for substantial change in the institutional framework, attention to the competitive learning pursuits of existing organizations has value. The relative importance of marginal and more radical institutional changes is an empirical question. It is at least interesting that the greatest increases in technological efficiency come not from the marginal competency enhancing innovations but from competency destroying innovations and the competition between technological regimes that competency destroying innovations induce (Anderson and Tushman 1990). The relative importance of marginal and radical change in technological evolution, and the institutional histories of industries such as the U.S. hospitality industry suggest that whatever the importance of marginal institutional change, radical institutional change is important enough to be theorized about and studied.
2. Probably the most divisive issue for associations of hoteliers in the first quarter of the twentieth century was the dominance of operators from the Northeast, who were mostly from New York City. Westerners were most vocal about the lack of attention to their interests. Sam Dutton, a Colorado hotelier (trained in the Fred Harvey System) championed a "See America First" campaign that at times threatened to divide the AHA. Dutton and others felt that Eastern hoteliers ignored the necessity of promoting domestic travel. The rallying cry for Dutton's movement was "See Europe if you must, but see America first."

   Ultimately, the only way the AHA was able to establish itself as a stable, national association was with the adoption, in 1921, of the "Pellow Plan" (Robert Pellow was the San Antonio, Texas, hotelier who first proposed the plan). This reorganization gave increased voting privileges to state hotel associations. Eventually, the AHA (later the AHMA) would become a federation of state hotel associations.

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— 13 —

The Importance of the Local: Rural Institutions and Economic Change in Preindustrial England

Rosemary L. Hopcroft

> That men act in a social frame of reference yielded by the groups of which they are a part is a notion undoubtedly ancient and probably sound.
>
> —Robert Merton and Alice Rossi, *Social Theory and Social Structure*

> When we describe rights of ownership, or of use, or of tenancy, we are talking about relationships between people. Rights imply duties and liabilities, and these must attach to people. A hectare cannot be sued at law, nor is a boundary dispute a quarrel with a boundary.
>
> —John Davis, *Land and Family in Pisticci*

In the application of the new institutional economics to the question of economic development, analytic primacy is typically given to economic institutions created by the state. That is, the focus usually is on the state's role in the creation and maintenance of a variety of economic institutions such as property rights and taxation systems (Barzel 1989; de Soto 1993; Campbell and Lindberg 1990; Bates 1990; North 1990b), and their implications for development. Other economic approaches share this bias, for example, work examining the state's role in rent seeking and its effect on development (Buchanan, Tollison, and Tullock 1980; Jones 1988; Tullock 1990).[1] In all these analyses it is often assumed that if the state creates the right sort of institutions, and does not do too much rent seeking, sooner or later development is inevitable. This is the theme of North and Thomas's account (1973) of economic development in early modern Europe.

In this chapter, I too use the historical Western experience to show how this focus on the state is not always adequate. The case of agricultural and economic development in late medieval and early modern England shows that an analysis of state economic policies and institutions is *not* always sufficient to explain economic development. Specifically, important regional differences arose in agricultural and economic development in late medieval and early modern England, despite common state policies and institutions throughout England. These regional differences are best explained by the nature of *local* economic institutions, and not by state policies and institutions, which we may assume affected all areas of England more or less equally.[2] In some regions, local institutions promoted agrarian change, in other areas they inhibited it. These local institutions may be regarded as the rural, preindustrial equivalent to the organizations described by Nee and Ingram (this volume). However, given their importance in shaping local affairs during an era when the influence of the central state was relatively weak