



ARTICLE

The institution-based view of strategy: How to measure it



Elisabet Garrido^{a,*}, Jaime Gomez^b, Juan P. Maicas^c, Raquel Orcos^d

^a Universidad de Zaragoza, Violante de Hungría, 23, Zaragoza, Spain

^b Universidad de La Rioja, Cigüeña 60, Logroño, Spain

^c Universidad de Zaragoza, Gran Vía 2, Zaragoza, Spain

^d CEU San Pablo, Julián Romea, 23, Madrid, Spain

Received 14 October 2012; accepted 8 November 2013

Available online 29 March 2014

JEL CLASSIFICATION

M10

KEYWORDS

Institution-based
view;
Formal institutions;
Informal institutions;
Institutional
measures

Abstract The institution-based view of strategy has emerged as a leading perspective in Strategic Management. It incorporates the institutional dimension when offering relevant answers to the fundamental questions of strategy. One of the challenges of this perspective is to develop stronger measures of institutions (Peng et al., 2009). This paper seeks to contribute in this direction by offering a detailed analysis of the main measures of institutions that previous works in Strategic Management have used. Our aim is to offer a guide that will help researchers to decide how they should incorporate the institutional dimension into their empirical work.

© 2012 ACEDE. Published by Elsevier España, S.L. All rights reserved.

Introduction

The field of Strategic Management has been traditionally governed by two big paradigms. While the 1980s were characterized by the dominance of the industry-based view (Porter, 1980), the 1990s were clearly the decade of the resource-based view of the firm (Barney, 1991). In recent decades, the two perspectives have moved like *swings of a pendulum* in the search for the answers to the fundamental

questions of strategy (Hoskisson et al., 1999). In recent years, a third leading perspective seems to have conditioned the movement of the *pendulum* between these two important frameworks and has emerged in Strategic Management: the institution-based view (Peng et al., 2009). This perspective, with roots in both the economic – institutional economics – (North, 1990; Williamson, 1985) and sociological – institutional theory – literature (DiMaggio and Powell, 1983; Scott, 1995), incorporates the role of institutions in understanding why firms differ in terms of competitive advantage.

On the one hand, its emergence responds to external pressures from the new institutionalism movement in the social sciences in recent decades (North, 1990; Scott, 1995; Peng et al., 2009). On the other, its appearance seems

* Corresponding author.

E-mail addresses: egarrido@unizar.es (E. Garrido), jaime.gomez@unirioja.es (J. Gomez), jmaicas@unizar.es (J.P. Maicas), raquel.orcosanchez@ceu.es (R. Orcos).

to obey internal forces within the Strategic Management domain. In particular, the lack of attention to certain macro-contextual aspects by the industry and resource-based views has been important to promote the institutional perspective. The recognition of the relevance of institutions for competitive advantage is important so that they cease to be treated as background conditions or control variables (Peng et al., 2008). This recognition is also strongly related to Bamberger's (2008) claim for a more formal inclusion of contextual factors (e.g. institutions) in existing models that attempt to further advance management theories.

In the last decade, the institution-based view has been mainly used in the international business literature (Peng et al., 2008; Peng, 2009), particularly in the study of emerging economies (Cuervo-Cazurra and Genc, 2011; Cuervo-Cazurra, 2012). However, its use is increasing in Strategic Management in broader terms and some authors suggest that it should be understood as a complementary perspective to the industry- and resource-based views (Peng et al., 2009). This new paradigm is extremely young in the Strategic Management discipline and one of its challenges in the next few years is to demonstrate the importance of institutional factors for our understanding of competitive advantage.

It has been argued that, before its consolidation, the institution-based view needs to develop stronger measures of institutions (Peng et al., 2009). A first step in this direction would be to take stock of the available measures, analyzing their features and the interrelationships arising between them. Our objective in this paper is precisely this: to provide a guide that will help researchers to incorporate the institutional dimension of strategy into their empirical works by characterizing the different measures used in the literature. We first introduce the institution-based view of strategy and depict some of the areas in which the theory is more promising. Second, we focus on the practicalities of the application of this framework for the analysis of research questions in the Strategic Management arena. More precisely, we attempt to shed some light on the different alternatives available to scholars when incorporating the role of institutions into their empirical work. Although our intention is not to deal with *all* the measures that could be used to introduce the institution-based view of strategy, we analyze the wide variety of measurements that worldwide public sources offer to characterize the institutional environment. This analysis can be used as the benchmark against which new measures of institutions may be proposed in the future. We follow extant institutional studies and distinguish between formal and informal institutions (North, 1990), where the former are understood as laws, rules and regulations, and the latter as culture, norms and values. They are different but complementary sides of the coin that offer a complete picture of the institutional environment.

The institution-based view of the firm

Definition and roots

Broadly speaking, institutions can be understood as the rules of the game in a society (North, 1990; Williamson, 1998). According to North (1991), they are the humanly

devised constraints that structure political, economic and social interaction. They impose restrictions by defining legal, moral and cultural boundaries, setting off legitimate from illegitimate activities (Scott, 1995: 50). From a theoretical point of view, one of the major focuses of the literature on institutions has been on considering them as efficient solutions to problems of organization in a competitive framework (Williamson, 1975).

Although the early study of institutions can be traced back to the last decades of the 19th century, the emergence of the new institutionalism did not occur until the 1950s (Scott, 2008). As in Peng (2002), we use the term to refer to two independent streams of research that consider the role of institutions within society. The first, economic in nature, has its roots in the works of Coase (1937) and Williamson (1994, 1998). These authors considered formal and informal institutions as "background conditions" and focused on the determinants of choosing between different governance structures (e.g. markets vs. firms) to reduce transaction costs. By contrast, North (1990) mainly focused on formal and informal institutions as direct determinants of transaction costs in an economy. The evolutionary economics approach complements the static viewpoint of transaction cost economics by suggesting that firms continuously adapt their routines to the institutional framework through "an endogenous, experience-based learning process" (Knudsen, 1995: 203).¹

Whereas the first stream of research has economic foundations and focuses on efficiency, the second viewpoint is sociological in nature, focuses on the role of legitimacy (Peng, 2002) and its main interest is to understand the role of institutions in explaining why organizations are similar. Under this perspective, the concept of isomorphism is based on the need to conform to what certain resource providers that are vital for organizational survival deem appropriate (Hambrick et al., 2005). Following DiMaggio and Powell (1983), pressure from societal institutions and collective rationality among organizations are the key elements to understand homogeneity. In other words, from this perspective, institutional support depends on a "general perception of organizational actions as desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions" (Suchman, 1995: 576).²

The institution-based view of strategy is the result of a consideration of both these streams of research in the context of business strategy. It conceives strategic choices

¹ For a more detailed review of the link between transaction costs economics and the old and new institutionalism in the firm organizational adaptation, see Greenwood and Hinings (1996) and Roberts and Greenwood (1997).

² As one anonymous referee points out, it is necessary to highlight the importance that the sociological view has for strategy. For example, the idea of organizational isomorphism (DiMaggio and Powell, 1983) has frequently been used with diverse objectives. Although the emphasis has traditionally been on the tendency of organizations to become similar, some authors (see Hambrick et al., 2005, for example) argue that, in fact, the factors proposed by DiMaggio and Powell have acted "in reverse", increasing the tendency of firms to become more heterogeneous. Given the attention paid to heterogeneity by Strategic Management research, the implications of all this may be far reaching.

Download English Version:

<https://daneshyari.com/en/article/1004331>

Download Persian Version:

<https://daneshyari.com/article/1004331>

[Daneshyari.com](https://daneshyari.com)