

# Chapter 6

## Drift and Morphosis in Institutional Change: Evidence from the ‘Walz’ and Public Tendering in Germany



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How do institutions change? This question is central to institutional theorists across disciplines. Guided by teleological interest, economists and political scientists, for instance, aim to understand the national differences in institutions and their role in hindering or facilitating innovation and development in order to turn “bad” institutions into more beneficial ones (Ménard & Shirley, 2005; Peters, 2012). By contrast, scholars in organizational institutionalism have focused on understanding how institutions evolve and work and on analyzing the mechanisms of how institutional change proceeds (Greenwood, Oliver, Sahlin, & Suddaby, 2008). In this respect incremental institutional changes can be distinguished from more radical ones. The latter kind is usually associated with external shocks that disrupt the established institutional structure, such as environmental and demographic changes, or the introduction of new technologies (Acemoğlu & Robinson, 2012; Rodríguez-Pose & Storper, 2006). But change can also be triggered endogenously by contradictions and tensions within an institutional structure, which then has to be reinterpreted and renegotiated (Seo & Creed, 2002; Zilber, 2002). It is this endogenous institutional change that needs further study (Powell & Colyvas, 2008; Suddaby, 2010).

In an appraisal of the diversity of empirical studies on institutional change, Streeck and Thelen (2005) identified several mechanisms of gradual institutional transformation. Each of these mechanisms characterizes a particular process, which either transforms existing institutions in response to a new context (e.g., layering, conversion) or leads to their gradual erosion (e.g., drift, exhaustion) and ultimate breakdown (displacement). It is important in that regard to distinguish between different understandings of the term *institution*. In economics and political science, studies focus especially on formal institutions, which are “formalized rules that are in principle obligatory and subject to third-party enforcement” (Hacker, Thelen, & Pierson, 2013, p. 5). Such a concept includes codified formal rules, public policies,

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and the state-backed organizations established to set and enforce them. This definition implies that institutional change is subject to the power struggle between multiple interest groups all seeking to change the rules according to their own benefit. A new policy or a new law thus represents an institutional change, the types of which, such as layering, conversion, and drift, describe the relation between regulation and its outcomes. Layering, for example, refers to introducing “new arrangements on top of preexisting structures intended to serve different purposes” (Schickler, 2001, p. 15). Similarly, the mechanism of conversion is a process in which new actors redirect and transform existing policies and regulations to achieve new objectives (Thelen, 2004). Evidently, these concepts stem from an interest in analyzing the dynamics and effects of policies and respond to the experience that significant policy changes sometimes occur without any change in political outcomes (Levitsky & Slater, 2011). Conversely, there are frequently overlooked, but very significant, changes in political outcomes despite a stability in the structure of policies (Hacker et al., 2013).

We argue in this chapter that limiting the perspective on institutions to regulation and rule-making is likely to obscure the underlying institutional reality that structures actors’ practices (Bathelt & Glückler, 2014). Observed institutional practices—institutional form—might therefore follow their own logic and serve different functions that rest on mutual expectations of what is considered legitimate. Drawing on analyses of the ways in which institutional mechanisms work against or in favor of regulation (Glückler & Lenz, 2016; Helmke & Levitsky, 2004), we aim to continue unraveling the processes through which institutions respond to regulatory changes and the social outcomes of such institutional responses. Differentiating between two institutional components, form and function, improves our ability to see which parts of an institution change or remain stable and to discern their corresponding influence on the effect of regulation.

We diverge in two important ways from the framing of the concepts specified above. First, we go beyond a broad understanding of institutions that looks at “durable systems of established and embedded social rules that structure social interactions, rather than rules as such” (Hodgson, 2006, p. 13). We argue instead for a narrower conception. In keeping with the common distinction between formal and informal institutions (Hacker et al., 2013; Helmke & Levitsky, 2004; North, 1990; Williams & Vorley, 2014), we distinguish, albeit more sharply, between regulation and institutions (Bathelt & Glückler, 2014). Policies and regulations are no longer seen as the institutions themselves but rather as part of the institutional context, along with the actors that induce them, such as individuals, governments, and firms (Glückler & Bathelt, 2017). We ask whether newly introduced actions and rules really transform the stable patterns of social life. Instead of solely analyzing the effects of policy changes on social outcomes, we conceive of the relation between institutional change, institutional context (including regulation), and social outcomes. We adopt a relational perspective to define institutions as the stable patterns of interaction that owe their meaning to mutually shared expectations for legitimate action (Bathelt & Glückler, 2014). In other words, an institution is the compound of

meaningful, mutually shared expectations and the pattern of interactions that those expectations legitimize in recurrent situations. Institutions refer to the beliefs that actors have about what the rules really are (Farrell, 2018) and to the stable patterns of interactions that those beliefs sustain. Consequently, institutions are observed in actual practice, not in codified rules. This concept is similar to that of decoupling, which is used in organizational institutionalism (Hallett & Ventresca, 2006; Meyer & Rowan, 1977) to convey that organizations sometimes build “gaps between their formal structures and actual work activities” (Meyer & Rowan, 1977, p. 341) in an attempt to be legitimate by conforming to institutionalized rules while actually behaving differently to meet efficiency criteria.

In shifting the focus away from making the rules (regulation) to living the rules in mutually legitimate ways (institutions), we offer an alternative analytical perspective on institutional change. This new angle promises an answer to the question of why purposeful regulation sometimes fails to yield its intended outcomes. More important, it offers an additional level of analysis that allows us to study the forces and mechanisms that work against or in favor of regulation and that should be understood in order to raise the efficacy of what we have called institutional policy-making (Glückler & Lenz, 2016).

Second, we conceptualize modes of change in a framework that has us look explicitly at the differential dynamics of institutional form and function. We explore Campbell’s (2010) question of whether an institution’s function can change without alteration of its form or vice versa and whether “these two possibilities [are] equivalent or somehow significantly different” (p. 108). Institutional form specifies the meaningful pattern of interactions in recurrent situations, whereas institutional function characterizes the intended or unintended outcome of an institution in compliance with actors’ mutual understanding of legitimacy. We argue that each of these two characteristics of an institution may either remain stable or change through its interdependent relation with the institutional context.

Combining the characteristics of these two dimensions into a matrix, we propose four modes of institutional change (Fig. 6.1). This typology goes beyond the simple dichotomy of institutional stasis (same pattern to perform the same function) versus institutional transformation (different pattern to perform a different function), such as layering and conversion. In addition, it allows us to examine how an abiding institutional form gradually performs new functions. This situation partly corresponds to what Hacker (2004), when referring to policies, defines as drift: “changes in the operation or effect of policies that occur without significant changes in those policies’ structure” (Hacker, 2004, p. 246). Because the notion of drift refers to alternative uses or effects—be they deliberate or unconscious—of an otherwise unchanged form (Béland, 2007), we endorse this term as a label for an analogous change of institutions. In this chapter institutional drift means a situation in which an institutional form—a stable pattern of practices—is sustained while performing alternative functions or leading to alternative social outcomes. Unlike its original connotation, drift need not only have a negative value only; it can also lead to appreciation, as we show. A fourth and original type of institutional change occurs in the

|                    |               | Institutional function |  |
|--------------------|---------------|------------------------|--|
|                    |               | Stable function        | Shifting function                              |
| Institutional form | Stable form   | STASIS                 | DRIFT  |
|                    | Shifting form | MORPHOSIS              | TRANSFORMATION<br>(e.g., layering, conversion) |

**Fig. 6.1** Types of change of an existing institution. Source: Design by authors

reverse case, that is, when an institution gradually adapts its form to yield the same social outcomes under shifting institutional contexts. Borrowing from biology, we refer to this mechanism as morphosis, the nonessential adjustment of a form to shifting environmental conditions in order to retain its original function.

For each of the two more subtle types of institutional change, drift and morphosis, we reconstruct an empirical example of local crafts in Germany. Both have been discussed as instruments for promoting local commerce either through stimulation of local demand or through knowledge creation and learning across distant places. Empirically, we draw on qualitative evidence that we collected during two stages of fieldwork in Baden-Württemberg in 2015.<sup>1</sup> The first case is the centuries-old German institution of the *Walz*, also called *Wanderzeit*, the years during which trained apprentices in the crafts traveled to different towns across a wide region to work as a *Geselle*, or journeyman. This case confirms the logic of institutional drift (Schickler, 2001), albeit for a socially appreciated rather than deprived institution. We demonstrate how a relatively unchanged and persistent morphology has gradually fulfilled alternating social purposes over the last two centuries. The second empirical study, which focuses on local public procurement in the contemporary construction sector, illustrates what we call institutional morphosis, a process by which institutions change their form in order to retain their original function. This second example of institutional change shows how the shift from national to supranational, European regulation has clearly changed the normative requirements of public procurement. However, we present circumstantial evidence that even though the institution's actual form has changed, it has retained one of its original functions of promoting local commerce.

<sup>1</sup>Two groups of graduate and postgraduate students assisted us in related research seminars on economic geography at Heidelberg University. Both case studies were based on 18 semistructured interviews each. We are especially grateful for the excellent work by Hanna Wilbrand, Lukas Bieringer, and Christian Berberich as interviewers and for their remarkably empathetic access to and communication with the journeyman community (Wilbrand, Berberich, & Bieringer, 2015).

## Drift of the *Walz*: The German Journeyman's Years on the Road

### *The Institutional Form of the Walz*

Although a key element in the European history of the crafts, the wandering years of craft journeymen did not attract major scholarly interest until the late eighteenth and early nineteenth century (Bade, 1982; Schanz, 1877; Werner, 1981). Today, academic research and popular publications alike refer to the wandering years, the *Walz*, as “amongst the most important institutions in German craftsmanship” (Back, 1985, p. 12). The transition from a medieval feudal order to a modern industrialized society entailed deep societal ruptures, such as the fall of the guilds, the liberalization of industry and trade, and the displacement of traditional crafts by the emergent industrial factories. We demonstrate that the German *Walz* meets all the elementary criteria of an institution: a set of legitimate mutual expectations, a commonly shared understanding of a pattern of interactions in recurrent situations, and devices and practices of sanctions. This institution was a widespread phenomenon in medieval Europe, being known as the *compagnonnage* in France (Truant, 1979) and the wandering journeymen in the British Isles, for instance, but was common in the United States as well (Cooper, 1983; Salinger, 1983). Except in Germany, it had disappeared in most countries by the early twentieth century. Although the *Walz* has ceased as a legal or professional requirement, it continues to exist and has even experienced recent revival, reflecting a general trend toward a resurgence of craft modes of production (Suddaby, Ganzin, & Minkus, 2017). Although the *Walz* has lost its legal and professional status, UNESCO has protected the practice since 2014 within the framework of intangible cultural heritage, paying tribute to the significance of this institution in the history and evolution of the crafts in Europe.

We identify three stages in the institutional morphology of the *Walz*: aspiration, wandering, and homecoming (Table 6.1). In the first stage the person seeking to become eligible as journeyman has to have successfully completed an apprenticeship and must be unmarried, debt-free, without criminal record, and younger than 30 years. To start the wandering phase, which usually lasts two or three years and one day, a journeyman affiliates with one of the journeyman associations or fraternities (*Schächte*), which provide for assistance at home and on travel. The journeyman begins as a novice (*Aspirant*) to be socialized with the values, customs, and responsibilities of being a virtuous member of his fraternity. When the person is prepared for travel, the association arranges for a ceremonial release party (*Losbringen*). Peer journeymen typically use a nail and hammer to pierce one of the novice's ears for an earring (*Nageln*)—traditionally his last cash if he becomes indigent. The novice puts on the traditional garb (*Einkluften*) and a number of obligatory accessories such as a hat, a walking stick (*Stenz*), and a square cloth (*Charlottenburger*) in which to carry his personal belongings (Fig. 6.2). The release from home includes further rituals, such as climbing over the sign marking the town limits (*Spinnermarsch*) and burying some liquor until the new journeyman's return, which all help create a sense

**Table 6.1** The German wandering years as an institution

| Aspiration<br>( <i>Aspiranz</i> )  | Wandering<br>( <i>Walz</i> )  | Homecoming<br>( <i>Einheimischmelden</i> )   |
|--|---|--|
| <ul style="list-style-type: none"> <li>• Meeting between the novice (<i>Aspirant</i>) and a senior journeyman (<i>Altgeselle</i>) to learn about the journeyman years</li> <li>• Familiarization between novice and senior journeymen, introduction to a journeyman association</li> <li>• Affiliation with and initiation into the fraternity (<i>Schacht</i>): nailing (<i>Nageln</i>) and other rituals such as embedding (<i>Einbinden</i>)</li> <li>• Release party (<i>Losbringen</i>), donning of the traditional garb of the craftsman (<i>Einkluften</i>), burying of a bottle of liquor, symbolic climbing over the sign marking the town limits (<i>Spinnermarsch</i>), etc.</li> </ul> | <ul style="list-style-type: none"> <li>• Beginning of travel together with a senior journeyman (<i>Exportgeselle</i>) who teaches principles, codes, and rules of virtuous behavior</li> <li>• Mobility and lodging: cost-free or very inexpensive (e.g., hitchhiking, “hotel of a thousand stars,” lodging with the master)</li> <li>• Self-presentation (<i>Vorsprechen</i>) to a master craftsman, with recitation of a secret greeting formula (<i>Schnack</i>) being an unmistakable identifier of the fraternity</li> <li>• Either paid employment by the master or his payment of travel money (<i>Zehrgeld</i>) for the journeyman to continue walking</li> </ul> | <ul style="list-style-type: none"> <li>• End of the <i>Walz</i> after two or three years and one day</li> <li>• Reentry into the off-limits zone (<i>Bannmeile</i>) in which the journeyman had been forbidden to ply his trade, recovery of the buried bottle of liquor</li> <li>• Welcoming party organized by the senior journeyman, including family, peer journeyman, and fraternity members, shedding of the garb (<i>Auskluften</i>)</li> <li>• Long-term commitment to and compliance with the conventions of the journeyman fraternity, participation in fraternity events (<i>Aufklopfen</i>)</li> <li>• Social responsibility for the local home community</li> </ul> |

Source: Design by authors

of identity and a visible commitment to the shared meanings and expectations embodied in the association.

The second stage is the actual period of wandering. While traveling, the journeyman is obliged to wear the fraternity garb, carry with him only his personal belongings, move cost-free, and avoid coming closer to home than the traditional radius of about 50 km (*Bannmeile*). Since journeymen travel only with their private belongings, there has always been a general understanding about the need to support them with travel money (*Zehrgeld*). To find employment in a foreign city, the journeyman must present himself (*Vorsprechen*) as a legitimate traveling journeyman (to distinguish himself from local beggars). To do so, he recites a lengthy greeting formula (*Schnack*), typically in rhymes that each apprentice has to learn by heart and keep secret as a unique identifier of the journeyman association. The master, in turn, is expected to employ a journeyman, even if only for a short period, to cover the expenses of traveling and to share his knowledge and experience without keeping secrets (Werner, 1981). When a master has no work to offer, the journeyman receives some money to pay for the day and continue his travel. If a master refuses to pay the token, journeymen may put a mark on the master’s workshop and spread the news

**Fig. 6.2** Baptist and Josef Treu, two journeymen from Haselbach, Bavaria, in 1908. Source: Alfred Merl. Reprinted with permission



by word of mouth through the journeyman association that every journeyman should shun this master in the future. Given the strong sense of belonging, peer journeymen will usually enforce such sanctions. Part of the institutional form of wandering is that foreign journeymen receive a gift of food, shelter, or money upon their arrival in a town (Werner, 1981). During their stay there, local and foreign journeymen regularly meet at the *Herberge*. Similar to the Basque *txoko* (Hess, 2018), the *Herberge* combines two functions. First, it is a physical place at which to lodge for a few days, seek employment, and socialize with each other. Second, it also serves as a meeting point for the regular gatherings (*Aufklopfen*) of members of the journeyman association. At these assemblies the journeymen elect their representatives, test and promote apprentices, welcome foreign journeymen, settle disputes and sanction misbehavior, collect fees for the fraternity, manage its treasury, assist journeymen in need, and support them on their travels (Werner, 1981).

After two or three years and one day of traveling, the wandering journeyman enters upon the final stage of his professional preparation, homecoming (*Einheimischmelden*). He finally crosses into his hometown's *Bannmeile*, the zone in which he had been forbidden to practice his trade while on the road. Upon the journeyman's return, the responsible senior journeyman (*Exportgeselle*) organizes a welcome party that includes fraternity members, family, and friends. Ceremonial acts such as digging up the liquor and taking off the garb (*Auskluften*) symbolize the

end of the journeyman's wandering years. Because journeymen often travel together, the *Walz* creates close friendships among artisans, the social bonds that are the seedbed for nurturing community commitment and reproducing the values and conventions of the local journeyman association back home. Only if senior journeymen cultivate the traditional heritage, teach the values and mutual expectations of a virtuous craftsman, and monitor and sanction compliance with the institutional legacy can the *Walz* survive over time. Hence, Cooper (1983) concluded that the wandering serves as a self-reinforcing system of interdependencies between apprentices, journeymen, and senior craftsmen tied together under the roof of a journeyman association. Senior journeymen are expected to attend the regular meetings to initiate novices; to teach, monitor, and sanction the often unwritten fraternity rules; but also to cultivate friendship, learn about new business opportunities in town, and arrange for community services and social responsibility.

### ***Changes in the Institutional Context: Authorities, Regulation, and Control***

The wandering years underwent dramatic changes in regulation over the centuries and across the territories of Germany (Table 6.2). None of these transformations has put an end to this institution, however. Lack of space in this chapter prevents us from reviewing the many regulatory oscillations between mandatory, voluntary, prohibited, and finally liberated wandering until its ultimate legal abolishment. We highlight only two major changes in the institutional context: the transition from the self-governance of a guild-run craft economy (*Zunftzwang*) to state-governed liberalization of trade and industry (*Gewerbefreiheit*) and the subsequent emergence of trade schools and the modern vocational training system in the nineteenth and early twentieth century.

The first shift occurred as a power struggle between the guilds (*Zünfte*), the journeyman associations, and the modern state of the nineteenth century. Artisans in the Middle Ages organized themselves into guilds for each particular craft or trade. Guilds were local and mostly urban associations and became the principle authorities for training, social care, and local market regulation. Initially, the wandering years were voluntary, but by the sixteenth century the guilds formally required journeymen to travel for a few years while practicing their craft (*Wanderzwang*) before they could become eligible master craftsmen in their hometown (Wissell, 1971). By the eighteenth century the guilds had become true power monopolies that used the wandering years as an instrument to regulate the local labor market and protect their city's labor supply from the effects of crowding (Werner, 1981). With that era's rising number of journeymen and aggravated social conditions, journeymen began to represent their own interests through separate organizations, the journeyman associations, which helped journeymen meet their needs and obligations and connected across towns to build a powerful network (Werner, 1981).

**Table 6.2** Historical stages in the regulation of the *Walz*

| Elements of regulation and control | Medieval to modern times (13th to 18th century)  | Industrialization (19th century)  | Contemporary times (21st century)   |
|------------------------------------|--|---|---|
| Principal authority                | Guilds ( <i>Zunftzwang</i> )   | German states   | Journeyman associations ( <i>Schacht</i> )  |
| Regulation                         | Voluntary wandering until 15th century<br>Compulsory wandering by the 16th century                               | Oscillation between compulsory and voluntary wandering<br>Voluntary wandering by 1871 through state liberalization of trade and industry ( <i>Gewerbefreiheit</i> ) | Voluntary, open to women and nonmembers ( <i>Freireisende</i> )   |
| Control agents                     | Guild masters<br>Journeyman association  | State (mayor, police)<br>Guild masters<br>Journeyman association  | Journeyman association  |
| Control devices                    | Greeting ( <i>Schnack</i> )<br>Guild certificate ( <i>Kundschaft</i> ) by 18th century<br>Fraternity conventions | Greeting ( <i>Schnack</i> )<br>State certificates: indenture and the Journeyman's diary ( <i>Wanderbuch</i> )<br>Fraternity conventions                             | Greeting ( <i>Schnack</i> )<br>Fraternity certificate<br>Journeyman's diary ( <i>Wanderbuch</i> )<br>Fraternity conventions |
| Meanings and functions             | Personal maturity<br>Craft proficiency<br>Surplus labor regulation   | Personal maturity<br>Economic competitiveness of the state  | Personal maturity<br>Understanding between cultures and nations   |

Source: Design by authors

The end of the eighteenth century heralded a fundamental shift of power from the traditional authorities of the crafts to the emerging territorial states, which sought to liberalize industry and trade and free them from the powerful self-governance of the guilds. State legislation varied widely over time and from one German region to the next. On the one hand, states were motivated to encourage the *Walz* for economic reasons, especially to gain knowledge for the local crafts, and for social reasons, to balance periods of labor surplus in the cities (Puschner, 1988). On the other hand, state authorities were interested in recruiting journeymen for military service and were anxious about traveling journeymen being susceptible to revolutionary conspiracy after the Napoleonic reforms. Territorial rulers therefore aimed to suppress the journeyman traditions (Neufeld, 1986). As a consequence, legal regulation such as that in Bavaria oscillated between liberating journeymen from wandering and obliging them to travel (Werner, 1981). Similarly, Prussia swung between supporting and prohibiting the *Walz* at least in its major cities such as Berlin (Reith, 2005). After a period of such regulatory vacillation, the state successfully deprived both guilds and journeyman associations of their traditional power of self-governance and jurisdiction, eventually abolishing the journeyman's mandatory itinerancy in the nineteenth century. Prussia pioneered the liberalization of the crafts (*Gewerbefreiheit*) in 1810 (Deissinger, 1994), and by 1871 the Industrial Code

(*Gewerbeordnung*) was enforced across all territories of the newly formed German Empire (Bade, 1982; Wissell, 1971).

A second important change in the institutional context of the *Walz* was the establishment of continuation schools (*Fortbildungsschulen*) to bridge the gap between elementary schools and military service in the early nineteenth century. The diffusion of these schools helped harmonize knowledge across craft workshops, cities, and territories, and supported the skill base within the local economies. In Bavaria, for example, those cities that had established such trade schools since 1829 economically outperformed comparable cities that had no such schools in the years thereafter (Semrad, 2015). By the early twentieth century, Georg Kerschensteiner (1854–1932) had reformed the first generation of continuation schools into what became the *Berufsschule*, the modern German vocational school system (Deissinger, 1994). Unlike earlier trade schools, the *Berufsschule* was made obligatory, and masters were henceforth held responsible for sending apprentices to school and monitoring their attendance. Trade schools spread rapidly, heralding the basic structure of modern vocational training (Herrigel, 1996; Thelen, 2004). Both of these shifts rendered the traditional functions of the wandering years obsolete. The vocational system created other means of knowledge acquisition, and the freedom to practice a craft made it possible for artisans to stay in their hometown and seek employment or start their own business as a master after successful apprenticeship. However, all these shifts in state regulation and self-governance of the guilds had little effect on the institutional practice of the wandering years.

Today, the wandering years are no longer required by state law or by statute of craft organizations. Journeymen are allowed to seek qualified employment, set up their own business, and, in some crafts, even become a training workplace. Yet about one thousand journeymen still take to the road in Germany every year.

### ***The Institutional Drift of the Walz***

The previous section's characterization of the basic script of how the *Walz* proceeded hundreds of years ago closely resembles contemporary practice among journeymen. Our analysis of the German *Walz* today is based on over a dozen interviews with current and senior journeymen in southern Germany. It confirms the general persistence of the institutional form despite the turmoil in the institutional context. Some inherited practices have indeed lost their original utility. For instance, the recitation of a secret greeting as the journeyman's way of initially presenting himself to work for the master dates back to preliterate times when people could not read written credentials (Werner, 1981). However, our interviews showed that these practices are still based on mutual expectations and are enforced by journeyman fraternities, which sanction journeymen who violate them. The continued existence of a form that has no particular alternative function has become known as *skeuomorphism* in design (Hargadon & Douglas, 2001). Not only have most of the fundamental elements of the institutional form been retained, the expectations underlying

them have also become imprinted on contemporary patterns of behavior. Just as the ban on a journeyman's practice of his craft within the prohibited zone surrounding his home town ensured physical separation of the journeyman from his home and family, the use of mobile phones and laptops is forbidden today in order to ensure his communicational isolation from home. Although the fundamental institutional form has remained the same, our own interviews with journeymen as well as a recent survey on contemporary journeymen (Kemlein, 2016) indicate that the institutional function of wandering has drifted from the pursuit of personal maturity and character-building to a search for a livelihood; then to labor market regulation, knowledge transfer, and promotion of local industry and trade; and, currently, to the promotion of cultural understanding and personal experience through travel (Kemlein, 2016; Schanz, 1877; Wadauer, 2005; Werner, 1981; Wissell, 1971).

When wandering was voluntary (i.e., until the sixteenth century), the individual's major motive to embark on travel was to develop personal maturity and professional skills. Historical analysis of the wandering years in the Middle Ages suggests that traveling played a crucial role in gaining access to highly specialized expertise over relatively great geographical distances (Schanz, 1877). A personal longing for travel and foreign places was another motive for young journeymen after they had completed their apprenticeship. Journeyman diaries (*Wanderbücher*) contain manifold descriptions of museums, churches, landscapes, and the memories of new acquaintances (Wadauer, 2005; Werner, 1981).

A first drift occurred in the late eighteenth century, when the guilds had made wandering compulsory for journeymen in order to regulate the local labor surplus by deterring new craftsmen from becoming masters and from entering the local markets. The labor surplus, however, was merely diverted to other cities, and the rise in the number of wandering journeymen made it ever more difficult for them to find appropriate work. Because a certain amount of work experience was obligatory to complete the journeyman phase, the *Walz* became longer and longer, extending up to six or more years. Moreover, the strong protection of local craft markets made it increasingly common among masters to keep trade secrets (Elkar, 1999). In short, the *Walz* turned into a way to make an often miserable living.

By the nineteenth century the intervention of the German states in the self-regulation of the guilds and journeyman associations brought about another institutional drift. The states were interested in liberalizing commerce and trade and in promoting policies designed to increase their economic power. Although formal assessments such as those commissioned by the Habsburg monarchy in 1769 and the Göttingen Academy of Science in 1798 initially bore out the *Walz*'s utility for knowledge acquisition (Reith, 2005), the waves of alternating state regulations on the journeyman years as briefly reviewed earlier in this chapter indicate the intended instrumentalization of the wandering years to promote the economic policy of knowledge transfer. The *Walz* ultimately lost this function with the establishment and rapid spread of continuation schools in the nineteenth century and compulsory trade schools in the early twentieth century. Today, the absence of an obligation to take to the road, the possibility of immediate access to masterhood through a master's examination, and the presence of a diversified vocational training system have

**Fig. 6.3** Journeyman Florian Piper, photographed in Surendorf/Schwedeneck, Schleswig-Holstein, in 2012. Source: Burkhard Peter Photography. Reprinted with permission



robbed the *Walz* of its former functions. Wandering is still practiced, however, even with similar artefacts and physical appearances today (compare Fig. 6.2 and Fig. 6.3). The fact that the wandering is protected under the intangible cultural heritage framework mirrors the renewed value of this institution for the crafts and its new function of promoting cultural understanding.

At a theoretical level this example demonstrates the implications of distinguishing between institutions as meaningful patterned behavior from institutions as formal regulation. As formal regulation, the *Walz* with its changing regulation over the years would exemplify exhaustion. In this case, form refers to regulation, so the form changes (regulation is abolished), leaving the function to turn as it may. By contrast, as stable patterns of behavior, the form remains unchanged, whereas regulation is found to have had an effect only on the altered functions of the *Walz* (drift).

## **Morphosis of Public Procurement in Germany**

### ***The Institutional Function of Promoting Local Commerce***

Having analyzed the institutional drift of the *Walz*, in which the institution has changed functionally while keeping its form, we now examine the opposite example: change in the institutional form to sustain an institutional function. To illustrate

such institutional morphosis, we focus on the dynamics of public procurement in Germany's federal state of Baden-Württemberg. We argue that practices in public procurement have been actively adapted to retain one of its fundamental functions—the promotion of local commerce—even though regulation has explicitly been modified to preclude it. Public procurement also serves other functions, of course, the most important one being that of putting public money to good use. But in this section we focus on public procurement's function as a tool for stimulating the (local) economy, for so it has remained despite deliberate regulatory aims to diminish it.

Every year more than 250,000 public sector bodies in the European Union (EU), such as government departments and local authorities, purchase goods and services from private business worth a total of 14% of EU gross domestic product (European Commission, 2017). Germany, France, and Poland combined account for half of all EU award notices in public procurement (Strand, Ramada, & Canton, 2011). Whenever a school is to be built or a hospital refurbished, local government uses formal procedures to choose the provider that can deliver this service best by meeting a set of regulated criteria based on the principles of nondiscrimination, equal treatment, and competition. Official regulations require public authorities to follow an accountable tendering process and to publicize the criteria for selection and contract awarding to all eligible EU enterprises. Every competent, efficient, and reliable bidder must be given the same chance to apply for the tender (Dreher, 2008).

Apart from the economical use of public money, the promotion of local commerce has always been an actively pursued, or at least consciously welcome, benefit of public expenditures. In line with Keynesian demand-side management policy, public procurement helps stimulate production and thereby secure or even create income and jobs in the region, especially when the economy is weak (Dreher, 2008; Kunert, 1977; Walthelm, 1979). Orders are often large, especially in the construction sector, so public procurement indisputably plays a role in countercyclical economic policy that enhances the individual municipality's local labor market and potential tax revenues (Dreher, 2008; Elverfeld, 1992; Walthelm, 1979). This function of public procurement was deliberately activated in 2009 when procurement law was temporarily changed in the wake of the European economic crisis. Accelerated procedures were allowed and EU thresholds lifted to boost the domestic economy by awarding contracts more locally than usual (Dirnbacher, 2009). In general, Elverfeld (1992) found public demand for construction services in Germany to be organized around regional markets, with protectionism against foreign firms at the national level and discrimination against enterprises from other municipalities at the local level. An empirical assessment of the geography of German public procurement (Söffner, 1979, 1984) showed that construction firms tended to operate mostly in their own vicinity and that 62% of the total contract volume from 1972 until 1982 had gone to bidders located within the same administrative district as the procurement entity (Söffner, 1979). In 1978 less than 1% of tenders were awarded to foreign firms. Between 1979 and 1981 the figure rose to 15% but remained low (Söffner, 1984). In the following section, we argue that this function of local business promotion has persisted despite the regulatory change through which the EU has been trying to prevent any undue preference of local bidders. Although the complexity

and formality of the public procurement process has increased, contracting authorities and bidders alike have found ways to institutionalize a gray zone between formal regulation and practical interest in local procurement. The actors have thus adapted the institutional form of public procurement to sustain a traditional function of public procurement, leaving the geography of contract awards virtually unchanged.

### ***Changes in the Institutional Context: The Imperative of Nondiscrimination***

The institutional context of public procurement in Germany has undergone three major regulatory changes: (a) a shift from oral to written procurement forms, (b) the formalization of procurement into national procurement guidelines, and (c) reregulation under EU public procurement law moving toward the principle of nondiscrimination.

The original practice of public procurement lasted until the mid-nineteenth century. All providers interested in bidding for a public contract had to attend a convocation, in which the contract was awarded through an “inverse auction” (*Lizitation*). All bidders attended physically and tried to undercut each other’s tenders until the lowest one won the contract. This arrangement often led to the financial ruin of the contracted firms or to substandard quality of the delivered results (Dageförde, 2008). With the erosion of the guild system and the introduction of freedom of trade, the demand for a transition to a practice of written submission succeeded. Bidders were subsequently permitted to submit only one offer, without the possibility of adapting it in response to other offers. After an official deadline had expired, the public authority evaluated all offers in secret competition. Bavaria and Prussia were the first states to introduce this form of procurement (in 1833 and 1834, respectively). It was established throughout Germany during the 1850s (Dageförde, 2008). Because the bidders no longer had to be physically present for an auction, the competition opened to a greater number of bidders across larger geographical distances than under the previous procedures. However, contracts were still assigned to the lowest bidder, so the risks of price-dumping and poor quality remained unsolved. As of the 1880s, authorities attempted to reform this process by including quality criteria, requiring public entities to award the contract to the most economical offer (Dageförde, 2008). Dissatisfaction remained, however, because of the fragmentation of differential procurement practices across Germany.

The second shift in the institutional context led to the formalization of procurement into national guidelines. The first attempts to unify the variety of practices throughout Germany came in 1912, but it took until 1926 to supplement national budgetary law with the Procurement Regulation for Public Works (*Vergabe- und Vertragsordnung für Bauleistungen*, VOB) (Dageförde, 2008; Dreher, 2008). During this second shift in German public procurement law, a third change was already underway, the harmonization of procurement law across Europe through

**Table 6.3** Changes in public procurement in Germany through EU harmonization

| Regulation and control | Before 1999  | After 1999  |
|------------------------|--|---|
| Regulation             | National budgetary law (VOB, VOL, VOF) <sup>a</sup>        | EU procurement law (VOB, VOL, VOF, GWB, VgV) <sup>a</sup>           |
| Procurement criteria   | Economy<br>Efficiency, secured financial coverage          | Nondiscrimination<br>Transparency, equal treatment, and competition |
| Status                 | Guidelines without legislated norm ( <i>Vergabewesen</i> ) | Legislated norm ( <i>Vergaberecht</i> )                             |
| Bidders' rights        | No subjective, enforceable rights                          | Protection of tenders   |

Source: Design by authors

<sup>a</sup>VOB/VOL/VOF: specifications of the Procurement Regulation for Public Works/Public Supplies and Services/Professional Services. GWB: *Gesetz gegen Wettbewerbsbeschränkungen* (German Act Against Restraint of Competition). VgV: *Vergabeverordnung* (Regulation on the Assignment of Public Contracts)

encouragement of cross-border bidding (Table 6.3). As a consequence of treaties pushing for the abolishment of barriers to free trade within the EU and prohibiting discrimination due to national origin, the EU issued procurement guidelines that coalesced into specific directives for its member states in the 1990s. These rules then had to be transposed into national legislation by the individual member states and had to be applied to all tenders exceeding a certain threshold in contract value and assumed to be of cross-border interest. In Germany, this transposition into national law became effective in 1999 through procurement-related antitrust legislation (*Kartellvergaberecht*) (Dageförde, 2008).

This third regulatory change has had several effects. First, German public procurement law now provides for four different tendering procedures, depending on the contract volume as defined by EU thresholds: open procedure, restricted procedure, negotiated procedure, and competitive dialogue (Strand et al., 2011). To meet the new principles of transparency and competition, all tenders exceeding the EU thresholds must be published via the EU's online database, Tenders Electronic Daily (TED).<sup>2</sup> The Commission maintains this web portal as a supplement to the official journal of the EU to display all tenders and contract awards within EU member countries (Strand et al., 2011). Second, whereas the guidelines for procurement (*Vergabewesen*) offered no enforceable rights to bidders until 1999 (Dreher, 2008; Rittner, 1988), the new procurement law (*Vergaberecht*) is based on enforceable legislated norms (Table 6.3). They stipulate several aspects of the process: the time and place of the tender's publication, the time by which all bidders need to be informed about the results, the reasons for these results, and a moratorium during which declined bidders may raise objections before a contract can finally be assigned to the selected firm (Brakalova, 2016; Dageförde, 2008). The tendering documents

<sup>2</sup>TED (<http://ted.europa.eu>) publishes about 460,000 calls for tenders annually, representing a worth of €420 billion.

must be itemized in as much detail as possible to enable a valid comparison between the bids. Tenders are now fully transparent to bidders, who are therefore able to monitor and object to the procedure and outcome. Consequently, public procurement tribunals (*Vergabekammern*) and higher regional courts (*Oberlandesgerichte*) have about 1,000 cases to review in Germany every year (Dreher, 2008). Third, and of focal interest in our analysis, the new procurement law has adopted the principle of nondiscrimination, which explicitly bans any geographical preference for regional bidders (Lübeck et al., 2017). The regulatory change outlined in the previous section is thus designed to achieve maximal transparency and accountability and to offer legal privilege for all bidders to enforce a claim against questionable contract award notices. Current regulation thus challenges one of the important traditional functions of public procurement, the promotion of local business and labor.

### *The Institutional Morphosis of Public Procurement*

We argue that the new regulation, quite unlike the regulatory imperative of nondiscrimination, has not overridden the function of local preference. To support this claim empirically, we draw on a TED analysis of all contract award notices issued in Baden-Württemberg's construction sector over two one-year periods: from April 11, 2012, to April 11, 2013, and from April 11, 2016, to April 11, 2017 (Table 6.4). In both the first and the final year of that five-year period, most contracts were awarded to firms located within a radius of 100 km (62 miles) from the construction sites, that is, to firms whose workers were able to reach the sites in about one hour. These awards also constituted the highest percentage of the overall contract volume, which amounted to over €730 million from 2012 to 2013 and €1.2 billion from 2016 to 2017. Although this 100 km radius constitutes only one quarter of the size of the ring from 100 to 200 km, the number of contract awards declined within this second range but rebounded for firms further away than 200 km. The number of contracts awarded to firms in other countries remained below 10 for both years.

A study of EU tendering from 2006 through 2010 (Strand et al., 2011) substantiated the localized pattern of contract awards at a national level as well. It found that cross-border wins accounted for only 3.4% of all tenders. In our interviews in a metropolitan region in Baden-Württemberg, contracting authorities pointed out that they simply did not receive any offers by bidders from other countries, or even from

**Table 6.4** Public procurement in the construction sector in Baden-Württemberg

| Distance of firm from site | 2012–2013        |             | 2016–2017        |             |
|----------------------------|------------------|-------------|------------------|-------------|
|                            | No. of contracts | % of volume | No. of contracts | % of volume |
| 0–100 km                   | 271 (49%)        | 48          | 625 (55%)        | 48          |
| 101–200 km                 | 90 (16%)         | 20          | 173 (15%)        | 17          |
| > 200 km                   | 190 (35%)        | 32          | 335 (30%)        | 35          |

Source: Design by authors

other parts of Germany: “We tender a lot on a European scale, with high volumes of orders. But in the last 25 years—nothing.” Representatives of the construction industry confirmed this apparent disinterest in tenders from other countries or regions, explaining that they are usually not inclined to bid for tenders in rather distant regions because of little chance of success when bidding against local competitors. We argue that this perception stems from bidders’ awareness that the practice of local preference endures.

Because regulation is clear about nondiscrimination and is enforced, bidders and contracting authorities alike must adhere to strict formalities. If they do not, offers must be excluded or the tender is declared void and must be started anew. Both sides have therefore changed their procurement practices, yet their function remains the same as before. This phenomenon illustrates institutional morphosis, for both sides must have found a way to adhere to the new regulation in their practices while continuing to comply with previous mutual expectations on how to behave legitimately. We argue that both parties—contracting authorities and bidders—still believe that tenders should be awarded locally and that experience gained by repeatedly participating in tendering processes under the new regulation has led to the institutionalization of what our interviewees called a gray zone. This leeway allows both sides to institutionalize legitimate expectations and new procurement practices to sustain the function of promoting local business yet still comply with the law. Retaining this gray zone calls for discreet signals that can be understood only by those who know the underlying code. In our case these would be local bidders and procurement entities.

Our interviews helped us identify three specific mechanisms of morphosis: fake positions in the tender, explicit invitation of particular bidders, and the targeted use of discretion for a biased selection.

The contracting authority, for example, can formulate the announcement of the tender in a specific way to signal local preference. Rather obvious ways of doing so exist. One of them is to list several prerequisites that rule out businesses from other regions from the start, such as the necessity of being able to reach the construction site within one hour if problems arise. Another is to state the need to know German and the German construction code. A third is to require submission of specific references as proof of having done similar projects in Germany. Bidders are assigned points on a scale rating the degree to which they comply with a particular requirement, and it is clear that local enterprises score higher on these measures. More subtly, the specifications of the tender may list services or products as necessary that will not actually be needed, thereby encrypting information to insiders. As one interviewee explained,

For those who are in regular contact with the contracting authority, a code within the tendering specifications exists. For instance, any kind of service with a very high cost and a high quantity . . . makes your offer as a whole very expensive. The specifications state the necessity of a high number of these services, but everybody knows that they won’t be needed or, if so, only in a small amount. These are the little tricks for how those involved get information on how to get the contract more easily.

The contracting authority confirmed the existence of such codes:

If an experienced bidder knows that one item won't come whereas another one will be doubled, he can use that [knowledge when calculating] amounts, and he can significantly change his odds. . . . I tell him to put a lower price there, and I have already entered the one I want.

These examples show the need to have the appropriate knowledge and tools to decipher a code that remains invisible to nonlocal bidders. Because the tendering process has become increasingly complex, lengthy, and costly for bidding firms, some of them are willing to participate only if they feel they have reasonable chances of being awarded the contract. That outcome, however, is hard to predict—except when contracting entities hint at their special interest in particular firms with which they have worked successfully before. The contractors can send these signals either by informing favored bidders ahead of time or by specifically inviting them by telephone or mail to participate in the tendering process. In other instances a certain amount of discretion can be used to select the preferred bidder.

Sometimes one realizes what should actually not be happening—that a local procurer has established a relationship of trust with a bidder and would like him to be awarded the contract. Then the procurer tries to help that bidder within what is legally possible. . . . When filling out the form in one case, for example, I entered a cash discount that would have to be subtracted from the total sum of my offer. With this discount I was ranked first, but I was not awarded the contract, and they told me that they couldn't take the discount into account. The nerve of it! The contract was given to the one who had worked with them on earlier projects, who ranked second for this tender. They wanted to have him.

These codes and mechanisms function only when participants know each other and have worked together before. Only then can bidders make use of local knowledge, such as regional specificities like soil composition or how things are done in a particular region. This knowledge can also lead firms to expect similar behavior in other regions—by bidders, contracting authorities, and other firms. For instance, suppliers to firms competing in a tender can play an important role, too, because they are bound to their long-term, local clients and therefore discriminate against external competitors. As one of our interviewees explained,

We once were asked by an investor to submit an offer in southern France, but we didn't even try to submit an offer because . . . coming from here, you cannot obtain concrete or steel at a price in line with that of their local market price. It's the same for Swiss or French firms coming here. They don't get the same conditions as we do from our suppliers. . . . It's a very regional thing. You won't find "Europe" in the construction sector.

These mechanisms illustrate how institutional morphosis develops. In this case, the involved actors changed the known patterns of practices (form) in response to changes in the institutional context in order to sustain the institution's traditional social function, that of promoting local commerce by awarding contracts to local bidders. The mutual expectations of what constitutes legitimate behavior, the institutional function, thus persisted. If the concept of institution were equated with regulation, this case would likely be interpreted as inefficient conversion, for it did not prove possible to change the function.

## Conclusion

We have explored the dynamic nature of institutions and contend that these dynamics can unfold in rather subtle ways that make it difficult to assess whether an institution changes or not. There is more to institutional change than the polarity of stability and change. To sharpen the understanding of which elements of institutions change, we have deconstructed the institutions of the wandering years of craft journeymen and the preference for local firms when it comes to offering public procurement contracts in southern Germany. Distinguishing between institutional form and institutional function, we have proposed a simple taxonomic model that helps us comprehend how institutions keep their form although their function responds to changes in the institutional context (drift) and, conversely, how institutions retain a certain function by gradually realigning their form with a shifting context (morphosis). Our cases of drift and morphosis can thus be read either way: as expressions of relative continuity or of change. Our analysis supports finer-grained concepts of institutional change that incorporate an endogenous perspective of institutional change. Our simple model enables us to look at the individual institution in relation to its institutional context. Future research of this kind may go further by taking into account the complexity and interconnectedness of institutions. Because institutions are often nested one in another and thereby afford mutual stability, and because each institution may have more than one function, detailed analysis of interinstitutional interdependencies and their effects on partial changes in form and function is necessary if the possibilities of institutional changes are to be fully perceived (Campbell, 2010). Such work might help deepen insight into the workings of policies that run counter or parallel to the underlying institutional reality and enable us to hone our conceptualization of what we call institutional policy-making (Glückler & Lenz, 2016).

A second important conclusion is that institutions are by no means identical to formal codified rules and enforceable legislation. We have used the German *Walz* and the institutionalization of public procurement to demonstrate that institutional form and function are responses to prescriptive regulations and that these responses may or may not support those rules. Conversely, a dynamic analysis of policy-making may view regulation as a normative response to institutions and institutional changes (see Glückler & Lenz, 2016). If an institution were only the formal, codified rules, then the wandering years could no longer be considered as an institution today. In reality, although the *Walz* had been legislated out of existence by the mid-twentieth century, the institutional form of the German wandering years is still alive today. This institutional drift can be explained only by persistent mutual expectations held by the relevant groups of actors (e.g., apprentices, journeymen, and masters of a craft). These expectations stem from the conviction that a *Walz* should still be undertaken as well as from an agreement on the applicable rules and concurrence on the sanctions to be applied for noncompliance. The case of public procurement also shows that an institution can endure even though regulation changes as part of the institutional context. In response to rather rigorous regulatory attempts to prevent discrimination against nonlocal organizations, the form of public procure-

ment adapted in a way that ensured the previous behavior. Public entities and local bidders have developed a gray zone that allows them to comply with the formalities of the new regulation while abiding by their unchanged mutual expectations of local preference. If institutions are seen as formal rules, then both the *Walz* and public procurement are instances of a transformation in institutional form. In the former case, this change would be an example of exhaustion; in the latter, an illustration of conversion, inefficient though it may be. This analysis shows that the interplay between regulation and its outcomes can be improved by institutional policy-making, which takes into account the underlying institutional reality that either supports or undermines regulations imposed on it.

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