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Development of Institutional Theory and its Application to MNE Context: A Review of Literature

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ABSTRACT

Institutional theory is an important framework for various research fields. It gives a general frame of reference as to what constitutes an institution and what are the factors that affect it. However, the theory requires more than a general frame of reference because in today's world the characteristics of the organizations are changing with the change in factors related as well as unrelated to the processes of organization. In this background, the paper attempts to provide a brief historical overview of institutions, institutionalisation, differences among institutions and institutional environment to unveil the development of institutional theory. It also looks at the application of institutional theory in the context of multinational enterprises. The findings indicate that emphasis of institutional theory has shifted from generalized system of social belief to appropriate means to become legitimate with the pressures.

Keywords: *Institutional theory; Institutional environment; Institutional mechanism; Multinational enterprises.*

1.0 Introduction

Institutional theories provide a glimpse into behavioural patterns of multinational enterprises (MNEs) vis-à-vis the functioning of an organization. In this regard, the institutional structure plays an important role in determining and shaping the forces that these organizations emit in specific institutional environment. The transfiguration of social aspects into organizational aspects is one of the tenets in conceptualizing the institutional theory.

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The institutional theory talks about the deeper and more resilient aspects of social structure and is a widely accepted theoretical posture that emphasizes rational myths, isomorphism, and legitimacy. It accounts the processes by which structures, including schemes, rules, norms, and routines, become established as authoritative guidelines for social behavior into consideration (Scott, 2005). Various elements of institutional theory elaborate how these elements are created, diffused, adopted, and adapted over space and time; and how they fall into decline and disuse. Institutional theory is inherently difficult to explain, because it taps granted assumptions at the core of social action. The primary purpose of this review is to make institutional theory more accessible.

Scott (1995) asserts "Institutions are social structures that have attained a high degree of resilience". Institutions incorporate regulative, cultural-cognitive and normative elements that provide stability and meaning to social life. There are two dominant trends in Institutional Theory: Old institutionalism and New institutionalism.

1.1 Old institutionalism

It is sometimes integrated with Historical Institutionalism. Old institutionalism explains processes, such as value infusion by leaders (Selznick, 1957), the work of people "who constrain people and organizations to conform to institution's exteriority" (Stinchcombe, 1965). In the old institutionalism issues of influence, coalitions, and competing values were central, along with power and informal structures.

1.2 New institutionalism

The work regarding the application of institutional theories in international management has been predominantly dominated by a narrow sub set of institutional ideas primarily coming from new-institutionalism. Powell and DiMaggio (1991) define an emerging perspective in organization theory and sociology, which they term the 'new institutionalism'. It looks for cognitive and cultural explanations of social and organizational phenomena. Scott (1995) points out that organizations must conform to the rules and belief systems prevailing in the environment for survival and success (DiMaggio & Powell, 1983; Meyer & Rowan, 1977) because institutional isomorphism, both structural and procedural, will earn the organization legitimacy (Dacin, 1997; Deephouse, 1996; Suchman, 1995). For instance, MNEs operating in different countries with varying institutional environments will face diverse pressures. Some of those pressures in host and home institutional environments are substantiated to exert fundamental influences on competitive strategy (Kar et al. 2015) and human resource management (HRM) practices (Rosenzweig & Singh, 1991; Zaheer, 1995). Non-

governmental organizations (NGOs) and social organizations can also be susceptible to isomorphic pressures.

Both old and new institutionalism presumes that institutionalisation process increases the chances of survival while reducing efficiency. Institutionalisation also results in organizational inflexibility and hostility to change. It produces isomorphism and organizational compliance to institutionalized rules and practices.

However, institutional environments obtain their defining power from "rationalization" and from accompanying state elaboration. Institutional environments "are characterized by the elaboration of rules and requirements to which individual organizations must conform in order to receive legitimacy and support". This "statist" view conceives of the collective normative order, including the professions and widespread agreements shared by members of organizational fields, as linked to a broad conception of the state (Thomas et al., 1987; DiMaggio & Powell, 1983). Conformity of organizations to the collective normative order increases the flow of societal resources and enhances "long-run survival prospects" (Meyer & Rowan, 1977). Social, economic, and political factors constitute an institutional structure of a particular environment which provides firms with advantages for engaging in specific types of activities there. There is substantial evidence that firms in different types of economies react differently to similar challenges (Knetter, 1989). Organizations perform more efficiently if they get the institutional support.

1.3 Institutional mechanism

Institutional mechanism may be defined as the "regulative, normative and the cognitive structures and activities of a nation that provide the desired stability and meaning or social behavior" (Scott, 1995). Thus enterprises if they are to operate in such mechanism they will have to operate and play according to the rules, regulations and practices offered by such mechanism or consistent with the regulatory, cognitive, and normative institutions (Meyer & Rowan, 1977; Powell & DiMaggio, 1991). The institutions are representation of social order (Jepperson, 1991) and they definitely influence and shape the interactions amongst the economic actors and thus there gets created an institutional distance between them. It is the extent of institutional distance that poses the challenge for MNE to establish legitimacy in the host country and to transfer strategic routines to foreign subsidiaries (Kostova, 1999). According to Kostova & Zaheer (1999) a large institutional distance triggers the conflicting demands for external legitimacy (or local responsiveness) in the host country and internal consistency (or global integration) within the MNE system.

In new institutional terms, the environment is conceptualized as an organizational field. Fields determine the socially acceptable patterns of organizational structures and actions. Therefore, it is important to define organizational fields and specify their boundaries. There is need to examine the validity of institutional pressures created by various factors which make the organization react differently. Meyer & Rowan (1977) indicated that there was variance across countries in their institutional mechanisms.

2.0 Objectives of the study

The primary objectives of undertaking this paper are outlined below:

- (a) To establish a theoretical framework and evince evolution of institutional theory.
- (b) To analyse the application of institutional theory in MNE context.

3.0 Review of Literature

The literature review section of the paper provides a brief historical overview of institution, institutionalisation, differences among institutions and institutional environment to unveil the development institutional theory; and its application to MNE context.

3.1 Institution

Selznick (1948) defined organization as an arrangement of personnel for facilitating accomplishment of some agreed purpose to through allocation of functions and responsibilities. He viewed formal organization is the structural expression of rational action. The author set forth the frame of reference for theory of organization which included: concept of organization as cooperative systems and adaptive social structures; structural functional analysis; and, concept of recalcitrance as a quality of the tools of social action.

North (1990) defined institutions as “the rules of the game in society or, more formally, are the humanly devised constraints that shape human interaction”. He made crucial distinction between institution and organization by referring institutions as rules and organization as players. According to the author, organizations are groups of individuals bound by some common purpose to achieve objectives; and institutions include any form of constraint that human beings devise to shape human interaction.

Scott (1995) asserts “Institutions are social structures that have attained a high degree of resilience. They are composed of cultural-cognitive, normative, and regulative

elements that, together with associated activities and resources, provide stability and meaning to social life. Institutions operate at different levels of jurisdiction, from the world system to localized interpersonal relationships. Institutions by definition connote stability but are subject to change processes, both incremental and discontinuous”

3.2 Institutionalisation

Selznick (1996) viewed institutionalisation as a process of organizational character formation that happens over the course of time. The paper focused on character and competence of the organizations, and found “institutional theory traces the appearance of distinctive forms, processes, strategies, outlooks and competences that emerged from patterns of organizational interaction and adaption”. The author also observed that degree of institutionalisation vary athwart organizations and suggested infusion with value as the most important aspect of institutionalisation. This paper is often cited as a source of old institutionalism in organization theory.

Berger & Luckmann (1967) analysed the occurrence of institutionalisation processes among individual actors using historical approach. They referred institutionalisation as a core process in the creation and perpetuation of enduring social groups; and institution as an outcome of institutionalisation, or “a reciprocal typification of habitualized action by types of actors”. The authors also identified three approaches to institutionalisation: externalization, objectivation and internalization which depict the characterization of social world.

Meyer & Rowan (1977) analysed the formal structure and found that formal structure have symbolic as well as action-generating properties. The authors believed that organizations conform to various institutionalized norms and beliefs because they are rewarded through legitimacy, resources and survival capabilities, and apparently results in success and survival of organizations. It was also found that the complexity of the organization increases with the rise of the state and other institutions for collective actions; and organizations whose control efforts are devoted to ritual conformity, decouple structure from activity and structures from each other.

Zucker (1977) empirically examined role of institutionalisation in cultural persistence by undertaking ethno-methodological approach. He defined institutionalisation as both a process (by which an individual actor transmit what is socially defined as real) and property variable (taken-for granted part of social reality). The author conducted three experiments with three levels of institutionalisation and found persistence of cultural understanding vary directly with the levels of institutionalisation. Depending on personal influence, organizational context or office, the degree of institutionalisation directly affected three major aspects of persistence:

general uniformity, maintenance and resistance to change. The study provided strong support for the predicted relationship between degree of institutionalisation and cultural persistence.

Tolbert & Zucker (1983) empirically investigated diffusion and institutionalisation of change using data on adoption of civil service reform over the period 1880-1935. They referred institutionalisation as the process through which elements of formal structure become widely accepted and serve to legitimate organizations. The authors used proportional hazards regression model to analyze the effect of variables (socio-economic composition, scope, age of city, city size) on cities' adoption of civil service measures. When the number of organizations adopting a policy increases, the policy becomes widely institutionalized. It was evident that civil service procedures were adopted much more rapidly by cities when the state mandated them whereas when no state-level legitimation occurred, the procedures were adopted gradually, diffusing largely through social influence among cities. In other words, when a policy or program is widely adopted by the institutions (initially because of legal mandate), over a period of time, it becomes a mandatory element of the organizational structure (gradual or social legitimation). The authors found strong support for adoption of a policy or program by an organization is determined by degree of institutionalisation.

Zucker (1987) recognized “environment as institution” and “organization as institution” as two theoretical approaches to institutionalisation in organizations. He grouped indicators of institutionalisation under institutional environment (independent variables), degree of institutionalisation (independent variables) and consequences of institutional process (dependent variables). The author also reviewed empirical research done along three dimensions describing the source of institutionalisation: institutional environment, other organizations as source and internal organizational structure. It was found that the organizations were a passive audience for institutional knowledge since the rules are formed by the actors predominant to the organizations, also most of the studies used degree of control by the state as the measure of the degree of institutionalisation.

3.3 Institutional environment

Scott (1995) studied organizations and institutions in global context and introduced the idea of three institutional pillars: regulatory, normative and cultural cognitive. The study indicated that, in order to survive, organizations must conform to the rules and belief systems prevailing in the environment (DiMaggio & Powell, 1983; Meyer & Rowan, 1977).

Dhanaraj & Beamish (2009) examined the effect of institutional environment on the mortality of overseas subsidiaries. They developed hypotheses to study the impact of two dimensions of the institutional environment, political openness and social openness, and how joint venture status moderates these relationships. They observed the status of Japanese overseas subsidiaries in 25 countries from 1986 to 1997 and used Cox Regression Model, Descriptive Statistics, Correlation and Chi-Square for the analysis. The study suggested strong influence of sociopolitical context (institutional environment) on the mortality (survival) of overseas subsidiaries.

Ang, Benischke & Doh (2014) examined the institutional effects of institutional differences in the cognitive, normative, and regulatory domains. The authors pointed out that institutional theory has recognized the difference in institutional environments worldwide but failed to address the complexities faced by the organizations while operating simultaneously in various institutional environments. They conceptualized the three institutional pillars and examined MNCs from six emerging economies, namely China, India, Indonesia, Malaysia, the Philippines, and Thailand. They studied the interactive effect between the cognitive insight of host country institutional environment and the differences in the regulatory and normative domains between home and host countries on MNC choices of foreign market entry ownership structure for the period 1995-2008. They collected data on cross-border acquisitions and alliances from a database developed by Thomson Financial, SDC Platinum and firm level data were collected from Compustat Global Database. The authors have used adoption of governance mode as dependent variable and categorized it into cross-border acquisition and cross-border alliance. They employed mimicking foreign firms and mimicking local firms as explanatory variables, and regulatory distance and normative distance as moderating variables. The control variables at country level are cultural distance and geographic distance to control country differences. The control variable at industry level is effect of cash reserves; and cash and short-term investment of the firm at the time t-1 is proxy. At firm level, firm size, liquidity, prior performance and firm is publicly listed, have been used as control variable. The author tested the variables using descriptive statistics, correlations, regressions and z-test. They found that when emerging economies MNCs (EE MNCs) make market entry choices they mimic local firms. As far as relationship between institutional forces is concerned, the cognitive pillar has main effect while regulatory and normative act as moderators. The authors concluded that neo-institutional theory contributes significantly in examining the behavior of EE MNCs which is evident from the findings, the adoption of cross-border acquisitions and alliances by EE MNCs is positive influenced by the behavior of other organizations. The study also proposed that the mimetic adoption of governance mode is result of interplay

between different institutional pressures and not an absolute phenomenon affected by a single institutional pressure.

3.4 Institutional theory

Scott (1987) critically analysed the theoretical framework and arguments provided by the leading institutional theorists. The author held that variation in the concept of institutional theory employed by the contributors leaves scope for further improvement and development of the theory. The study found Selznick's institutional work (institutionalisation as a process of instilling value) to be definitional rather than explanatory. The author analysed the next version of institutional theory propounded by Peter Berger (1967) based on philosophical underpinning which clarify "institutionalisation occurs whenever there is a reciprocal typification of habitualized actions by types of actors" (Berger & Luckmann, 1967). Like Selznick, Berger and Luckmann (1967) study found to be employing historical approach and explained three phases of institutionalisation: externalization, objectivation and internalization. These phases corresponded to depiction of the social world. Zucker, Meyer and Rowan further developed the general conception of the above mentioned theorists by applying it to organizational context. The work of leading contributors of institutional theory has shifted from social process, institutional environment, one of multiple institutional environments (DiMaggio and Powell, 1983) to symbolic aspects of environments and their sources. The study identified differences to facilitate clarification and systemize development.

Kondra & Hinings (1998) rather than focusing on institutions studied the diversity of organizations in an organizational field, organizations response to diversity and transformation of organizational fields. The paper first discussed the effects that institutional theory has on organizational performance. Institutional theory postulates that organizations must conform to the rules and norms of external environment to receive support and become legitimate. The theory deals with isomorphism within an organizational field but ignores organizational diversity and performance. Consequently, organizational norms get significantly affected by the values and beliefs external to organization. The authors argued that within an organizational field, organizations are isomorphic and they conform to the rules and requirements just to increase the legitimacy and survival capabilities and not the efficiency. According to the authors, institutional fit refers to degree of compliance with the institutional norms. The organizations with high institutional fit will have a limited performance range and cannot perform outside institutional norms whereas with low fit, performance may vary as multiple paths may be available to same outcome. The study proposed four categories of

relationship between an organizational fit and performance: dogs (low institutional fit and performance below the institutional range), equifinalists (low institutional fit and performance within institutional range), renegades (low fit and performance above institutional range) and institutional operators (high institutional fit and performance within range). The authors concluded that efficient behaviour of the organization is when need for stability and certainty drives institutionalisation.

Kostova, Roth & Dacin (2008) in their descriptive study observed that MNCs form their own intra-organizational field, which serves as an "institutional environment" for their subunits. The authors observed that MNCs use diverse structures and practices, different from those established in the environment in which they operate. They raised some important questions with regard to importance of institutional theory in international management research and its validity in MNCs context.

Suddaby (2010) critically summated the use of Neo-institutionalisation to study organizations. He asserts that institutional theory has displaced from its core purpose because the researchers focus on external perspective (how organizations adopt practices) instead of external perspective (activities and behaviors inside organizations). Researchers should view organizations as interpretive mechanisms, understand the processes that occur inside organizations and then conduct research at organizational level. The author also identified four developing area of research: categories, language, work and aesthetics. According to author, these areas have potential to bring institutional theory back to its core assumptions and objectives.

4.0 Application of Institutional Theory

DiMaggio & Powell (1983) investigated the cause of homogeneity (not variation) among the organizations and identified three processes through which isomorphic change occur: coercive process, mimetic process and normative process. Coercive isomorphism results from both formal and informal pressures exerted by other organizations upon which organization are dependent (eg. government and parent organization). Mimetic isomorphism is explained as a response to uncertainty where the organization imitates similar successful organizations in their field. According to the authors, normative isomorphism originates from professionalization which creates a pool of similar individuals (in terms of status, orientation, behaviour and knowledge) that shape organizational behaviour.

Tolbert & Zucker (1996) investigated the organizational analyses based on institutional perspective. The authors intended to find out the link between institutional theory and traditions of sociological work by examining the variation in approach used

by the researchers. The study revealed that little attention was given to conceptualization and specifying the process of institutionalisation and the process-based approach to institutionalisation had not been followed in most organizational analyses. It addresses the question about determinants of variations in level of institutionalisation by specifying three levels or stages of institutionalisation, pre-institutionalisation, semi-institutionalisation and full-institutionalisation stage; and factors causing variations, namely, legislation, market forces, technological change, interest group resistance, etc. It also addresses the question that how such variation might affect the degree of similarity among sets of organizations, which have been neglected so far by researchers. The authors offered theoretical specification of institutionalisation process. They tried to build a bridge between two distinct models of social actor that underlie the most organizational analysis, that are, rational actor model, which assumes that behavior of an individual reflects utility maximization calculations; and institutional model which is based on the premise that individuals accept and follow social norms that are in their personal interest. According to the authors, these two models are not oppositional but rather they represent two ends of progression of decision-making process and behaviors. The study supports our purpose that institutional theory offers a framework that can be useful in addressing the questions related to an organizational structure and actions. However, the authors suggest further development of the theory to clarify the conditions and processes that lead structures to become institutionalized.

Kostova & Roth (2002) provided empirical evidence for the factors that influence subsidiaries of MNEs in adopting organizational practices. Organizational practices vary across countries because of nation specific institutional environment. In order to highlight the complexity faced by the organizations, the authors applied institutional theory to MNCs which as a consequence provided scope for further development of the theory. Institutional duality is defined as a situation where the foreign subsidiary is confronted with two sets of isomorphic pressures, one from the host country and another from the MNC (parent company). The authors studied a specific situation of MNCs, where parent company transfers and impose organizational practice on its subsidiaries across the world under conditions of “institutional duality”. The practice adoption by subsidiary was conceptualized with two dimensions by the authors, namely, implementation and internalization. In authors’ opinion, the host country institutional profile may affect the practice adoption of foreign subsidiary either directly or through employees of subsidiary. The study examined the transfer of practice adoption of US based MNC to its subsidiaries in 10 countries, Argentina, Australia, Canada, France, Malaysia, Netherland, Portugal, Spain, United Kingdom and United States. Interview and survey method were adopted to collect the data from 104 locations

within 10 countries. The interviews consisted of open-ended questions regarding the experiences of senior managers with transferring organizational practices from parent company. They aggregated the responses of senior subsidiary managers for the implementation measures and non-managerial responses for internalization. Then the authors developed institutional profile measures for the three dimensions, regulatory, cognitive and normative and conducted series of ANOVA which showed significant differences among the groups. They also examined an index of within-group interrater agreement which indicated acceptable levels of agreement for the variables (regulatory, cognitive, normative, dependence, trust and identity). To test the hypotheses, they performed regression analysis which provided evidence that the institutional environment in the host country and the relational context within the MNC are the reasons behind variation in practice adoption (both dimensions, implementation and internalization) across the subsidiaries. The study concluded that favorable cognitive institutional profile of a host country positively affects the implementation of practice adoption and unexpectedly, no effect of regulatory and normative institutional profiles were found. As predicted by the researchers, the effects of identification and trust on implementation were strong. However, the effect of dependence was negative. It was also evident that regulatory profile of host country negatively affects the level of internalization whereas it is positively affected by the cognitive and normative profile. Furthermore, the results showed that variation of internalization was positively affected by the cognitive institutional profile and negatively affected by the normative profile. The result also shows that only few foreign subsidiaries had high levels of implementation and internalization. The reasons suggested for low level of active practice adoption were: forced adoption, disbelief about a particular practice and inefficient practice. This research paper indicates much scope for further research in directly measuring the level of conflict between various institutional pressures that subsidiaries face. It would also be interesting to find out other sources of institutional pressures worldwide.

Björkman, Fey & Park (2007) explored human resource management (HRM) practices in multinational subsidiaries within an institutional theory framework. The research was based on 158 subsidiaries of MNCs operating in the United States, Russia and Finland. The authors obtained list of subsidiaries from the respective embassies in the United States and used administered questionnaire to collect data from general managers or HRM managers of subsidiaries. They used correlation and GLM regression for the analysis. Training, performance appraisal, promotion, performance-based compensation and communication were taken as dependent variable. Various independent variables and control variables were also used. The results indicated

significant differences in HRM practices across host countries and important role of human resource department for kind of practice introduced in the subsidiary. The study also supported the hypotheses that larger the number of expatriates in MNC subsidiary the greater the use of HRM practices.

Kostova, Roth & Dacin (2008) critically analysed the application of institutional theory in context of multinational corporations. The authors raised some important questions with regard to the importance of institutional theory in international management research and its validity in MNCs context. They also introduced the ideas as to how to address these limitations. According to the authors, the primary applications of institutional theory in the MNC Context aimed at conceptualization of national environment in terms of three pillars, that are: regulatory, normative and cognitive; explanation of comparative national business system; similarities among organizational practices because of isomorphic pressures; problems faced by MNCs in adoption of organizations' practices across borders; and explanation of relationship between MNCs and their host environments. They observed that while conducting above mentioned studies the researchers adopted a narrow view of institutional theory (based on neo-institutionalism). The neo-institutionalism model basically holds that the degree of compliance with the external institutional pressure (viz. host country's environmental pressure and pressure from the parent organization) determines the survival of the organizations. The MNCs are different from domestic organizations mainly because of the combined consequences of multidimensionality and heterogeneity, and complex internal environments. Considering the complex structure, characteristics and conflicting institutional environments of MNCs, authors said that it is not appropriate to apply neo-institutionalism on these organizations. They also contended that the isomorphism among MNCs is limited and does not really matter. MNCs are exposed to varied structures and practices so they have liberty to choose practices that fit them best and these choices results in isomorphism among MNCs rather than the external isomorphic pressure. One of the arguments of their study was based on decoupling and ceremonial adoption. They believed that MNCs will participate in ceremonial adoption and decoupling to a lesser extent than suggested by neo-institutionalists because actions, policies, etc. of MNCs are globally transparent and it would be risky for the firms to portray itself as complying with the rules while actually adopting different ways to conduct the businesses. Another point of discussion in their study was legitimacy. They suggested that legitimacy cannot be achieved through isomorphism because it is impossible for the firm to conform with the innumerable regulatory, normative and cognitive institutional expectations. MNCs by interacting and communicating with the important legitimating actors can become legitimate, which makes the legitimacy a

social construct rather than a function of isomorphism. Also the MNCs may engross in activities that are socially desirable but not mandatory, to enhance their goodwill in local environments which will eventually result in increased diversity rather than isomorphism. The arguments made by the authors have limited external validity of institutional theory to MNCs and advocates a blend of old and new institutionalism be used for the said context. They proposed that scholars must incorporate broader institutional literature, using multidisciplinary approach, to develop institutional theory which can be applied to the MNCs.

Philips & Tracey (2009) critically analysed the study done by Kostova, Roth and Dacin (2008) and concluded that the institutional management scholars have ignored the new developments in institutional theory which may provide insight to understand the institutional dimensions of multinational corporations. As per the authors, the provocation given by Kostova et al. that organizational field concepts do not apply to MNCs are implausible because although the MNCs belong to different geographical region, the concept of organizational field provides framework to understand the various institutional pressures faced by the MNCs. Philips and Tracey also suggested that institutional entrepreneurship should become the central research topic because some MNCs choose to act as institutional entrepreneurship despite the differences between host and home institutional contexts by developing strategies to overcome institutional distances. The study suggests that researchers should work towards finding out appropriate institutional approach for the International Management by taking broader view of recent developments in institutional theory.

Philips, Tracey & Karra (2009) demonstrated that institutional distance strengthens the link between institutional theory and institutional management by highlighting the opportunities available. They argued that there are three ways to conceptualize institutional distance. First, institutional distance is increased by the low level of institutionalisation and vice a versa. They believed that institutional uncertainty (degree of institutionalisation) should be included in the scope of institutional distance. The uncertainty increases the risk and complexity for international business which in turn increases the institutional distance between host and home country. This argument expands the understanding of institutional distance by categorizing the various forms of institutional environment faced by MNCs. Second, multi-level analysis is allowed by the organizational fields. The authors point out that to measure the institutional distance, the researchers generally take narrow view of institutional context and compare the institutional profile of one country with another which may not exactly represent the institutional context faced by the MNCs. Later in the study authors defined institutional distance as “A measure of the differences in the cognitive, regulative and normative

institutions that characterize the relevant organizational fields in the home and host environments and the degree of institutional uncertainty in host country”. The authors suggest that in today’s era of globalization, the researchers should consider exploring institutional theory in context of international institutional dynamics. Finally, they introduced concept of institutional entrepreneurship to discussions of institutional distance. According to the authors, MNCs not only respond to the institutional context but also act as institutional entrepreneurs which leads to new direction in international management.

Kar, Bhasin & Stojanovska (2015) empirically analysed the influence of institutional mechanism on competitiveness in 22 emerging countries and 14 European countries over the period 2006-2014. They collected data from four sources: Global Competitiveness Report (World Economic Forum); World Bank Governance Indicators (World Bank); World Development Indicators (World Bank); and Index of Economic Freedom (Heritage Foundation). The authors constructed framework of institutional competitiveness index based on Scott’s three institutional pillars: regulatory, normative and cultural-cognitive. Instead of taking individual variables belonging to one of the pillars, they included number of variables that collectively represent each of the pillars. They classified the regulatory pillars into rule of law and regulatory efficiency; and used these along with normative pillars for further analysis. The authors after conducting the Kaiser-Meyer-Olkin (KMO) statistic and Bartlett’s test of sphericity (to validate use of PCA), employed the Principal Component Analysis (PCA). After PCA, they applied Varimax method with the Kaiser normalization to make the interpretation of PCA more meaningful and using component scores of the rotated component matrix as weights constructed composite index for each pillars. Then they used fixed effects panel data regression separately for each country. The study found a positive and separate influence between the institutional mechanism and competitiveness as both are very much interrelated and they depict the general level of efficiency of a particular country. While the institutional mechanism in emerging nations is evolving and developing, results for the European nations presented positive and significant relationship between rule of law and national competitiveness, and normative pillar and national competitiveness. However, no evidence for relationship between regulatory efficiency and competitiveness was found in the study.

5.0 Conclusion

Institutional theory gives a general frame of reference as to what constitute an institution and what are the factors that affect it. Here, the word institution has been used

in diverse ways. It refers not only to the business organizations but also to the trade unions, political parties, governments and other similar formal structures. In today's world, the theory requires more than a general frame of reference because the characteristics of the organizations are changing with the change in factors related as well as unrelated to the processes of organization. It is observed that emphasis of institutional theory has shifted from generalized system of social belief (Selznick, Zucker & Berger) to the elements and sources that identify social purposes (Meyer and Rowan 1977) and appropriate means to become legitimate with the pressures (Dacin, 1997; Kondra & Hinings, 1998). Institutional theory will remain an important framework for various topics in international management. Numerous studies over the past decade have been carried out in different part of the world to examine the influence of institutional mechanism on MNEs (Philips et al., 2009; Kostova et al., 2008). However, it is apparent from the literature review that diversity has been poorly studied so far in international context. So, there is need to expand the scope of institutional theory. The use of institutional theory is not confined to the organizational level. The theory is broad enough to assist researchers in characterizing and explaining the changes at national, transnational and global levels (Kostova & Roth, 2002; Philips et al., 2009; Kar et al., 2015).

The following areas for future research have emerged from review of literature:

- (a) Several studies have analysed the impact of regulatory component (like rules, regulations, existing laws) of institutional mechanism on the organizations. Other than regulatory, there are several other factors as well that significantly affect the organizations which have not been studied so far.
- (b) Research is required to directly measure the level of conflict between various institutional pressures that subsidiaries of MNEs face.
- (c) There is need to explore the other sources of institutional pressures worldwide.

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