



COMMENTARY

# The dubious role of institutions in international business: A road forward

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**Abstract**

Our commentary returns to the conundrum of how institutions matter in international business (IB) by revisiting the 2018 JIBS Decade Award article by Jackson and Deeg (2008) on Comparing Capitalisms. We first synthesize their main insights around institutional diversity and track its significant impact within IB and other management fields. We then suggest three main takeaways that could move Jackson and Deeg's agenda further in terms of developing a more nuanced approach to institutions in IB. We close with suggestions for future research and urge IB scholars to be more cautious when drawing on different strands of institutions theory.

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## INTRODUCTION

In this commentary, we seek to assess the scholarly impact of Jackson & Deeg (2008) and to continue their conversation on the role that different institutions play in understanding comparative capitalisms (CC) as well as international business (IB) more broadly. In their highly influential *JIBS* article, Jackson and Deeg (2008) emphasize the salience that institutions have in shaping international business decisions, and lament how IB scholars have tended to oversimplify the role of institutions.

Jackson and Deeg (2008) engage in a tremendous scholarly effort to bridge IB and CC, two fields that have been mostly disconnected in their treatment of institutions. They pose that this disconnect is due to the fact that IB defines institutions as “variables” that constrain strategic decisions or influence the costs of engaging in business, whereas CC defines institutions as building blocks or interdependent configurations studied mostly from the case-based perspective. They discuss in great detail how differently four key dimensions of institutions (firm embeddedness in institutions, institutional configurations, competitive advantages and institutional change) have been studied from each perspective and urge scholars to explore cross-fertilization between IB and CC despite “very different theoretical assumptions, methodological predications, and analytical foci” (p. 541). They conclude by articulating several venues to integrate IB and CC.



A key strength of Jackson and Deeg's (2008) thought-provoking article is their explicit call to the IB community to rethink how to approach and incorporate institutions in IB research. The authors duly note that, while it is commonly accepted that 'institutions matter' for cross-border activities, "how they matter remains a hotly contested question" (p. 540). They criticize IB scholars for adopting a "thin", or variable-based, approach to institutions where firms are seen as unitary rational actors and institutions largely constrain rational firm-level decisions. A thin approach to institutions pays scant attention to interactions among institutional dimensions or heterogeneous institutional influences on the development of firm-level capabilities. As IB scholars, we are urged to rethink our approach to institutions and consider how we can strengthen our understanding of the diversity of institutions and their implications for IB. In this commentary, we first provide a brief summary overview to document the legacy and influence of this award-winning article in IB. We then discuss three key takeaways for the IB community: the need to (1) disentangle institutions, (2) critically assess how institutions influence and shape firms across contexts, and (3) rethink methodological approaches. We conclude with some reflections around the role of institutions in future IB research.

### THE DECADE AWARD ARTICLE IN CONTEXT

Jackson and Deeg's (2008) article was published within a Special Issue on "Institutions and International Business" edited by Henisz and Swaminathan (2008) at a time when the institutional theory field was in a state of high effervescence. This possibly explains the rather broad scope of institutions in IB, including several strands of institutional theory (i.e., North, 1990; Peng, 2003; Scott, 2013). Just as an example, two other influential articles tackling institutions and IB topics were published concurrently: Peng, Wang, and Jiang's (2008) article entitled "An institution-based view of international business strategy: a focus on emerging economies," and Kostova, Roth, and Dacin (2008) "Institutional theory in the study of MNCs: A critique and new directions." These three related works were developed independently of each other, most likely because they draw on very different disciplinary perspectives and institutional theory strands.

To better situate the scholarly evolution of debates surrounding institutions within the field of IB, 2 years after the publication of Jackson and

Deeg (2008), we find two more calls for going beyond the idea that institutions matter. First, Editor-in-Chief Lorraine Eden's (2010) editorial "Lifting the veil on how institutions matter in IB research" stressed that institutions indeed matter but that we had still not resolved "how" they mattered. She continued the conversation from Henisz and Swaminathan's (2008) special issue introduction by highlighting three points: institutions are not just a parameter, managers spend a significant amount of effort attending to changes in the institutional environment, and firm responses are contingent on the relationship between the firm and the institutional environment. Second, future *JIBS* Editor-in-Chief Cantwell, and his co-authors published an article on the co-evolution of MNEs and the institutional environment (Cantwell, Dunning, & Lundan, 2010) which also referenced Jackson and Deeg (2008). How institutions matter would still appear today, the holy grail in IB whether it is connected to the concept of institutional distance (van Hoorn & Maseland, 2016; Beugelsdijk, Ambos, & Nell, 2018; Deng, Jean, & Sinkovics, 2018), institutional voids (Kim & Song, 2017), institutional development (Xie & Li, 2018), institutional strategies (Marquis & Raynard, 2015) or institutional change (Banalieva, Cuervo-Cazurra, & Sarathy, 2018), to mention a few.

### TAKING STOCK OF INSTITUTIONAL DIVERSITY

Since its publication, Jackson and Deeg's (2008) article has been widely cited across a broad set of disciplines such as IB, strategy, general management, human resource management (HRM), and corporate social responsibility (CSR). With 244 (as of June 2018) citations in the Social Science Citation Index (SSCI), it ranks among the top 1% of cited articles in the academic field of Economics and Business, and is recognized as a "highly cited paper." In an effort to understand where and how this award-winning article has influenced the IB field, we reviewed the articles citing Jackson and Deeg (2008) in the SSCI. We were able to access and review close to 200 of these 244 sources through the web of science core collection. As Table 1 illustrates, the theoretical perspectives and empirical methods employed in studies citing the article are quite diverse. This illustrates Jackson and Deeg's (2008) wide reach and intellectual stimulus in the IB field and beyond. However, it is worth noting that, despite the explicit call for more "thick" research of institutions, we uncover that Jackson

**Table 1** Overview of articles citing Jackson and Deeg (2008)

	Conceptual (%)	Thick (%)	Thin (%)
Percentage of articles that cite Jackson and Deeg (2008) <i>n</i> = 198 <sup>a</sup>	22.8	27.8	49.4
Disciplines			
IB	41.7	55.6	62.5
Strategy/management	27.8	26.7	16.3
HRM	19.4	4.4	7.5
Entrepreneurship	2.8	4.4	5.0
Marketing	–	2.2	6.3
Other	3	6.7	2.6
Saliency of Jackson and Deeg’s (2008) award-winning article			
High	18.9	33.3	15.0
Medium	16.2	20.0	21.3
Low	64.9	46.7	63.8
Use of LME/CME framework (varieties of capitalism) or NBS			
Percentage of all articles in category	8.1	26.7	22.5
Split between disciplines among articles utilizing:			
IB			
Strategy/management	33.3	75	38.9
HRM	–	8.33	27.8
Entrepreneurship	67.7	8.33	27.8
Marketing	–	8.33	–
Other	–	–	5.6

<sup>a</sup> We were only able to access 198 of the 244 sources listed in the Social Science Citations Index as citing Jackson and Deeg (2008).

and Deeg (2008) is primarily cited as a general reference. Indeed, in approximately half of the studies that we have examined, their article is largely referenced to stress that “institutions matter”, albeit in good company with other prominent institutional scholars (e.g., North, 1990; Scott, 2013; Hall & Soskice, 2001).

We find that approximately 20% of the articles citing Jackson and Deeg (2008) are conceptual, including special issue introductions and review articles. The remaining articles fall in the category of empirical. Given Jackson and Deeg’s (2008) critique of the IB field as frequently oversimplifying the concept of institutions, particularly in their operationalization, we have categorized the empirical studies citing Jackson and Deeg (2008) as applying either a “thick” or “thin” approach. We define a thick approach as conceptualizations and operationalizations that capture the diversity and complexities of institutions, such as longitudinal dynamics, multi-dimensional processes, institutional embeddedness, and recognition that the impact of one institution may depend on other institutions. Thick approaches also consider how institutions may influence the development of firm-level capabilities and take into account firm-level heterogeneity. In contrast, thin approaches to institutions reflect unidimensional variable-based

perspectives of institutions that primarily view institutions as constraints, costs or hazards to firm-level strategic choices. Thin approaches to institutions do not take potential interactions of institutions into consideration and firms are perceived as rational actors with preferences that remain constant across contexts.

Approximately two-thirds of the empirical studies (equivalent to half of the reviewed articles citing Jackson and Deeg) can be characterized as taking a thin approach to institutions, where institutions are operationalized as specific variables that homogeneously constrain firm-level decisions. While these variables are interesting, the reliance on single variables to explore firm-level decisions might overlook important institutional inter-relationships and the heterogeneity among firms. To be clear, we are not suggesting that all studies categorized as taking a thin approach unequivocally trivialize institutions. Indeed, they might deliberately seek advantages of a thin approach, such as the ability to encompass a greater number of countries or dimensions of institutions (i.e., political, legal, cultural, etc.). It may also be appropriate to compare the influence across a number of variables to assess if certain institutions are more relevant to explain a given IB phenomenon. For instance, Ioannou and Serafeim (2012) use a



variable-based approach to tease out which institutions at the national level have the greatest impact on firm-level CSR. However, the challenge with many of the articles that we categorize as taking a thin view of institutions is that they are challenged with the risk of misalignment between the article's front-end deep focus on institutions and the much thinner empirical implementation. That is, they tend to acknowledge Jackson and Deeg's (2008) valuable insights into the complexities of institutions in the motivation and conceptual sections of the article, yet authors fall short in capturing such complexities through their empirical designs.

We also observe some intriguing differences across disciplines and approaches, as documented in Table 1. Not surprisingly, the majority of articles that cite Jackson and Deeg (2008) are published in IB journals. These IB articles are particularly dominant among the studies using a thin approach to institutions, reflecting the common use of institutional distance measures in the IB literature. Articles published in strategy and general management journals represent the second largest cluster of articles that cite Jackson and Deeg (2008). Although this is the second largest category of articles among both conceptual and empirical studies, their presence is proportionally much smaller among studies with a thin approach to institutions. Studies published in HRM journals have a higher adoption of the categorization of countries from the varieties of capitalism literature: liberal market economies (LMEs) and coordinated market economies (CMEs) (Hall & Soskice, 2001). However, while the LME/CME framework was developed to capture complexities of institutional contexts, it has low salience in the theoretical positioning of many articles in HRM journals that use these categories. Articles in HRM journals represent less than 5% of empirical studies with a thick approach. Conversely, although there is a higher proportion of conceptual articles in HRM journals that cite Jackson and Deeg (2008), with the exception of self-citations, the salience of their article remains fairly low.

Perhaps more uplifting, we have identified that roughly a quarter of the articles have adopted a thick approach to institutions as encouraged by Jackson and Deeg (2008). Two-thirds of these studies have been published within the past 4 years, indicating an increased focus on the importance of thick approaches to institutions. Jackson and Deeg's (2008) article has had a significant influence on these studies, with over 60%

actively engaging with Jackson and Deeg's (2008) ideas in the theoretical arguments and empirical designs. The thick approaches to institutions use various research designs and methods. For instance, Fainshmidt, Judge, Aguilera, and Smith (2016) gather qualitative institutional data for 68 economies, extending the varieties of capitalism literature by adding new geographic areas and institutional dimensions. Using case studies of six MNEs to examine how MNEs react to and influence institutional change, Regnér and Edman (2014) present another example of a thick approach to capture institutional complexities. Both articles illustrate research where thick approaches create the most value. Yet, it is clear that conceptual approaches to thicken institutions have advanced more than empirical innovations.

### **INSTITUTIONS MATTER BUT ... HOW TO MOVE FORWARD?**

There has been a tremendous proliferation of research around institutions and institutional theory, to the point that institutional theory and its many different strands have become a mainstream perspective if not a dominant one within organizational theory and strategic organization. This is no different in IB. For instance, if we conduct a search in *JIBS* with the key words "institution" and/or "institutional," for the period since the publication of this year's *JIBS* Decade Award (2008–2018), it yields almost 500 articles. This trend is fairly stable over time, showing the continued interest in the external contexts in which organizations are embedded. Yet, we are at a crossroads in terms of the risk of "institutions" and "institutional theory" becoming a catch-all concept that ends up meaning everything and therefore nothing, a concern also expressed by Jackson and Deeg (2008).

A notable challenge is that the label of "institutions" has been used by itself to capture a range of institutional concepts emanating from different strands of institutional theory. For instance, institutions could refer to rules of the game to minimize uncertainties, which are conceptualized at the country-level, but they could also refer to legitimate values at the field-level that push organizations towards isomorphism and/or compliance. The concept of institution has also been used in combination with a qualifier to coin new concepts, such as institutional entrepreneurs, institutional quality, or institutional distance. This inevitably widens the scope of institutions within IB, yet it

also makes it more multifaceted and complex. For instance, in Jackson and Deeg’s (2008) article alone, we find 27 different references to institution-related concepts, terms or theories, as illustrated in Figure 1. We also uncover this mélange of conceptual labels if we dissect the *JIBS* articles published in the last decade with “institution” or “institutional” as a key words. Curiously, a word cloud reveals that the most common concepts are institutional voids (Doh, Rodrigues, Saka-Helmhout, & Makhija, 2017; Khanna & Palepu, 1997) and institutional distance (Kostova, 1999; Berry, Guillen, & Zhou, 2010; Phillips, Tracey, & Karra, 2009) (see Figure 2). In the IB field, most of this research is framed at the country-level. Our conclusion from this simple bibliometric exercise of nearly 500 *JIBS* articles around the concept of institutions and institutional as a qualifier is that there is a hotchpotch of concepts reflecting today’s dubious state of the institutions concept. Hence, there is a desperate need to bring some order among the use of institutional concepts in the IB literature.

We identify three key takeaways from Jackson and Deeg’s (2008) article which are particularly important for the IB community to bring some clarity about the role of institutions in IB. First, the need to disentangle the concept of institutions and institutional theory. Second, the importance of critically assessing how particular institutions influence and shape global firms and practices differently. And third, the encouragement to rethink methodological approaches to institutions that allow us to undertake thick approaches in both



Figure 2 Word cloud of *JIBS* articles with keywords related to institution or institutional in the period 2008–2018.

conceptual developments as well as empirical implementations. Since the first takeaway requires a discussion of different schools of thought or strands within institutional theory, we devote more space to the first one.

**FIRST TAKE-AWAY: THE NEED TO DISTENTANGLE INSTITUTIONS**

**Untangling Institutions**

One of the most important challenges facing IB and other fields is to clarify the different strands of institutional theory. There are many different

Challenge ... in order of appearance in J&D 2008

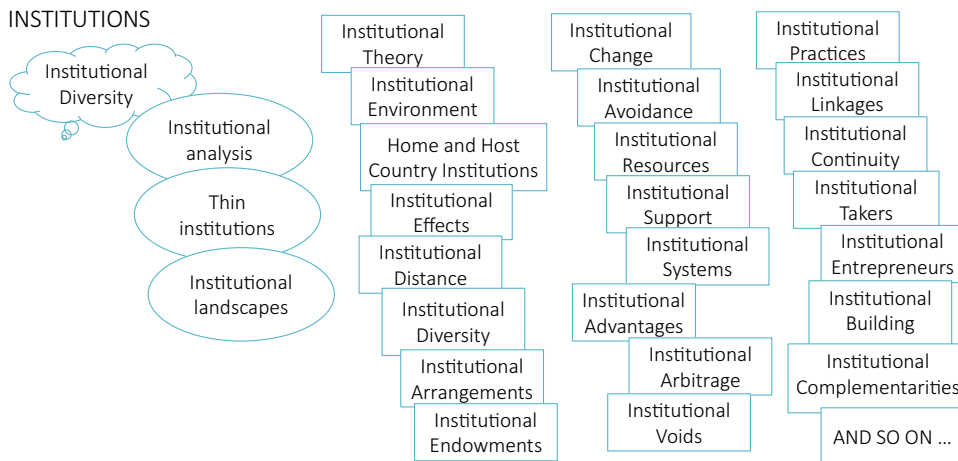


Figure 1 Institution-related words in order of appearance in Jackson and Deeg (2008).



schools and flavors of what institutions mean and how they affect or are affected by organizations that its value might get lost until we shed some light on the nuances of the different approaches.

In a reflection essay of where institutional theory stands, Meyer and Höllerer (2014: 1229) refer to the current challenge as the “inflammatory use of the label institutional.” We surveyed a few prominent self-identified institutional scholars and the common denominator was the remark that we cannot refer simultaneously to Scott, North, Peng and Jackson and Deeg because their respective institutions emanate from different ontological sources. Each strand of institutional theory defines institutions differently, identifies unique mechanisms driving their arguments, and is conceptualized at a given analytical level and has different degrees of applicability to IB. This brings about two risks. First, the risk that scholars use different language to refer to similar, if not the same, concepts or mechanisms (for instance, a World Bank measure that it is used for different concepts such as institutional strength, institutional quality, market logic, etc.). Second, the risk that some authors use similar or identical language to refer to different concepts or mechanisms. The most salient example is probably institutional change, which is a concept that can have many meanings depending on what strand of institutional theory or IB perspective that is adopted.

In an effort to continue the conversation that Jackson and Deeg (2008) initiated together with scholars within organizational theory (Greenwood, Hinings, & Whetten, 2014; Hirsch, 1997; Hirsch & Lounsbury, 1997, 2015), political science (Hall & Taylor, 1996), and IB (Hotho & Pedersen, 2012; Kostova & Marano, 2019; Morgan & Kristensen, 2006), we have tried to untangle institutions from an outsider perspective, with strong roots in IB. While recognizing that our efforts may raise more questions than bring answers, we have sketched a simplified outline of different strands of institutional theory. We are unfortunately unable to do justice to the rich and extensive research within each of these strands, but we hope to stress the importance for IB scholars to properly anchor their research within the boundaries of a given strand and to be cognizant of the conceptual challenges if these strands are ever to be combined. We emphasize the importance of understanding the level of analysis or analytical focus in which institutions are conceptualized (even though most claim to be multi-level), to what end they exist, and the

disciplinary field in which they are developed. Each of these institutional strands emanates from different assumptions, boundary conditions and the overall purpose of its existence.

In Table 2, we simply recognize the need to put some order into our collective use of institutional concepts by highlighting the main differences and similarities between different strands of institutional theory as we understand them. There are many more facets and strands within the broad field of institutions than we are able to capture in this commentary. Table 2 is simply intended to start a conversation where we offer a very preliminary and coarse view of each of the strands in chronological order within three main disciplines (sociology, economics and political science). Our goal is to illustrate ontological differences that are important to attend to, and also to show that these institutional strands are difficult to mix when we theorize and think about our empirical designs. We briefly discuss each of them in turn. Table 2 covers the following: selected key authors which inevitably is a gross over-simplification given the many articles and books behind each of the columns, definition of institutions, typology if there is any of how institutions are categorized, theoretical mechanisms underlying main arguments, the main level of analytical focus, and an example developed within the IB field.

Within the field of sociology, the departing point is what has now been labeled as “Old Institutionalism,” and is best represented by Selznick’s work (1957) which has recently been revisited in depth in Kraatz and Flores’s (2015) edited volume. This perspective views institutionalization as a process, where organizations get infused with values beyond basic technical requirements. In this way, the organization and its practices become a vehicle for embodying organizational values that define them. The old institutionalism strand is inward-looking where the level of analysis is the organization. The organization is seen as an adaptive organic social system where goals and procedures are constrained by its institutionalization, or what Selznick called an established value impregnated status (Selznick 1949: 256–257). His studies examine the insider’s transformation, leadership values, and political tension of particular organizations such as the creation and expansion of the Tennessee Valley Authority (TVA) and some of his core concepts such as organizational character have been incorporated in modern institutionalism (see Kraatz, 2015). This approach emphasizing power

Table 2 Summary of main traits of different strands of institutional theory

Sociology			
	Old institutionalism	Neo-institutional theory	Institutional work
Selected authors	Selznick (1957)	Meyer & Rowen (1977), Tolbert & Zucker (1983), DiMaggio & Powell (1983), Fligstein (1993), Scott (2013)	Oliver (1991)*, Lawrence & Suddaby (2006), Lawrence, Suddaby & Leca (2009)
Institutions defined as	How institutional processes influence organizations How organizations become institutions	Institutional pillars Frames of meaning guiding human action	"The practices of individual and collective actors aimed at creating, maintaining, and disrupting institutions"
Typology		Regulative Normative Cultural/cognitive	Family State Market Religion Community Firm
Mechanisms	Competing values Power and influence Coalitions Informal structures Responsive regulation	Isomorphism Legitimacy Institutional distance Environmental effects on organizational and cultural homogeneity Field	Path-dependent Heterogeneity Mental schema Attention Sense-making/identity Complexity
Analytical focus Example in IB	Organization	Tashman, Marano & Kostova (2018)	Field and inter-institutional fields Newenham-Kahindi & Stevens (2018)
Political science			
Institutional economics			
	New institutional economics	Institution-based view	Historical institutionalism
Selected authors	North (1990, 1991)	Peng (2002), Peng et al. (2008, 2009)	March & Olsen (1983), Evans et al. (1985), Zysman (1994), Thelen (1999), Evans (2012), Pierson (1994)
Typology	Formal Informal	Firm strategies	Institutional analysis
Mechanisms	Transaction costs Agency costs Governance structures Political hazards	Entrepreneurial responses to institutional context Drivers of strategy in IB	Path dependence State capacity Power asymmetries Policy legacies Role of ideas
Level of analysis	Country Industry	Country => firm	LME versus CME State capitalism
Key IB related concepts	Institutional voids	Global commons	Institutional complementarity coordination
Examples in IB	Child & David (2001), Holmes, Miller, Hitt, & Salmador (2013), Brandl, Darendeli & Mubambi (2018)	Peng et al. (2017), Pinkham & Peng (2017)	Institutional layering Institutional drift
			Country region National advantage configurations Witt & Jackson (2016), Judge, Fainshmidt, Brown (2014), Hu, Cui, Aulakh (2018)
			Micro-foundations Preferences are stable Equilibria Maximize preferences Instrumental Electoral level
			Rational choice (Positive theory) Moe (1984), Weingast (1989)
			Streeck & Whitley (1999)

\* It does not explicitly belong to this strand but it has similar perspective on the role of institutions



and influence within organizations could be very informative to analyze the multinational firm. Selznick's work planted the foundation for the subsequent schools within sociology and there have been heated debates on the boundaries and the intersections among old, new and neo-institutionalism which are beyond the scope of this commentary but important to understand (see Hirsch & Lounsbury, 1997, 2015; Selznick, 1996; Scott, 1987; Stinchcombe, 1997).

Neo-institutionalism emerges as a reaction to inward looking views of organizations, stress the idea of organizational agency constrained by institutional legacy, and move up to the field-level (Zietsma, Groenewegen, Logue, & Hinings, 2017). In particular, Meyer and Rowan (1977), Tolbert and Zucker (1983) and others, responded to Old Institutionalism by proposing that organizations not only seek efficiency but also strive to be legitimate and to conform with taken for granted norms. The main mechanism in this strand is the achievement of isomorphism within organizational fields. It requires that organizations are proactive. Scott (2013), one of the main contemporary advocates of neo-institutionalism, defines institutions as social structures (cognitive, normative and regulative) that provide organization and meaning to social life. Choices are socially constructed based on what it is considered legitimate (following Berger & Luckmann, 1967). Actors follow a "logic of social appropriateness," in the sense that actors seek social legitimacy. IB scholars such as Kostova and Roth (2002) and Tashman, Marano and Kostova (2018), among many others, have adopted this strand of institutional theory as it nicely fits institutions into the intuitive categories of regulative, normative and cognitive and it helps account for adoption and diffusion of practices across borders.

Institutional work also draws on Berger and Luckmann (1967) but focuses explicitly on the role of individuals as agents and adopts a less structuralist view. Dobbin's (2010) review of the flagship compilation book by Lawrence, Suddaby and Leca (2009) puts it succinctly by stating that institutional work examines "How do individuals build, sustain, and transform social institutions with an eye to their own, socially constructed interests?" There have been a few special issues (i.e., Lawrence, Leca, & Zilber, 2013) showcasing the importance of process and grounded theory in this strand of institutional theory. Institutional work emphasizes the idea that individuals and organizations are not

only shaped by, but mostly reproduce or create institutions (Kraatz, 2011). Moreover, research on institutional work is very much concerned about action and processes, and less focused on the outcomes. This institutional work action is conceived as intentional, and at times involves altering or disrupting institutions that have been inherited (Hirsch & Bermiss, 2009). This strand is closely related to two other strands of institutional theory. First, Oliver's (1991) work on how organizations can strategically react to institutional pressures to conform is closely related to institutional work's concern for agency. Oliver's overall idea that organizations or parts of organizations can influence how they conform or change legitimate norms has been applied to different spheres of international business (i.e., Ferner, Almond, & Colling, 2005; Saka-Helmhout & Geppert, 2011; Regnér & Edman, 2014). Second, an entire new perspective around institutional entrepreneurship has evolved mostly from institutional work research focusing on the individual characteristics that empower organizations and their members to act. It has spilled over in IB mostly in comparative examinations of entrepreneurship (Bowen & De Clercq, 2008; Reuber, Knight, Liesch, & Zhou, 2018), as well as recent work on institutional entrepreneurship (Child, Lu, & Tsai, 2007; Fortwengel & Jackson, 2016; McGaughey, Kumaraswamy, & Liesch, 2016).

Institutional logics, often referred to as the Alberta Institutional School, emerged as an evolution from neo-institutionalism's strong views on conformity and isomorphism and its emphasis on cognitive forces. Institutional logics re-introduced the idea that, on the one hand, society influences fields and organizations. On the other hand, different micro-level forces are at play at the individual and organizational level such as interests, identities, values, and assumptions that counter macro-level structural pressures. Institutional logics relishes the idea of heterogeneity driven by different social orders (logics) as well as the inherent power and conflict among organizational members. Institutional logics emphasizes values and morals as part of the socio-cognitive process whereby organizations and individuals engage with institutions. Logics are viewed as either a set of rule-like structures that constrain organizations or a set of cultural toolkits that provide opportunities for change in existing structures and practices (Thornton, Ocasio, & Lounsbury, 2012: 81). This strand of institutional theory has been quite popular in IB



because it allows the field comparison of different orders such as family, state, religion, market, etc. to account for micro-level behavior. For example, Newenham-Kahindi and Stevens (2018) studied how MNEs cope with liability of foreignness in complex institutional environments with defined institutional logics. They show that MNEs co-create new institutional logics with local employees as opposed to conforming to existing logics.

Turning to institutional economics, the so-called institutional analysis developed by North has defined institutions “as humanly devised constraints that structure human interaction, and these can be formal such as rules and laws or informal such as norms of behaviors” (North, 1990: 3). This has probably been the most widely adopted strand of institutional theory used in IB because it draws on the assumption that institutions vary significantly across countries and so do the organizational responses to these heterogeneous institutions that define the country-level uncertainty (Hotho & Pedersen, 2012). Institutions are seen as rules of the game that regulate with laws or with norms how organizations operate. North’s approach (1990, 1991) is based on the assumption that institutions create order and minimize uncertainty, mostly in economic transactions, and does not foresee isomorphic forces. Research on institutional voids (Khanna & Palepu, 1997) tends to draw from North (see also Doh et al., 2017), but the focus on informal institutions in the institutional analysis strand has been rare.

A second strand within the institutional economics, institutional diversity, has been championed by Ostrom (2005, 2010) as she addressed the collective action problems emanating from common-pool resources and the need for deploying design principles for governing collective resources. It focuses on how to motivate different players at different levels by designing polycentric governance institutions that minimize free riding and enhance trust and cooperation (Poteete, Janssen, & Ostrom, 2010). Here, the selection of parties involved is critical as there has to be ample sharing of resources and trust in these complex eco-systems. There is a focus on minimizing risk and uncertainty among the institutional actors involved. Arregle, Miller, Hitt and Beamish (2016) apply some of the core concepts of Ostrom to understand how MNEs tackle regional complexity, and explore the concept of aggregation and arbitrage of individual country factors.

Close to North’s strand of institutional theory, but conceptualized mostly from the emerging market perspective, we find the institution-based view (of IB) developed by Peng and colleagues (Peng 2002; Peng, Wang, & Jiang, 2008; Peng, Sun, Pinkham, & Chen, 2009). This strand of institutional theory is seen as part of a “strategy tripod”, together with industry- and resource-based views, that seeks to answer, “what drives strategy and performance in IB?” The institution-based view highlights the importance of context, beyond viewing institutions as “setting the scene”. The institution-based view emphasizes the dynamic interaction between institutions and organizations resulting in strategic choices that will define firm performance (Peng, 2003). Given the strong focus on emerging markets, there is also much attention given to institutional transitions, for instance related to how China modified its institutions as it entered the global economy (Peng, Ahlstrom, Carraher, & Shi, 2017; Pinkham & Peng, 2017).

Turning to how institutions and institutional analysis have developed within political science, we describe three main strands: historical institutionalism, comparative capitalism, and rational choice. Historical Institutionalism defines institutions as “the formal or informal procedures, routines, norms and conventions embedded in the organizational structure of the polity or political economy” (Hall & Taylor, 1996: 938). Institutional change is highly path-dependent and often leads to unintended consequences. Conflict and power is an inherent feature of historical institutionalism because there are scarce resources for which different interest groups compete. The institutional organization of politics and economics is structured to protect the interests of a particular group or set of groups at the expense of others. The state plays a unique role as a biased broker among interest groups, and “as a complex of institutions capable of structuring the character and outcomes of group conflict” (Hall & Taylor, 1996: 938). Some of the research questions refer to the negotiation and asymmetries of power among labor and capital interests in shaping national policy trajectories and their respective societal inequalities. Institutions generate and sustain asymmetries of societal power. Historical institutionalism offers a ‘structuralist’ view of institutions, although less tangible factors such as ideas (Evans, Rueschemeyer, & Skocpol, 1985) tend to play a key role in shaping how institutions constrain and enable political behavior (Musacchio, 2009; Schneider, 2004). So far, this



strand of institutional theory has not received much attention in the IB literature.

Comparative capitalism is interested in understanding how different socio-economic arrangements such as the educational system, labor market, financial system, legal system, etc. interact with each other within a country and grant institutional comparative advantages and culminate in some sort of equilibrium (Hall & Soskice, 2001; Streeck & Thelen, 2005). Jackson and Deeg (2008) analyze this perspective relative to mainstream IB research. In comparative capitalism, countries are categorized as being aligned with different systems that in turn determine different economic and social outcomes such as degree of innovation, corporate governance, and openness to foreign direct investment (Aguilera & Jackson, 2003; Fainshmidt, Judge, Aguilera, & Smith, 2016; Morgan, Whitley, & Moen, 2006; Witt & Jackson, 2016). Whitley (1999) is not a political scientist, but is interested in how different dimensions of the economy such as authority or relationships between the different interest groups create national business systems. Comparative capitalism stresses the need for institutional complementarities to achieve national competitive advantages. This reflects a clear distinction from other strands of institutional theory, as institutions are viewed as complex bundles that cannot be dismantled or seen in isolation. For instance, Streeck and Thelen (2005) introduce the concepts of institutional drift where current institutions do not adapt to changes in the environment and institutional layering where new properties are added to current institutions. This perspective has been used quite extensively within IB as it aligns nicely with the distinction emphasized in law and economics between common and civil law (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998), and it is easily applicable to cross-national comparisons and the multinational firm (Morgan, Campbell, Crouch, Pedersen, & Whitley, 2010).

Rational choice seems quite prominent within political science, but has not been applied as systematically in IB. This institutional perspective draws from transaction cost economics (Williamson, 1989), as well as agency theory (Alchian & Demsetz, 1972), and stresses the importance of property rights, rent-seeking, and transaction costs to understand how institutions develop and function. Institutions are viewed as “governance or rule systems, arguing that they represent rationally constructed edifices established by individuals

seeking to promote or protect their interests” (Scott 2013: 34). Rational choice theory focuses on how institutions affect politics and in particular how the individual-level experiences solve collective action problems, sustain equilibria and explore the influence of institutions on preferences of stable actors. Hall and Taylor (1996: 944) identify four main characteristics of this institutional strand: (1) actors seek to maximize fixed preferences and behave instrumentally; (2) politics are conceptualized as a series of social dilemmas; (3) strategic actors proactively pursue political outcomes; and (4) an explicit interest in explaining how institutions emerge. The interest in rationalization and managing political conflict could be quite useful in examining intra-organizational MNE tensions.

We hope to have demonstrated with our coarse description of the different strands of institutional theory, as summarized in Table 2, that this is only a departure point for the need to organize concepts and mechanisms within this fertile field that continues to influence IB research. Unfortunately, we are merely scratching the surface and unable to include the many concepts that derive from institutions. While research on institutional distance and institutional voids emanating mostly from neo-institutionalism and institutional economics, respectively, are very prominent in IB, there are ample opportunities to draw on the different strands of institutional theory to address IB questions.

## **SECOND TAKEAWAY: CRITICALLY ASSESSING INSTITUTIONS ACROSS CONTEXTS**

The second takeaway focuses on the idiosyncratic nature of institutions and the importance of critically assessing how particular institutions influence and shape global firms and practices. Once we have disentangled institutions, we need to develop a more nuanced understanding of how institutions influence firms. The use of unidimensional and unidirectional institutional variables leads to an oversimplification of institutional complexities and their diverse impact on particular business activities and decisions. Firms have discretion and agency in terms of how they react to institutions. For example, for the same institution, one firm may adapt to and embrace the institution, another might find ways to translate the same institution and adopt a modified practice, while a third firm finds ways to insulate itself from the institution. Similarly, firms may influence institutions. As IB scholars, we need

to theoretically explore these complexities and embedded inter-relationships.

This is closely related to how we measure institutions. The operationalization of institutions is another critical dimension that limits the advancement of research on institutions in the IB field. From our review of the articles that cite Jackson and Deeg (2008), as well as *JIBS* papers published in the last decade, it seems like most authors rely on a variety of data sources that provide indices that measure different dimensions of institutional factors such as a given country's political stability or protection of intellectual property. The most frequently used sources are: World Governance Indicators (World Bank), Index of Economic Freedom (Heritage Foundation), Global Competitiveness Report (World Economic Forum), World Competitiveness Yearbook (IMD), GLOBE (Waldman et al., 2006), and Hofstede's Cultural Index (Hofstede 1980, 2001). A key challenge with the use of these measures is that often institutions are operationalized into similar constructs when they intend to capture different theoretical concepts of institutions. Another challenge is that even identical constructs to measure institutions may de facto not be enforced consistently with what the law or what the contract states.

Moreover, some institutions also require calibration to the specific institutional contexts. For instance, constructs such as improvement in infrastructure need to be calibrated to the context since large improvements in emerging markets may still lag far behind the infrastructure frontiers of advanced markets. This need for more complex and subjective operationalization of institutional concepts is illustrated in Ault and Spicer's (forthcoming) breakdown of "state fragility."

It is important to note that several studies have made attempts to assess how particular institutions influence and shape firms. For instance, using a historical perspective, Cantwell, Dunning and Lundan (2010) identify three forms of institutional engagement among MNEs. Similarly, using a qualitative case study of a Brazilian MNE, Geary and Aguzzoli (2016) examine how institutions not only constrain strategic choices but also influence MNE capabilities. Attempts to capture how institutions shape firms have also been made using more traditional variable-based approaches. A recent study of foreign direct investments into Canada illustrates that the implications of state-ownership in terms of different strategic behavior upon market entry is contingent on particular home country

institutions (Grøgaard, Rygh, & Benito, 2019). Specifically, there is no significant difference between state-owned and privately/publicly-held firms when the home country has strong institutions that foster strong market orientation and corporate governance, whereas home markets with weak institutions affect state-owned firms differently than private/public firms. While these studies provide encouraging examples of attempts to understand the inter-relationship between institutions and firms, they are still underrepresented in the IB field, which leads us to the third key takeaway.

### THIRD TAKEAWAY: RETHINKING METHODOLOGICAL APPROACHES

Jackson and Deeg (2008) also strongly encourage the IB community to rethink its methodological approaches in order to capture the diversity and interactions among institutions as well as identify combinations and transitions. While their reasoning is appealing, it generates two key questions: what is a thick approach to institutions? When is a thick approach to institutions most appropriate?

One of our observations when reviewing articles citing Jackson and Deeg (2008) is that many scholars attempt to address institutional complexities by adding more unidimensional and unidirectional institutional variables designed at a macro-level. We posit that this does not satisfy Jackson and Deeg's (2008) call for thick approaches to institutional research in IB. Instead, we propose a focus on methods that examine interrelationships of institutions in terms of their complementary or substitutive effects, as well as methods suited to capture where institutions fail or shift to attain their intended purpose. Qualitative comparative analysis (QCA) is a useful methodological approach to capture interrelationships and the complexities of institutions (Judge, Fainshmidt, & Brown, 2014; Misangyi, Greckhamer, Furnari, Fiss, Crilly, & Aguilera, 2017; Witt & Jackson, 2016). Redding and Witt (2009) also illustrate how a longitudinal qualitative case study enables them to capture richer descriptions of national business systems and the dynamics of institutions. They critically assess how the complexity of institutional factors in China influences firm-level challenges related to adaptability, innovation and efficiency. Through the use of a longitudinal qualitative case, they identify important interrelationships over time that challenge the established use of LME/CME



categories (Hall & Soskice, 2001). Qualitative case studies have also been used to gain important insights into how institutions shape MNE capabilities, such as Geary and Aguzzoli's (2016) case study of a Brazilian MNE. In addition, historical studies have enabled researchers to capture changes over time to develop a thick understanding of the interrelationship between firms and institutions (see, for instance, Cantwell, Dunning, & Lundan, 2010).

However, thick approaches to institutions are not limited to the use of QCA, qualitative case studies, or historical studies. We also see attempts at leveraging more traditional (unidimensional) institutional variables to achieve richer insights. For instance, Holmes, Miller, Hitt and Salmador (2013) examine unidimensional institutional variables, but ensure that they capture a longitudinal perspective and make attempts to develop new measures where commonly accepted indices seem inadequate. Most importantly, IB scholars must critically assess when and why the use of a specific institutional variable is most appropriate to address a research question. The misalignment of theoretical front-end discussions of institutions and the subsequent empirical designs that we pointed out earlier in this commentary suggests that this warrants more attention among IB scholars.

### CONCLUSION

With this commentary article, we wish to stimulate a continued conversation around our approaches to institutions within IB research and the methodological choices that we take. Moving forward, we identify the need for greater clarity around institutional concepts. Table 2 is an initial attempt to create order, albeit from an outsider's perspective, around the myriad of institutionally related concepts. Future studies should properly define institutions and their theoretical roots when using them in IB research. To date, too many articles within IB indiscriminately mix concepts and mechanisms from completely different strands of institutional theory – too often leaving the discussion of institutions as aggregate generalizations that lack theoretical depth and rigor.

However, while we support Jackson and Deeg's (2008) call for thick approaches to institutions in IB research, we urge IB scholars to be critical when assessing the appropriateness of thick approaches. IB scholars should definitely revisit and push methodological boundaries. For the past decade,

IB journals have published articles with increasingly sophisticated statistical methods using large datasets that inherently create limitations on the richness of the data obtained and often result in smaller incremental theoretical contributions. Thick approaches to institutions open up for broader theoretical insights and are particularly suited to study institutions that do not transfer well across borders, where aggregate thin institutional variables might miss important contextual variations. Conversely, it is important to note that, for other types of research questions, such as those which seek great external validity or try to encompass a large number of cases, a thin approach to institutions may be preferable.

We also note that scholars frequently come up with new labels for old bottles of wine, or refer to certain practices or rules as institutions instead of keeping it simple and denoting them for what they are, for instance, routines, legal restrictions or emotions. This begs the question: although institutions matter, do we always need institutional theory to analyze IB issues? The IB field has a long tradition of exploring institutions without drawing on institutional theory. For instance, through a case study of a Chinese MNE in Africa, Parente, Rong, Geleilate, and Misati (2018) illustrate how an MNE adapts and sustains operations in an institutionally volatile environment without using institutional theory to support their arguments.

Similarly, studies using internalization theory go beyond the assumption that institutional factors influence firm-level decisions homogeneously, and instead emphasize the important interactions between country-specific advantages and firm-specific (FSA) advantages. Accordingly, a firm's success is contingent on the ability to effectively meld both of these (Verbeke & Kano, 2015). MNEs develop their FSAs in multiple contexts: the home country, various host countries, and the internal MNE network (Rugman & Verbeke, 1992, 2001). Each context is considered a potential source for FSA development. The influence of external contexts varies, contingent on the unique exposure to multiple contexts that each MNE experiences through its geographically dispersed organizational units where the strengths of political and legal institutions are central for assessing the attractiveness or imperfections of markets. Hence, IB scholars have embedded, or "hidden", institutional factors in broader IB concepts such as country-specific advantages (Verbeke & Kano, 2015), illustrating how institutional theory may not always be critical

for understanding the broad range of research questions in IB.

Once IB scholars attend to the three key take-aways that we have outlined in this commentary, we will not only achieve a deeper and more nuanced understanding of how institutions matter but we will also begin to advance theory development related to critical institutional challenges that also lie at the core of Jackson and Deeg's (2008) interests such as institutional change. Although Williamson (2000) proposed that institutions change very slowly, there is new evidence indicating that they change much faster (Chacar, Celo, & Hesterly, 2018). This suggests that more attention needs to be paid to change and the drivers of change. Chacar et al. (2018) propose that, when an organizational field has matured with strong institutions, change in formal institutions may require to be preceded by change in informal rules or norms. Other recent work has pointed to the relevance of external actors in the process of institutional change (Brandl, Derendeli, & Mudambi, 2018; Koning, Mertens, & Roosenboom,

2018). The key seems to be to properly anchor institutions within its strand of institutional theory, carefully define the boundaries of theorizing, align that conceptual definition or definitions of institutions with an appropriate empirical identification that enhances internal validity, and explore the external validity of the emerging mechanisms while considering other omitted non-institutional. In sum, IB scholars have a lot more to contribute to making research on institutions more insightful, relevant, rigorous, and fascinating and by doing so contribute to the richness of institutional theory.

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