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Perspective article

## An institutional work view toward the internationalization of emerging market firms

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## ABSTRACT

Through the lens of institutional work – the institutionally embedded practice that aims to create, maintain, or disrupt the rules and shared meanings in social life, we discuss how an emerging economy's governments establish policies and regulations to develop outward foreign direct investment, and how domestic firms seek to shape these institutional arrangements to suit their interests and needs as they expand overseas. This study underscores the importance of the home country to multinational enterprises. We argue, the policymaking that underpins the internationalization of firms is not only a top-down (state inspired) but also a bottom-up process.

### 1. Introduction

Embracing Jepperson's (1991) contention that institutions are the product of purposive actions, Lawrence and Suddaby (2006: 215) introduced the concept of institutional work to study “the purposive action of individuals and organizations aimed at creating, maintaining and disrupting institutions.” Institutional work is an established concept that articulates scholarly inquiry surrounding the discussions of *agency* in organizational institutionalism (Abdelnour, Hasselbladh, & Kallinikos, 2017). It serves as a vital theoretical lens by which to track the institutional dynamics stimulated by people, firms and other organizations in the field through the exercise of agency (Lawrence, Leca, & Ziber, 2013).

Despite a strong interest in understanding how institutional factors can influence multinational enterprises (MNEs), little in the international business (IB) literature has explored the dynamics of an institutional environment that drives the internationalization process of firms (McGaughey, Kumaraswamy, & Liesch, 2016). This is especially an issue for the research on emerging economy (EE) multinationals as these firms may not possess the “traditional” resource-based advantages for global competition, but internationalize under the influence of outward foreign direct investment (OFDI) related policies and regulations issued by their home governments (Cuervo-Cazurra & Ramamurti, 2014; Luo, Xue, & Han, 2010). These regulative arrangements are

recognized as the OFDI institutions that have directly facilitated or hindered the internationalization of EE firms (Hoskisson, Wright, Filatotchev, & Peng, 2013; Luo & Wang, 2012). In the main stream of IB research, scholars have tended to view the OFDI institutions as the product of government intervention through policymaking (e.g., Cui & Jiang, 2012; Luo & Zhang, 2016; Peng, Wang, & Jiang, 2008). This taken-for-granted observation underpins many of the IB studies that discuss a state's impact on EE multinationals (e.g., Li, Cui, & Lu, 2014; Luo & Tung, 2007; Wang, Hong, Kafouros, & Wright, 2012). Nevertheless, we argue that the making and development of a nation's OFDI institutions are pushed forward by both governments and firms which can be explored and explained through the lens of institutional work. In line with the call made by Cuervo-Cazurra, Luo, and Ramamurti (2016) for a greater understanding of an MNE's home country, we seek to address the question: *how can the institutionally embedded practices of firms and governments shape the dynamics of an institutional environment that is in place for OFDI?*

To answer the research question, we concentrate on a single EE context in order to avoid problems of cross-country variations in the political, economic, and social environments as every country's institutional environment is unique (Keister & Zhang, 2009; Walder, 2003). Our discussions are forged with the case of China for several reasons. Foremost, Chinese governments have been actively involved in policymaking by directing national OFDI for over three decades (Deng,

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2013; Lu, Liu, Wright, & Filatotchev, 2014); and Chinese firms also actively respond to and interact with formal authorities with regards to the regulative arrangements in order to iron out business operations (Luo, 2003; Xin & Pearce, 1996). As such, the Chinese context well reflects the essence of *active agency* which underpins the concept of institutional work (Lawrence, Suddaby, & Leca, 2011). As the largest emerging economy, China has also been the most promising source of foreign investments among all the non-developed nations over the past five years (UNCTAD, 2017). Thus, it is worth investigating how the OFDI institutions have been created, maintained and disrupted in China, which in itself suggests theoretical implications for deepening our understanding of the impact of the home country on firms' internationalization.

Our study endeavors to make two key contributions. First, we develop a typology of institutional work that captures and defines the purposive actions taken by MNEs and their home governments in creating, maintaining and disrupting their OFDI policy system. This will allow us to justify the importance of the home country to MNEs, by providing a systematic understanding of the mechanisms that trigger the stability, instability, and potential evolution of an institutional environment established to guide the national OFDI development. Second, in extending the new typology, we propose an institutional work view which sheds light on the connections among the firms looking to internationalize, home country governments, and the OFDI institutions under which they operate. The core contention under this view is that the policymaking that underpins the internationalization of domestic firms is not only a top-down but also a bottom-up process.

## 2. MNEs, governments, and institutions

### 2.1. State involvement in the internationalization of EE firms

Based on a review of 25 years (1990–2014) of research from highly rated IB and management journals, Luo and Zhang (2016) assert that the institution-based view (IBV) is one of the most prevalent theoretical lenses to examine MNEs from emerging economies. On the basis of this review, home country governments, host country political risk, and institutional void are deemed to be the three primary institutional factors that affect the internationalization of EE firms. These macro-level institutional factors are indicative of the patterns of EE MNEs, such as their choice of destination markets and entry modes (Cui & Jiang, 2012; Jormanainen & Koveshnikov, 2012). In the same vein, home country governments can be viewed as the higher-order creators of the rules in place for economic and social development (cf. Friedland & Alford, 1991). In the case of OFDI, many EE governments have attempted to stimulate the global engagement of domestic firms by constructing OFDI related initiatives in seeking to improve national wealth and global influence (Luo et al., 2010; Ramamurti, 2012). Specifically, purposively established policies and regulations are common phenomena of EE governments' market-intervention for OFDI (Hoskisson et al., 2013; Wang et al., 2012).

These government-initiated OFDI arrangements (i.e., policies and regulations) are often seen as belonging to a group of *EE institutions*, which are perceived as being less than smooth, transparent, or complete compared to the institutional settings found in advanced economies (Xu & Meyer, 2013). The notion of EE institutions suggests immature institutional frameworks, vaguely defined regulative institutions, and unstable institutional environments (Meyer & Peng, 2016). In developed markets, the institutional environment normally entails the context in which business activity is allowed to take place, however this business activity is primarily driven by market forces and the firms' own resources (Doh, Lawton, & Rajwani, 2012; Guillén & García-Canal, 2009). Whereas in less developed markets, firm operations in general will be affected and driven by not only the market forces, but also significantly by institutional factors. This occurs for a couple of reasons. First, while EE governments may initiate market intervention through

policymaking to monitor business activities, the arrangements brought about by these regulative institutions can sometimes be unclear or even impractical due to the fact that EE governments may lack sufficient experience or knowledge for policymaking (Peng, 2014). Second, in many emerging markets, the way people conduct business is heavily driven by the product of informal institutions such as *guanxi* or *blat* (that is, the use of personal connections in China and Russia respectively) (Peng, Sun, Pinkham, & Chen, 2009), these informal factors may even result in a greater impact on firms' operations than the formal institutional settings (Xin & Pearce, 1996).

As widely understood by the "traditional" institutional strand of EE MNE literature (e.g., IBV), the home governmental impact can be either positive or negative. For instance, promotional and supporting policies (e.g., tax breaks, information platforms, bilateral agreements) provided by EE governments to firms are considered an important driver to initiate OFDI, as these compensate for the firms' lack of international competitive advantage (Pandya, 2016; Wang et al., 2012). Nevertheless, given the nature of EE institutions, issues like the institutional contradiction (e.g., regulatory uncertainty and inconsistency at the central and regional levels) are still present in their policy regimes (Luo & Zhang, 2016). These issues may yield additional costs for EE firms' operations and hinder their internationalization process (Liang, Ren, & Sun, 2014). Arising from these scholarly observations, we introduce the concept of institutional work to further inform our knowledge on the topic of MNEs, home governments, and OFDI-related institutions.

### 2.2. Toward a view of institutional work: from actions to institutions

Institutional work maintains the focus of IBV which examines the relationship between institutions and actions, emphasizing the idea that all actions are embedded in institutional structures (Lawrence et al., 2011). It explicitly describes the internal shifts within the institutional processes as a result of the actions taken by individuals or organizations, known as the institutional players, who are concurrently being influenced by the same institutions (Lawrence & Suddaby, 2006). Institutional work concerns *what* the players can do, *why* and *how* they will do it, in order to *create, maintain or disrupt* the institutional arrangements in ways that accommodate their interests and needs. In this study, the institutional players are differentiated between actors (e.g., firms) and agents (e.g., governments) given their respective social roles.<sup>5</sup>

The creative institutional work originates from institutional entrepreneurship, which entails the idea that organizations are able to influence institutions by adopting strategies that provide for eminence in technical and market leadership, while also lobbying for regulatory change (DiMaggio, 1988). It draws attention to the strategic actions performed by institutional entrepreneurs in the formation of new institutions as opposed to or beyond existing ones (Lawrence et al., 2011). The institutional entrepreneurs are powerful individuals and organizations that possess superior skills, resources, and/or other forms of power, and are keen on proactively interacting with the institutional environment (Maguire, Hardy, & Lawrence, 2004). Moreover, non-entrepreneurial parties that play a supportive or facilitative role alongside the entrepreneurs are also of crucial importance in the creation of institutions (Lawrence & Suddaby, 2006).

The disruptive institutional work was proposed based on the concept of deinstitutionalization (Oliver, 1992). In responding to this type of institutional condition, actors may strategically choose to disrupt the 'weak' institutions by tearing them down or rendering them ineffectual should their interests no longer be served by the existing arrangements

<sup>5</sup> Lawrence and Suddaby (2006) originally describe the non-business actors in the field such as the state and judiciary, as the "governmental (or) state actors" (p. 229 & 238). However, in order to simplify the communication in our study, we use the term "institutional agents".

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