Industrial Marketing Management 43 (2014) 721–725

Contents lists available at ScienceDirect

Industrial Marketing Management

Institutional theory in business marketing: A conceptual framework and future directions[☆]

Zhilin Yang [a,b,*], Chenting Su [a]

[a] Department of Marketing, City University of Hong Kong, Hong Kong
[b] School of Management, China University of Mining & Technology, China

ARTICLE INFO

Article history:
Accepted 9 March 2014
Available online 14 May 2014

Keywords:
Institutional theory
Legitimacy
Institutional logic
Business marketing
Marketing strategy

ABSTRACT

Institutional environments exert significant effects on organizational behavior, structure, strategy, governance, and process. To gain competitive advantage, managers are striving for legitimacy while maintaining efficiency. In line with this thinking, we propose the developmental process of institution-driven and legitimacy-embedded efficiency, and emphasize the confluence of legitimacy and efficiency in the context of business marketing. We then highlight several promising directions for further research on the development of institutional theory and its application in business marketing. Finally, we present a brief summary of each paper in this special issue.

1. Introduction

Institutional theory provides a non-economic explanation of organizational behaviors and strategies (DiMaggio & Powell, 1991; Scott, 2008). Institutions regulate economic activities by setting the rules of the game as the basis for production, exchange, and distribution. Thus, it is essential for firms to follow established rules, norms, and belief systems to gain legitimacy and mobilize their social, economic, and political resources in order to adapt to specific institutional environments in view of enhancing firm performance (Yang, Su, & Fam, 2012).

Scott (2008) has claimed that institutional theory has reached its adulthood. Nevertheless, relatively limited research on institutional theory has been conducted in the area of business marketing in a rigorous way. As an open system with rapid globalization, business markets have been facing even more complex, often contradicting institutional environments. As such, scholars have called for further coverage of a wide range of questions related to the development and application of institutional theory in business marketing (e.g., Grewal & Dharwadkar, 2002; Yang, Su, & Fam, 2012).

This special issue of *Industrial Marketing Management* assumes the challenge of motivating innovative research, featuring strong theoretical grounding and empirical rigor, to explore two broad, interrelated arenas of institutional theory that bear on legitimacy and efficiency in the field of business marketing. The first arena lies in the development and conceptualization of various institution-based constructs and their relationships with other well-established theories, such as transaction cost economics, resource-based view, ecology theory, agent theory, and social network theory. For example, firms often employ such approaches as isomorphism, decoupling, or ceremonial adoption to gain social acceptance from various legitimating parties while maintaining efficiency (Martinez & Dacin, 1999). How can these concepts apply to marketing practices in channel management? The second area is to explore performance implications of institutional environments from an interactive perspective (Yang & Wang, 2011). Such interactive perspectives explore how firms accommodate strategic responses to handle institutional constraints and take advantage of institutional capital. Distinct institutional pressure and process (e.g., regulating, validating, and habitualization) evoke strategic business actions, which, in turn, affect firm performance (Grewal & Dharwadkar, 2002; Oliver, 1991).

2. The developmental process of institution-driven and legitimacy-embedded efficiency

To gain competitive advantages in an institutionally different market, firms tend to strive for legitimacy while maintaining efficiency (Martinez & Dacin, 1999; Yang & Su, 2013; Yang, Su, & Fam, 2012). Nevertheless, institutional environments may influence firm decision making through various mechanisms, which result in the firm's strategic responses aimed at coping with the institutional pressure they perceive (Oliver, 1991). In this introduction, we propose a conceptual framework that captures the developmental process of institution-driven and

☆ The authors acknowledge grants from the Research Grant Council of Hong Kong SAR (CityU 196513), City University of Hong Kong (9680022 and 7002905) and the National Science Foundation of China (71172215) for financial support.

* Corresponding author at: Department of Marketing, City University of Hong Kong, 83 Tat Chee Avenue, Kowloon, Hong Kong. Tel.: +852 3442 4644; fax: +852 3442 0346.
E-mail address: mkzyang@cityu.edu.hk (Z. Yang).

http://dx.doi.org/10.1016/j.indmarman.2014.04.001
0019-8501/© 2014 Elsevier Inc. All rights reserved.

legitimacy-embedded efficiency for business marketing and highlights the major research issues in the area. The conceptual framework is shown in Fig. 1.

Institutions are considered the collection-point for 'rules of the game'. Thus, understanding institutional environments will guide firms when they compete in the market. Depending on the level of analysis, organizational theorists have provided different schemes to classify institutional environments. For example, at the macro level (often regional or country level), scholars take a broad view of institutions which include such aspects as political, regulative, economic, normative, and cultural-cognitive institutions. In the context of organizations, Scott (2008) has classified institutions and has identified three distinct aspects: regulative, normative, and cultural-cognitive institutions. His scheme is still conceptually oriented and often causes confusions among the three aspects. Scholars have therefore adapted the scheme and have further developed it with operational measures in various disciplines. Indeed, it is desirable to develop a comprehensive, operational scheme that classifies institutional environments in the setting of business markets.

Bearing these institutional environments in mind, managers may interpret and evaluate their impacts on business strategies. A fundamental question is: do institution environments pose constraints on or function as a facilitator for firms to gain competitive advantages? Relevant literature documents that institutional environments provide both challenges and opportunities (Scott, 2008; Suchman, 1995). On the one hand, institutional distances, as reflected in legal, normative, and cognitive differences between societies and/or regions, may pose legitimacy pressures that make firms, as outsiders, liable to their local partners (Martinez & Dacin, 1999; Scott, 2008). Such institutional liability adversely affects efficiency because of distrust and market ambiguity (Yang, Su, & Fam, 2012). To mitigate these institutional liabilities, Dacin, Oliver, and Roy (2007) conceptually propose five legitimacy needs, that is, market legitimacy, relational legitimacy, social legitimacy, investment legitimacy, and alliance legitimacy. From a more general perspective, Suchman (1995) classifies organizational legitimacy needs into three categories: pragmatic, moral and cognitive legitimacy and further divides each category to four sub-categories based on two dimensions: focus of legitimation (actions versus essences) and temporal texture of legitimacy (episodic basis versus continual basis). Firms must gain legitimacy to build trusting and cooperative relationships in an institutionally different market.

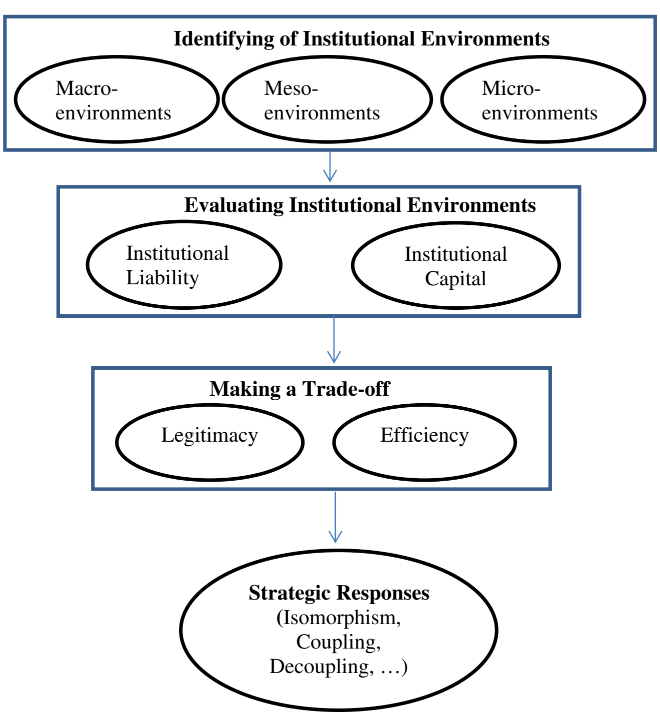

Fig. 1. The developmental process of institutional-driven, legitimacy embedded efficiency.

On the other hand, the adaptive effort and investment in mitigating institutional liability may enable firms to establish institutional capital that leads to competitive advantages (Suchman, 1995). To build legitimacy, firms may invest in developing extensive connections with various stakeholders to gain social acceptance; firms may also take strategic actions such as lobbying, co-optation, membership, standardization, and influence to facilitate cooperation (Oliver, 1991). This way, institutional capital accumulates that creates obstacles for new entrants and helps firms win over the competition in the market (Bresser & Millonig, 2003).

Firms tend to make a trade-off between legitimacy and efficiency along the way, depending on the balance of their institutional liabilities and capital. As such, the most challenging task for a manager is to effectively tackle the dilemma of efficiency and legitimacy. Neo-institutional theorists have devoted much effort in addressing such a long-standing paradox. For example, isomorphic change proposed by DiMaggio and Powell (1991) has been employed to examine the coercive, normative, and mimetic influences in the institutionalization of marketing practices such as customer relationship management (Hillebrand, Nijholt, & Nijssen, 2011). Managers are supposed to manipulate and employ evocative symbols to engender social support and safeguard technical rationality. Firms may also utilize loose coupling, decoupling strategy, and ceremonial adoption, to reconcile the conflicting pressures or requirements from diverse legitimating institutions in the market (Kostova & Roth, 2002). Suchman (1995) proposes various strategies to gain, maintain, and repair organizational legitimacy in terms of general, pragmatic, moral and cognitive legitimacy. Proactive legitimating strategies at the organizational level should also consider the politics of propriety, trust, power sense-making, and alliance building (Vanharanta, Chakrabarti, & Wong, 2014–in this issue; Newton, Ewing, & Collier, 2014–in this issue).

Notably, Yang, Su, and Fam (2012) provide a governance solution to this dilemma by drawing upon the interface of institutional theory and transaction cost economics. They propose that firms operating in an institutionally distant market can design novel governance strategies to resolve the dilemma as a particular governance structure may serve a dual role of gaining legitimacy while safeguarding efficiency through the accumulation of firm institutional capital. Their findings are intriguing, but still leave much room for future research.

3. Future research directions

Drawing from our conceptual framework of legitimacy-embedded efficiency, we propose several promising research directions for the theoretical development and applications of institutional theory in the context of business marketing.

3.1. Theoretical development

Researchers can contribute to institutional theory by conceptually refining and extending current concepts and models to the field of business marketing, particularly in marketing channels. In the past three decades, numerous new, interesting concepts that emerged from various disciplines have broadened the scope of institutional theory and provide a solid foundation on which it can be further developed. Take several recent studies as examples. Borrowing a term coined by Ostrom (2010), *institutional polycentrism*, which includes institutional multiplicity, institutional configuration, and institutional context specificity, Batjargal et al. (2013) examine the effect of this concept on new venture growth and find that weaker and more inefficient institutions will enhance the positive effect of structural holes on new venture growth, as personal relationships may align otherwise disconnected