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The challenges of teaching strategic management: Including the institution based view



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ABSTRACT

Dealing with the institutional differences is increasingly important in the globalizing world economy. While an Institutional Based View (IBV) is gaining prominence in strategic management scholarship, it is under-represented in strategic management courses. The resource based view (RBV) and Industrial Organization Economics (IO) commonly represented by Porter's Five Forces, remain the significant theories within strategic management courses in the U.S. We summarize the tenants of the Institutional Based View, demonstrate how it relates to the Resource Based View and Industrial Organization Economics and present an experiential exercise for introducing basic aspects of the IBV in the strategic management classroom.

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1. Introduction

Industrial Organization Economics (IO) and the Resource Based View (RBV) are the main theoretical models in the strategic management course. Porter's Five Forces is the dominate framework used to analyze the firm's external environment from an IO perspective (Porter, 1980, 1981) while the resource based view is the dominate perspective used to analyze the firm's internal environment (Barney, 1986; Penrose, 1959; Rumelt, 1984; Wernerfelt, 1984).

The RBV argues that firm specific capabilities (Barney, 1991) including the ability of the firm to dynamically adapt to environmental change (Eisenhardt & Martin, 2000; Teece, Pisano, & Shuen, 1997) drive firm level performance. IO argues that conditions of competition extend beyond direct competitors and that this extended competition must be considered to understand the potential profitability of the firm (Porter, 1980). Both the RBV and the IO perspectives have been criticized for lacking contextually (Narayanan & Fahey, 2005; Priem & Butler, 2001). The rise of globalization and the need to address the challenges of operating in new and different environments have made this criticism especially acute (Meyer & Peng, 2016).

The Institution Based View (IBV) is a contextual perspective that is a necessary third leg needed to balance the strategy tripod (Peng, 2002; Peng, Sunny Li, Pinkham, & Hao, 2009; Peng, Wang, & Jiang, 2008; Su, Peng, & Xie, 2016). While the IBV has not been adequately represented in the strategic management course (Marguerite & Pamela, 2004), it can contribute significantly to the key purposes of the course; the development of a managerial perspective, the linkage of theory to practice and the development of strategic thinking (Liedtka & Rosenblum, 1998; Marguerite & Pamela, 2004; Thomas, 1998).

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The challenge addressed here relates to the integration of the Institution Based View into the strategic management course. To accomplish this, we discuss the emergence and impact of the IBV, summarize its main tenants, compare these to RBV and IO tenants and present an exercise to introduce the IBV to students.

2. The institution based view

The Institution Based View argues that organizations exist within a social context, often state and society, and that there is a set of acceptable economic behavioral actions available within these contexts (North, 1990; Powell & DiMaggio, 1991; Scott, 1995). In this perspective, economic behavior is motivated by more than economic utility (the basis for the IO and RBV theories), additional motivations including social approval, social justification, social obligation, habit and tradition (Scott, 1995; Zucker, 1987; Zukin & DiMaggio, 1990). These behavioral expectations or 'rules of the game' are referred to as 'institutions' and represent the 'humanly devised constraints that structure human interaction' (North, 1990, p. 3).

Within the IBV, actions are understood occurring within a cloud of uncertainty where the cues that inform actors choices of appropriate decisions are influenced by the relevant institutions that give those cues and actions meaning (Jarzabkowski, 2008). Institutions surround and influence the actions of organizations and organizational members, orienting actors towards socially acceptable and supportable actions and away from actions that may be socially sanctioned, either implicitly or explicitly (Jepperson, 1991; Oliver, 1997; Powell & DiMaggio, 1991; Scott, 1995). Actions in conformance with Institutional expectations are more certain of social acceptance than actions outside those expectations. As a result, Institutions reduce the uncertainty of organizational actions taken in compliance with the institutional expectations (Scott, 1995) as well as setting the stage for functioning markets (Williamson, 2000).

Institutions originate in both formal processes such as laws, judicial decisions, regulations and contracts and informal processes such as culture, norms, values and ideology (North, 1990). Scott (1995, 1981) referred to these formal processes as 'regulative' which defined acceptable actions as legally required and unacceptable actions are legally sanctioned. Scott (1995, 1981) referred to the informal process as 'normative' and 'cognitive', representing behaviors that are accepted because they represent the way things should, due to the normative influence of professional/technical organizations, or because those behaviors are prevalent, culturally supported and recognizable. For an introductory perspective to students, we prefer to use the 'formal' and 'informal' nomenclature (North, 1990).

Formal and informal institutions represent more than simple background conditions upon which resource and industry differences are set (Meyer & Peng, 2016; Oliver, 1997; Peng & Heath, 1996; Peng et al., 2009; Su et al., 2016). Instead, 'institutions directly determine what arrows a firm has in its quiver as it struggles to formulate and implement strategy' (Ingram & Silverman, 2002, p. 20). Institutions are the "vehicles for activity ... and the ... frameworks of programs or rules establishing identities and activity scripts for such identities" (Jepperson, 1991, p. 146).

Firm performance is influenced by the firm's relationship to institutional expectations. Conformity to institutional expectations has been shown to influence organizational legitimacy and thus facilitate access to the resources that are important for firm survival and success (Delmar & Shane, 2004; DiMaggio & Powell, 1983; Karlsson & Honig, 2009; Tornikoski & Newbert, 2007; Zott & Huy, 2007). Particular to developing economies institutional differences can play a critical role as more formalized economic structures are less pronounced (Meyer & Peng, 2016; Peng et al., 2009).

Fundamentally, the Institution Based View argues that the firm's relationship to and reflection of dominate acceptable economic behaviors can affect a firm's performance in addition to the influence occurring due to a firm's resources and its relative position within the industry structure (Peng, 2002; Peng et al., 2009; Su et al., 2016).

2.1. Institution based view in relationship to the RBV

The Resource Based View focuses on the characteristics of the resources and capabilities the firm possesses. Resources that are valuable, rare, difficult to copy and difficult to substitute for lead to economic rent (Barney, 1991; Barney, Wright, & Ketchen, 2001). Oliver (1997) argues that the resource selection, development and disposition process is inherently embedded within an institutional context that affects the pure economic rationality of these decisions. Included in the dynamic capabilities perspective is this resource selection, development and disposition process used to maintain the relevance of the firm's resources and capabilities as the environmental opportunity changes (Eisenhardt & Martin, 2000; Teece et al., 1997).

Within the resource based view and the dynamic capabilities perspective, managers guided by economic justification and motivations of optimization, efficiency, effectiveness and profitability (Barney, 1986, 1991) conduct resource selection, acquisition, deployment and disposition. The institution based view extends this to include motivations of social justification and social obligation (Zukin & DiMaggio, 1990). Embedded within social structures, individuals are approval seeking, socially influenced and disposed to institutionalized actions based out of habit and tradition (Scott, 1995; Zucker, 1987). Resource choices instead of being driven solely by economic justification can also be justified by institutionalized expectations of tradition, longevity, acceptance and legitimacy. Thus, the IBV adds explanatory power to the process of resource acquisition, development, use and disposition at multiple levels and is an effective behavioral compliment to the economic logic of the RBV and dynamic capabilities as presented in the strategic management classroom.

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