

2.2. Institutional theory (Sára Koczkás)

2.2.1. Introduction: IBV's significance in international management

The institution-based view (IBV) plays a significant role in explaining international management phenomena. The domestic institutional environment can determine the internationalization of new ventures (Ahmed & Brennan, 2019; Stocker, 2019), the export performance of domestic firms (Ngo et al., 2016), or the exit and re-entry strategy of international firms (Stocker, 2017; Tang, 2023). Moreover, the IBV represents the third leg of the “strategy tripod” in international business as well by addressing issues and strategic decisions such as institutional entry barriers (e.g., antidumping regulations), conducting business with developing countries with unique institutional settings and often underdeveloped regulatory environments, or providing a different perspective on corporate governance more suitable for developing countries, where institutional constraints are more prevalent than principal-agent conflicts (Peng et al., 2008; Stocker & Erdélyi, 2024). Given the relevance of IBV in international management, this study aims to collect the fundamentals of the theory, different classifications of the institutions and introduce informal institutions in more detail.

The development of the institution-based view was closely connected to the development of management research in China, so a significant portion of its conceptualization originates from the Chinese setting (Peng, 2005). The role of this theory can be understood as a response to the necessity of a theory that can incorporate the impact of the firm's environment on its strategic decisions. This is due to the fact that other prominent theories, such as the industry-based or resource-based view, were only able to do so within the significant constraints of the task environment (Peng et al., 2009). The theory's central inquiry is the reason for the similarity of organizations (DiMaggio & Powell, 1983). It posits that the institutional environment is an external force that causes organizations in a specific field to undergo a transformation that induces homogeneity. In his work, Scott (1995) contends that in addition to technical and managerial operations, businesses also prioritize adherence to the norms and conventions of their social environment. This is because organizations are required to comply to societal expectations in order to establish legitimacy.

Rather than prioritizing financial or efficiency concerns, the IBV theory suggests that companies are motivated by social influence to conform by adopting socially beneficial

behaviours or socially acceptable management methods (Barney, 1991). The idea emphasises the impact of the external business environment on the process of making decisions and the architecture of organisations. Firms will exhibit greater similarity when subjected to comparable institutional limitations. These limitations impose a state of limited rationality on human actors, so limiting the available options and increasing the likelihood of adopting certain practices and behaviours over others (Barley & Tolbert, 1997). The institutional environment, including regulatory agencies, the legal system, and culture, are often integral components of the national setting. Consequently, management practices and interventions can differ between countries (Kostova & Roth, 2002).

2.2.2. Classifications of institutions

Various efforts were made in academic literature to establish comprehensive definitions of institutions. Put simply, institutions are commonly described as the rules of the game (Boddewyn & Peng, 2021; Peng et al., 2009). As per more precise definitions, institutions refer to “the humanly devised constraints that shape human interaction” (North, 1990, p. 3), or “regulative, normative, and cognitive structures and activities that provide stability and meaning to social behaviour” (Scott, 1995, p. 33). Barley&Tolbert (1997, p. 96) define institutions as "shared rules and typifications that identify categories of social actors and their appropriate activities or relationships".

The fundamental role of institutions is to mitigate the ambiguity experienced by economic actors. Nevertheless, if the institutions lack clarity, are not completely established, or experience instability, they can also contribute to the generation of uncertainty. They impact the validity of practices and behaviours - in relation to what is considered acceptable and legitimate by the surroundings or the organizational domain (Meyer & Peng, 2016).

Institutionalism is commonly categorised into three pillars (Barney, 1991; Scott, 1995), depending on the focal points emphasised by different groups of scholars:

- The regulative pillar limits and controls behaviour, focusing on specific regulatory procedures, such as establishing rules, monitoring, or administering penalties, enforced by regulatory bodies, such as the state or professional organisations (Barney, 1991; Greenwood et al., 2002).

- The normative pillar refers to a framework of values (perceptions of desired or desirable results/goals) and norms (suitable methods of attaining goals) that inform and facilitate the assessment of individual behaviours and social interactions (Trevino et al., 2008).
- The cognitive pillar consists of rules (symbols, words, signs, gestures) which shape our conception of reality through the meanings they attribute to certain objects and activities (Osinubi, 2020).

North (1990) categorises institutions into two main groups: formal institutions and informal institutions, and contends that most institutional limitations are informal rather than formal. The significance of informal constraints is substantiated by the observation that the effects of the same formal institutions vary across different societies. Furthermore, many elements of informal institutions remain constant even when the formal institutions undergo changes, such as foreign occupations or the temporary rule of extremist or authoritarian regimes. The regulative pillar of institutionalism encompasses formal institutions, although informal institutions may be classified within the normative and cognitive pillars.

2.2.2.1. Formal institutions

Formal institutions are deliberately established (Van Essen et al., 2012) typically by political entities (North, 1990), such as national parliaments or governments, rendering them conventionally understood at the national level (Meyer & Peng, 2016). Key to their effectiveness is the inclusion of an enforcement component, a system that guarantees compliance by economic actors (Peng, 2013). Formal institutions include constitutions (North, 1990), legal systems (Boddewyn & Peng, 2021), laws, rules and regulations (Peng, 2013), such as private property rights (Puffer et al., 2010), antitrust and competition laws or labour market rules (Boddewyn & Peng, 2021; Peng et al., 2009; Zhu et al., 2012).

2.2.2.2. Informal institutions

Informal institutions are “socially shared rules, usually unwritten, that are created, communicated, and enforced outside officially sanctioned channels” (Helmke & Levitsky, 2006, p. 5). Informal institutions encompass sanctions, taboos, customs, traditions, and codes of conduct (North, 1990). It is important to note that these elements are separate from a nation's cultural traditions, although sometimes used

interchangeably (Boddeyn & Peng, 2021). As opposed to formal institutions, which are deliberately established, informal institutions arise organically within a given social or economic environment and are self-reinforcing, as adherence to them holds greater long-term significance (Van Essen et al., 2012). Academic research refers to multiple different concepts as informal institutions, in the following, three main groups will be introduced: culture and traditions; social conditions and social capital; and economic conditions.

Culture and traditions

Even though culture and informal institutions are not theoretically equivalent (Peng et al., 2008), the concepts are interconnected, and informal institutions are often operationalized as cultural variables. This perspective is especially prevalent in studies dealing with countries outside the European and North American context, mostly in case of Asian and African countries. Most studies use a locally unique cultural construct or a local adaptation of a well-established cultural construct. For example, concepts related to Confucianism are prevalent in studies dealing with Asian countries, such as power distance or perceived individual independence and openness to change (Klein et al., 2022; Vaszkun et al., 2022; Vaszkun & Saito, 2022). Other important components of informal institutions are collectivism (Garrone et al., 2019) and uncertainty avoidance (Fuentelsaz et al., 2019). What is common in these variables is that they all originate from or are similar to the traditional cultural dimensions of Hofstede (1993) and the GLOBE study (Chhokar et al., 2007).

Social conditions and social capital

Another important component of informal institutions are the social conditions of the given context, especially the significance of social capital. Social capital refers to relationship networks which affect the behaviour of its members, and it can be an indicator of the strength of regional social pressures and constraints (Lin & Pursiainen, 2022). Social capital can prevent unethical behaviour and enhance individual and firm-level performance outcomes, for example through the better use of resources and an overall tendency to avoid unethical or unlawful behaviour which is facilitated by the individuals' and organizations' conforming to social norms and social and cultural pressures to fit in with their environment (Gaganis et al., 2024). A special, culturally

embedded form of social capital is *guanxi* in China, which can, for example, facilitate Chinese firms’ international expansion based on personal networks (Yan et al., 2020).

Economic and political conditions

While many aspects of the economic and political conditions of a region are considered formal institutions, some of them, depending on the context, are less formally developed, thus are typically considered informal institutions. For example, some of the norms regarding business associations (Liou et al., 2021), the investment climate, or corruption belong here, or general perceptions about the rule of law and the government’s ability to effectively implement policies, as well as the traditions pertaining to the selection, monitoring, and replacement of political authority and government (Ghulam, 2021). These concepts are more closely related to formal institutions and are most often addressing the perceptions of societal and economic actors concerning formal rules, and how they are implemented.

2.2.3. Summary

Institutions are approached and categorized from multiple different angles, but the differentiation between informal and formal institutions is an overarching theme in this subject area. To summarize the above collected introduction to the fundamentals of the theory, the table below shows the typical classification of institutions with some examples.

Table 1: Summary and examples of the classification of institutions

INSTITUTION-BASED VIEW			
Regulative pillar	Normative pillar		Cognitive pillar
FORMAL INSTITUTIONS	INFORMAL INSTITUTIONS		
Constitutions Legal systems Laws, rules, regulations	Culture & traditions	Social conditions & Social capital	Economic & political conditions

	Power distance Collectivism	Social pressures Social relationships	Investment climate Traditions relevant to political authority
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Source: author

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