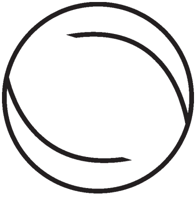

New Practice Creation: An Institutional Perspective on Innovation

Michael Lounsbury and Ellen T. Crumley

Abstract

Neoinstitutionalists have developed a rich array of theoretical and empirical insights about how new practices become established via legitimacy and diffusion, but have paid scant attention to their origins. This blind spot has been reinforced by recent work on institutional entrepreneurship which has too often celebrated the actions of a single or small number of actors, and deflected attention away from the emergent, multilevel nature of how new kinds of activities emerge and provide a foundation for the creation of a new practice. In this paper, we examine the case of the creation of active money management practice in the US mutual fund industry, drawing on both institutional and practice scholarship, to develop a process model of new practice creation that redirects attention toward the multiplicity of actors that interactively produce change.

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Where do new practices come from? While neoinstitutional research is most widely known for its focus on tracing how novel innovations or activities become established as taken-for-granted practices as a result of isomorphic diffusion, little work in this tradition has focused on the origins of new practices (Scott 2001). Part of the problem is that diffusion studies treat practices as objects that are either adopted or not, essentially leading to the 'black-boxing' of practice. This more structural emphasis on institutionalization processes has resulted in a number of critiques about the lack of attention paid to the role of actors in creating and promulgating innovations, as well as efforts to revise early neoinstitutionalist formulations (DiMaggio 1988; Greenwood and Hinings 1996; Hirsch and Lounsbury 1997; Schneiberg 2007).

One response to this disquiet has been the introduction of the concept 'institutional entrepreneur', featuring the role of powerful actors such as the state and professions that are able to reshape the social organization of fields and/or help establish a new dominant practice (e.g. Garud et al. 2002; Greenwood et al. 2002; Lounsbury 2002). However, this redirection has not shed much light on the sources of new practices. This is because the emergence of new practices results from spatially dispersed, heterogeneous activity by actors with varying kinds and levels of resources, while the notion of 'institutional entrepreneur' too often invokes 'hero' imagery and deflects attention away from the wider array of actors and activities (e.g. Maguire et al. 2004). In addition, research that focuses upon the most powerful actors tends to emphasize the latter stages of practice creation where new sets of activities are theorized, facilitating their spread (Strang and Meyer 1993); bracketed are the earliest moments when the possibility of a

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new practice first emerges and is recognized as an opportunity for some social group.

In this paper, we aim to contribute to the development of a more comprehensive institutionalist approach to the problem of practice creation that extends the scope of analysis to organizational activities and processes that occur prior to theorization efforts and diffusion-driven taken-for-grantedness. To do this, we draw on some elements of practice theory (e.g. Schatzki et al. 2001) that have been mainly employed in the ethnographic study of micro intraorganizational processes (e.g. Ahrens and Chapman 2007; Dougherty 1992; Nicolini et al. 2003; Orlikowski et al. 1995). While the examination of internal organizational processes has been a neglected aspect of institutional analysis, practice scholars have tended to conversely bracket the importance of broader field-level actors and institutional dynamics (Contu and Wilmott 2003; Hopwood and Miller 1994; Jarzabkowski 2004; Whittington 2006). Thus, an approach to new practice creation that seeks points of integration between practice and institutional scholarship promises contributions to both theoretical perspectives, given that they have the potential to address each other's blind spots.

To aid in this broader theory-building effort, we draw on the empirical case of the creation of active money management practice in the mutual fund industry. The first mutual fund, Massachusetts Investors Trust, was created in Boston in 1924, and the industry was dominated by funds in Boston until the 1950s. Before mid-century, the imprint of the Boston trustee tradition, which emphasized the preservation of wealth and conservative investment strategies, was strongly maintained. Within this milieu, various actors began to experiment with money management strategies. Even though the vast majority of funds were still considered to be conservatively oriented, this experimentation led to increasing variety among supposedly similar funds. However, this variation was considered nonproblematic until the early 1960s, when some money managers began more explicitly to create variation among these 'conservative' funds by promoting active money management strategies. This effort was linked to the overall professionalization project of money managers, which aimed to create a more autonomous and higher-status occupational group.

In turn, this professional mobilization triggered political conflict within the industry as 'old guard' funds argued that new renegade approaches to the management of mutual funds would undermine the foundations of the industry. Ultimately, this conflict was resolved by efforts to re-theorize the mutual fund money management field to incorporate this new kind of activity. The new theory centered on the concept of risk (Bernstein 1996) and gained currency as a result of the rise in status of academic finance, the connection of academic finance to microeconomics, and the subsequent use of theories of financial economics to shape the activities and social organization of the money management profession. As a result of theorization, a risk framework was constructed to recognize active money management as appropriate, allowing organizational actors to continually create active money management variants that were understandable in relation to the array of activities that comprised the field of money management. Active money management is largely a taken-for-granted practice today.

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We use a field analytic approach (Scott et al. 2000) to track changes over time in money management activities and practice in the US mutual fund industry, which has grown from US$448 million in assets and 296,000 shareholder accounts, in 1940, to over US$8.1 trillion in assets and over 92 million individual mutual fund owners by 2005 (Investment Company Institute 2005). Our historical account of the creation of active money management practice is based upon analysis of primary sources such as Congressional Hearing testimony and Securities and Exchange Commission reports as well as a wide variety of mutual fund documents, speeches, and memoranda of the Investment Company Institute (ICI), the main trade association for the mutual fund industry. We also systematically analyzed discourse and data in the *Wiesenberger Investment Companies Yearbook*, an annual sourcebook, which was considered the 'bible' for the mutual fund industry up until the mid-1980s (Golden-Biddle and Locke 1997). In addition, between 1997 and 2000, we interviewed over 30 industry insiders, including current and former ICI staff, former Wiesenberger editorial staff, money managers, and heads of major mutual fund companies.

In the next section, we discuss how institutional and practice scholarship can be combined to shed light on practice creation, motivating our empirical case. We then provide an analytical narrative that tracks the creation of active money management as a practice in the mutual fund industry. After offering an overview of the early development of the mutual fund industry and the emergence of variation among conservative funds, we explore the origins of money management and lay out the broad contours of the development of financial economics and the professionalization project of money managers. Following the presentation of our empirical case, we provide a process model of practice creation and discuss its implications for future research and theorizing on institutional entrepreneurship and practice.

Theoretical Motivation

Although neoinstitutionalists use the term 'practice' widely, most scholars employ the term without theoretical justification. Despite the fact that there is no unified theory of practice (see Schatzki et al. 2001), there is a diverse and growing literature that has taken practice seriously from theoretical and philosophical standpoints (e.g. Chia and Holt 2006; Giddens 1984; Gherardi and Nicolini 2000; Jarzabkowski 2005; Lave and Wenger 1991; Orlikowski 2000; Tsoukas 1996). Particularly useful with regard to neoinstitutional theory is the effort by some practice scholars to draw on *activity theory* (Engeström 1999) and to conceptualize *practice* as subsuming *activity*. For instance, Jarzabkowski (2005) views *activity* as the actions of and interactions between actors as they perform their daily duties and roles, while *practice* refers to activity patterns across actors that are infused with broader meaning and provide tools for ordering social life and activity. Said another way, activity involves acts that are generally devoid of deeper social meaning or reflection, such as pounding a nail, while practice, such as professional carpentry, provides order and meaning to a set of otherwise banal activities. Defined this way, practice is best understood

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as a kind of institution — sets of material activities that are fundamentally interpenetrated and shaped by broader cultural frameworks such as categories, classifications, frames, and other kinds of ordered belief systems (see Bourdieu 1977; Lounsbury and Ventresca 2003; Mohr 2000). Thus, a focus on the relation between activity and practice may provide a useful starting point for fruitful interchange between neoinstitutional and practice theorists and the study of time-inflected micro–macro linkages that reveal how activity innovations enable new practice creation.

However, among scholars in the practice community inspired by MacIntyre (1985) who argued for a conceptual segregation between the concepts of *practice* and *institution*, there may be resistance to the conceptualization of practice as an institution. MacIntyre's notion of institution is quite particularistic and value-laden since it refers to modern capitalism, which he believes is vile, while practice is conceptualized with regard to virtue (see Beadle and Moore 2006). In contradistinction, the conceptual apparatus of neoinstitutionalism approaches the notion of institution in more pluralistic terms, as forms of material interactions or behaviors that are made understandable and durable by their interpenetration with wider cultural rules (Scott 2001). This view is broadly construed to encompass a wide variety of kinds of institutions such as practices, logics and organizational forms.

Given this approach to practice as a kind of institution, the research question guiding our efforts is: how may innovation in activities lead to the establishment of a new practice via institutionalization? Although much of institutional research has suffered from the paradox of embedded agency, more recent work on changes in practice and routines (e.g. Feldman 2003; Feldman and Pentland 2003) offers a useful road into the conceptualization of institutional change as an endogenous process. This work has developed the notion of *performativity*, which assumes that individual performances of a practice play a key role in both reproducing and altering a given practice through variation in its enactment (e.g. Feldman 2003; Orlikowski et al. 1995). In contradistinction to the long-standing emphasis on stability and homogeneity, scholars advancing the notion of performativity start with the ontological position that innovations are continually produced (e.g. Orlikowski 2000). Performativity emphasizes the fact that activity is often accomplished by skilled actors (Fligstein 2001) who rely on practical–evaluative agency (Emirbayer and Mische 1998) to understand and assess how practices can be altered or tailored in order to accomplish specific tasks or to cater to different audiences.

Thus, performativity encompasses both strategically engineered deviations to, for instance, address competitive markets, as well as variations triggered by less strategic efforts to modify practices to address localized contingencies (e.g. Orlikowski 2000). While the initial seeds of a new practice may often stem from naturally occurring variation in the implementation, use, and tailoring of extant practices, such efforts must be conceptualized as fundamentally constituted, but not determined, by institutional rules and beliefs that are embedded in those existing practices (e.g. Lounsbury and Ventresca 2003). Understood this way, an institutionalist approach to practice requires attention to the broader cultural frameworks that are often devised and altered by field-level actors (Lounsbury

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et al. 2003), as well as the activities and 'work' of organizations and other actors that articulate with those frameworks (Dorado 2005; Lawrence and Suddaby 2006). While there have been other attempts to address the relationship between innovation and institutions (e.g. Barley and Tolbert 1997; Hargadon and Douglas 2001), there have been no explicit efforts to draw upon practice and institutional theories to develop a more comprehensive framework to address how new practices are created from activity innovations. In the next section, we present an empirical case of the creation of active money management practice as a foundation for the development of a theoretical model of how performativity-driven variation in activities can spur field-wide efforts to establish a new innovation as a practice.

Creating Active Money Management Practice

Passive Money Management Practice and the Emergence of an Active Variant

The first three decades of the mutual fund industry were dominated by Boston-based organizations that operated as trustees and originally provided fiduciary management services to wealthy families (Grow 1977). Trusteeship, dating back to the early 19th century in Boston, is distinguishable by its focus on capital preservation and the intergenerational transfer of wealth, as opposed to short-term gain. The dominant investment theory at this time focused on broad diversification of portfolios and passive investing strategies. While there was scant formal academic theory about and measurement approaches to risk, the vernacular theory of diversification led to the construction of portfolios that typically comprised a variety of securities of well-known, established firms.

Passive investing was exemplified by Boston mutual funds that were well known for their conservatively oriented, Brahmin financial culture (Grow 1977). For instance, a 1925 brochure for the Massachusetts Investors Trust highlighted that 'the trust, by complete diversification, both geographically and industrially, has eliminated the human element of prediction by adopting the mechanical Law of Averages as successfully demonstrated by insurance companies'. Even though there was some buying and selling of securities, such turnover was kept to a minimum. This orientation was further reinforced by the stock market crash of 1929 and the ensuing Depression, and was also scripted into law. For instance, the US Revenue Act of 1936 mandated that no more than 30% of a fund's gross income could be derived from gains from the sale of securities held for less than three months (Fink 2005).

Through the 1950s, funds located in Boston still controlled a large portion of industry assets, and the vast majority of funds still comprised broadly diversified but fairly static stock portfolios. However, beginning in the 1950s, growing variation among funds created disquiet among industry insiders. While there had always been some degree of variability driven by differences in the portfolios of individual funds, experimentation with different kinds of investing approaches — especially active money management — became more prominent.

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This was fostered by a confluence of developments. First, as the mutual fund industry began to flourish amidst the increased attractiveness of postwar investing, there was a corollary rise in fund creation and competition. This increasingly led to differentiated funds. Second, the emergent professionalization project of money managers created a more astute and growing labor supply of money managers that sought direct decision-making control of funds. Third, the development of academic finance provided a cultural resource for money managers to make claims about how longstanding theories of diversification and passive investing need not provide the exclusive wisdom for the operation of mutual funds. Finally, increasing attention was placed on the performance of funds (e.g. US House of Representatives 1962), and as some funds employing more active investing approaches demonstrated that they could produce higher returns than passively run funds, they gained popular support. However, the increasing use of active money management activities remained marginal until the 1960s.

To track the increasing variability of mutual fund money management, we explore how industry stakeholders symbolically understood and organized their world via the *Wiesenberger Investment Companies Yearbook*, the premier annual sourcebook for the mutual fund industry over the time period of our study. Through the 1950s, Wiesenberger distinguished mutual funds by their investment policy, which referred to the type of securities that a fund invested in (e.g. stocks, bonds, etc.). Product categories in this era included 'Bond', 'Preferred Stock', and 'Diversified Common Stock'. However, approximately 80% of all funds and industry assets were located in just one category — 'Diversified Common Stock' — a category that contained most of the original Bostonian funds. The majority of the industry was classified into this category, signaling as well as reinforcing the dominance of passive money management investing, given that 'Diversified Common Stock' funds preached a low degree of buying and selling.

Through the 1950s, however, fund variability within the 'Diversified Common Stock' category increased. Since product categories provide important cognitive devices for consumers and producers in an industry, to understand which kinds of products are similar to each other, increased variability within a particular product category can create ambiguity regarding product similarity. While we do not have access to details about the portfolios held by individual funds, one way to gauge difference between funds is by analyzing their performance relative to other funds (Lounsbury and Rao 2004). A focus on performance variability is especially useful in investment industries, where variation in the performance of products is a result of differences in the investment portfolios maintained.

To assess variability among funds in a product category, we employed a standard variance calculation for each year. For the 'Diversified Common Stock' category, performance variance increased from around .03 in the mid-to-late 1940s to almost .20 by 1960. The annual trend shows a systematic increase over this time period, suggesting that funds may have been increasingly diverging in their approaches to money management. This interpretation is supported by an inspection of the fund data that shows that dramatic differences were indeed occurring among funds, a point we develop further in the next section.

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Over this time period, there was also a systematic increase in the number of funds in the 'Diversified Common Stock' category, from 22 in the mid-1940s to over 180 by 1960. Hence, some of this variability was created by new entrants. But the heterogeneity created by an influx of funds and performance variance within the 'Diversified Common Stock' product category was not problematized until the 1960s. That is, through the 1950s there was virtually no discussion within the industry or in the press about this growing variability. Interviews and historical evidence (e.g. Securities and Exchange Commission 1962) suggested that this was mainly because industry insiders wanted to protect the stable social world they created, by resisting awareness of these developments with the hope that such shifts were a fad that would quickly disappear.

Mobilizing around New Sources of Variety

A more explicit movement to promote active money management emerged in the 1950s. This was driven by aspiring money management professionals, who argued they had skills and abilities that would enable them to outperform more conservative approaches linked to Boston trusteeship. Historical evidence indicates that this variability among 'Diversified Common Stock' funds was especially fomented by the growing use and allure of more active money management strategies by self-labeled 'growth funds' that involved the churning (i.e. high levels, and frequent buying and selling, of securities) of fund portfolios (e.g. Burk 1988).

This mobilization did not occur spontaneously, but was part of a broader professionalization project of money managers that was just coming to fruition. Until the middle of the 20th century, money management was a craft-based vocation that did not rely on rigorous theories, analytical tools and techniques (Bernstein 1996). Decisions about securities held in a mutual fund portfolio were made by a committee of senior men who had no formal training in money management, since there was none available. Some firms began to hire securities analysts, referred to as 'statisticians', that drew on emerging techniques in statistics to analyze stock market trends and make recommendations about possible changes to the fund's portfolio. The rise in status of securities analysts and the emergence of a money management 'profession', where individuals were trained and credentialed in portfolio management, was a long process that only began to be realized during the 1960s. It was facilitated by the creation of a body of abstract knowledge in financial economics and the translation of this knowledge into practitioner credentialing.

The creation, in 1932, of the Cowles Commission for Research in Economics was an early step in this direction, drawing on statistics and the emerging field of econometrics to create a 'scientific' approach to stock market analysis. This effort was affiliated with the Econometric Society and aimed to create central resources and approaches for large-scale quantitative analyses of stock market behavior.[1] Around the same time, there were attempts to develop more systematic approaches to securities valuation and investing — what Burk (1988) refers to as 'pragmatic ideology'. Graham and Dodd's (1934) book, *Security Analysis*, often cited as a watershed event in the development of securities analysis,

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focused on reorienting stock market investing away from speculation and toward a focus on a particular security's fundamentals, such as earnings, dividends, and managerial competence. These developments built on many ideas rooted in vernacular investment theory that was constructed by practitioners (see Preda 2004).

In addition to his efforts to develop analytical theories and tools for securities analysts, Graham played a crucial role in fostering a money manager professionalization project by promoting a standard approach to money management education.[2] Debates about whether financial analysis was an art or science, however, hindered the creation of a professional school system as in medicine or law. At the time, investment analysis was more likely to be compared with psychoanalysis than with quantitatively oriented predictive disciplines such as engineering (Association for Investment Management and Research 1997).

In 1947, Graham helped create the Financial Analysts Federation (FAF), a national association that unified money management practitioners.[3] However, this organizing effort did little to enhance the status of statisticians until a more concrete linkage was made between money management activities and a more abstract body of academic financial knowledge (Bernstein 1996). In 1945, the American Finance Association created the *Journal of Finance*, the most prestigious publication for the dissemination of scholarly financial knowledge. This provided an important infrastructural element that enabled the development and growth of knowledge pertaining to money management. Rooted in developing ideas about risk in microeconomics, Blume et al. (1993: 85–86) claim that 'from the 1950s onward, three basic concepts — market efficiency, diversification, and the pricing of derivative assets — would largely transform money management from an art to a skill approaching a science'.

This development of theory that linked portfolio management to microeconomics helped to transform 'business finance' into the more prestigious 'financial economics' (Whitley 1986). As an indicator of this shift, articles in the *Journal of Finance* prior to the 1960s were mostly descriptive and practitioner oriented, and finance-related courses in business schools focused largely on technical problems related to corporate investment and the raising of capital (Gordon and Howell 1959). By the late 1960s, published articles in the field of finance were more theoretically oriented and courses in finance became infused with the rigor of microeconomics.

Financial economics discourse, however, was not uniformly in support of the ability of money managers to employ portfolio management skills in a way that would lead to better results than one could obtain randomly. This view was prominently endorsed by advocates of efficient markets theory, beginning in the 1960s (e.g. Fama 1970; Malkiel 1973), and generated great debate in the investment community about the value of active money management. While such challenges to the efficacy of money managers inhibited the development of a truly autonomous profession, it did not deter the general rise in prominence of money managers and the development of active money management. For example, Burk (1988: 65) notes that 'by the 1950s, individuals and financial institutions both believed that security analysts were competent experts, able to discriminate sound from unsound investment'.

In this milieu, money management practitioners sought linkages to financial economics in an effort to gain status (Lounsbury 2002). This occurred con-

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cretely when the Financial Analysts Federation created the Institute of Chartered Financial Analysts (ICFA) in 1959, to focus on developing a standard educational and credentialing program that would be based on the mastery of academic financial knowledge and its application.[4] This resulted in the creation of the Chartered Financial Analyst (CFA) designation, a prestigious credential for money managers and other finance professionals. The Association for Investment Management and Research (1997: 72) describes the development of this certification as 'the single most important marker of professional status'.

However, given that the broader abstract knowledge base of financial economics was contested regarding the ability of money managers to outperform the market, significant mobilization had to occur within the mutual fund industry in order for this occupational community to gain status. Throughout the 1950s, money management was still a craft vocation, and individuals that had more 'modern' training in finance were still subservient to a committee of senior men that had no academic training in finance. Drawing on ideas in financial economics to justify more speculative investing, aspiring money management professionals began to create their own 'growth funds', to demonstrate their capacity to outperform existing funds. While there was only one growth fund in 1950, that number had increased to 40 by 1960 and, by the end of the 1960s, there were close to 100 such mutual funds available to the public. By the early 1960s, Wiesenberger and other industry insiders could no longer ignore these developments, and the 'Diversified Common Stock' product category became explicitly problematized, resulting in struggles over the nature of the industry.

Politics and Practice Theorization

There is a good deal of evidence corroborated by our interviews to suggest that the rise of growth funds induced political contestation between old and new funds as well as between longstanding industry insiders and aspiring professional money managers. Old guard trustee fund managers actively resisted and lamented disruptive industry developments, such as the creation of more aggressive growth funds, that they thought would undermine the industry they had built (e.g. Securities and Exchange Commission 1962). The conflict also had a geographic dimension. While the industry was dominated by Boston trustee funds up until the 1950s, the influx of new funds beginning in the 1950s, and especially the creation of growth funds, were driven by the New York financial community (Lounsbury 2007). Boston-based mutual funds valued pedigree and prudishness (Harriman 1932) and disdained the kind of class mobility opportunism that characterized Wall Street. Henriques (1995: 43) writes:

> 'Boston investment managers developed an intense clubbiness and an almost religious disgust for the more exuberant display of wealth practiced by their counterparts in the financial community of New York where having too much money to spend was considered a very fine thing.'

Nonetheless, by the 1960s, the center of gravity in the industry had shifted from

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Boston to New York, and the popular and business press began to glamorize the money managers that ran growth funds (Berger interview in Griffeth 1995: 44). In order for active money management approaches to become more of a taken-for-granted practice within the industry, they needed to be theorized (Strang and Meyer 1993). In the mutual fund industry, this became tangibly manifest in the conceptualization of the product category system in the 1960s, when Wiesenberger explicitly drew on ideas about risk, developed in the emerging field of financial economics. This theorization included an effort to link notions of risk–reward with an individual's life course, and to develop a framework that categorized mutual fund products in ways that enabled consumers to evaluate the risk associated with different funds.

The principal idea behind risk–reward is that younger individuals with no dependents can afford to take on greater risk than those closer to retirement. This idea has become elaborated over time and was embedded in a broader theoretical architecture of financial planning that positioned mutual fund products amidst various other financial products such as life insurance. With regard to product categories, Wiesenberger launched a new dimension — investment objective — by which products became categorized. Beginning in 1963, objectives such as 'Growth', 'Income', 'Stability', and 'Maximum Capital Gain' were used to directly embed theories of risk into the Wiesenberger product category scheme. This enabled funds using active money management strategies (e.g. growth funds) to be segregated into their own category of 'Growth Common Stock', but in a way that made them appear as an appropriate mutual fund product that would be recommended for investors with a higher-risk tolerance.

Hence, by 1963, the original 'Diversified Common Stock' product category ceased to exist and was split into a variety of other categories, each of which had minimal performance variance in contrast to the growing variance in the 'Diversified Common Stock' category up until the categorical revision. In turn, this product category system revision and theorization of money management in terms of risk provided a boost to the professionalization project of money managers and enabled the practice of active money management to become more established, since these activities became 'normalized' via cognitive classification. However, significantly, this shift in the theorization of money management via mutual fund product categories did not lead to a replacement of passive money management with a more active approach. Instead, the new theory embedded in product categorization considered all active and passive money management activities to be appropriate. This allowed more passive strategies to persist and continue to be promulgated, as in the case of the creation of new 'Index' funds in the early 1970s.

As a result of these changes, more product categories proliferated and the industry was no longer dominated by the conservatively oriented 'Diversified Common Stock' fund category. The dispersion of assets across product categories, as measured by a Herfindahl index, was .66 in 1960.[5] By 1970, there were 36 product categories, with assets and funds considerably more dispersed across product categories — the asset dispersion Herfindahl measure declined to .23. This trend continued, and by 1985 there were 52 product categories with an asset dispersion Herfindahl of .14. In discussing the growth of products, a 1961 mutual fund column in *Forbes* (15 August: 15) commented that:

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'from a small group of financial managers, the funds had become one of the major institutions of popular capitalism. In the process, the entire field has become almost unbelievably complicated. Originally the whole concept was rather simple: you could have either a stock fund or a balanced fund and that was about it. Now there are almost 250 individual funds and the investor has a bewildering variety of choices. There are growth funds, science funds, income funds, foreign funds, plowback funds, no-load funds and every variety of industry funds.'

As a result, a 'new class of bright young money managers rose from obscurity to influence and affluence' (*Forbes*, 15 June 1967: 24). In turn, mutual funds increasingly devolved portfolio management responsibilities from a committee of senior officers with no formal finance training to individual fund-level professionals (Mayer 1968). Interviews and historical research suggest that this devolvement process swept through the industry, and virtually all mutual funds were managed by professional money managers by the late 1960s. Mayer (1968: 23) commented that 'to relieve the committees of the danger of apoplexy and allow the young men to move fast, the portfolio managers were given ever-increasing leeway in making investment decisions'.

However, this was a contested process within firms, highlighting the more general resistance to adopt more active money management strategies promoted by upstart professionals. This is exemplified in the case of mutual fund sponsor Putnam (Grow 1995). George Putnam, co-founder of one of the first mutual funds, Incorporated Investors, in 1925, launched the George Putnam Fund in 1937, which was managed by a committee of trustees until the end of the 1960s. Amidst the emergence of growth funds in the 1950s, Putnam created a second fund, the Putnam Growth Fund, in 1958. The poor performance of both funds in the early 1960s led formally trained securities analysts aspiring to become money managers to challenge the portfolio management authority of the senior officers. Ted Lyman, a Putnam security analyst, commented that:

'We had two Funds and no manager of any one of them. Instead the Funds were run by a committee. [We — the research group] felt the Funds should no longer be run this way. Results had been disastrous. There was no real portfolio planning. There was no assessment of overall volatility as no one was looking at portfolio risk characteristics.' (Grow 1995: 262)

Lyman and his fellow security analysts mobilized internally to try to create professional money management positions within Putnam, but were fiercely resisted by Putnam management that maintained the belief that 'Trustees should maintain control over all activities' (Grow 1995: 267). Through the 1960s, however, fund coordinators gained increasing control and, finally, in 1969, Putnam created an in-house money management labor market and gave individual professional money managers decision-making authority over fund portfolios.

As a result of these developments, active money management became an established money management practice. This was driven by a change in product categorization through the incorporation of theories of risk, the growth of actively managed funds, and the concomitant spread of professionally trained and credentialed money managers who applied new financial theories and tools to manage those funds. Hence, the creation of this practice involved a wide variety of actors and kinds of institutional work (Lawrence and Suddaby 2006) that was far beyond the scope of any powerful institutional entrepreneur to carry out.

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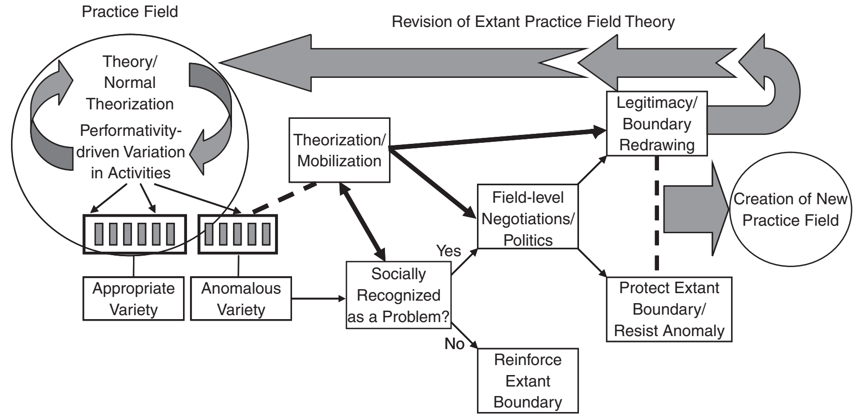
Toward a Process Model of Practice Creation

Figure 1. A Process Model of New Practice Creation



Based on our case, Figure 1 provides a process model of new practice creation. Within a given practice field, actors can perform activities in a multitude of ways, thus creating innovations. A focus on performativity-driven variation provides an endogenous mechanism and useful ontological starting point to understand how institutional change is catalyzed (e.g. Feldman 2003; Feldman and Pentland 2003; Orlikowski 2000; Orlikowski et al. 1995). From an institutionalist standpoint, the performances of practice are intertwined with the prevailing theories in a practice field that constitutes actors and activities, and provides coherence to practice, despite variety. In the early decades of the mutual fund industry, money management was informed by a vernacular theory of investing and conservative money management approaches.

While the actual performances of each fund differed, based on diverse portfolios and slightly altered approaches to money management, most fund varieties were deemed appropriate and easily encapsulated in the 'Diversified Common Stock' category. On occasion, Wiesenberger modestly edited the product category scheme to accommodate incremental innovations, such as when they created the 'Diversified Stock Bond' category, in 1951, as an extension to the 'Diversified Common Stock' category. Such edits were nonproblematic and unremarkable, in contradistinction to the radical re-theorization of product categories that was required to account for active money management in the early 1960s. The recursive relationship between theory and practice innovations produced via performativity suggests a degree of theoretical elasticity and the ability to modify theory in minor ways in response to variation — what we refer to as normal theorization.

Hence, while much of the innovative variety produced was acceptable and understood with extant theory, leading to no substantive change in established practice and understandings, the creation of active money management approaches via growth funds was ultimately understood as an anomalous activity that could

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not be easily incorporated into existing theory, which supported extant money management practice. What is anomalous, however, is socially constructed. Although the 'Diversified Common Stock' product category experienced increased variety over a 15-year period beginning in the mid-1940s, this was remarked upon very little until the early 1960s.

Thus, the case of active money management suggests that a key condition for new practice creation is whether innovations generated by practice performativity become socially recognized as anomalies by field-level actors such as professions, industry, trade associations, media, etc. If the irregularities are not problematized, then extant theory will not be challenged, and rogue activities will wane or persist in a marginalized fashion. However, if anomalous variation does become socially recognized as a problem, field-level political negotiations will tend to ensue, as various actors with different interests make claims about the value of counter-normative activities, and whether or how they should or should not be incorporated into an extant practice field.

As our case suggests, the social recognition of an anomaly may require some sort of collective mobilization to make a particular innovation salient. This is evident in the professionalization project of money managers that supported and helped to foment the growth fund movement and garner public support for the idea that mutual funds run by highly skilled and credentialed money managers could outperform the market. The professional association for money managers (AIMR) helped to promote and justify the growth fund movement in the wake of naysayers and controversy, by broadcasting their efforts to develop training and credentialing that would, in a sense, legitimize money managers as 'risk managers' as opposed to 'speculators'.

But discussion about how to deal with this innovation was contested, since Boston-based funds and other incumbents were eager to maintain an industry focus on conservative investing. Hence, if incumbents feel threatened by innovations, they may engage in efforts to reinforce the importance of extant theory and appropriate activities, while working to destroy or marginalize anomalous activities. While most established mutual fund firms initially took this approach, some key insiders began to embrace active money management and encourage the theorization of money management practice to include more active variants alongside longstanding appropriate activities. This led to explicit efforts by Wiesenberger to draw on developing ideas of risk, to reconstruct their product categorization scheme in order to account for product varieties rooted in active money management. While active money management was somewhat contested through the 1960s, the re-theorization of money management successfully enabled its spread via the redrawing of practice field boundaries to unproblematically include both conservatively and aggressively managed funds. While theorization enables the flow of a new innovation, it was the actual diffusion via the establishment of active money management funds across firms in the mutual fund field that enabled legitimacy of active money management to occur (see Scott 2001 for a discussion of the relationship between theorization and legitimacy).

Even though political processes may result in the eschewing of novel innovations or their incorporation into an existing practice field via re-theorization of that

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field, it is also possible that an entirely new practice field may be created. While this did not occur in the case of active money management, if anomalous activities are constructed as qualitatively distinct, some actors may decide to splinter off to cultivate their own cultural frameworks that establish a new practice. Hence, a new practice field may emerge as a result of the division between actors wanting to develop novel activities into a practice via theorization, and those who reject those innovations, seeking to buffer their existing practice field. Further research is needed on the described processes related to practice creation, but especially on the conditions under which innovative practices are incorporated into existing fields versus providing a foundation for an entirely new practice field. Thus, a focus on practice creation should provide a focal point to theorize more compellingly about new field creation, a question that has been given little systematic attention beyond the invocation of institutional entrepreneurship as a deus ex machina.

Discussion

By focusing attention on the processes that lead to the creation of a new practice, we may expand our understanding of institutional entrepreneurship as well as the relationship between the literatures on practice and institutions. The discourse of institutional entrepreneurship has helped to redirect neoinstitutional analysis toward the study of actors and their role in catalyzing institutional change. The downside of this redirection, however, has been that the ability of actors to create, alter, and transform institutions, has been greatly exaggerated. This, of course, is a longstanding critique of the literature on entrepreneurship more generally, which tends to ignore the broader institutional forces, beliefs, and structural configurations that constitute and shape individual activities (Aldrich and Ruef 2006). A deeper engagement with the social theoretic commitments that underlie the neoinstitutional tradition (e.g. Scott 2001) should lead to a more nuanced and situated approach to institutional entrepreneurship.

The process perspective on practice creation advanced in this paper is a step in this direction. While institutionalists have pointed to the importance of theorization as a key element of institutional entrepreneurship that enables new practice models to diffuse (e.g. Strang and Meyer 1993), by focusing also on earlier stages of practice creation, we may be able to provide more complete explanations of institutional change that can account for the processes that generate theorization efforts as well as resultant outcomes. In particular, concentrating on performativity and mobilization, in addition to theorization, as key components of practice creation, future research should emphasize how interactions among a broader array of actors can produce institutional change. This is a reciprocal process that has multiple phases that include the emergence of anomalous activity, the problematization of extant practices, social recognition of a novel innovation, and political processes that may involve resistance by incumbents, as well as the theorization and legitimation of a new practice.

In addition, by giving field- and organization-level actors equal billing, a more distributed notion of institutional entrepreneurship emerges (Hutchins 1995). For

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instance, in the case of the creation of active money management, we highlighted the role of actors in the field of academic finance, the broader professionalization project of money managers, and the actions and activities of aspiring professional money managers and mutual fund organizations themselves. These actors were distributed across multiple dimensions including space, status, and time. However, even though actors and activities were distributed, they were united by shared cultural beliefs that define the boundaries of and give meaning to the practice field of mutual fund money management. A more complete account of institutional entrepreneurship, therefore, would attend not only to the variety of actors that contribute to a particular change to be explained, but also to their relation to wider meaning systems and theories embedded in cultural elements such as categories, conventions, and discourse (e.g. Biggart and Beamish 2003; Lamont and Thévenot 2000; Phillips et al. 2004).

Our process model of practice creation also highlights a useful direction for organizational studies of practice. While the study of practices inside organizations has yielded important insight, there is an opportunity to expand intraorganizational practice research in a way that better appreciates the relationship between organizational and institutional dynamics. For example, Lounsbury's (2001) study of how a field-wide social movement organization enabled ecologically committed recycling practices to be instantiated in a population of US colleges and universities is instructive. He used ethnographic methods to understand variations in the recycling practices used by organizations, and then drew on survey and archival research methods to cultivate a broader understanding of how field-wide processes contributed to organization-level practice variation. Hence, such research can be ethnographically based, but must also strive to achieve a broader historical and field-wide perspective.

To wit, this theoretical orientation can also enhance recent work on practice. For instance, the 'strategy-as-practice' research community has been motivated by the premise that our understanding of what strategists do and how strategy is made is very limited (e.g. Whittington 2006). By invoking the notion of practice, research in this vein seeks to reorient the longstanding tradition of process-based strategy research (e.g. Mintzberg 1990; Pettigrew 1985). However, this nascent line of inquiry tends to be concerned with revealing the understandings of practitioners and how 'practices-in-use' are mediators of action (see Jarzabkowski 2005). This focus could potentially lead to a conceptualization of practice that emphasizes localized meanings to the neglect of broader sources of meaning that define and shape appropriate activity. While this is a concern that has been raised by some practice researchers who have emphasized the need to examine multiple levels of analysis (e.g. Contu and Wilmott 2003; Jarzabkowski 2004), without attending to wider theories of activity, it is unclear exactly what a practice is and how practices differ from routines and other interaction rituals.

In addition, a focus on broader cultural meaning systems will enable strategy-as-practice researchers to provide a richer conceptualization of agency that accounts for how practitioners are constrained by wider theories and belief systems that not only supply meaning to activity, but also prescribe roles for actors that delimit the scope for performativity. More generally, for practice scholars who are concerned about the narrow focus on intraorganizational

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dynamics, our emphasis on bridging practice approaches with neoinstitutionalism provides one useful direction. Such a joint project on practice creation would simultaneously contribute to a more nuanced conceptualization of institutional entrepreneurship that eschews the celebration of powerful individual actors.

Notes

1 In 1933, the Cowles Commission sponsored a new journal, *Econometrica*, which published articles by Joseph Schumpeter and Irving Fisher in its first issue.
2 Graham was a seminal figure on Wall Street who taught in the literature, economics, and philosophy departments at Columbia University.
3 Initially named the National Federation of Financial Analysts Societies, the name was changed to the Financial Analysts Federation in 1960.
4 In 1990, the FAF and the ICFA merged to become the Association for Investment Management and Research (AIMR).
5 A Herfindahl index was calculated by taking the sum of squared market shares of all product categories. The index is controlled to be between 0 and 1, and the closer the index is to 0, the more dispersed are the industry assets.

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