

## Conceptual paper

# Exploring the institutional perspective on international business expansion: Towards a more detailed conceptual framework



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### ABSTRACT

While the general principles of the Institutional Perspective have been widely accepted, there has been only limited consideration to the present time of their in-depth application to the strategies of individual firms engaged in international business. The paper argues that companies engaged in such activities will find that there is a significant gap in precisely what aspects of the formal and informal institutional perspectives need to be identified and assessed for international expansion. The purpose of this paper is to develop a theoretical paradigm that allows organizations not only to compare different countries with regard to their potential for international business expansion from the perspective of Institutional Theory but also drawing on theories of International Business Strategy where relevant. The theoretical framework assumes that such organizations are engaged in analyzing the institutional arrangements and resources of their home and possible host countries. The paper then develops a conceptual framework that identifies five major components, namely people, power, performance, pathways to international expansion, and productivity, the latter being defined in terms of knowledge and innovation. It explores each of these areas in more depth with the aim of adding a more detailed structure to elements of Institutional Theory relevant to international business expansion.

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### Explorando el punto de vista institucional en la expansión internacional de negocios: Hacia un marco conceptual más detallado

### RESUMEN

A pesar de que los principios generales de la Perspectiva Internacional hayan encontrado una amplia aceptación, hasta el momento sólo ha habido una consideración limitada de su aplicación en las estrategias de empresas individuales con negocios internacionales. Este artículo defiende que las empresas que participen en dichas actividades encontrarán un

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vacío en relación a qué factores formales e informales de las perspectivas institucionales se deben identificar y valorar para la expansión internacional. El objetivo de este artículo es desarrollar un paradigma teórico que permita a las organizaciones comparar el potencial de expansión internacional de diferentes países desde el punto de vista de la Teoría Institucional basándose, al mismo tiempo, en teorías de Estrategias de Negocios Internacionales cuando se precise. El marco teórico asume que dichas organizaciones se dedican al análisis de acuerdos institucionales y de los recursos de los diferentes países. El artículo desarrolla un marco conceptual que identifica cinco componentes principales: población, poder, rendimiento, vías de expansión internacional y productividad (definiendo productividad en términos de conocimiento e innovación). El artículo explora cada una de estas áreas en mayor profundidad con el objetivo de añadir una estructura más detallada a los elementos de la Teoría Institucional relacionados con la expansión de los negocios internacionales.

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## Introduction

When the American food company Kraft (now Mondelez International) acquired the UK chocolate company Cadbury in 2010 for \$19.5 billion, it analyzed the institutional framework of its acquisition, including its legal and tax implications, and then moved the company headquarters to Switzerland. In an earlier move in 2002, the UK vacuum cleaner manufacturer Dyson moved all its manufacturing facilities from the UK to Malaysia following a careful analysis of the institutional differences between the two countries: the Institutional Perspective on international business strategy is a significant contributor to company development (Peng, Wang, & Yi, 2008). However, the detailed factors that are important from the Institutional Perspective in international business expansion remain unclear at the present time.

Institutional theory at the macro level has been well established for many years, particularly since the work of North (1990, 1994, 2005) and Scott (1995, 2001). They argued that both formal rules, such as the constitution of a country and its legal framework, and informal constraints, such as the customs of the country and its self-imposed rules of conduct, need to be understood in the assessment of the business potential of a country. Thus for example, it has been widely established that some countries are more successful than others in attracting foreign direct investment (World Bank, 2014), whereas other countries perform better in terms of productivity and innovation (Cahn & Saint-Guilhem, 2010; Gwartney, 2009). Institutional theory has long offered important general insights in international literature in the field of international business (Dunning & Lundan, 2008). There have been analyses at the country level covering international relations and political-economic issues, related at least in part to government and company negotiating (Eden & Potter, 1993; Hennart, 2015; Kobrin, 2001; North, 1990, 2005; Rodrick, 2000). These institutional perspectives have been complemented at the firm level by some individual studies of company networks, culture and related sociological issues. These determine – in part at least – the ways that companies manage, work and take decisions on international business issues (Hofstede, 1980; Kogut, 1992; Leung, Bhagat, Buchan, Erez, & Gibson,

2005; Vasudeva, Spencer, & Teegen, 2013; Westney, 1993). Firm-level institutional analysis can usefully draw on the work of Scott (1995) who identified three types of institutions, namely the normative, regulative and cultural-cognitive. Institutional processes derive from collective experience, education, social norms and mimetic societal rules. Amongst other commentators, DiMaggio and Powell (1983) proposed three principle processes for institutional diffusion – coercive, normative and mimetic.

In the context of international business strategy, this paper accepts that these distinctions and processes of the Institutional Perspective are important. However, we argue that they are incomplete for three reasons. First, they make the assumption that such considerations are clear and unambiguous whereas such issues are complex and involve a larger number of stimuli than an organization can possibly process (March & Simon, 1958). This suggests that a paradigm identifying the major elements will be beneficial to companies. Such a paradigm does not exist at the present time. Second, a static view of the institutional perspective assumes that companies must accept the inevitable outcome of such institutional structures and have no means of influencing or adapting to such structures. In practice, companies have choices with regard to countries from an institutional perspective, but they need a structured way of analyzing such countries. A more detailed paradigm of the Institutional Perspective will help companies to analyze the dynamics of both the companies themselves and the changing nature of the country institutions in which they are potentially or actually involved (Dunning & Lundan, 2008; Teece, Pisano, & Shuen, 1997). The paradigm proposed in this paper presents such a method. Third, the Institutional Perspective needs to help the ability of companies to gain new knowledge about country institutions and also to contribute through innovation because these two topics have the potential to change the rules of the game in a fundamental way with regard to country choice and company negotiation with countries (Bruton, Ahlstrom, & Puky, 2009; Chandler, 1986; Dunning, 1995, Chapter 5; Lynch & Jin, 2015; Peng et al., 2008; Verspagen, 2006). To summarize, the broad principles of the Institutional Perspective are not sufficiently detailed for firms considering which countries to select when expanding internationally. The detailed and comprehensive

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