

Is 'institutional theory' a theory, or is it just a lazy way to motivate empirical hypotheses?

Reflections by

Klaus E. Meyer

China Europe International Business School

Strategic Management Society Extension Conference
Melbourne, December 10, 2014

There are many institutions (or ‘rules’). Many matter.

→ *How are we supposed to identify which (sets of) institutions is driving the behavior we are trying to analyze?*

There are several ‘mechanisms’ by which institutions (or ‘rules’) may influence behaviors.

→ *Do we have one theory, or many?*

→ *Or, are institutions boundary conditions of other theories?
i.e. institutions as moderating variables in other theories?*

Economics School

Institutions affect the incentives that economic agents faced in, among other context, agency relationships and markets.

North, Williamson

Institutional entrepreneurship

Agents influence institution.

People at Alberta

Varieties of Capitalism School

Institutional frameworks consist of multiple elements that interrelate in complex manners that do cannot appropriately captured by single item indicators.

Hall & Soskice, Whitley, Redding

Organization Theory School

Economic agents aim to attain legitimacy with their peers by aligning their behaviours to expectations (pressures) from this environment.

Di Maggio & Powell, J Meyer & Ronan

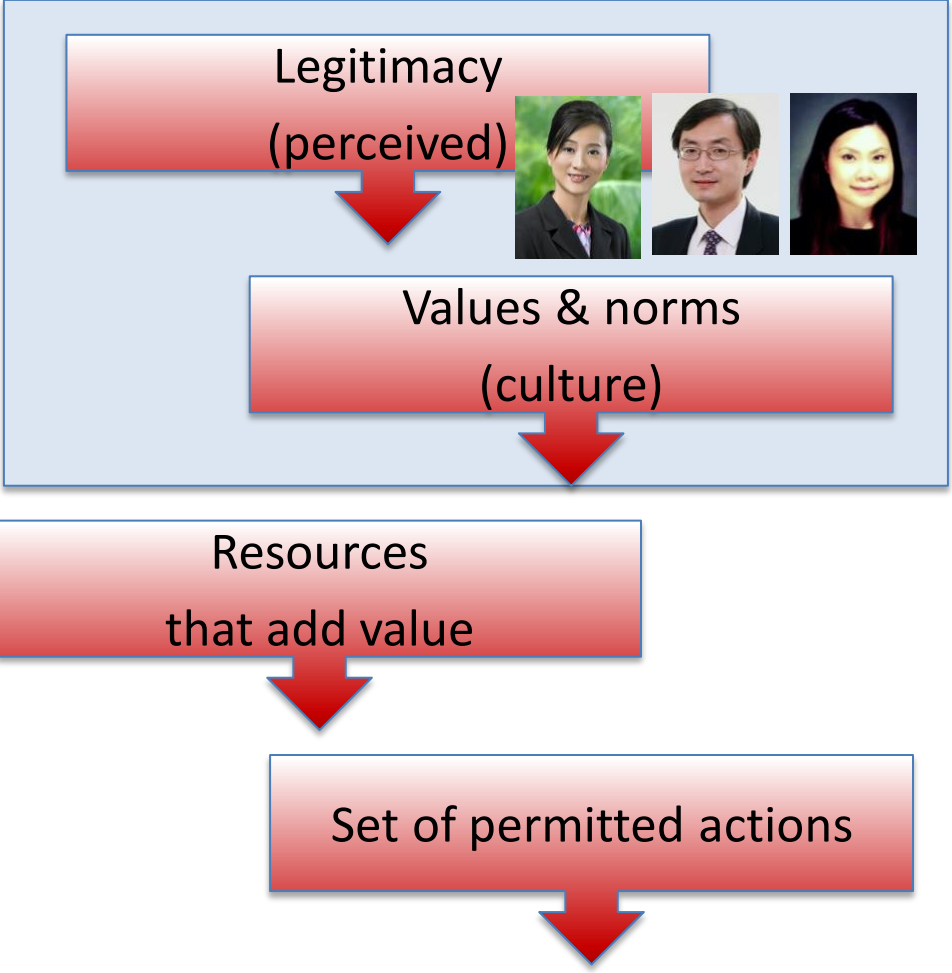
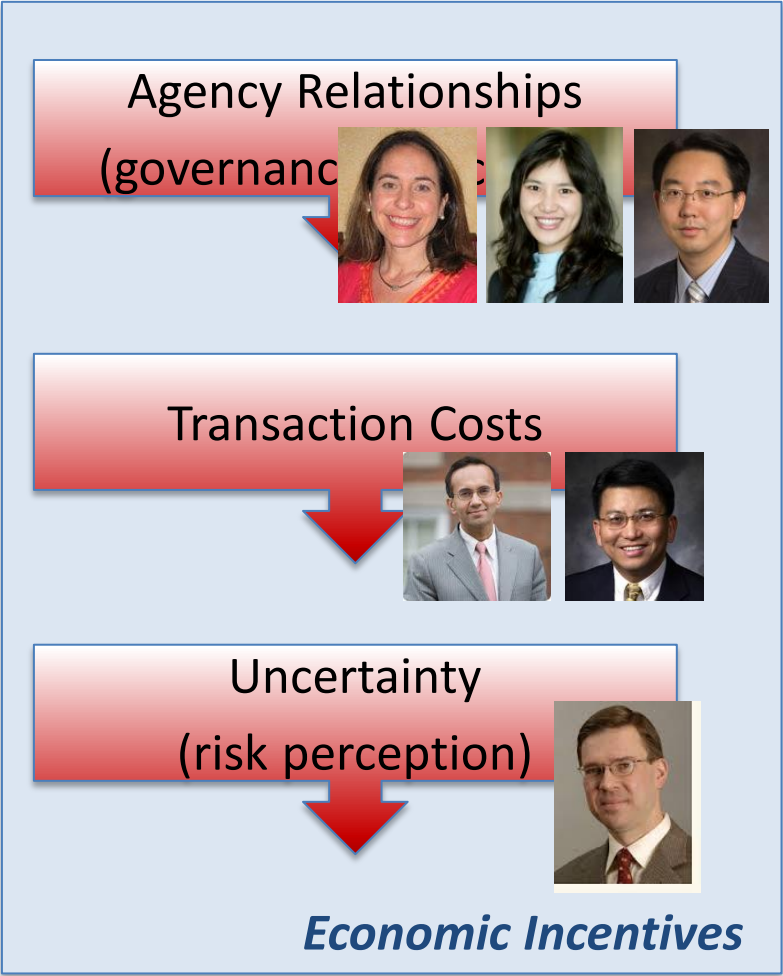
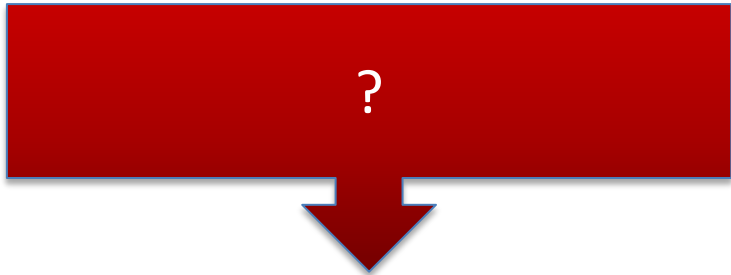
Co-Evolution School

Institutions are not exogenous, but they are influenced by people through political processes and often self-serving reinforcement of existing institutions. Hence, changes in institutions and behaviours co-evolve.

Nelson & Winter

Why do institutions matter?





Institutional Economics at its best:



*“The academy said Tirole has clarified policies about **regulating industries with a few powerful firms**, especially after a wave of privatisations had set governments a conundrum over **how to encourage private investments** in sectors like healthcare and railways **while reining in profits.**”*

(Reuters, October 2014)

“U.S. consumers might be paying less than they are for cable and Internet access if regulators had followed the guidance of Jean Tirole in promoting industry competition.”

(Associated Press, October 2014)

“Before Mr. Tirole’s work, policymakers often favoured blunt tools, such as price caps, while Mr. Tirole has advocated more sector specific and tailored approaches - smarter approaches to writing rules.”

(The Telegraph, October 2014)

Unit of Analysis for Institutions in IB?

Host Country

- National (lots of studies)
- Sub-national
(e.g. Meyer & Nguyen, 2005)

Home Country

- National (studies on c-o-o)
- Institutions for types of firms
(e.g. SOE vs POE)

Distance

- Home-hosts (lots of studies)
- 'Added Distance'
(e.g. Hutzschenreuter et al.)

Supra-national

- Multilateral institutions
(e.g. Ramamurti, 2002)
- 'Regional'
(e.g. Rugman & Verbeke, 2004)

Home-Host Constellations

- Home-host settings (Child & Marinova, MOR 2014, Li et al. GSJ 2012)
- Home-host interactions
(e.g. Meyer & Thein, JWB, 2014)

My own “Institutional’ work: Matching Theory to Research Questions

	Intellectual tradition	Level of institutions	DV
Meyer JIBS 2001	Econ	Host (national)	Entry mode
Bevan, Estrin & Meyer IBR 2004	Econ	Host (national)	FDI flows
Meyer & Nguyen JMS 2005	Econ (and ‘co-evolution’)	Host (sub-national)	Location choice, entry mode
Gelbuda, Meyer & Delios, JIM 2008	Econ & OT	<i>SI intro, arguing for sharp distinction between the two traditions</i>	
Estrin, Baghdasaryan & Meyer JMS 2009	Econ	Distance	Entry mode
Meyer, Estrin, Bhaumik & Peng, SMJ 2009	Econ	Host (national)	Entry mode
Meyer & Sinani JIBS 2009	Econ (<u>AMC</u>)	Host (national)	Spillovers
Meyer & Thein JWB 2014	OT (‘legitimacy’)	Home-host interaction	Entry/exit strategies (qualitative)
Meyer, Ding, Li & Zhang, JIBS 2014	OT (‘legitimacy’)	Host (national)	Entry mode

How do institutions influence foreign investors' entry mode in transition economies ?

Meyer, Klaus E. (2001): Institutions, transaction costs and entry mode choice in Eastern Europe, Journal of International Business Studies 31 (2), 357-367.

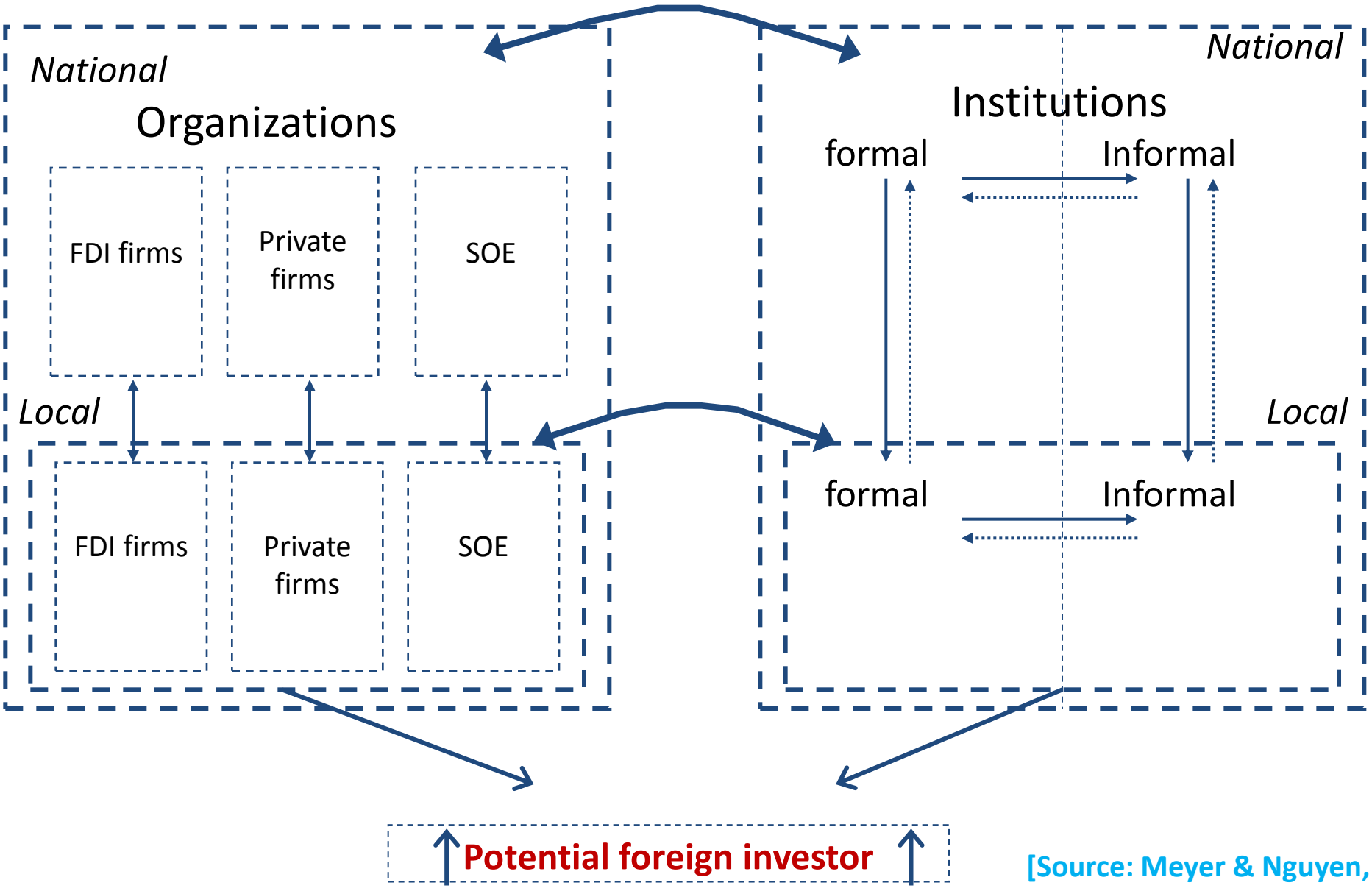
Argument: Institutions shape transaction costs. During economic transition, uncertainty is high, thus transaction costs are high. Progress in institution building reduces transaction costs of establishing a wholly-owned venture.

Analysis: Four types of entry mode: trade, contract, JV, wholly owned.

Indicators of TC	Most preferred	Least preferred
Host country = weak institutions	All others	WOS
Home country dummy = high distance	Contracts	WOS
Transaction = technology transfer	All others	Trade
Transaction = management transfer	JV, WOS	Trade, contracts

Data: Own survey of UK and German MNEs

A Co-evolution Framework



[Source: Meyer & Nguyen, JMS, 2005 (draft version)]

The Problem with Co-Evolution

Everything depends on everything else

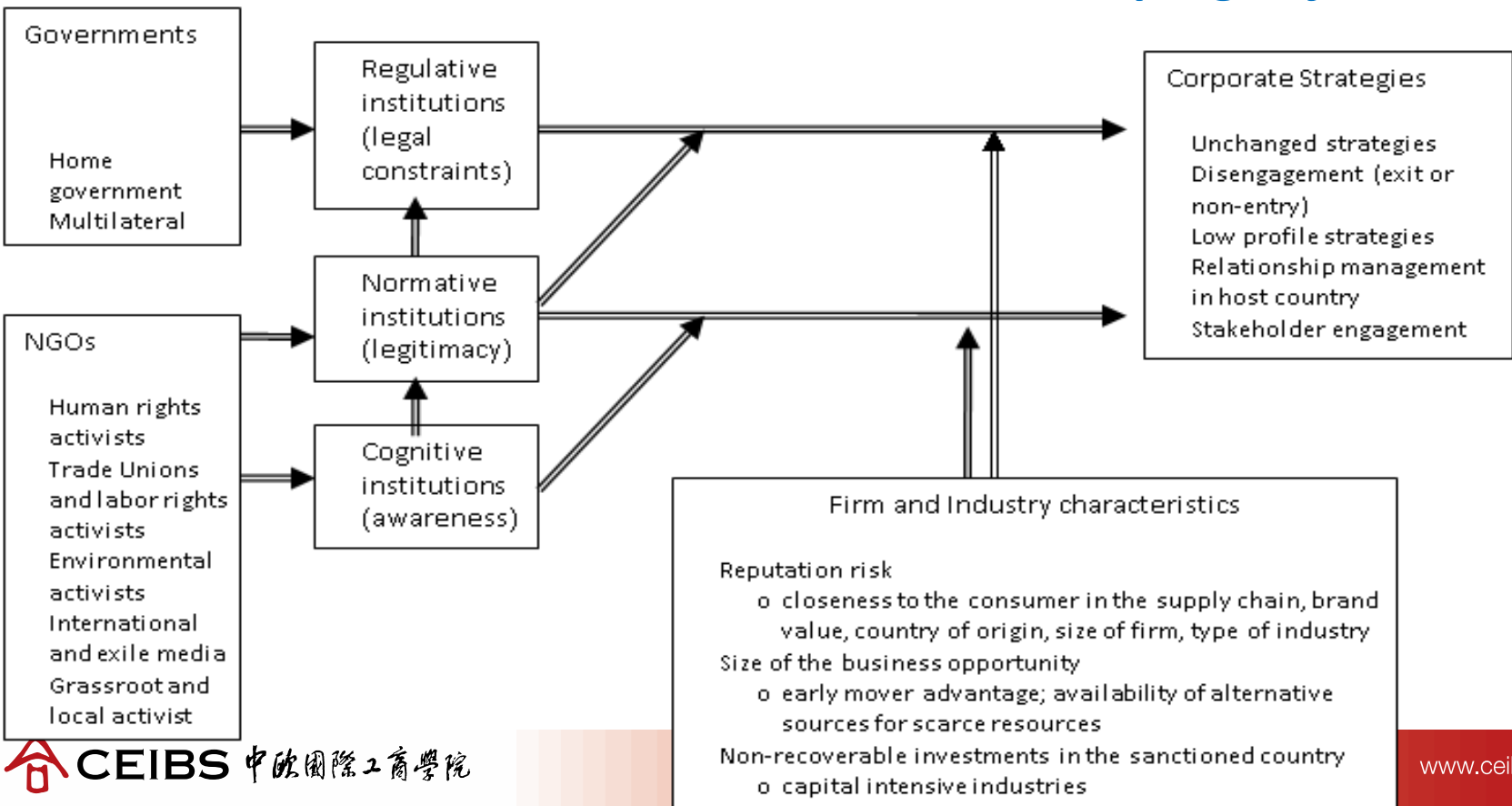
Multiple reverse causalities

- Not falsifiable (does not lead to testable hypotheses)
- Often leads to very descriptive studies with few generalizable insights

How and why do foreign investors adapt their strategies to adverse pressures originating in their home country?

Meyer, Klaus E. & Thein, H.H. (2014): Business under adverse home country institutions: The case of international sanctions against Myanmar, Journal of World Business, 49(1): 156-171.

Qualitative study Developing a framework:



Are **Chinese state** MNEs choosing different foreign entry strategies than Chinese Private firms?

Klaus Meyer, Ding Yuan, Jing Li & Zhang Hua, Journal of International Business Studies, 45(8): 1005-1028.

Argument: SOEs are facing more opposition in some countries, especially rule of law & shareholder oriented ones, and in high tech countries. Hence, in these places, they need to demonstrate their legitimacy by avoiding acquisitions, especially full acquisitions.

Findings: host country characteristics	Acquisition (viz Greenfield)	Level of Equity in Acquisitions
Rule of Law	0	+
Rule of Law * State Ownership	0	--
Shareholder Protection	0	++
Shareholder Protection * State Ownership	-	--
Technology Intensity	+	++
Technology Intensity * State Ownership	--	--

Data: Subsidiaries of Listed Chinese MNEs

Are **state-owned enterprises home-biased**? How does the degree of internationalization of SOEs vary across home countries?

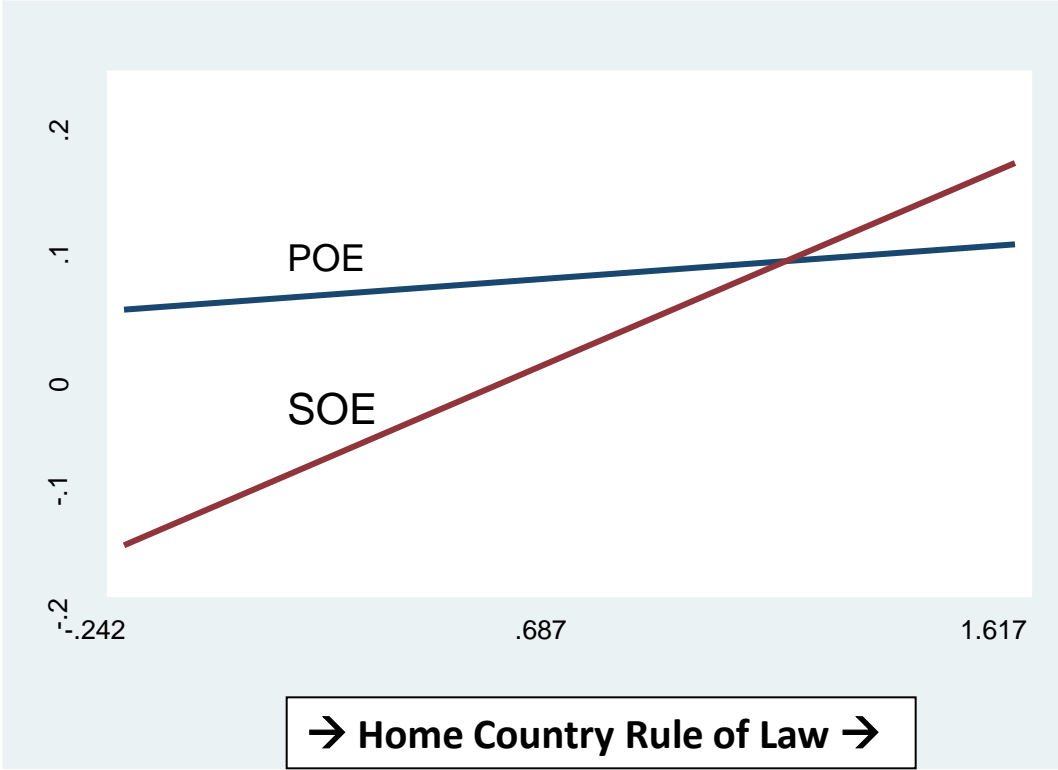
Klaus Meyer, Saul Estrin, Bo Nielsen & Sabina Nielsen, work in progress.

Argument:

Most of the **non-profit objectives** of SOEs, both official (social welfare) or in-official (bribes), can best be pursued in the **home country**.
Abroad SOEs are subject to more monitoring and market forces.

Findings:

In countries with a) **high power distance**, b) **low rule of law**, c) **weak stock market governance**, SOEs are **less internationalized**.
On the other end of the scale, they vary little from POEs



Some Conclusions: Merits

1. The “institutional view” provides an analytical angle to analyze a wide range of questions.
2. The “institutional view” is probably the most popular way to introduce context into management research.
3. The “institutional view” is a powerful tool to give ex post explanations of what happened.

Some Conclusions: But

The “Institutional view” as used in management* has low (forward looking) predictive power because

- a. It lacks tools to identify which institutions matter (i.e. which institutions should go in the regression)

The Institutional view” lacks agreement on **why** institutions influence business actions and strategies.

Is the “institutional view” a theory?