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MNEs as institutional entrepreneurs: A dynamic model of the co-evolutionary process

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ABSTRACT

Co-evolutionary theory suggests that firms and their environments interactively influence each other over time due to the interplay between them. However, international business (IB) literature has paid little attention to the study of the co-evolutionary process. Therefore, new research that delves into the process in order to identify how the reciprocal influences between institutions and multinational enterprises (MNEs) take place, and that identifies key variables that determine the extent to which MNEs will affect the environment, is necessary. The current study addresses this call and examines the interplay between institutions and MNEs in order to explain such a coevolution. The paper provides a cohesive theoretical model for the co-evolutionary approach in the IB literature. Some suggestions for lines of inquiry and of methodological challenges for future research in the IB field are provided.

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1. Introduction

Co-evolutionary theory suggests that firms and their environments influence each other over time (Child, Rodrigues, & Tse, 2012) in a bi-directional way (Madhok & Liu, 2006), so suggesting the existence of an interplay between firms and their environments (Ahlstrom & Bruton, 2010). While evolutionary approaches deal with changes at industry/country or organization level, co-evolutionary theory attempts to identify the outcomes of the interaction between these processes of change (Pajunen & Maunula, 2008). Thus, co-evolutionary theory suggests the need for a conjoining framework that allows academics to understand institutional change (Cantwell, Dunning, & Lundan, 2010).

The traditional international business (IB) view emphasizes that firms must conform and adapt to institutional pressures if they

wish to gain legitimacy within any organizational field (DiMaggio & Powell, 1983). A central belief in institutionalism is the way these ideas and values take root in the minds of individuals and social groups, leading to behaviours that characterize the particular field. This is called embeddedness (Granovetter, 1985). In particular, Scott (1995) differentiates three institutional dimensions that use different mechanisms of influence over the actors within the fields: (1) The regulative dimension refers to existing laws that exert coercive pressures; (2) the normative dimension deals with the cultural domain, including socially shared values, so they rely on norms; and (3) the cognitive dimension emphasizes cognitions and actors' generally shared perceptions of what is taken for granted, and they exert mimetic pressures. These institutional forces influence the decisions managers make and lead organizations to adopt similar practices – hence so-called isomorphism – because these influences are relatively uniform in a given organizational field (DiMaggio & Powell, 1983). From this early approach of institutionalism, MNEs are expected to accept the external institutions as given, and hence decide in which institutional environment to operate abroad, for example, by adapting their internal practices

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and policies to the conditions of said environment – i.e., institutional adaptation (Cantwell et al., 2010) – or delocalizing some business activities from certain host countries to others with more favourable institutional frameworks – i.e., institutional avoidance (Cantwell et al., 2010).

Institutional environmental changes can derive from governments' and supra-national agencies' regulations, markets and competition, and the demands of civil society (Greenwood, Suddaby, & Hinings, 2002), as they are relevant actors in current global capitalism (Dunning, 2003). Firms follow institutional changes in an attempt to answer to the new institutions (Jackson & Deeg, 2008). Normative and cognitive institutions are expected to change very slowly as they have an evolutionary origin and are very inertial, while regulative institutions are designed by government in the executive, legislative, judicial and bureaucratic areas (Williamson, 2000). However, facts show that regulative changes triggered by governments do not always have the expected effect in MNEs. In this respect, Child et al. (2012) suggest that the limits of government enforcement depend on firms' economic power, and that the firms' power is conditioned by the power of governments to facilitate or hamper business opportunities. Also, the need for complementary institutions in the environment is highlighted (Williamson, 2000), given that regulative changes are usually not enough to reach a successful change in the field if institutional congruence with normative and cognitive institutions fails (Fatas-Villafranca, Sánchez-Choliz, & Jarne, 2007). Thus, institutional environmental changes do not always force MNEs to introduce internal changes in order to adapt to the new institutions. MNEs do not always consider institutions as a framework that needs to be avoided or adapted to, but instead often regard them as a bundle of resources to be tapped into in order to solve their coordination problems and to develop specific capabilities (Jackson & Deeg, 2008). In the same way, as MNEs try to change institutions for their own benefit, other actors can also respond to MNEs' agencies by facilitating new external changes.

The institutional change process seems to require the use of a bi-directional causal link approach (Fatas-Villafranca et al., 2007), such as that proposed by co-evolutionary theory, in order to show the interdependence between managerial decisions and institutional environmental changes (Lewin & Volberda, 1999) over time (Child et al., 2012).

In the study of the co-evolutionary process, some research works have focused on the coordinated action by firms – usually SMEs or other actors – that share the same or similar objectives in the field (e.g., Wiig & Kolstad, 2010; Verdu, Gómez-Gras, & Martínez-Mateo, 2012; Khavul, Chavez, & Bruton, 2013). These firms adopt strategies that are harmonised in an attempt to act upon the environment. Khavul et al. (2013) refer to these processes of co-evolution as a collective and incremental phenomenon, rather than in terms of the decisive role of a specific actor. However, MNEs as an organiser of economic activity (Dunning & Lundan, 2008), play a relevant role in a range of environmental, social, poverty-related and human rights issues (Kolk & van Tulder, 2010). The specific role that a single MNE can take in modifying the institutional environment may be relevant and, to a certain extent, they may behave as a “lone hero” – i.e., change agent – (Wright & Zammuto, 2013). According to Cantwell et al. (2010), the potential role/power of the MNE to act on the environment through co-evolution is mainly related to the increasing autonomy of the subsidiaries. They identified some characteristics of the environment (in terms of stability and dynamism) that are present in those cases where MNEs use the institutional avoidance, adaptation, and co-evolution forms of engagement in changes. However, these authors “do not go further into the processes by which co-evolution might come about” (Child et al., 2012).

Stemming from these previous works, this research examines the co-evolutionary process between institutional environment and the MNE. Specifically, we go beyond the recognition of the potential role of MNEs to have an influence on the environment and focus on the way in which a given MNE interacts with institutions over time until accomplishing institutional changes. So we add to the intricacies of the process in order to propose a cohesive theoretical model for a co-evolutionary approach, which we will contribute to the IB literature. We aspire to construct such a theoretical model through the analysis and interpretation of several published, real-life experiences in order to identify causal associations and, hence, put forward a proposal of said model. This method termed “appreciative theory” was initially proposed by Nelson and Winter (1982), and subsequently described and used by several authors (e.g., Nelson, 1994a,b; Cantwell et al., 2010) as a kind of qualitative economic analysis which aims to theorise on areas where quantitative data are not appropriate – e.g., new forms of business organization, new institutions (Nelson, 1994b). Following on from them, this paper provides a number of real-world examples that are discussed and allow us to propose a dynamic model for the co-evolutionary approach.

This paper contributes to the literature in different ways. Firstly, the existing literature features only a few works which examine the role of MNEs as potential actors of institutional co-evolution (e.g., Cantwell et al., 2010; Dunning & Lundan, 2008; Pajunen & Maunula, 2008). Our paper goes further and delves into the process of identifying how the reciprocal influences between institutions and the MNE take place and lead to an implementation of institutional changes, that is, the sequence and mechanisms that give rise to institutional changes based on co-evolution. In doing so, we identify key variables that determine the extent to which MNEs will affect the environment. We detect characteristics of the environment, as Cantwell et al. (2010) do, but we extend our research to include other variables (e.g., the extractive and inclusive nature of institutions that involve the political and economic conditions of countries). We also search out the features of MNEs that condition the process (e.g., co-evolutionary capabilities, firm's performance, ideology). According to this, we provide a theoretical model for the co-evolutionary approach for the IB literature.

We will proceed in the following manner: we start to briefly outline the theoretical issues of the study by conceptualizing MNEs, clarifying the concept of institutional entrepreneur, and then examining the MNE-level and the field-level conditions under which MNEs are likely to engage in co-evolutionary processes (Section 2). These theoretical issues aim to integrate findings from different streams of literature as a kind of appreciative theory (Nelson & Winter, 1982). As this theoretical body leaves out a full explanation of how the co-evolutionary process between the MNE and the institutional environment happens, we used a method based on appreciative theorizing to build a dynamic model of the co-evolutionary process for IB literature. After the methodological design is clarified in section 3, we look at the available empirical evidence provided by published, real-life situations. First, in section 4 we analyse the role and peculiarities of MNEs in their interplays with the institutional environment. The interaction between firms and institutions has mainly been depicted by literature in the entrepreneurial research field, so we discuss and refine its findings in light of several real-life examples that illustrate how MNEs interact with the environment in a co-evolutionary process. Then, in section 5, we address the research objective of this paper and build a dynamic model of the co-evolutionary process that we contribute to the IB field. This way of applying appreciative theory is consistent with Geels (2002) and Cantwell et al. (2010). We conclude with some findings and recommendations for future works.

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