Putting things in place: Institutional objects and institutional logics

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Putting Value in Its Place: Study Reveals How Objects Shape Institutional Practices

A groundbreaking study by researchers Roger Friedland, a professor emeritus at the University of California, and Diane-Laure Arjaliès, an associate professor in managerial accounting and control and sustainability at the Ivey Business School at Western University, offers fresh insights into how physical objects and materials help establish and maintain institutional practices, from financial markets to religious rituals.

Their research, published in Research in the Sociology of Organizations, introduces a novel framework for understanding how institutional objects — like financial models, ESG criteria, cryptocurrency, passports, or sacred texts — interact with human practices to create and sustain social systems.

The researchers argue that certain objects are more than just tools or symbols — they are "institutional objects" that actively shape how institutions function. These objects work through four key processes that the authors call "value moments:" institution (establishing beliefs), production (creating value), evaluation (measuring worth), and territorialization (defining boundaries).

Previous research on institutional objects and logics has focused mainly on how people and organizations create institutional practices, but it has largely ignored the crucial role that material objects play, the authors note. The study shows that objects aren't just passive things people use — they actively help create and maintain institutional systems.

The Study

To illustrate their framework, the researchers examined the Black-Scholes-Merton options pricing model, a mathematical formula that revolutionized financial markets in the 1970s. This model didn't just calculate prices — it fundamentally changed how traders understood and valued financial assets.

The options pricing model is a perfect example of an institutional object, the authors note. "It instituted a new ontology of risk, one based on implied volatility, versus an actuarial model insurance companies used to value risk." It wasn't just a calculation tool, rather it created a new way of thinking about market value and risk. It shaped how traders behaved and how markets operated.

The Results

The study shows how the Black-Scholes model worked through all four value moments:

- Institution: It established new beliefs about how markets should work and what constitutes fair value.
- Production: It created a new way to generate and trade financial products.
- Evaluation: It provided methods to measure and assess market value.
- Territorialization: It defined what could be valued and traded in markets.

“These value moments are not independent of each other and should not … be viewed as sequential, but as co-existing and co-implicated practices. Each good depends on all of these moments to exist as both fact and value,” the authors write.

The researchers point to the 1987 stock market crash as a crucial test of their framework. When the crash exposed flaws in the model's assumptions, traders didn't abandon it entirely. Instead, they modified their practices while maintaining their belief in the underlying concept of market value. This adaptation shows how institutional objects can evolve while continuing to shape institutional practices.

The authors note that objects become more than just tools — they become central to how society understands and interacts with institutions. For example, a passport isn't just a document, it's fundamental to how people understand citizenship and national sovereignty.

Implications

The study has implications far beyond financial markets. The researchers suggest their framework could help explain how objects shape institutions across society.

According to the researchers, understanding the role of institutional objects could help society better manage institutional change. Whether it’s reforming financial markets or transitioning to sustainable practices, policymakers need to consider how objects either enable or constrain change.

The research also challenges traditional views about how institutions work. Rather than seeing institutions as purely social constructions, the study suggests they are grounded in material practices and objects that give them stability and meaning.

This new perspective could influence how organizations approach institutional change. Instead of focusing solely on changing rules or behaviours, organizations might need to consider how their material practices and objects either support or hinder desired changes.

The study also opens new avenues for research into how technological changes might affect institutions. As digital technologies replace physical objects, understanding how these new "virtual" objects function institutionally becomes increasingly important.

As we move into an increasingly digital world, understanding how institutional objects work becomes even more critical. For example, how will digital currencies change our understanding of money and value?

The research provides a new theoretical framework for studying institutions while offering practical insights for organizations managing institutional change. By highlighting the crucial role of objects in institutional life, it suggests that successful institutional change requires attention not just to rules and behaviors, but to the material objects that shape institutional practices.

This work represents a significant advancement in institutional theory and provides a foundation for future research into how material objects shape social institutions. As organizations face increasing pressure to adapt to technological and social changes, understanding the role of institutional objects could prove crucial for managing successful transformations.

“We believe that our theoretical model could help understand why some market devices help transform practices toward the purposes they pursue, while others do not.