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Institutions, Institutional Change, Language, and Searle¹

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Abstract

This paper endeavours to contribute to the growing institutionalist literature on the conception of the institution. We draw from John Davis' (2003) analysis of the individual in posing the questions: what differentiates institutions, and how can changing institutions be identified through time and space? Our analysis develops Searle's (2005) argument that language is the fundamental institution. Searle's argument is rather functionalist, however, and does not convey the ambiguity of language. Moreover, language and understanding, surely when related to most institutions in real life, delineate and circumscribe a community. A community cannot function without a common language, as Searle argued, but language also constitutes a community's boundaries, and excludes unsavoury outsiders or alien topics for discussion. This is how institutions both constrain and enable. By drawing upon Luhmann's (1995) systems analysis and notions of discourse, communication, and text we aim to augment the existing analytical role ascribed to habit in institutional analysis. Thus, we submit, understanding institutional change and thus durability may progress.

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I. Introduction

Earlier we argued that the relations and boundaries between what may conceptually be understood as economy and society could be organized in three ways: Market and society as separate, market as embedded in society, or markets as impure since they necessarily have societal elements internal to them (Dolfsma *et al.* 2005). In this paper we provide an elaboration and development of our some of our arguments by analysing that which separates or distinguishes and so connects institutions², and how institutions' durability can be conceptualised, when institutional reproduction infers change: what is it that retains institutional recognition through time and space? These are essentially the same questions John Davis (2003) recently posed of the conception of the individual in economics. We draw on Davis' analysis to set these analytical questions, and in doing so aim to contribute to John Searle's (2005) discussion of the architecture of institutions through the fundamental institution of language. In doing so we refer to discourse, communication and narrative and draw upon Luhmann's (1995) systems approach to amplify our contribution.

Discourse analysis is one way of understanding how differences are preserved between spheres and also how heterogeneity within spheres may continue. Discourse analysis envisages individuals being actors by drawing upon combinations of rules and norms, especially language itself. As such individual actors are also social actors, such that action may be understood recursively as communication. Finally, discourse is action-communication which is shaped by individuals' combinations of overlapping sets of rules and norms, and so may usefully be described as experimental. Intending actor-communicators will have access to sets of norms, rules and intentions which differ subtly. Successful action-communication is in no way guaranteed.

Our analysis implies theoretical development. We acknowledge that the institutionalist literature, and that of communities of practice, offers valuable insights and techniques for empirical analysis. We adopt an organicist ontology drawn from social networks and from social systems theory in analysing institutions and institutional change through boundaries and language.³ Whilst our paper concentrates on institutions and systems

² We would loosely define a *boundary* as an institution or set of institutions that separates two or more relatively homogenous entities. Chick and Dow (2005) note that imperfect connections entail system boundaries. Further, it is well established that boundaries are a means of connection as well as a means of distinction, such that boundaries are buffers and bridges (Thompson 1967).

³ One way in which systems differ from networks is that systems explicitly address how a set of relations or connections can be retained or reselected over time. While with networks, every node can be connected to

we emphatically reject notions of reification (and voluntarism). We recognise that institutions and systems have temporal priority over individuals, but we do not accord them ontological priority.

We develop our argument across the paper's remaining five sections. In Section 2, we briefly review the nature of the institution, and draw on Searle in highlighting language as the fundamental institution. This insight informs our later discussion of action and communication. In Section 3, we focus further on how institutions, as norms and rules, can attain durability especially in an *ex ante* sense and for agents as actors and so perpetuating differences, but how durability is often, *ex post*, different across rules and norms. In Section 4, we express our argument formally as to how an element, such as cognitive procedures or social norms, may achieve continuity in a reflexive sense. In Section 5, we address boundaries by examining discourses and by examining individuals' actions as communications. Section 6 concludes.

2. A Résumé of the 'Institution'

Interest in the concept of institutions has been reignited over the last three decades by the significant growth in references to institutions in mainstream economics, primarily through the lenses of 'new institutional' economics (Williamson 2000). There are crucial differences between the 'old' and 'new' institutional economics, differences that may not be reconcilable (Rutherford, 1989). New Institutional conceptions of institutions tend to emphasize 'institutions as constraints' to individual free will. For example, Williamson (2000) addresses the capacity of governance structures to constrain individuals' opportunistic proclivities, and game theoretic discussions often include 'tit-for-tat' norms or rules as strategies acting as constraints to potentially deviating individuals.

According to 'old' institutionalists, 'new' institutionalist explanations of the existence of institutions are partial as they fail to recognise the enabling and facilitating roles of institutions. Institutions and agents demonstrate reciprocity properties in that institutions are partly constitutive of individuals and are partly constituted by individuals. Hodgson (2004: 424) describes institutions as:

every other node. With social systems, patterns of connections can be reproduced over time, with boundaries providing a simple means of connection with other entities that are necessarily in that system's environment.

“... durable systems of established and embedded social rules that structure social interactions. In short institutions are social rule systems”.

Crucial to our argument is the possibility that distinct but connected rules and norms have different scopes and durabilities⁴. In addition, O’Hara (2000: 37) writes:

“... institutions are the durable fabric which structures relations between classes and agents. They provide the social nexus of communication which provides shared symbols, sites of practice, and some degree of certainty which reduces the social cost of human intercourse”.

The definition of ‘institutions’ has been subject to increased scrutiny recently, with attempts being made to elaborate upon Veblen’s (1969: 239) observation:

“As a matter of course, men order their lives by these principles [of action] and, practically, entertain *no question* of their stability and finality. That is what is meant by calling them institutions; they are the settled habits of thought of the generality of men. But it would be absentmindedness ... to admit that ... institutions have ... stability [that is] intrinsic to the nature of things” (emphasis added).

Veblen’s description, as Hodgson (2004) observes, directly associates instinct-habit psychology with the structuring of social relations⁵.

Veblen established examples of institutions to include money, marriage, markets, organisations, religions and language. Language is the fundamental institution predicating all other institutions and its recursive and so communicative quality furnishes the key to organising (Searle 2005, Robichaud et al., 2004). Institutions exhibit differences in level, scale, scope and durability and therefore possess multiple roles and meanings for individual actors (Jessop, 2000; Parto, 2005). Other definitions refer to institutions as: correlated

⁴ In Potts’ (2000) terms, we analyse the durability and reproduction of connections.

⁵ This establishes a direct challenge to the presumption of Cartesian dualism of matter and mind, and the Cartesian-Newton dualism of object and subject. More generally the pragmatist philosophers Dewey and Peirce emphatically reject the dictum of the analyst as independent spectator. Inquiry is action and action is partly constitutive of reality recursively, communicatively and so socially (Haack, 2004). Following Cartesian dualism the individual is characterized as socially disengaged, subjective and inward-looking: an atomistic conception of the individual recurring in mainstream economics (Davis 2003, 2004). Individuals and institutions are disengaged.

behavioural patterns (Bush, 1987); rules, conventions and norms (Hodgson, 2004); and mental constructs (Neale, 1987). Following a rule may be understood in terms of an injunction or disposition that in certain circumstances an individual is expected by others to ‘do something’ instead of nothing and as an alternative to some other action (Hodgson 2004: 14). Rules and institutions, when perceived as legitimate and acted upon, correlate behaviour and possess a generic quality in that they can encapsulate norms and conventions as well formal and legal rules.

Despite rules and norms exhibiting generic similarities there are important distinctions. For instance, the sources of rules and norms differ: the former being a form of either tacit or explicit agreement initiated by some authority, which establishes individuals’ deontic powers; in effect rights, obligations, duties, roles and legitimacy (see Searle, 2005, and Avio, 2002, 2004). By contrast, norms are derived from a network of mutual beliefs as individuals anticipate actions and communications, which substitutes for specific and codified agreements for particular instances of action and communication. Davis (2003) maintains that norms are a form of “we-intentions,” instituting reciprocal beliefs – or a common worldview (Jessop, 2000) – and acting as a mutually reinforcing and taken-for-granted structure.

Rules and norms imply differential enforcement properties. A breach of rules suggests the potential for legitimate prescriptive sanctions (other connected rules) to be applied. A breach of norms is rarely subject to as prescriptive a level of sanctions (another connected form of norm), and may be subject to less easily codified forms of disapproval by an individual’s peers, akin to norms of moral suasion. Hence, there is a considerable normative element in the process of rules and norms. For the purposes of the present paper, however, we take institutions to include all of the foregoing (Hodgson, 2004), whilst recognising that there are different types of institutions, possessing different rigidities, boundaries, and scale properties.

3. Institutions and Durability

What makes rules and norms more or less durable over time and how does this affect individuals’ plans for instigating actions and communications? Do agents form expectations as to the likely durability of an institution, and of how their actions-communications affect this likely durability? Or is durability exclusively and ex post question, of assessing how and

why an institution achieved or acquired durability for a period of time? For the moment we assume the latter, as the former adds another reflexive level. Durability of institutions has temporal, geographical and social dimensions. Certainly institutions must be recognized within a community; they cannot be recognized by an individual only, acting habitually. Recognizing durability in institutions draws attention to the systemic nature of what Veblen calls an ‘institutional furniture’: describing them as possibly connected and assessing the consequences of connection and disconnection. In addition, institutional durability is in part to be understood, without necessarily moving to a functionalist perspective, as due to the (hierarchical) relations they define and the rights and obligations entailed. Searle (2005: 10), in a rather functionalist discussion of institutions, argues:

“The essential role of human institutions and the purpose of having institutions is not to constrain people as such, but, rather to create new sorts of power relationships. Human institutions are, above all, *enabling* because they create power ... marked by such terms as: rights, duties, obligations, authorizations, permissions, empowerments, requirements, and certifications. I call of these *deontic powers*” (original emphasis).

In addition to emphasizing language, Searle points to the political constellation – as ‘new forms of power relations’ – that is supported by or expressed through a particular language. Earlier, Searle (1995) stressed the complexity of the agent-structure relationship. For Searle, individuals’ mental representations of institutions are partly constitutive of institutions and reality, since any institution can only exist if people possess and communicate specifically related beliefs and attitudes. Thus, conceptually, one’s position on the issue of realism is closely related to that of the role of representations, beliefs and attitudes, manifested in action as communication through language.

Searle refers neither to ethics nor values, but it is clear (institutionally) that rules are predicated on norms that reflect particular systems of values and beliefs and so are legitimising (Avio 2002, 2004). Searle does emphasize that collective or shared intentionality is (the basis of all society, and hence institutions. According to Searle, intentionality refers to the notion of directedness of the mind, which encapsulates human senses of belief, desire, disgust, pride, shame, hope, etc. Collective intentionality refers to collective beliefs and collective desires.

For Davis (2003) and Searle, collective intentionality more specifically denotes social relationships between individuals where theories about or images about those social

relationships are embedded within individuals (Davis, 2003: 130). Language plays a pivotal role in distinguishing individual from collective intentionality, between ‘I-intentions’ and ‘we-intentions’. We-intentions, in the absence of fraudulent deceit, infer not only the individual expressing the ‘we-term’ intent, but also reflect the expresser’s belief that other individuals share this intention, and the assumption that other individuals are aware of this shared intention. Unlike ‘I-intentions’, ‘we-intentions’ invoke some form of obligation and commitment on the part of the individual that does not exist with the expression of an independent (individual) intention. This is a powerful challenge to the reductionist conception of the atomistic individual that characterises institutions as constraints.

We expect that institutions can be distinguished, in part because they have different qualities of durability. For instance, some rules can be considered to be more durable than individuals’ habits of thought. Individuals often situate and embed themselves within durable systems of rules and norms, even though the system might well change owing to it comprising connections between different durabilities of the constituent rules and norms (Polanyi 1944; Granovetter 1985; Dolfma et al. 2005). Following Veblen (1969) there is no suggestion of some sort of institutional “equilibrium”. Durability does not infer “no change” and instead begs the question of how durability can occur. Despite change, institutions retain some means of re-identification through time. An institutional system is durable and may thus be re-identified if and when the core institutions do not change, while adjacent institutions may only change marginally. This means that the habits and routines of individuals and groups that support the system, or on which the system relies, reproduce it.

Power may be used to prevent changes, but the use of powers by some may also change the system. Power is, of course, a complex, multi-dimensional and evolving conception and phenomenon, located in a system of relationships rather than attributable to people (Foucault, and, for our purposes especially Avio) that may be partly manifest through moral suasion (Hodgson 2003). The establishment or emergence, and subsequent (lack of) change of a particular system of rules, norms and conventions, and institutions – all of which involve multiple levels of evolution and emergence as well as differential power relations – demonstrate historical and temporal specificities. Indeed, the importance of history in any critical analysis of socio-economic phenomena cannot be over-emphasized.

In reconstituting Veblen’s instinct-psychology, Hodgson (2003, 2004) provides a complementary rationale for institutional persistence. Hodgson (2003: 167) argues that all action and deliberation are predicated on prior habits: habit has ontological and temporal primacy over intention and reason. Habits may be closely associated with routines, such as

functioning as organisational memory (Nelson and Winter, 1982). Lawson (1997: 159-160) defines a routine as, "... a regular course or manner of proceeding or going on, a recurrent performance of particular *acts*" (emphasis added). Others hold that habits do not necessarily involve acts, but are propensities, dispositions and "submerged repertoires" to behave, ie to act, to communicate, in particular ways in specific situations, or as a consequence of particular stimuli (Dewey, 1945; Hodgson, 2003).

Like routines, habits are both acquired through, and necessary for, learning (Dewey, 1945). It is through commonly held habits that social systems of rules are manifest. Rules beget habits that beget institutional persistence. Durability of institutions is furnished through collective intentionality, the temporal and ontological primacy of habit, and the normative apparatus associated with this. In effect, habits and routines are the conduits of institutional reproduction (Hodgson 2004). Of course, rules, habits and routines, etc. are not purely functional: historical specificity and scalar effects impact on the foregoing factors and thus on durability.

The centrality of habit as a partial influence on larger-scale institutional durability is supported by the recursive properties of language. Robichaud, et al. (2004) indicate that the recursivity of language has played a prominent role in the diverse works of Chomsky and Habermas. The importance of recursivity resides in pursuing the stable and durable conversational procedures that embeds a text within another text, a meta-text. The process of embedding also structures discourse (and practice) in particular ways and leads to the persistence of particular organisational forms.

The notion of situated rationality or cognition and the specificity of rules and norms to positions provide an appealing demonstration of the persistence of institutions (and structures) vis-à-vis individuals (agents). Rationality may be referred to as an actuality but may better be considered a (human or a cognitive) capacity (Lawson 1997). Individual actors situate and orientate themselves within systems of institutions within a particular point in time and space. Institutions allow individuals, through rules, to act in fashions that enable them to negotiate "their daily affairs" (Lawson, 1997: 187). Yet within this milieu individuals are situated in a range of positions, distinguished in or by time and space, that each infer roles and status (Searle, 1995, 2005), conditioning and moulding their propensities to act in particular ways. Rules may be attached to distinct positions and locations, so affect, and are interpreted by distinct individuals differently. Searle (2005: 7) emphasizes the capacity of individuals to perform assigned functions requiring collective acceptance to

legitimise the position. Lawson emphasizes the properties associated with social positions: for rules attached to positions there are differences in deontic powers.

Whereas rules and norms about positions suggests that rules are not reproduced and transformed by the actions of the individuals occupying these positions, but by groups influenced by and defining the position(s). Here Lawson draws attention not just to social embeddedness, but also to networks (in a fashion redolent of Potts) and groups. Institutions demonstrate persistence due to the collective, not the individual. Thus, as Lawson (1997: 163) observes:

“Teachers ... are allowed and expected to follow different practices from students, ... employers from employees, men from women ... Rules as resources are not equally available, or do not apply equally, to each member of the population at large”.

Part of the durability of institutions resides in the social positions legitimised by social rule systems through habits associated to (and acquired by individuals occupying) those roles and positions. There is a reiteration of not only the durability of institutions, but of institutions as systems of values reflected in the deontic powers vested in particular social roles, and hence individuals’ situated rationality. Searle (2005) observes that language further contributes to the persistence of deontology. As, “not all deontic power is institutional, but just about all institutional structures are matters of deontic power” (Searle 2005, p. 10), the interaction between specific styles or modes of language and discourse as habits embedded in social positions offers lucrative avenues of inquiry into institutional change.

Until now, our commentary has favoured larger-scale norms and rules ahead of the habits and practices associated with individual agents. It is important to recognise that the institutionalist literature appreciates that feedback from individuals, and individual actions have the potential to change institutions. For instance, rules and norms necessarily require individuals to interpret them. Individuals possess free will in this respect, and also have recourse to different repertoires of habit and experience given a particular situation (Finch, 1997). Often differences in interpretation can have consequences for action and hence carry potential ramifications for habit and the reproduction of an institution. A classic example of this is provided by Fox (1974) when he alludes to the simple instruction: “sweep the floor”. There is an element of individual discretion as to what constitutes the appropriate performance level in discharging even such an apparently routine task. The outcome may be

readily identifiable, but the manner in which task is undertaken may not, and will be partly related to the individual's motivation and deontic powers.

In this respect it is essential to appreciate that the duration of institutions is not a mechanical exercise. Durability of institutions is not akin to identical replication, but to reproduction: change, even transformation, is inevitable (O'Hara 2000), due to historico-spatial and individual contingency properties of a situation (Potts 2000: 44-45). Moreover, the persistence of institutions can obviously be affected by other, wider or more indirectly related and general institutions and environmental and historical effects and events. For instance, Hodgson (2004), O'Hara (2000) and O'Neill (1998), in addition to Polanyi's classic contribution, are among those who have commented extensively on capitalism as a system of mutually supporting, if contradictory, institutions. Institutions will clearly have differentials in endurance. Another example of durability, yet change, of a system of institutions is that of democracy (Dunn 2004). One of the most enduring institutions in the UK is the monarchy, but here too there has been extensive change in the deontic powers and influence of the individuals placed in the roles defined by this institution. From a position of extensive political power, the monarchy in the UK is presently largely ceremonial. The influence of such institutions should not be discounted (cf. Veblen 1969), what is equally notable is how the British system of government would be described by most as a democracy, despite the fact that it is vastly different from Athenian democracy, or even from extant democracies. As O'Hara (2000: 39) argues,

“Hence rather than seeing socio-economic reproduction as being purely a process of maintenance, function, and equilibrium, it must be historically situated in a maze of potential dysfunctions, contradictions, and transformations, without, of course, ignoring the historical functions of institutions”

It is the potential for reproduction that Barel (1974) emphasises as the essence of institutional durability (cf. O'Hara). He argues:

“... reproduction implies differentiation; growth, change (continuous or discontinuous). However, there is something that does not change, which makes it reproduction. This ‘something’ is the capacity of a system to preserve, for a time, its entirety in relation to its ‘environment’ and to behave as if its aim were to preserve that entirety ... what perhaps best describes social reproduction is ... that this

reproduction is a unity of contraries: unity of social contradictions, unity of change and stability, unity of continuity and discontinuity”.

4. Re-identifying Institutions Through Change

The emphases of Barel and O’Hara on the essences of reproductive capacity as a means of institutional recognition, stability, difference and hence durability through time and change is attractive. Yet there appears to be a potential oversight in their accounts. If institutions are durable or persistent, yet subject to change, how can institutions be recognised from one point in (real) time to another? Instructive inferences may be drawn from Davis’ (2003) analysis of conceptualization of the individual in economics. Davis establishes two tests: individuation (can individuals be distinguished), and re-identification (can individuals be re-identified over time?). The general gist of the argument, we submit, can be extended to cognitive and communicative practices and to institutions, rules and norms. It is clearly re-identification that holds most parallels in analysing institutional durability. Davis (2004) notes that in mathematics the mapping of transformations is conducted via fixed point theorems of the general form such that each point x of a set X to a point $f(x)$ within X has a fixed point x^* that is transformed to itself:

$$f(x^*) = x^* \tag{1}$$

Davis argues that this is the essence of mainstream and game theoretic discourse in economics to demonstrate equilibrium of some sort. Furthermore, there are important lessons for economics here as x^* is characterised reflexively: “... what would be unchanging about individual economic agents amidst change in other characteristics is their being able to take themselves as an object” (Davis, 2004: 3). With respect to our analysis of institutions, fixed point theorems may have a direct bearing as they involve reflexivity on the part of individuals with regard to themselves as well as with regard to the institutions, which they perceive in shaping and facilitating senses (Davis and Klaes 2003).

For rules, conventions and norms to become effective or operative, there must also be a collective intentionality (Davis, 2003). The rules themselves must be collectively viewed and so stabilized as legitimate (Avio 2004, Dolfsma 2004). Drawing from pragmatic thought, rules are only effective when they are embedded in shared, or at least overlapping and

compatible, habits of thought and behaviour (Hodgson, 2004). Moreover, as Hodgson indicates, the appreciation and valuation of rules also, and of necessity, involves a process of social interaction, which may be explained in terms of individual actors initiating experimental forms of action as communication. To demonstrate Hodgson draws on Wittingstein's signpost analogy: signposts only guide an individual insofar as there is regular utilisation of signposts, as a custom, convention or norm of use, and only when others are involved who act upon the signposts as well and share an understanding of this. Rules would seem to possess habitual and routine propensities. As Nelson and Winter (1982) argued, routines act as conduits of truce and knowledge. Rules also provide bases for what may become shared understandings and senses of purpose and meaning (Douglas 1986).

In reflexive terms, taking oneself as an object involves unequivocally the use of language. Language as the fundamental institution furnishes of symbolic representation that is essential for institutional recognition and reproduction. For Searle, language provides recognition of institutions. However, this isn't just particular cases within an institution, but, "... the particular instances typically exist as such because they are instances of a general institutional phenomenon" (Searle, 2005: 14). In addition, in recognition of one's inevitable embeddedness in an institutional and relational sense, taking oneself as an object means understanding, however implicitly, institutions in their general form. Searle (2005) has suggested as a general form for institutions:

$$X \text{ counts as } Y \text{ in } C \quad (2)$$

Here X are certain features of an object, entity, person, or state of affairs; Y assigns a status function (to X) carrying a deontology in context C (cf. Lawson, 1997: 162). There is, as argued above, inevitably a measure of freedom involved for each individual in determining what an institution requires her to do; there is an individual H making an interpretation and a judgment about the X , the Y as well as the C . Some properties of the elements may have changed (some), while other elements, which by achieving stability over time become essential to that overall institution, must have retained their essential identities, at least according to H (O'Neill, 1998). For H to be able to function properly in a community, her understanding of X , Y and C must be shared. Individuals' being is of necessity part of a community (Bush 2007, Carrithers 1990), sharing and (thus) reproducing an understanding of an institution is bound up with language; it is a fundamental way of understanding the concept of an institution. A reformulation of Searle's general form can be proposed:

According to *H*, understood and communicated in language *L*
 within a society *S*, *X* counts as *Y* in *C* (3)

For instance, the institution of marriage has been subject to radical change over the past century. People's understanding of the institution has changed dramatically, even when 'outer forms' (or forms outwith?), such as rules have remained similar. Two people expressing promises to commit themselves to each other in front of an audience of witnesses at the behest of a person of authority, suitably attired given her/his role, still constitutes a wedding ceremony in most cultures. Much has changed in the understanding of people in most communities, however, even to those who have been married for quite a prolonged period. In many but not all instances, even the words used to form the promises have changed and continue to change. The religious element has diminished for many; women, in general, appear to be less economically dependent; divorce is more readily available, and co-habitation out with the confines of marriage is more socially acceptable, and hence legitimate. In terms of Searle's logical sequence, *X* a woman who is married attains the status function of a wife, *Y*, but the context, *C*, of the sequence has changed such that the deontic powers assigned to wives has altered, as a consequence of changing social values and economic conditions, which have changed aspects of the status function, *Y*, at least in legal terms. There is still durability to the institution of marriage that ensures that it remains recognisable, possesses legitimacy, and retains, at the risk of an obvious double meaning, reproductive qualities.

Yet, the examples of marriage and market indicate the limits of Searle's definition: what of *H* in (3) above? Perceptions, as well as ethical values, are not integrated into Searle's view of an institution. Searle's perception of language, its use and the changes it views, is oddly positivistic.

5. Language, Discourse and their Boundaries

In previous sections, we have discussed the stability of institutions, comprising complexes of rules, norms and habits. Institutions are characterised by the potential for instability, especially but not only in the form of localised changes and challenges to order, whether purposeful or as unintended consequences. We have argued how understanding durability

and change requires the acknowledgement of the roles that language and communication play. Through the fundamental institution of language knowledge is communicated without which communities could not function. Communities, however ephemeral and short-lived, and at whatever minimal basis⁶, establish homogeneity of meaning and purpose through language, broadly understood, ex-communicating risk and disorder. It is our purpose in this section to understand language from a social science perspective.

Searle has made a strong argument that language needs to be understood as the fundamental social institution. While the structure of human society is immensely complicated, the realization and conceptualization of language makes it possible to understand the rather simple underlying principles, Searle claims. Thus, epistemic and ontological statements are more easily distinguished. We believe that Searle points to a fundamental contribution that is still to be made to institutional theory, yet we claim that a fuller understanding of language than is offered in Searle's framework is to be sought. We seek an understanding that acknowledges that people who communicate help construct reality, but also have their own interpretation of it. Such interpretations will differ between individuals, often a reason for changes in Veblen's "institutional furniture", and this opens up the permanent possibility of instability among connecting habits, rules, norms and customs as drawn upon by actors. From Dewey:

"Every new idea, every conception of things differing from that authorized by current belief, must have its origin in an individual. New ideas are doubtless always sprouting, but a society governed by custom does not encourage their development. On the contrary, it tends to suppress them, just because they are deviations from what is current. The man who looks at things differently from others is in such a community a suspect character . . .' (1916, p. 346; italics in the original)

If and when an individual is able to persuade others that current institutions need to change, such change will occur. The persuasion will, as Searle would suggest, involve language. Persuasion is necessarily communicative. However, languages are not given, nor are the categories in any given language. People employ and change a language as their needs, perceptions and experimental plans of action change. What it means to be a friend, the use and meaning of money, what people understanding by science, have all changed over

⁶ Thus, while there may ostensibly be no talking going on in the institution of 'silent trade' (Herskovits 1940), or that of the 'port of trade' (Polanyi 1966), there is certainly some communication involved and a common understanding and purpose.

time and differ across communities and countries. This needs to be understood, and has clearly been on the agenda for institutional theorists. An obvious next step would then be, in Searle's terms, to conceptualize how 'the procedure or practice of counting X as Y becomes regularized' 'becomes a rule' (Searle 2005: 9).

Searle (2005) alludes to the analogy of a man and a dog both possessing the physical capabilities to view another man crossing a line with a ball. For the dog there is no significance, even although it may be possible to train the dog to take the ball across the line. For the man the significance of the act lies in the institutional context of the action: in American football the action could signify a 'touchdown', and the accumulation of points for one team as opposed to another. On this basis it can be argued that the emergence of humans' ability to express and comprehend concepts – language provides labels, or symbols, for concepts (Nightingale, 2003) – engenders the emergence of institutions.

Language, of course, furnishes a structure to social relationships, and also employs rules as to its appropriate usage. Rules are broader than demonstrating a prescriptive element, as they also enable and partly constitute action and communication. Language also enables the expression and comprehension of beliefs and values, which is context specific, implies the adherence to rules, and its recursive properties form the potential basis for boundaries (Robichaud, et al., 2004).

Importantly, language use, like institutions in general, demonstrates some socially constructed invariance, which provides socially embedded individuals with the means to cope with and to promote change (Neale, 1987). Jessop (2000) considers that institutions enable compromises between agents over agents' differential spatial and time horizons of action in relation to their environments, and thus necessarily involve communication. Institutions are constructs that principally involve analytical expression in terms of structure and order (Potts 2000: 44-5). Potts' observations accommodate the historical specificity of institutions and intimates evolutionary capacities, which obviously entails that the durability of observed institutional arrangements is both non-permanent and a product of history.

Luhmann (1995) adopts a perspective from social systems rather than networks and this draws attention to systems' capacities for continuation, which he captures as a quality of autopoiesis (see also Jessop, 2000). Luhmann's social systems, and in particular their capacities of continuing, draw attention to the (relatively) closed nature of system

boundaries.⁷ An important question is how social systems can achieve continuation temporally when action and communication is often experimental and when environments must contain uncertainties and surprises. Formally and also generally, institutions may become systems through continuation via reflexivity, and this implies boundaries and environments, which in turn implies that selections are made in accepting and rejecting others' communications, often in the basis of incomplete information. Systems, which may be seen as reflexive, and complexes of rules, norms and customs, are continuing institutions that can acquire stability and difference and so can become recognised as distinct. The autopoietic (that is, self reproducing) quality implies that systems are closed in the sense of possessing within a boundary sufficient resources to potentially acquire the quality of continuation.

Luhmann argues that action is a one-sided – rather than false – description of continuing social systems. Action as utterance is part of a three-part unity, including information and *verstehen*, to comprise communication. In an *ex ante* sense, institutions can be explained as sites of communication, which must be essentially experimental on behalf of its initiators. So an institution is simultaneously brought into re-existence and also put at risk through communication. In an *ex post* sense, institutions are in the memories and also habits of actors and seen as successful propos for past episodes of communication.

Luhmann's social systems are at a more abstract and also more general level of analysis than is common in discourse analysis, which tends to focus on ethnographies in particular situations, with spatial and temporal locations or extents. The themes that unite these approaches are boundaries, communications and continuations. The abstract theoretical qualities of Luhmann's work allow us to develop our investigation of the durability of different institutions. For Luhmann, "utterances" (which may otherwise be seen in artificial isolation as actions) are formulated as information through a combination of the interpretive frames and skills of agents. Nothing is "sent", nothing is "given-up" and nothing is "accumulated". Rather, understanding ("Verstehen") holds out the possibility of challenge, adjustment and change. Utterance need not be verbal to contribute to communication as a non-response can be interpreted successfully as a rejection or in a network sense as a missed connection. Likewise, a response can indicate a failed instance of communication and an absence of understanding.

⁷ There are two fundamental issues one might discuss at this point, but that we do not develop. Is an 'objective' nature of the system or people's perception implied? A second point is of an ontological nature: does one hold that the system analyzed is essentially open or closed? (cf. Grunberg 1978)

Discourse analysts tend to focus on utterance, which may be observable, articulated and codifiable, rather than communication, which involves expectations and cognitive processes. Nevertheless, communication is implied as researchers have concentrated upon interlocking texts (as actions and utterances) and also on processes by which texts can be identified as of deviant form or in compliance with some previously established order. The discourse itself, much like the social system, is not available directly to participants (including researchers). Instead, we are directed towards texts. Texts are authored or inscribed so are actions and utterances. They are inscribed with reference to both an understanding of a context, including its spatial and temporal dimensions, and also with respect to one or more media, which themselves impose rules, conventions and conditions.

There is some debate as to what counts as media and what counts as text. Answering this question requires understandings of the context in which a text is authored. Essentially, a text should possess the capacities of retrievability, storability and durability. Being a text implies a quality of transcendence of a particular context of utterance, which the author may well be aware of (such as authors of diaries and of corporate financial accounts). Codification with respect to a variety of media satisfies the conditions of being a text (Cowan and Foray 1997, Cowan et al. 2000). It is debatable whether oral conversation can be text, but we should not exclude this possibility. Oral histories and retrospective interviews are instances of relying upon agents' memories of spoken texts, often but not necessarily supported by texts authored in other media.

In Luhmann's terms, unity of utterance, information and *Verstehen* in text should again be emphasised. We cannot easily isolate one element of this even though utterance in the form of text is available to researchers, who acquire the status of communicators. For instance, we could argue that the media by which utterance is inscribed to be information affects what the author meant. The codification debate is an example (Ancori, et al. 2000, Nightingale 2003). It is clear that personal knowledge or tacit knowledge, or knowledge emerging from face-to-face conversation or group working is altered if codified as translation for another media. An author may intend that information is made more widely available, and that different media may be chosen to achieve transcendence beyond a context otherwise bounded tightly in spatial and temporal dimensions. But given the emphasis on communication or discourse, the idea of authoring – as an instance of initiating action – in isolation is irrelevant and nonsensical.

We can study, or at least frame as problematic, the interactions of utterance, information and *Verstehen*, of the media associated with particular instances. As Luhmann

argues, action (as utterance and authoring) in isolation is at best one-sided. Brown (1993, 1994) makes a similar point in assessing historical or canonical texts in economics, and in understanding the economy as text. Recovering authorial intention is also misguided or at least one-sided. Reading an historical text or the economy is neither bounded nor determined by authorial intentions. Indeed, it is debatable whether authorial intentions can themselves be recovered by a 'reading agent' and communicated, given the unity of utterance, information and *Verstehen*.

Robichaud *et al.* (2004) introduce three ideas that can help in understanding the dimension of continuation or durability that discourse analysis should but does not always comment upon: narrative, closure (black box) and meta-discourse. These have much in common with social systems theory, especially with respect to Luhmann's (1995: 29) observation that boundaries are 'an evolutionary achievement par excellence [in] separating yet connecting'. Narrative is a particularly strong form of discourse in that its texts refer explicitly to one another in a continuing sense, with a continuing intention and potentially with the consequence of spanning contexts or situations. By contributing to a narrative, authors set out to transcend or extend contexts as defined spatially and temporally as a means of establishing legitimacy and hence also deviance. New texts can be judged as acceptable or unacceptable and established texts can have their status reviewed. A narrative has a projecting quality, so its correspondents can presume continuation such that agents who are initiating communications can seek to acquire an audience by positioning a text relative to a narrative. Narratives are institutionalizing, organizing, legitimizing and canonizing.

Narrative requires further attention. Robichaud *et al.* (2004) argue that narrative is prominent when a discourse appears to be threatened. The emphasis on threat implies that threat is episodic or periodic as an event, rather than constant. An advantage of referring to social systems theory is that despite its general and deeply functional nature, it provides a different perspective. This perspective is one of continual uncertainty and periodic threat (given preceding sentence), so a continual presence of communication, narrative, organizing and canonizing. A narrative has the consequence and can be a means of closing a discourse and so shaping, forming, distinguishing and so necessarily closing a social system.

Social systems have been theorised as being closed, as open and as autopoietic (or self-reproducing). An advantage of understanding social systems as autopoietic is that they have the capacity necessarily of excluding and ignoring events, formulated as a system's environment (Vanderstraeten 2000). Autopoietic systems are distinct by having boundaries and also environments, but are improbable, vulnerable and if realising the capacity of

continuation, worthy of further inquiry. From an institutional perspective, institutions are worthy of consideration not because they are stable and durable, but because the qualities of stability and durability are constantly threatened in an *ex ante* sense, and from the perspective of action as communication. This is particularly note-worthy where we consider the dimension of (some) institutions as boundaries between and connecting a system and its environment.

In terms of narratives – now understood as analogous to autopoietic social systems – a deeply functional quality is that they must exclude some texts in order to be distinct as narratives necessarily with the quality of continuation. Narratives do not combine all current and future texts. Further, a basis of exclusion is not the continuing discourse implied by detailed critical appraisal, but rather is failed communication and so detachment. A discourse, which can acquire the characteristic of narrative or acquire the characteristic of continuation with reference to a narrative, has an environment. This environment is with respect to a particular narrative. The environment is not another social system as, from the perspective of its social system (such as a narrative), it is boundless. There are no privileged overseeing positions, whereby some text may be characterised as belonging to one social system, or if failing to establish communications with the narrative, be relocated to another social system. In terms of a health services example, we can potentially understand texts from the perspective of, say, a national health narrative. Other texts are in the environment of the national health narrative. In a different context, we can potentially understand texts from a private health narrative. Other texts are placed in its environment. Little knowledge can be gleamed from the claim that because a text is in the environment of one narrative this implies that it is within the social system of another narrative because knowledge is for a social system and a narrative.

The problem of what is fundamentally and in a deeply functional sense incommensurability (or the continuation of difference) is not recognised explicitly in Robichaud *et al.*'s (2004) discussion of discourse. Nevertheless, Robichaud *et al.* develop their argument in a way which suggests a resolution to the disconnection of a system and its environment. Drawing on the second and third significant elements of their argument – closure (black box) and meta-text – narratives can be simplified. The argument is reminiscent of Simon's (1962) systems analysis and also of more recent contributions to modularity in organisation and production (Sanchez and Mahoney 1996, Brusoni and Prencipe 2001, Langlois 2002). Black-box and meta-text presume that another discourse is

continuing and that those contributing to it bring utterances as texts which refer back to another discourse.

There is an explicit presumption of transcendence in closure and meta-text. Legitimacy is gained through an agent speaking or joining another episode of communication, on behalf of another distinct discourse. In so doing, the agent claims or implies in the contemporary episode of communication that the other discourse is settled. In joining a contemporary discourse, the agent is necessarily involved in closing the other discourse. If the other discourse is not settled, the text upon which the claim of settlement is based can be disregarded. There is an important temporal (and spatial) element (hence, the labelling of the joined discourses as ‘other’ and ‘contemporary’). In a straightforward sense, closure in one discourse is a precondition for its black-boxing, and for an agent to claim legitimacy in another (contemporary) discourse by referring back to the other original discourse in a text.

In a more complex sense, an agent may be attempting to close-down the other discourse by authoring a text in a contemporary discourse which refers to this earlier and still perhaps unsettled discourse. Again, we demonstrate the underlying risk to institutions’ continuation that is an essence of action as communication. Simon’s (1962) systems analysis is explicitly hierarchical, which can now be questioned given more recent descriptions as heterarchical (Jessop 2001). Simon highlights another type of fragility, which in referring to blackboxing and meta-texts is that ‘the architecture of complexity’ is nearly-decomposable. This is one possible process by which two different discourses, perhaps recognised as narratives or canons, can be brought into a single discourse or process of communication.

Other processes can be envisaged with respect to the continuing character of discourses and narratives. Canonization may fail. Brown (1993) writes of deliberative ‘decanonizing discourses’. While discourse continues, the canonization is avoided, or perhaps is displaced to ideological or ethical conventions. For instance, if an organizing principle – itself a subject of texts – is along the lines of valuing pluralism or of multi-vocality, this becomes difficult to blackbox in the sense of Robichaud et al. (2004). We should also try to envisage processes by which always-vulnerable narratives as social systems break down into dysfunction. Luhmann (1995) predicts the breakdown of social systems where messages permeate a system’s boundaries but are necessarily unintelligible. The utility of social systems for agents – who are necessarily contemplating, undertaking and reviewing action as communication – with respect to their environments is in categories, typifications and procedures. Social systems are complex, but by implication less complex

than their environments. There is no one-for-one correspondence of entities classified as events in environments and matching responses generated within systems. If a system or a narrative is abandoned, so too is its environment because distinction and definition represented by its boundary are lost.

The discussion to this point has been of discourse, of texts and of narratives. Narratives can be compared with institutions and also with social systems. Our main interest is in the necessity of narratives to exclude as well as include texts to establish definition and continuation in shaping continuing communication, which in turn implies boundaries. In order to be applied, our discussion can be developed along two trajectories. The first trajectory is more general than discourses, to do with identifying different narratives and their relationships. The second is more specific, in applying the principle of discourses to texts about a particular institution or system of interest authored by its participants. In our first general trajectory the guiding hypothesis is of discourses that take the form of incommensurable narratives, which themselves represent social systems. We can identify social systems with narratives as narratives provide a basis for accepting or rejecting texts, for instance by accumulating precedents and typifications. Discourses in which texts are not arranged around narratives do not imply systems unless there is some other potentially unifying commitment to something like pluralism or multi-vocality per se.

Calculation is a general example of narrative, which can be applied to health care even though it has been developed more fully in contexts of encounters around markets (Callon and Muniesa 2005). Calculation is a type of discourse in that it involves communication about and applications of techniques of calculation and about entities that can be represented as data in calculation. Calculation is a narrative (or strong) form of discourse because prior to its undertaking in specific locations, agents can form common general expectations as to the kinds of processes and outcomes involved (Porter 1992). Callon and Muniesa (2005) argue that entities can be compared as goods if they acquire the properties of stability, delimitation and definition. Stability allows auditable comparison over time and space and so establishes continuation. Delimitation and definition allow for qualities to be compared. But calculation implies the acceptance or rejection of means of calculation and means of categorisation or codification and entities to be considered as goods (information).

6. Discussion and Conclusion: Understanding Institutions and Institutional Change Through Language and Boundaries

Institutional and social economists are well aware of the need to conceptualize the human being in a way that allows for motives other than self interest and that allows for an influence of the environment on how preferences are formed and how decisions are made (Davis 2003). If there is no conceptual way to relate the individual to social settings except for the influence of budget constraint and the availability of resources, to pursue a selfish aim, what possibilities are there to discuss communities—networks—as well as their institutional context?

Individuals enter into relations and market transactions. These are of necessity subjected to boundaries, as institutional and social economists know. Sure enough, general features, or essences, of market may be recognized (Rosenbaum 2000). The exchange of property rights to commodities that typify markets as an institution is one prominent example. Yet, many of the general rules one might come up with turn out to be applicable in a small number of areas. Prices may for instance be fixed in some markets while in others bargaining is the norm. Markets may involve the exchange of money for goods, or there may be barter; a combination is possible. Sometimes what is applicable is indeterminate even within a given society. For instance, the representations of ‘buyer’ and ‘seller’ do not necessarily ensure ready identification. Some elements that many would describe as essential need not be essential in the perception of others. What may legally and morally be exchanged through the mechanism of a market changes fundamentally across fields, societies and time. The question of whether children, life insurance, religious mercy could be exchanged over a market have been answered differently in different times in the past. Our present perception in these issues is largely immaterial; what is important is that during these different times, the perception then was shared, shared through language. From the perspective of action and communication, and through language broadly, the boundaries of what was required behaviour in a given situation was diffused throughout a community. Through the use of language, such boundaries change. What is needed, in addition to what Searle has suggested in his conceptualization of institutions, is an understanding that does full justice to the role of language and thus of perception.

An economy without a rule of law of a formal or an informal kind is impossible. When the state is not (yet) able to formally play a role as lawmaker or enforcer, other institutes assume such a (legitimate) role, as the Catholic Church did in medieval Europe (Ekelund et al., 1996). Law as an institution establishes and conveys formal rules in language, and, draws boundaries between what is permitted and what is not; boundaries in

the realms of actions, groups, and goods. At the same time, the law relies on boundaries for it to be effective. Without, to some extent, impregnable geographical boundaries, the law is toothless. Enforcement of the law partly boils down to the persistence of boundaries. Keeping boundaries in place is impossible if there are no boundaries to the extent to which individuals are selfish—the law needs (some) people to be moral (sometimes).⁸

Boundaries clearly have moral overtones. This holds at a macro level for the boundaries between states, at least since the Treaty of Westphalia of 1648, but is equally true for the micro level. Falk (1994) argued, for instance, that individuals police the borders of their own body, taking in what they perceive as clean and pure, keeping out what is dirty or immoral. People's sense of the self is related to what they see as their and their communities' boundaries.

For social entities a similar thing holds. What is included and what is excluded defines communities as well as organizations and firms. "They" do not belong to "us" (Elias and Scotson 1965; Barth 1970). By establishing a border, a relatively stable sphere is created which is safe and predictable in relation to an outside that is not, thus trying to deal with uncertainty or risk (Dannreuther and Lekhi 2000). Culturally embedded beliefs and knowledge of relatively homogenous groupings develop into rules and values that determine which issues are relevant and how to decide on them. The inside/outside distinction that boundaries create "lies at the collective" (Falk 1994, 21). Boundaries will thus not only function as thresholds, controlling inflow and outflow, but also as binding structures, producing and reproducing internal unity (Llewellyn 1994, 14). Boundaries are not simply inconsequential residuals, to be changed at will, as is commonly assumed in economics. Yet, despite this romantic view, delineating the borders of a market has proven almost insurmountable (Horowitz 1981). Much has been written about where the boundaries of the firm, for instance, are, but little about what actually occurs at the boundaries (Casson and Wadeson 1998). This has not provoked economists to consider the idea of boundaries more profoundly.

Boundaries, more to the point, for members of a community, are available in routines that they need to learn, to be socialized into. Boundaries are to be achieved, not assumed. According to *The Economist*: "[B]oundaries of the mind and habit are harder to take down

⁸ There has of course been a long discussion about the extent to which the law can depart from the general feeling in society about what ought to be permissible and what ought not. Even a "society" consisting of wholly selfish individuals, however, as Hobbes claimed, would set boundaries on the activities that they themselves would be allowed to undertake even when these activities would be beneficial to them. These boundaries will, of course, need to be developed, understood and communicated

[than boundaries between states].” Personal identities are not perfectly malleable, firms do not downsize at will, and communities cannot change overnight, by design. The Economist, again, suggested that “borders, like rivers, tend to stick in their places, doing damage when they wander.” The recognition that society is an open system (Grunberg 1978) makes clear that interactions between a system—individual, organization—and its environment is inevitable. Hence the need for (and possibility of) active boundary maintenance, controlling which information is exchanged with the environment. Depending on the perceived needs of a firm to actively be taking information from outside, and depending on whether it perceives its environment as analyzable, it will be more open to an environment and will be interpreting that information differently (Leifer and Delbecq 1978; Daft and Weick 1984).

Accountants are one example of individuals involved in an active and changing discourse at the boundaries of a firm, communicating with insiders as well as outsiders (Llewellyn 1994). The “iron cage” that a rationalist perspective of society ushers in does not allow one to notice such features of organizations and individuals as interpretation and the role of boundaries (DiMaggio and Powell 1983; Weber 1968). The boundaries created to impose homogeneity and certainty create a common institutional “furniture” (Veblen, 1919) that allows for interpretation and coordination without direct involvement of a specific individual in a specific role.

“[W]hile agency is central to . . . boundary activity, such agency is not only accomplished through the reasoned intentions and capabilities of purposeful individuals”. (Llewellyn 1994: 10)

Much of the information exchanged is “institutionally generated” (cf. Anand & Peterson 2000). It is, of course, on individuals that the system of institutions imposes those conventional standards, ideals, and canons of conduct that make up the community’s scheme of life. As boundaries are achieved by people, a change in their role “always brings potential changes in the power structures and systems of meaning within the organization” (Llewellyn 1994, 17).

Recall Wittgenstein’s notion of language games, which he claimed were ‘self-organizing’ spheres governed by rules or institutions, to be learned while using them, interacting with others. His *Philosophische Untersuchungen* contains the following aphorisms that might serve:

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- 5. Learning is a tuning of interpretation between 2 persons
- 76. One picture of the same game might have sharp borders, the other none at all
- 77. 'Sharp' might be defined as 'blurred', and vice versa. As well 'good' as 'bad'
- 78. You can know something in limitless ways.
- 83. Games might change while being played. Languages are 'living' systems.
- 96. Thought is a language game. A picture of the world.

Searle has made an important contribution to the conceptualization of institutions by claiming that language is the fundamental institution without which there would be no other institutions and without which no understanding of institutions would be possible. The view of language presented by Searle does not emphasize the ambiguity in the use of language, it appears not to assume that meanings might differ between people, it seems to exclude interpretation and perception. As a result the durability as well as the change of institutions may be ill-understood. In attempting to offer a 'test' for the re-identification of institutions, in order to understand institutional change, we extend the work of Searle by providing a fuller notion of language and language use. For one, language creates similar groupings with a common sense of identity, separating an inside from an outside by constructing boundaries that may need to be actively maintained.

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