

**Hybrid Forms and Institutional Change  
in the Early California Thrift Industry**

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## Introduction

This chapter is concerned with institutional change. We focus on organizations as the means by which institutions are created, transformed, and extinguished because organizations are, arguably, the most powerful and pervasive elements of modern society. Accordingly, we undertake here a study of how institutions and the organizational forms that embody them coevolve; *i.e.*, we assess how institutional definitions, rules, and expectations unfold in tandem with organizational structures and processes (Scott 1995: 147).

A central question concerning institutional change is whether the replacement of existing institutional logics by new ones is a *discontinuous* or an *incremental* process. Discontinuous change occurs when existing institutional carriers (established organizations) discard their original forms entirely and adopt new ones, and when new institutional carriers (newly founded organizations) take on forms that are distinctly different from those of established institutional carriers. For example, the advent of mass production in the automobile industry between 1910 and 1913 undermined old models of the relationship between men and machines; it also introduced new theories of work and productivity (*e.g.*, mass production and the assembly line). In contrast, incremental change occurs when existing institutional carriers recombine features found in other established carriers (that is, when established organizations replace some features of their current form with features adopted from one or more other forms), and when new institutional carriers blend what were formerly distinct structural principles (that is, when newly founded organizations blend two or more formerly distinct forms). For example, small additions to the service portfolio of gas stations over the past 40 years blurred the distinctions between these organizations and other retail service organizations, particularly car washes and convenience stores (Usher and Evans 1996). When institutional evolution is discontinuous, one institutional logic is replaced by a new one through an abrupt discontinuity during which the new form completely displaces the old one; in contrast, when

institutional evolution is incremental, one institutional logic is supplemented, rather than supplanted, by a new institutional logic through grafting of the new form onto the old.

Whether institutional change is discontinuous or incremental depends largely on the extent to which organizational change involves the process of *hybridization*. Hybrid organizations combine different aspects of two or more organizational forms: they blend the institutional logics that are materialized in two or more organizational forms. For instance, organizations in Meiji Japan adopted some, but not all, aspects of Western organizational structures and practices and thus developed hybrids of the traditional Japanese and modern Western models (Westney 1987). We study the role of hybridization in the coevolution of organizations and institutions in the early California thrift industry. This industry was characterized by the presence of many hybrids; indeed, the organizational form that eventually came to dominate the industry was a hybrid. The thrift industry thus represents an “extreme case” (Eisenhardt 1989) that enables us to explore hybridization in depth.

In the next section, we review literature and develop theory about the origins and functions of hybrid forms. We then describe our research site, its varied organizational and institutional forms, and our data sources. After this, we present the results of our empirical analysis. We conclude by noting several questions raised by our study and suggesting potentially fruitful avenues of future investigation.

## **Hybrids and the Coevolution of Institutions and Organizations**

The notion that hybrid social systems are widespread and important has a long standing in sociology. Twenty-five years ago, Blute (1979: 55) argued that hybrids may be far more prevalent among social systems than among biological organisms; hence, hybrids merit greater attention from social theorists. Despite this expectation that hybrid social systems are commonplace, only recently

have we seen research that examines the genesis or functioning of hybrid organizations. Organizational theorists have speculated about one kind of hybrid, variously labelled “trust relationships” and “network organizations,” whose structure lies in-between atomistic markets and formal hierarchies (Bradach and Eccles 1989; Powell 1990; Williamson 1991; Podolny and Page 1998). These theoretical treatments have been complemented by empirical studies of business groups in Asia – Japanese *keiretsu* (Lincoln, Gerlach, and Takahashi 1992; Lincoln, Gerlach, and Ahmadjian 1996), Korean *chaebol* (Hamilton and Biggart 1988; Guillén 1997), Taiwanese *guanxi qiye* (Hamilton and Biggart 1988), and Chinese *qiye jituan* (Keister 2000) – and of network organizations in Eastern Europe (Stark 1996; Stark and Bruszt 1998). Organizational theorists have begun to study a related type of hybrid, namely systems that combine parts of two or more organizations in a permanent formal structure: joint ventures, strategic alliances, and consortia. Organizational theorists have analyzed why organizations enter into such combinations, how these combinations unfold over time, and why they dissolve (*e.g.*, Pfeffer and Nowak 1976; Powell and Brantley 1992; Aldrich and Sasaki 1995; Gulati 1995).

Our work differs from most previous research on hybrid organizations in one important respect. Like Westney (1987), we analyze one particular manifestation of hybrids: entities that blend elements of two or more distinct organizational forms, rather than entities that combine features of organization and market (network organizations), or entities that are subsidiary to two or more other organizations (joint ventures or consortia).

Our chapter focuses on two aspects of hybrid organizations: their origins and their function in the process of institutional and organizational coevolution. Below, we discuss each aspect of hybrids in turn.

## The Origins of Hybrids

To study how hybridization shapes institutional and organizational coevolution, it is useful to begin with an understanding of the circumstances under which organizations embodying multiple ideological principles are built. Organizational ecologists (Hannan and Freeman 1986, 1989: 45-65) have speculated about the social-structural conditions that promote or impede the formation of hybrid organizations; they have proposed that segregating mechanisms separate organizations into distinct forms (they reify differences) and that blending mechanisms blur distinctions between organizational forms (they reify similarities). Our discussion of segregating and blending mechanisms elaborates on and extends this prior ecological analysis.

Segregating mechanisms. Five forces drive the segregation of organizational forms (*cf.* Hannan and Freeman 1989: 54-57). First, *technological factors* create differences between organizational forms; *i.e.*, empty points in the four-dimensional space comprising all possible combinations of core organizational features: goals, authority structures, production technologies, and marketing strategies. Gaps between organizational forms appear because certain combinations of goals, control structures, modes of production, and marketing strategies are inconsistent. Small organizations, for example, cannot easily pursue generalist strategies; their limited resource bases do not allow them to offer a wide array of products to a large spectrum of clientele. Conversely, although large organizations can successfully serve the core of a market – offering general-purpose goods and services to a large number of customers – they find it harder to tailor their output to the specialized needs of small, peripheral niches. This dynamic has been found among newspapers and breweries (*e.g.*, Carroll 1985; Carroll and Swaminathan 2000).

Second, *social structures* – in particular, networks of exchange between organizations – segregate organizational forms. Closure of social networks segregates organizational forms through inbreeding, which occurs when sets of organizations hire employees from the same educational or

training institutions, or when organizations hire each other's employees. Inbreeding facilitates the development and diffusion of idiosyncratic language, culture, knowledge, and practices throughout any circumscribed organizational community (Boeker 1996; Sørensen 1999) and so separates it from other organizational communities.

Third, *political processes* segregate organizational forms. In particular, successful collective action on behalf of a group of organizations, such as organizations in an industry creating a lobbying association or organizations in a geographic region working together on a legal issue that affects all of them, can create distinctions between those engaged in collective action and those not so engaged. For example, the notion of a common bond linking credit union members has weakened so much that credit unions have expanded their membership broadly and many are virtually indistinguishable from local banks. Despite this weakening of the common-bond principle, and despite the fact that credit unions have begun to offer services comparable to banks, intense lobbying by the National Credit Union Association has allowed state-chartered credit unions to remain legally distinct from banks and thus sheltered from most corporate taxes.

Fourth, *institutional processes* erect boundaries between organizational forms. In such processes, arbitrary differences between organizations are transformed over time into differences with real social consequences. In this manner, nominal classifications become substantive (Hannan and Freeman 1989: 57). This may happen in two ways. First, powerful institutional actors may endorse the claim of a particular organizational form in disputes with other forms. For example, distinctions between consumer-watchdog organizations and their forerunners (industrial standards-and-testing organizations and socialist consumer leagues) hinged on endorsements by powerful actors – advertisers, retailers, state authorities, and manufacturers of the products being rated – who collectively legitimated a limited domain of activity and a limited set of goals for consumer-watchdog organizations (Rao 1998). Second, organizational forms may become taken for granted as the

natural way to effect particular kinds of collective activity. The legitimacy of established organizational forms works against the founding and operation of organizations with forms that differ from the accepted templates. Founders of such novel, not-yet-taken-for-granted forms of organization face the difficult task of mustering cognitive and sociopolitical legitimacy (Aldrich and Fiol 1994).

A fifth force, not part of Hannan and Freeman's original formulation, drives the segregation of organizational forms: *competition*. Organizations that are similar compete most intensively because they depend on similar input resources and similar customer demand (Hawley 1950; Hannan and Freeman 1977, 1989; McPherson 1983). To avoid competition, organizations seek to distinguish themselves from other organizations (White 1981); organizations that do not succeed in distinguishing themselves from others risk intense competition and failure.<sup>1</sup> Research on size-localized competition (Hannan and Freeman 1977: 945-946), for example, shows that organizations compete most intensively with similarly-sized organizations. Medium-sized organizations are squeezed competitively from both ends, by both large and small rivals. Hence, large and small organizations thrive; medium-sized organizations do not.

Blending mechanisms. There are five mechanisms by which organizational forms blend together (*cf.* Hannan and Freeman 1989: 57-60). First, *planned or unplanned change during founding* can blur distinctions between organizational forms. For example, between 1958 and 1988, founders of gas stations experimented with adding services to basic gas and oil sales; the most successful of these organizational experiments blurred the boundaries between gas stations and two other organizational forms, car washes and convenience stores (Usher and Evans 1996). Entrepreneurs often consciously reformulate existing structures and routines to take advantage of emerging opportunities, escape environmental constraints, or avoid defects in established organizations' designs. In this vein, Suchman (this volume) describes two processes, compilation and filiation, by

which institutional entrepreneurs build new ventures out of a subset of currently available structural elements. On other occasions, founders' errors result in imperfect replication of established organizational designs. Alchian (1950: 218-219) observed that "while there are those who consciously imitate, there are those, who in their imperfect attempt to imitate others, unconsciously innovate by unwittingly acquiring some unexpected or unsought unique attributes." In some cases, such unintentional replication errors may erode boundaries between organizational forms and repertoires of action.

Second, *random or unintentional drift in established organizations* can erase boundaries between organizational forms. Such random drift results from the accumulation of many small, unintended changes in procedures or routines, and is accelerated by personnel turnover (March 1981). The movement of personnel from business schools to corporations (*e.g.*, Steven Kerr's leap from U.S.C. to G.E.) has facilitated the growth of "corporate universities" (AACSB 1997a, 1997b) and is beginning to obliterate distinctions between business schools and in-company training programmes. Several "corporate universities" now grant degrees, often in partnership with business schools. For example, the Arthur D. Little School of Management awards the Master of Science in Management degree; this institution has been accredited by the New England Association of Schools and is being evaluated for accreditation by the American Association of Collegiate Schools of Business.

Third, *planned recombinations* of existing routines and structures into new packages can cause the blending of organizational forms. DiMaggio and Powell (1983) proposed that pressures for institutional isomorphism result from ties to powerful individuals and to powerful other organizations within structured organizational fields. Such ties can prompt blending of organizational forms through mimetic, normative, and coercive processes. Mimetic recombination of routines and structures is brought about through imitation of similar or superior organizations; for example, savings and loan associations enter new investment markets when they have been

legitimated by successful competitors (Haveman 1993), and corporations choose audit firms to reflect the choices of prestigious competitors (Han 1994). Coercive recombination – especially expansion of product lines and customer bases – can be brought about through merger and acquisition (Palmer, Barber, Zhou, and Soysal 1995); coercive recombination of routines and practices can be brought about through government regulatory initiatives (Dobbin, Sutton, Meyer, and Scott 1993; Edelman 1990; Baum this volume). Finally, normative recombination can be prompted by participation in corporate interlocks, joint ventures, strategic alliances, and consortia (*e.g.*, Haunschild 1993; Aldrich and Sasaki 1995; Gulati 1995; Powell, Koput, and Smith-Doerr 1996; Davis and Greve 1997), as such combinations introduce their participants to novel institutional logics.

Fourth, *deinstitutionalization* can erase distinctions between organizational forms; this is the converse of institutionalization creating distinctions between forms. For instance, legal rules that erect barriers between organizational populations can be relaxed, as happened when deregulation in the U.S. financial services sector broke down boundaries between credit unions, savings and loan associations, savings banks, commercial banks, investment banks, and securities firms.

Deinstitutionalization can also occur when the formal or informal rules defining a boundary are widely broken; *e.g.*, the boundary between professional and amateur athletics has been broken by state support of Olympians and, most recently, by allowing professional tennis and basketball players to compete in Olympic games (Thurow 1996). Finally, deinstitutionalization can occur when new institutional logics are introduced to a stable organizational community. For example, the consumer-health and alternative-medicine movements ruptured the hegemony of professional control in the health-care field; this disruption paved the way for managerial and corporate logics to penetrate this field at a later point and to supplement the professional logic (Scott, Ruef, Mendel, and Caronna 2000; Scott, Mendel, and Pollack this volume).

There is a fifth force that can prompt the blending of organizational forms, one that is not part of Hannan and Freeman's original formulation: *technological change*. Leaps in technological capabilities can cause organizational forms to drift together. Consider, for example, the current convergence of computing and telecommunications, which is driving firms in these sectors to merge in order to acquire overlapping skills and product offerings. To give another example, differences between cable providers and telephone companies have begun to blur as improvements in cable technology enable cable providers to offer telephone service and *vice versa*.

Summary. Although we have discussed them serially, both blending and segregating mechanisms are likely to operate in tandem. Indeed, some factors that drive the blending of organizational forms also drive the segregation of organizational forms; *e.g.*, competitive and institutional forces. Therefore, blending and segregating process will often operate simultaneously to shape organizations and the institutions they embody, pulling them closer on one dimension of form while pushing them apart on another dimension of form. For example, Greve (1996) showed that radio stations differentiate themselves from others within their broadcast market in terms of format, but imitate the formats of radio stations in other broadcast markets; in that industry, blending occurs across geographically bounded arenas of competition, while segregation occurs within those arenas. In contrast, Baum and Haveman (1997) found blending and segregating mechanisms to be operating simultaneously in a single arena of competition: new hotels in Manhattan tended to be similar to their nearest competitors in terms of price (blending on one dimensions of form), but different in terms of size (segregating a second dimension of form). Similarly, Baum (this volume) finds that competition increased the diversity of Toronto day-care centers with respect to the age groups of children served (segregating on one dimension of form) and decreased day-care center diversity with respect to licence status and profit orientation (blending on two dimensions of form).

### The Role of Hybrids in Institutional and Organizational Coevolution

The relative strength of segregating and blending mechanisms has important implications for the emergence and evolutionary role of hybrid institutions and organizational forms. Segregating mechanisms increase the effort required to create hybrid institutions and organizational forms: when segregating mechanisms are strong, discontinuities between institutions and organizational forms are sharp and reflect substantive differences. Under such circumstances, entrepreneurs will be unable to found new hybrid organizations; *i.e.*, organizations that blend the elements of two or more existing forms. And under such circumstances, it will be difficult for established organizations to hybridize; *i.e.*, to adopt some elements of other, distinctly different forms. In contrast, blending mechanisms create opportunities for entrepreneurs to build hybrid institutions and organizational forms: when blending processes dominate, distinctions among forms are relatively arbitrary and easily bridged. Hence, strong blending mechanisms facilitate the emergence of new hybrid forms, the birth of new hybrid organizations, and the transformation of established organizations into hybrids. For example, Scott, Mendel, and Pollack (this volume) find that when organizational-form variety is greater in the health-care field, existing health-care organizations are more likely to take on “blended” or hybrid forms.

Widespread hybridization promotes incremental rather than radical institutional and organizational coevolution, for two reasons. First, hybrids can be formed through piecemeal adaptation by existing organizations. Second, hybrids can be formed through construction of new hybrid organizations – through the recombination by entrepreneurs of elements belonging to two or more existing organizational forms. Together, piecemeal adaptation and entrepreneurial recombination make for incremental rather than radical coevolution of organizational forms and institutions. We elaborate these ideas below.

Hybridization and piecemeal adaptation. Hannan and Freeman (1989) noted that planned organizational change through the recombination of existing routines and structures into new packages can cause the blending of organizational forms. It is easier for existing organizations to add a few elements taken from another organizational form than to abandon their current form for a completely different form, *i.e.*, it is easier for organizations to change part rather than all of their structure and activities (Haveman 1992). For instance, offering new products to the same set of clients using similar production and distribution technologies, and a similar formal structure and authority system requires adjustment of only one dimension of organizational form. By contrast, offering novel products to different clients, when those products are manufactured and marketed in ways very different from an organization's original products and when those products require different bases for divisionalization and allocation of authority, requires substantial modification of all dimensions of organizational form. The former should be both easier to undertake and less harmful to performance and survival chances than the latter. Less learning about new routines and communication patterns is required when organizations undergo partial change than when they undergo complete transformation; *i.e.*, when organizations build on their current capabilities rather than developing entirely new ones. Moreover, if an organization changes only part of its structure and activities, it does not have to completely abandon its history or established competencies. Hence resistance on the part of organizational members, which stems from the disturbances that change produces in organizational status hierarchies, will be less when organizations undergo partial change than when they undergo complete transformation. This logic is particularly compelling when organizational forms are highly institutionalized. If radical reorganization entails robbing organizations of their histories and disavowing their prevailing ideologies, partial reorganization makes it possible for organizations to retain some elements of their histories and ideologies while adding a few new elements.

In summary, this logic suggest that organizations are more likely to convert to similar organizational forms that include elements of their original form than they are to convert to completely different organizational forms.

Hybridization and bricolage during founding. Hannan and Freeman (1989) observed that planned change during founding can blur distinctions between organizational forms because entrepreneurs can deliberately reformulate existing structures and routines to take advantage of emerging opportunities, escape external constraints, or avoid defects in established organizations' designs. Douglas (1986) suggested that institutions are more easily built through bricolage – the recombination of existing stock repertoires of structures, technologies, and ideas – than through the invention of new entities on a *tabula rasa*. Suchman (this volume) proposes that there are two processes, compilation and filiation, through which institutional entrepreneurs build new ventures using readily available structural elements. In the compilation process, founders draw ideas about how their new ventures should look, act, and be from “compiled” information sources – the accounts relayed to them by counsellors such as lawyers and accountants. In the filiation process, founders draw such structural information directly from established role-model organizations. In a similar vein, Swidler (1986) argued that institutional entrepreneurs are skilled users of cultural repertoires: they select from a menu of cultural items and devise structures and practices that are combinations of established ones.

Stark (1996) analyzed the inducements for entrepreneurs to construct hybrid organizations and institutions in Hungary and the Czech Republic as these economies made the transition to market capitalism. He concluded that entrepreneurs build new organizations *with* the ruins of existing organizational forms, rather than *on* the ruins of these forms (Stark 1996: 995). He contended that entrepreneurs mate different ideological principles to deal with uncertainty and hedge against unforeseen evaluation contingencies. In this sense, hybrids enable organizational

entrepreneurs to construct multiple accounts and justifications of their actions to shield themselves from a perceived dearth of legitimacy during eras of fundamental restructuring, such as is occurring now in several post-socialist Eastern European countries (Stark and Bruszt 1998). In particular, Stark (1996) found that the boundaries between forms of enterprise in these countries are blurred by cross-ownership, which functions as a form of hedging against technical and market uncertainties. In this light, hybridization – in this case, centralization of debt and decentralization of assets – is seen as an uncertainty-reducing process that prevents shortfalls in legitimacy and induces experimentation. Stark further suggested that rivalry between the different ideological principles embodied in various hybrid organizational forms is a form of organized redundancy that tolerates a diversity of options.

In sum, this reasoning suggests that entrepreneurs are more likely to build new organizations that combine elements of two or more existing forms than they are to build new organizations by developing entirely new forms or by utilizing elements of only one existing form.

### **Research Site: The Early California Thrift Industry**

We explore these arguments by tracing adaptations by existing organizations and births of new organizations among early California thrifts between 1890 and 1928. The first California thrifts were founded in 1865. By 1895, California thrift numbers had risen to 153, with over 34,000 members and over 9,000 mortgage loans outstanding; by 1925, thrift numbers had increased only a little, to 162, but membership and loan volume had exploded, to almost 80,000 members and over 50,000 mortgage loans (California Commissioner of Building and Loan 1895, 1925).

Our data come from annual Reports of the California Commissioner of Building and Loan, which were published from 1890 onward. Although these data are rich, there are some gaps in the records: annual Reports were not published in 1897, 1898, 1901, 1902, 1903, or 1904. We have

exact birth dates for all thrifts that operated during our observation period. We also know the institutional and organizational form of each thrift for each year of recorded data. We can determine the date of form conversion for most thrifts; when thrifts changed institutional and organizational form during a gap in our records, we assume the form-conversion event occurred at some randomly assigned point during the gap.

### Thrift Institutions and Organizational Forms

Early thrifts were mutual self-help organizations whose main goal was to assist members to improve their material standing, specifically to make it easier for members to save money and use the accumulated savings to build or buy houses (Clark and Chase 1925: 3-9; Bodfish 1931: 1-18; Kendall 1965). Early thrifts comprised ensembles of ethical views concerning saving, governance mechanisms, and ideas concerning effective financial coordination. In short, early thrifts embodied institutionalized systems of moral authority – theories of moral sentiment that made concrete notions of what thrift is and is not, and what thrift should and should not do (Haveman and Rao 1997). Early thrift organizers considered their charge to be one of economy *and* morality. The beneficiaries of home ownership achieved through cooperative effort were not just thrift members or their immediate families, but included their employers and the wider communities in which they lived (Dexter 1889: 9-12; Clark and Chase 1925: 16). Indeed, early thrift organizers believed that moral worth was made possible by economic advancement.

The cognitive, regulatory, and moral dimensions of thrift were translated into organizational structures called *plans*. Thrift plans established the roles and responsibilities of members, the scope of financial services offered members, and the procedures for regulating how incoming funds were invested and earnings were distributed. Thrift plans thus determined organizational goals, authority relations, financial-intermediation technologies, and marketing strategies – the four core

characteristics of organizational form (Hannan and Freeman 1984, 1989). Our descriptions of thrift plans are compiled from the writings of several contemporary observers and later industry analysts (Wrigley 1873; Dexter 1889; Winters 1890; Myers 1921; Clark and Chase 1925; California Commissioner of Building and Loan 1890-1929; Bodfish 1931; Kendall 1965; Teck 1968; Rasmusen 1981).<sup>2</sup>

Five basic plans constituted the five main templates for organizing in the early thrift industry: the terminating, serial, Dayton, permanent, and guarantee-stock plans. In addition to the five basic thrift plans, five hybrid plans also appeared, each combining elements of two or more basic plans. The serial plan was blended with the Dayton plan, the guarantee-stock plan, and with both the Dayton and guarantee-stock plans; the permanent and Dayton plans were each combined with the guarantee-stock plan. Each thrift plan was distinguished from the others by the institutionalized system of moral authority that it made concrete: its goals, membership rules, standard operating procedures, governance system, and portfolio of financial services. In particular, membership rules and the array of services offered to members determined the strength of the two main pillars of the thrift institution: the extent of mutual cooperation among members and the degree to which individual members' efforts were structured rigidly.

To compare the institutional logics embodied in the various thrift plans, Figure 1 graphs each basic plan and each hybrid plan according to the theory of moral sentiments it embodied. The figure arrays thrift plans on two dimensions of institutional forms: mutuality and enforced saving and borrowing. The figure also notes the founding date of the first instance of each plan.

[Figure 1 about here]

The earliest thrift organizational forms – *the terminating and serial plans* – were extremely strong in both mutuality and enforcement of individual effort. Strong mutuality ensued from the facts that both plans resembled clubs,<sup>3</sup> and that members of both types of thrift had the same dual role (saver

and borrower). Rigidly enforced effort in thrifts with terminating and serial plans arose from unyielding constraints on members: they joined the association at its inception (in terminating-plan thrifts) or at the inception of a new share series (in serial-plan thrifts), they paid regular contributions to their association's lending fund, and delinquency in payment was punished by fines or by forfeiture of membership.

Subsequent pure organizational forms – the permanent, Dayton, and guarantee-stock plans – weakened either the pillar of mutuality or the pillar of enforced effort. *The permanent plan* was slightly less mutual than the serial or terminating plan because individuals entered and exited the association on their own, rather than with a cohort; hence its members' fates were less closely linked in time. But this plan's innovations did not alter the level of structured individual effort. *The Dayton plan* broke from previous plans by creating sharp distinctions between savers and borrowers (*i.e.*, savers did not have to become borrowers); hence this plan was somewhat less mutual than earlier plans. Moreover, the Dayton plan structured the efforts of members far less than did earlier plans, in two ways: it allowed both installment accounts (similar to the accounts used in earlier plans) and paid-up accounts (which resembled modern certificates of deposit), and it allowed payment on shares at any time and discontinued fines for late payment. The fundamental innovation of *the guarantee-stock plan* was to introduce a new class of stock paid in at founding, guarantee or contingent-reserve stock, which was nonwithdrawable and which was used to guarantee the association's loans. This plan offered the two classes of shareholders – ordinary installment shareholders and guarantee-stock shareholders – different risks and therefore different rates of return. Hence, this innovation shattered the model of mutual collaboration embodied in earlier plans. But it did little to alter rules concerning the rigid structuring of individual members' efforts to accumulate savings.

Early hybrid forms sought to preserve at least one of the twin institutional pillars by blending different basic plans. *The serial/guarantee-stock hybrid* preserved enforced saving but

weakened mutuality. As in the basic serial plan, cohorts of members entered and exited the association together; and as in the basic guarantee-stock plan, excess risks and excess profits accrued to guarantee stockholders. Similarly, *the permanent/guarantee-stock hybrid* preserved a moderately weak model of enforced saving (derived from the permanent plan), but greatly diluted mutuality with the introduction of a second class of stockholder. In contrast, *the serial/Dayton hybrid* preserved the strong model of mutuality that derived from the serial plan, but weakened that plan's model of enforced saving by allowing shareholders to be just savers and not requiring them to be borrowers. *The serial/Dayton/guarantee-stock hybrid* represented a complex attempt to preserve a single aspect of mutuality (cohorts of members who owned series of shares) while weakening most other aspects of mutuality (introducing a second class of stock, guarantee stock) and weakening structured effort (allowing shareholders to be just savers and not requiring them to be borrowers). The plan that came to dominate the thrift industry at the end of our observation period, *the Dayton/guarantee-stock hybrid*, undermined both institutional pillars of the earliest thrift plans: it allowed shareholders to be just savers and not borrowers, and so weakened the pillar of structured individual effort; it also distinguished between ordinary installment shares and guarantee stock, and so weakened the pillar of mutuality.

Hybridization lowered the costs of founding new thrifts for entrepreneurs and diminished the costs of reorganization for existing thrifts. For founders of new thrifts, a basic plan implied a narrow customer base; in contrast, hybrid plans allowed founders to attract a larger customer base because of ideological hedging.

For managers of existing thrifts, the effect of hybridization on reorganization was more complex. Each basic plan was rapidly institutionalized, infused with moral value beyond the technical requirements of the financial intermediation task at hand (Selznick 1957: 17). Each basic plan embodied a particular theory of moral sentiments concerning mutuality and structured

individual effort. As a result, changing from one basic plan to another involved repudiating strongly-held ideas and norms and essentially entailed an ideological shift by members akin to a religious conversion or a scientific paradigm shift. In contrast, hybridization made it possible for thrift managers to retain some elements of their existing theory of moral sentiments while adding a few new elements. For example, converting from the serial to the Dayton plan entailed shifting from an organization comprising many cohorts (series) of members, usually spaced at regular intervals, to an organization in which members could enter and exit at their own pace. It also meant getting rid of rigid payment schedules and fines for late payments, and eliminating the requirement that all savers also become borrowers. And it meant allowing a novel kind of account, paid-up stock, which had the face value of the share paid in at the start and accrued interest over its life, similar to the modern certificate of deposit. This involved the establishment and periodic updating of interest rates for borrowers based on demand for loans (rather than having borrowers bid for loans and pay loan premia).

As this narrative reveals, the institution of thrift was redefined between 1865 and 1928. This institution shifted away from a logic that emphasized spontaneous cooperation among friends and enforced saving and shifted toward a logic that exalted the bureaucratization of cooperation among strangers and voluntary saving (Haveman and Rao 1997). Simultaneously, the organizational form that made the thrift institution material was redefined, moving from the terminating and serial plans to the Dayton/guarantee-stock plan. This redefinition of the thrift institution and organizational form was powered by hybridization: new forms of thrift organization and new forms of thrift institution emerged as entrepreneurs blended existing organizational and institutional forms. Contemporary observers noted that some hybrid thrift plans arose through planned change to meet idiosyncratic local needs, while others were simply due to unplanned errors in replication (Clark and Chase 1925: 33).

Note that in analyzing institutional and organizational forms, we take a very different approach than do Mohr and Guerra-Pearson (this volume). These authors show how rival forms of community social-welfare institutions in the late nineteenth and early twentieth centuries – notably mission houses, missionary societies, social-work bureaucracies, and settlement houses – evolved through a series of jurisdictional disputes. Like us, they define organizational and institutional domains in terms of the claims these organizations made concerning the types of individuals served, social problems addressed, and services offered. Through a multi-dimensional scaling analysis, they induce the location of various institutional and organizational forms in social space from descriptions of clientele, goals, and technologies recorded in industry directories. In contrast, we take these locations as given – as real or taken-for-granted categories, identified by observers of the early thrift industry and by industry proselytizers. Mohr and Guerra-Pearson trace the evolutionary path of various forms in this organizational community across the social space defined by clientele, goals, and technologies. In contrast, we take the location in social space of each subform (each thrift plan) as fixed and explore shifts in the numerical dominance of various subforms within this organizational population.

## **Analysis: The Role of Hybrids in Institutional Change**

### Adaptation

We begin by assessing the extent to which adaptation events in the thrift industry involved hybridization; that is, we begin by determining the extent to which established thrifts changed to from one form to another similar (partly related) form, rather than changing to a dissimilar (completely unrelated) form. We compared the frequency of form conversion to similar and to dissimilar forms. We coded a form-conversion event as *conversion to a similar form* if the origin and destination forms shared at least one common root; *e.g.*, conversion from the Dayton plan or from

the serial/guarantee-stock hybrid to the serial/Dayton hybrid. We coded a form-conversion event as *conversion to a dissimilar form* if the origin and destination forms did not share a common root; *e.g.*, conversion from the permanent plan or from the permanent/guarantee-stock hybrid to the serial/Dayton hybrid.

Table 1 shows a transition table in which the rows count conversions *into* a particular organizational form and columns count conversions *out of* a particular form. Each cell in this table is shaded to denote conversion to a similar organizational form (light gray cells) or dissimilar organizational form (dark gray cells). The data reveal a solid preponderance of conversions to similar forms; there were 53 conversions to similar forms and 30 conversions to dissimilar forms. Among conversions to similar forms, there were 34 conversions from basic plans to hybrids that contained elements of the original plans, 12 conversions between similar hybrid plans (*i.e.*, between hybrids that were connected by sharing elements of at least one basic plan), and 7 conversions from hybrids to parent basic plans. Among conversions to dissimilar forms, there were 30 conversions from one basic plan to another, and no conversions between dissimilar hybrids (*i.e.*, between hybrids that were not connected to at least one common basic plan). Overall, the ratio of similar to dissimilar conversions, 53/30, supports our expectation that organizations are more likely to convert to similar organizational forms than to completely different forms. Furthermore, a t test revealed that the difference between the average yearly number of similar conversion events ( $\mu=1.35$ ,  $\sigma=1.36$ ) and dissimilar conversion events ( $\mu=.76$ ,  $\sigma=1.71$ ) was marginally significant ( $t=-1.67$ ,  $p<.09$ ).

[Table 1 about here]

In addition to comparing the mere number (density) of similar and dissimilar conversion events, we compared their mass. Mass is a better indicator than density of the extent of industry-level change when organizations in the industry differ greatly in size, as did early thrifts. We

accomplished this comparison of the mass of similar and dissimilar conversion events by weighting each conversion event by the size of the focal firm, where size is measured in terms of the dollar value of assets under administration. We analyzed whether there was a difference between the average mass of dissimilar conversion events each year ( $\mu=\$252.38$ ,  $\sigma=\$534.59$ ) and the average mass of similar conversion events ( $\mu=\$2,529.15$ ,  $\sigma=\$5,202.87$ ). A t test showed that the mass of dissimilar conversion events each year was significantly smaller than the mass of similar conversion events each year ( $t=-2.71$ ,  $p<.01$ ). These results offer strong support for our thesis of the preponderance of conversion to a similar form over conversion to a dissimilar form.

### Founding

Were new organizations built more frequently by combining the elements of two or more existing repertoires, or were they built completely anew or from a single organizational blueprint? To assess the validity of this claim, we counted the number of new thrifts founded with hybrid forms (blends of two or more basic designs) and the number founded with basic forms (single designs). There were 161 hybrid-plan founding events and 121 basic-plan founding events. This result suggests that newly founded thrifts tended to come into existence as hybrid organizations, offering less-than-overwhelming support for our logic. Was there a difference between the average number of hybrid birth events per year ( $\mu=4.87$ ,  $\sigma=7.29$ ) and the average number of basic-plan birth events ( $\mu=3.10$ ,  $\sigma=5.12$ )? A t test revealed no significant difference ( $t=-1.23$ ,  $p>.20$ ). This result fails to support our argument.

We obtained strikingly different results when we weighted the number of hybrid and basic-plan birth events by the size (in dollar value of assets) of the newly founded organization; *i.e.*, when we took into consideration the great differences between thrifts in terms of assets under management and analyzed the mass of hybrid and basic-plan birth events. A t test showed that the

average mass of basic-plan birth events ( $\mu=\$199.93$ ,  $\sigma=\$379.50$ ) was significantly less than the average mass of hybrid-plan birth events ( $\mu=\$1,253.99$ ,  $\sigma=\$2,247.28$ ):  $t=-2.88$ ,  $p<.01$ . This result clearly supports our argument.

### Summary

How does our analysis of hybridization in the early thrift industry illuminate institutional change in this industry and how does it inform organizational theory in general? First and foremost, our analysis makes clear that the extent to which institutional and organizational coevolution is discontinuous or incremental hinges on the strength of segregating and blending mechanisms, and on the consequent prevalence of hybrid organizational and institutional forms. Strong segregating processes, which inhibit the formation of hybrids, facilitate discontinuous coevolution; by contrast, strong blending processes, which spur the formation of hybrids, allow incremental coevolution. Our explanation for this outcome is straightforward. When segregating processes dominate and hybrids are scarce, institutions and organizational forms are distant in social space from established ones. But when blending processes dominate and hybrids are plentiful, institutions and organizational forms are close in social space. Great social distance between institutional forms (and therefore between their material forms) hinders incremental coevolution by making the distinctions between various institutions and organizational forms more real, more salient, and thus more difficult to bridge. Conversely, short social distance between institutional forms (and therefore between their material forms) facilitates incremental coevolution by making the distinctions between various institutions and organizational forms more arbitrary, more easily ignored, and thus more easily bridged. Hence, when many hybrid institutional and organizational forms exist, coevolution is more likely to proceed incrementally than discontinuously.

Consider again the counts of form-conversion events shown in Table 1. Of the conversion events listed in Table 1, 34 occurred as thrifts with a basic plan adopted elements of one or more other basic plans, and became hybrids. An additional 19 conversions occurred as thrifts with a hybrid plan dropped elements of one of their constituent basic plans and became basic plans. It is clear from these numbers that early basic thrift plans (terminating, serial, and permanent) were not immediately effaced from the thrift industry, but instead were slowly undermined as hybrid thrifts that incorporated elements of two or more basic plans emerged and grew in numbers. In particular, the serial plan (which dominated the field in 1890) lingered in part in the many serial/Dayton, serial/Dayton/guarantee-stock, and serial/guarantee-stock hybrid plans. Hybridization – the conversion of existing thrifts to or from hybrid forms and the creation of new thrifts as hybrid forms – was the predominant mechanism of institutional and organizational coevolution in this industry. Because hybridization was so prevalent, coevolution in this industry was gradual rather than sudden.

## **Conclusion**

The goal of this chapter was to assess the role of hybrid institutional and organizational forms in the coevolution of institutions and organizations. By addressing this issue, we have extended the dialogue between institutional perspectives on organizations and organization ecology. If institutionalists study the sources of homogeneity, ecologists analyze the motors of organizational diversity (Baum this volume). The study of hybridization touches on strength of variety-diminishing (blending) and variety-enhancing (segregating) processes. Although blending and segregating processes have been widely acknowledged to be editors of organizational diversity, there has been little empirical analysis of these processes. The hybrids we studied combined elements of one basic plan with another; they developed because blending mechanisms between organizational forms were

stronger than segregating mechanisms (Hannan and Freeman 1986; 1989). More importantly, the prevalence of such hybrids allowed elements of one organizational form embodying one theory of thrift to be slowly dismantled and elements of a new theory to be gradually established. Thus the prevalence of hybrids in this organizational population shaped the mode and pace of organizational and institutional coevolution.

Our study advances the reach of institutional research on organizations by affirming the role of institutional entrepreneurs in organizational change. DiMaggio and Powell (1991: 30) observed that institutionalist accounts of new organizational forms say little about “how skillful entrepreneurs put multiple institutional logics to strategic use.” Our study shows how entrepreneurs embed multiple logics in an organizational form and thereby engage in ideological hedging (Stark 1996). Early hybrids sought to preserve the founding vision of thrifts – self-liquidating organization built on principles of mutuality and enforced saving – in the face of organizational innovations. Combinations of the serial and guarantee-stock plan were efforts to preserve the theory of structured effort. By contrast, combinations of the serial plan with its diametrical opposite, the Dayton plan, were attempts to conserve the model of mutuality at the expense of the notion of enforced saving. Thus, organization builders in early thrift industry were deft cultural engineers who used existing beliefs and norms as building blocks, and assembled them into concrete organizational architectures (Suchman this volume).

Future research is needed to add flesh to the skeleton we have constructed. In this chapter, we have *described* the role played by hybrid institutions and organizations in institutional change. But we have not *explained* the process of hybridization. In other words, we have not yet proffered ideas or evidence concerning what kinds of organizations, in what kinds of settings, are most likely to undergo piecemeal adaptation (convert into or out of a hybrid form) or entrepreneurial recombination (be founded as a hybrid form).

One possibility for future research is to analyze how organizational size and age attenuate or accentuate the likelihood of piecemeal change and thereby the conversion of an organization with a “pure” form into a hybrid form. A large body of research shows that large organizations are more rigid than small organizations because they are more formalized, standardized, and codified (Scott 1992: 258-267), and also because they are less dependent on exchange partners (Pfeffer and Salancik 1978: 52-54). As a result, large organizations may be more likely than small ones to undergo partial change and convert to new organizational forms that include elements of their original form. Analogously, several studies show that organizational age can be linked to determinants of structural inertia, namely sunk costs, history, limits of internal information received by decision makers, internal political constraints, and external legitimacy considerations (Miner, Amburgey, and Stearns 1990; Kelly and Amburgey 1991). In sum, as organizations age, they become more rigid and less likely to change. This rigidification process is reinforced by the requirement in modern societies for organizations that exhibit high reliability and accountability, and low variance in performance (Hannan and Freeman 1984). Thus, older organizations may be more likely than younger ones to change piecemeal by adding or subtracting a few features and evolving into a new but similar form, rather than by changing all features and leaping to an entirely different form.

A second viable direction for future research is to focus on how social conditions facilitate or impede the use of hybrid forms by organizational architects and renovators. An attractive starting point is to analyze the effects of structurally similar and dissimilar organizations on the hybridization of existing organizations and the foundings of new hybrids. The greater the prevalence of structurally similar organizations, the greater is the social facticity of proximal alternatives (see Scott 1995). In turn, the greater the social facticity of proximal alternatives, the more likely are existing organizations likely to convert to a similar form, and the more likely are new organizations to blend features of similar forms. Conversely, the greater the prevalence of structurally dissimilar

organizations, the greater is the social facticity of dissimilar alternatives, and the more likely are existing organizations to convert to dissimilar forms, and the more likely are newly founded organization to incorporate features of dissimilar forms. Analogous propositions may also be derived to account for the effects of personnel mobility within industries. The greater the flow of personnel from structurally similar organizations to a focal organization, the more likely are existing organizations to convert to similar forms, and the more frequently do newly founded organizations blend features of similar forms. Similarly, the greater the mobility of personnel from structurally dissimilar organizations, the more likely are existing organizations to incorporate features from dissimilar forms, and the more likely are newly founded organizations to borrow features from dissimilar forms.

## Endnotes

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<sup>1</sup> Of course, there are objective limits on the ability of organizations to differentiate themselves from other organizations and thus reduce competition: the diversity of organizational forms is constrained by the diversity of the resource space (Baum in this volume) and the degree of institutional structuration (Suchman in this volume).

<sup>2</sup> The following paragraphs condense material presented in Haveman and Rao (1997: 1616-1624).

<sup>3</sup> Indeed, inhabitants of the city where thrifts first appeared referred to them as “building clubs” (Clark and Chase 1925: 459).

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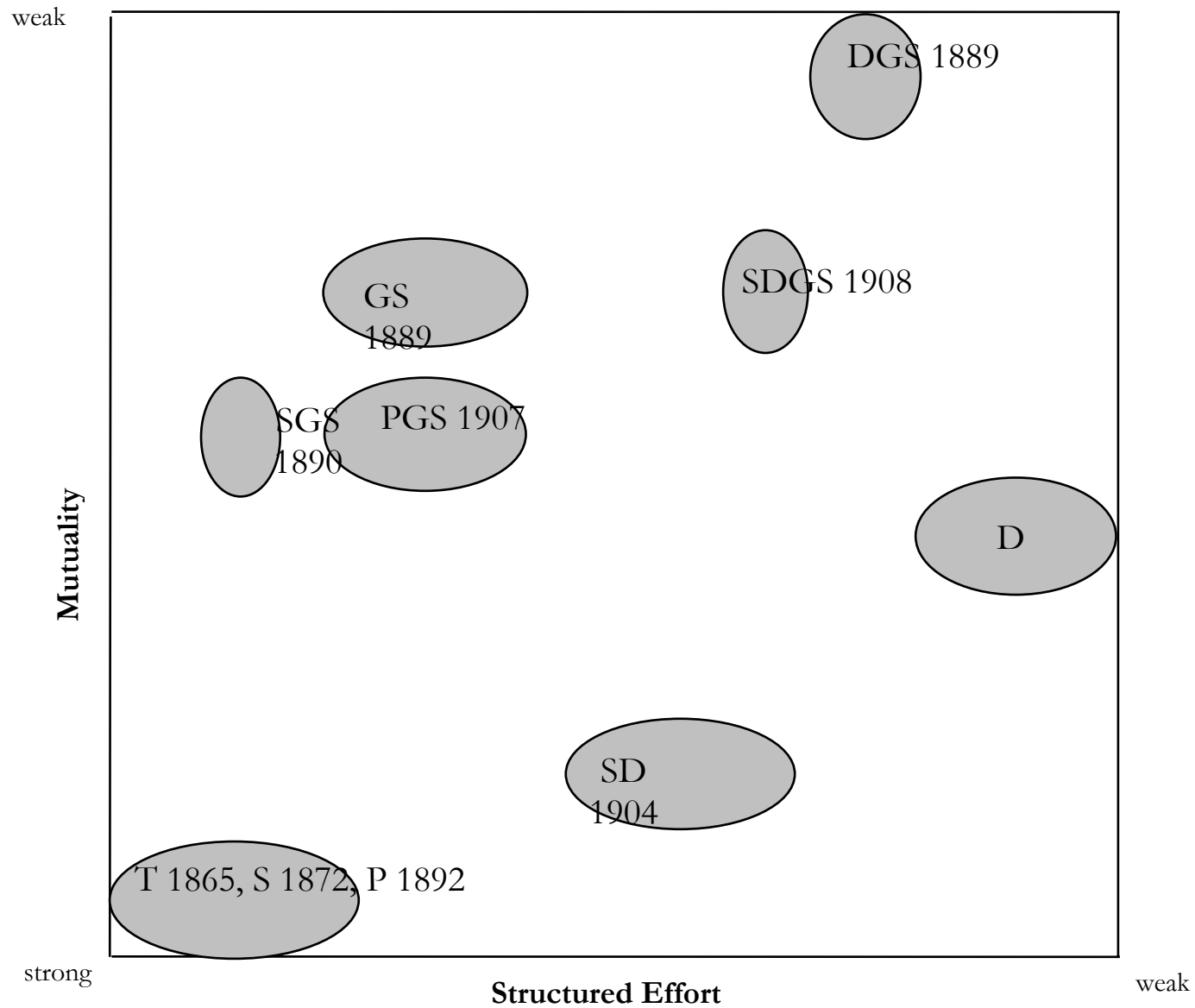
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Figure 1: Thrift Plans in Social Space



**Legend:** **T** terminating plan, **S** serial plan, **P** permanent plan, **D** Dayton plan, **GS** guarantee-stock plan, **SD** serial/Dayton hybrid, **SGS** serial/guarantee-stock hybrid, **PGS** permanent/ guarantee-stock hybrid, **SDGS** serial/Dayton/guarantee-stock hybrid, **DGS** Dayton/guarantee-stock hybrid.

**Table 1**  
**Origin and Destination States of California Thrift Form-Conversion Events, 1890-1928**

Origin	Destination										#Similar Events	#Dissimilar Events	
	T	S	D	GS	P	P/GS	S/GS	S/D	S/D/GS	D/GS			
T	0	0	0	0	0	0	0	0	0	0	0	0	0
S	0	0	16	1	5	0	10	2	6	0	18	22	
D	0	1	0	0	0	0	0	0	0	14	14	1	
GS	0	1	0	0	1	0	0	0	0	0	0	2	
P	0	1	4	0	0	2	0	0	0	0	2	5	
P/GS	0	0	0	0	0	0	0	0	1	1	2	0	
S/GS	0	0	0	0	0	0	0	0	3	0	3	0	
S/D	0	0	6	0	0	0	0	0	0	0	6	0	
S/D/GS	0	0	0	0	0	0	1	0	0	4	5	0	
D/GS	0	0	1	0	0	0	1	0	1	0	3	0	
#Similar	0	0	7	0	0	2	12	2	11	19	53		
#Dissimilar	0	3	20	1	6	0	0	0	0	0		30	

Legend: Origin and Destination States (Thrift Plans)

T	Terminating	P/GS	Permanent/Guarantee Stock
S	Serial	S/GS	Serial/Guarantee Stock
P	Permanent	S/D	Serial/Dayton
D	Dayton	S/D/GS	Serial/Dayton/Guarantee Stock
GS	Guarantee Stock	D/GS	Dayton/Guarantee Stock

Legend: Conversion Indicators

Light Gray	Similar Conversion Events (based on overlapping elements of form)
Dark Gray	Dissimilar Conversion Events (based on non-overlapping elements of form)