The Emergence of Institution-based Strategy of International Business and the Implications for U.S. Multinational Enterprises*

Wonchan Ra*

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** Hankuk University of Foreign Studies

I. Introduction

In many cases, international markets offer new and different business opportunities to firms at home. Unlike purely domestic firms, multinational enterprises (MNEs) engaging in foreign direct investment (FDI) can utilize and even enhance their competitive advantages that come from their presence in various international locations. In recent years, particularly as the world economy rapidly globalizes, the competition among companies from many countries is becoming fiercer. Accordingly MNEs are increasingly required to implement more complex and sophisticated strategies for success in the international markets.

International business strategy is about how firms gain and utilize sustainable competitive advantages in order to obtain superior performance in the world market (Zou and Cavusgil 1996). The past research on it was mainly conducted through two theoretical lenses: one was from the industrial organization perspective that sees firms' success broadly lie in the industry condition where they operate (e.g., Porter 1980); and the other, the resource-based view of the firm asserting that it is the firm's own internal resources and capabilities that determine its performance in the international markets (e.g., Barney 1986). Both perspectives complement each other: the former focuses on the external industry environment, while the latter puts more emphasis on the internal factors of the firm.

These perspectives deal with firms operating in a more stable institutional environment including political, legal, socio-cultural conditions, which are usually provided in developed countries (Peng 2002). Recently, however, an increasing number of firms have expanded their markets to include transition economies such as former communist countries in Central and Eastern Europe (CEE) and Asia. The institutional context involving their local operation has emerged as a more critical determinant of their survival and performance in international markets. Institutional factors in a country guide how firms compete; subsequently, this directly affects the direction of their activities, the shape of the industry conditions, and the firms' ability to build resources. Hence the institution-based view of international business strategy has emerged. Therefore, the industrial approach, the resource-based view, and the institution-based view complement each other. Indeed, it is now more evident that researchers in the international area should consider institutional factors more seriously and explicitly and take a more comprehensive and integrated stance that synthesizes the three views.

Institutions are heterogeneous across countries (Meyer 2001; Peng, 2006). Anglo-Saxon countries such as the U.S. have institutions different from the rest of the world. U.S. firms have been relatively slow in understanding other countries because of its market size and economic dominance in the world economy. As the U.S. has expanded its operations into institutionally different countries with emerging economies, it has become a necessity for them to effectively respond to the local institutional context.

A critical review of the evolution of the major perspectives on international strategy research invites the following argument: the institution-based strategy is advantageous and its integration with other perspectives has significant implications for the U.S. and MNEs advancing into emerging economies. The remainder of the paper is organized as follows. Following this section, Section II examines how the major approaches in international strategy research have evolved historically, and Section III explores and synthesizes three current approaches to international strategy including the industrial approach, the resource-based view and institution-based view. Section IV analyzes the institutional differences between the U.S. and emerging economies and presents implications for U.S. MNEs' entering emerging economies. Section V concludes with a summary, limitations and suggestions for further research.

Ⅱ. The Evolution of the Approaches in International Strategy Research

International business is business transactions conducted across national borders. Its typical forms include exporting, importing, licensing, strategic alliances and foreign direct investment, etc. (Wild, Wild and Han 2006). A multinational enterprise (MNE) is referred to as an enterprise which owns one or more foreign subsidiaries in two or more countries established through foreign direct investment (FDI). The importance of FDI and MNEs in the world economy can be shown by the facts that FDI is growing faster than the world production and that almost half of world trade is conducted by intra-firm trade within MNEs (UNCTAD 2007). In making FDI, the MNE should transfer its competitive advantage embodied in a package or bundle of management resources, such as technology, information, funds, human resources, machinery and parts, etc. from home to the host country. When the MNE is developing its competitive advantage, its process is affected directly and indirectly by the economic and social institutions of the context of the home country in which it resides because firms are embedded or rooted in their environment (Granovetter 1985). Accordingly the MNE should encounter obstacles in operating in institutionally different countries.

Before World War II, most economists regarded FDI as a means of international capital movement between countries (Hymer 1960; Dunning

1993), averring that the motive for FDI was merely to exploit interest differentials across countries. Therefore, study of FDI or MNE was mainly conducted at the country or macro level from the perspective of international economics or macroeconomics. In the early 1960s, Hymer (1960) proposed that a disadvantage of operating a national firm in a foreign country is that it incurs the cost and/or liabilities of foreignness; therefore, in order to successfully compete with local firms, a foreign firm should have monopolistic or competitive advantages vis-à-vis local ones (Hymer, 1960; Zaheer, 1995).. His work shifted the unit of analysis of FDI and MNE activities from the country to the industry and firm, which is more applicable to strategy formulation for MNEs. Developing Hymer's work, Kindleberger (1969) and Caves (1971) et al., contributed to exploring the nature of firms' competitive advantages such as product differentiation, scale economy, market imperfection and government intervention.

However, it was Buckley and Casson (1976), internalization theorists after the mid 1970s that showed that the possession of such competitive advantages itself can hardly explain FDI sufficiently because they can be sold to separate parties in international markets. Based on the transaction cost concept and by moving the focus into within the firm, they explained why competitive advantages are often internalized within hierarchies, i.e., inside the same firm through FDI, not traded by arm's length trade in the market, such as licensing. Subsequent to their study, Dunning (1977) proposed the eclectic paradigm maintaining that in order to engage in FDI, a domestic firm should have three advantages: (a) the sustainable ownership or competitive advantages over firms of other nationalities in particular markets, (b) the market internalization advantages, (c) the location advantages of the foreign market where the firm can use ownership advantages more favorably. Notably, each advantage is built on country-, industry- and firm-specific factors, i.e., embedded in the internal and external environments (Granovetter 1985). The nature and level of the firm's competitive advantages are affected by (a) its home country's factor endowments, government policies, market size and characteristics, etc. at the country level, (b) the product or process technological intensity, the nature of innovations, product differentiation, the importance of inputs, etc. at the industry level, and (c) the firm's size, asset base, entrepreneurship, etc. at the firm level. Thus it was emphasized that competitive advantages of the firms are based on the home country's contextual factors.

From the viewpoint of international strategy process, these theories are primarily more concerned with analyzing initial FDI, rather than looking at overall MNE activities in local markets; thus, they are more suitable in explaining why firms go abroad, mainly addressing the issue of becoming an MNE initially, but not saying much about how MNEs compete with others and why some MNEs succeed to survive and grow. By the 1980s, scholars began to pay more attention to the inside of the MNE system and managing established MNEs. With rapid increase in FDI, and globalization of the world economy, it became more essential for established MNEs to efficiently disperse and integrate their activities on a worldwide basis. More importantly, after making initial investment, MNEs have to operate their worldwide network of subsidiaries, which are not available for domestic firms.

In this regard, the 1980s saw the emergence of the industrial approach and the resource-based view of the firm. Both approaches were applied to international strategy study. The former, best known by the work of Porter (1980; 1986) provides the analysis of the industrial structure and firms' competitive positions in it; on the other hand, the resource-based view of the firm, which was first proposed by Wernerfelt (1984), puts more emphasis on the value of firms' operating assets at the managerial level and criticizes the industrial approach for its excessive focus on external environment.

More recently, a new, but not completely so, perspective of international business strategy, i.e., the institution-based view has risen (Peng 2002; 2006). This perspective asserts that the industrial and resource-based approaches generally neglect the institutions: these approaches neglect the context justifying certain strategies in a specific circumstance. Institutions have political, economic, social and legal aspects and each country has peculiar institutions based on its history and routines or development paths. While the other two approaches focus on industry or firms' resources, the institution-based view emphasizes that international strategy should follow home and local institutions.

Since the institution-based view provided the underpinning context that industry factors and firm resources are created and employed, it is natural that this approach is complementary to the industrial approach and resource-based view and that the three approaches need to be integrated to capture a more comprehensive understanding and analysis of MNEs' international business strategy. Particularly as the world economy today is rapidly globalizing and many countries especially in CEE are undergoing institutional transition, the institution-based view of strategy is increasingly gaining more legitimacy and popularity in research of international strategy (Meyer 2001).

Ⅲ. Three Approaches in International Business Strategy Research

1. The Industrial Approach

The industrial approach, which was derived from industrial organization theory, takes industry as its analysis unit and posits that the economic rents or profits of the firm come from its competitive position in the industry where it operates (Porter 1980; 1985; Peng 2006). In this approach, thus, the rents are determined by the external industry condition.

In this approach the firm is viewed as a collection of activities creating values. The connections among activities are deemed very important because they affect each other. The firm needs to place each activity at the most efficient scale in the world where the whole business can be conducted most efficiently. Value activities are country-specific because of the variance of country environments, i.e., they are placed according to different comparative advantages, e.g., factor endowment and costs. In the industrial approach, an international strategy is defined as one in which depending on industry structure the firm attempts to gain competitive advantage through both configuration, i.e., locating each value activity in the world, and coordination, i.e., linking value activities in different locations and of international strategies, a global strategy is referred to as a strategy with concentrated configuration, close coordination among dispersed activities, or both (Porter 1986). Thus, there are a variety of international strategies, depending on the firm's choices about configuration and coordination of value, according to how it pursues the interdependency between competitive positions in different countries (Collis 1991).

In this regard, we need to distinguish between global and multi-domestic industries in terms of international competition (Hout et al. 1982; Porter 1986). The former industries are those in which competition in each country or a group of countries in the world is independent of competition in others. In such industries competition in the world market occurs on a domestic market basis, rendering an international strategy the same as domestic strategy once management resources are transferred to host countries. On the other hand, in global industries, the firm's competitive position in one country is significantly affected by its position in other countries. It needs to consider its activities more connected to each other from the worldwide perspective; accordingly, an international strategy should be a global one. The globalization of an industry can be viewed as its transition from a multi-domestic to a global industry (Yip 2002).

The industrial approach is very useful for international strategy formulation in that it is based on the firm's disaggregated activities, not the whole business, considering that each country has different comparative advantage suitable for certain firms' activities and also that there can be more than one type of international strategy according to the combination of configuration and coordination. However, many have proposed its limitations from various perspectives.

First, this approach is based primarily on external analysis of competition in the product market and emphasizes market outcomes between ex-ante symmetrical firms, more precisely without taking into account the firms' heterogeneity. Therefore, internal organizational issues are viewed as subordinate to strategic choice and environment as an exogenous reality (Collis 1991). Related to this point, while it emphasizes the importance of rationalizing the flows of components and final products within the whole MNE, it de-emphasizes the importance of internal flows of people, technology, and information (Ghoshal 1987). Second, with its emphasis on product−market positioning, this approach recognizes competitive advantages only as product−based at a given point in time and thus provides little insight into the process of knowledge acquisition and skill−building (Hamel 1991), exposing its static, not dynamic, characteristics. Third, a global strategy should be implemented in global industries according to this approach, but in reality, the firm's strategy itself may influence industrial structure, e.g., individual firms often create scale and synergy effects in industries which are not global (Ghoshal 1987). In sum, the main limitations of the industrial approach are that it does not consider the different nature and building process of competence across firms, which significantly affect firms' competitive advantages and market performance.

2. The Resource-Based View of the Firm

The resource−based view of the firm is one of the approaches attempting to explain the performance difference of firms. It deals with the question of why firms are different in the market. The application of this view to international strategy is built mainly on the critique above of the industry approach. In this approach, the firm's resources and capability are regarded as an independent source of competitive advantage not as in the industry approach under which the firm's strategy is seen determined by external industrial conditions (Wernerfelt 1984). The firm is viewed not through its activities in the product market, but through a unique bundle of tangible and intangible resources (Collis 1991; Peng 2001; 2006).

The firm's resources refers to anything that can be a strength or weakness of a firm and includes tangible and intangible assets like brand names, machinery, capital, in−house knowledge of technology, employment of skilled labor, capabilities, organizational process, firm attributes, information, etc. (Wernerfelt 1984; Barney 1991). So, the resources that the firm owns determine its resource position and create its competitive advantages which, in turn, enable it to enjoy above-normal profits. Firms are idiosyncratic because 'history matters': they pursue a different resource policy on acquiring inputs and developing and accumulating unique assets over time, and the assets tend to be embodied in their organizational capabilities. Firms have a unique bundle of resources that are heterogeneous and tacit in nature, and hence difficult to be mobile.

The resource-based view stresses the inherent immobility of valuable factors of production, and the time and cost to accumulate these resources. Firms are distinctive, and strategy depends on the current level of available resources, i.e., the firm's asset investments are seen as fundamental determinants of strategic position. This view suggests much about international strategies. As Tallman (1991) explains, from the perspective of the resource-based view, an international strategy is based on the competitive advantages derived from which depend on the firm's resources. Industry structure is no longer treated as an exogenous condition, but as the outcome of firm-level competition. In this view, therefore, an international strategy is understood as one in which the firm attempts to create, sustain, and exploit unique resources to gain a competitive advantage in the international markets.

In regard to initial FDI, firms from different countries can have different kinds of competitive advantages because firms are significantly affected by their economical, political and socio-cultural environments in developing unique resources. In particular, this view is very helpful in understanding diversifying FDI (Hill, et al. 1992). A domestic firm can enjoy economic rents through diversification when it has developed excess capacity in a unique and valuable productive resource and managerial services. This can be applied in the international context because there can be more opportunities in international markets (Peng 2006).

For established MNEs, managing many foreign subsidiaries can give them a superior advantage over national firms or other MNEs with a small number of subsidiaries because organizational capability, as an important source of resources, produces super-normal profits (Barney 1991). This advantage comes from utilizing the variance in countries. The whole MNE system can build organizational learning through the worldwide network of parent and subsidiaries which operate in multiple heterogeneous environments. Further, subsidiaries can acquire a unique resource in host countries, and once this happens, they have new growth opportunities, e.g., in product development, depending on their parent policy. Therefore, the resource-based view of the firm is very insightful in examining internal aspects of international competition. However, similar to how the industrial approach has the limitation of neglecting the internal aspects, the resource-based view has the inherent limitation of disregarding external conditions. Since strategy is about directing the firm with competitive advantages in an environment, the resource-based view is mainly concerned with what kinds of advantages are needed for successful competition. However, the fact that a firm has the potential to compete is one thing and how profitably it uses the potential to yield a favorable outcome in the external market is another, which can be answered by taking the industry conditions into account.

3. Institution-based view of international business strategy

Recently a perspective emphasizing the institutional context of firms has been developed by many authors. According to sociologists, an institution is defined as "a grouping of people with some common behavior pattern, its member having an awareness of the groupings" (Gordon 1980, 16). In each grouping, people have their own norms upon which they behave and are expected to behave and thus institutions govern the behavior of people and "provide stability and meaning to social behavior" (Scott 1995, 33). Institutions also govern the behavior of firms and institutions differ across countries because of their different historical, political, social, economic backgrounds. Therefore, in order to survive and grow, a MNE entering a foreign country with an institution that is different from its home country should conform to local institutions and overcome the institutional difference (Meyer 2004).

Institutions are not one-dimensional, but multidimensional: they have various constituent elements which can be divided into regulative, normative and cognitive pillars or elements (Scott 1995) and the first pillar is formal while the other two are informal (Peng 2002; 2006). The regulative pillar is concerned with the legal aspects of the institution which constrain and regularize the behavior of the members, i.e., people and organizations in a grouping through legal regulations and laws. Members are monitored and sanctioned, and receive rewards or punishments according to their behavior. The regulative pillar includes the constitution, laws, the government's policies on industry competition, intellectual properties, trade and FDI, etc. The normative pillar is about normative rules such as values and norms and is internal representation of the environment by actors (Xu and Shenkar 2002). Values are conceptions of the preferred and desirable and norms represent how things should be done. Values and norms, which are prescriptive and obligatory, impose restraints on social behavior and also enable social action of people and organizations. The normative pillar includes culture, custom, life styles, and the way of thinking. The cognitive elements of the institution is shared knowledge among members (Busenitz, et al. 2000) include the created categories and typications which come from adopting a common frame of reference or definition of the situation (Scott, 1985).

<Table 1> Three Pillars of Institutions

	Formal Institutions	Informal Institutions	
	Regulative	Normative	Cognitive
Basis of compliance	Expedience	Social obligation	Taken for granted
Mechanisms	Coercive	Normative	Mimetic
Logic	Instrumentality	Appropriateness	Orthodoxy
Indicators	Rules, laws, sanctions	Certification, accreditation	Prevalence, isomorphism
Basis of legitimacy	Legally sanctioned	Morally governed	Culturally supported, conceptually correct

Source: Scott (1985) and Peng (2002; 2006).

Institutions have a close relationship with the activities of firms in regard to strategic choices. In other words, institutions affect their decision of strategies. Institutions help reduce uncertainty for firms (Peng 2006) by lowering both transaction and information costs (Hoskisson et al. 2000; Peng 2006). Institutions provide them with signals on certain acceptable and desirable actions in foreign markets. Hence emerges the significance of 'legitimacy,' i.e., social acceptance among society members (Dacin 2002). To be successful in a market, the firm should obtain such legitimacy by conforming to the context that the local institution dictates. Each pillar of the institution provides a different kind of legitimacy. For the regulative pillar, legitimacy comes from legal sanctioning, for normative pillar, societal beliefs and norms, and for cognitive pillar, cultural orthodoxy (Xu and Shenkar 2002).

Institutions also have an effect on MNEs' performance of firms operating in the world markets. In order to be successful, MNEs should follow the formal and informal rules established by local institutions. Since they operate in a multiple of different institutions as seen previously, this approach has the applicability to the research of international business strategy of MNEs in many aspects (Xu and Shenkar 2002). The environment where MNEs operate is filled with uncertainty and multiple demands, not as in domestic companies. Such heterogeneity causes institutional forces that MNEs are required to respond to, and MNEs should secure legitimacy through certain sources like establishing a joint venture with a local firm. Especially MNEs setting up a subsidiary through greenfield investment should be more concerned about overcoming the cost of foreignness (Hymer 1960) and gaining legitimacy in the new local environment.

Thus it can be said that the institution-view of international business strategy deals with the dynamic relations between MNEs and institutions (Peng 2002). In the past, other research perspectives also looked at institutional factors, but they focused on a narrow range of economic institutional, cultural or political risk factors to a limited extent (Peng 2002; Meyer 2004). It is needed to regard institutional factors as not exogenous, but endogenous, from an integrative perspective (Jones 1997), meaning in our context that we are urged to more explicitly include institutional factors for our strategy modeling in international business.

4. Integrating Current Approaches

The industrial approach, the resource-based view of the firm, and the institution-based view of strategy each advances different aspects of strategy although there are some overlaps among them and as seen previously they are complementary. Thus it is necessary that three approaches be integrated: the first approach mainly concerns the value of competitive position in the product market, the second explores the dynamic aspects of firm behavior, based on accumulation and utilization of its resources and the third provides the basis for understanding the nature and evolving process of the industry and resources. Particularly because the industrial approach and resource-based view take firms into account without sufficient consideration of the institution variable, the institution-based view can complement the other two approaches.

We first look at the original basis of, and the underlying differences between, the industrial approach and resource-based view. It can be said that the former is based on the economic view mainly considering external variables while the latter is the management view that the firm makes the choice about its resources. Hirsh et al. (1990) distinguishes between the 'economic' and 'management' analyses in the study of business policy and strategy, and warn against the danger of economic thinking. The economic view has the benefit of parsimony, but (a) focuses on the substantive outcomes of strategy, (b) conducts the ambiguous unit of analysis (between the industry or firm), and (c) takes free market determinism for granted and makes management irrelevant. However, we also need analysis in strategy with an emphasis on the aspects of process and implementation by active management at the individual firm level, suggesting the necessity that the external and internal approaches be synthesized (Peng, 2006). Moreover, a strategy formulated through a purely economic analysis is difficult to implement and in particular, it is management approach to strategy which better identifies the obstacles to implementation of strategy (Collis 1991; Barney and Hesterly 2007).

An integration of the two approaches would be made through formulating a framework of matching certain kinds of resources which the firm possesses with a specific reference to a certain international environment where it can make the best of its resources in the most efficient manner. This framework can be seen as similar with Barney's (1991) as long as it simply tries to combine the internal analysis (strengths and weaknesses) and the external analysis (opportunities and threats) as in traditional strategy analysis. But a new integrated framework in the international dimension should go beyond simply capturing both external and internal analysis of competition because it emphasizes firms' ability to broaden their strategic choices through organizational efforts to develop competitive advantages and it should be more complex because the global dimension is added and unique features regarding MNEs come into our consideration.

However, we need to go beyond the integrated framework. Both the industrial approach and resource-based view have neglected the formal and informal institutions that should comprise relevant models (Peng 2002; 2006; Meyer and Peng 2005). Institutions provide the underpinning context of the industry and shape the situation where firms develop and utilize resources. The competitive advantages of MNEs entering foreign markets include resources such as new production and process technology, brands, reputation, distribution channels, and marketing skills (Dunning 1993). MNEs are embedded in the institutions of both their home country and the foreign country context. As seen above, one of the limitations of the resource-based view is that it does not sufficiently look at the social context within which resource selection decisions are embedded, how the selections are made and how this context might affect sustainable firm performance (Oliver 1997). Past strategy research included a limited number of variables such as culture and moreover, focused on the competition in relatively stable and market-based contexts (Peng 2006; Meyer 2004). Unstable and nonmarket-based contexts observed in many developing countries require further attention to institutional factors.

We cannot capture the whole picture of the environment without fully taking institutional factors into account. For example, in developed countries such as the U.S., market-based and arm's length trade prevail because there are strong formal institutions that support transactions; in contrast, transition economies are more influenced by informal institutions

(Meyer 2004). Accordingly, in formulating and implementing international business strategy, it is needed to explicitly include institutional variables on the same level with industrial and resource-based variables. In other words, the industry and firm resources are institution-specific and institutions affect strategy formulation and implementation. The dynamic interaction between MNEs and local institutions (Peng 2002) should be stressed, a starting point of research of the institution-based international business strategy. Firms are embedded in the institutions that require which actions of the firms are legitimate (Granovetter 1985). Thus MNEs are constrained in making strategic choices in the context of the institutions where they operate. The industrial approach and resource-based view provide economic and strategic frameworks where rational behavior is justified while the institutional framework provides the basis for the compliant, habitual, and socially defined behavior. In other words, in the industrial and resource-based view frameworks, MNEs attempt to optimize the use of available resources; on the other hand, in the framework of the institution-based view, MNEs endeavor to reduce pressures from the external context in such optimization processes.

Especially as the world economy is increasingly globalizing and transition economies have made appearance in international markets, and home markets are getting saturated, a growing number of MNEs from developed countries are expanding into emerging markets. MNEs operating in transaction economies should fully understand the local institutions are quite different from that of their home country.

Ⅳ. Implications for U.S. MNEs' Emerging Market Strategies

Countries in the world have unique institutions specific to their own situation. For example, Asian and European countries are quite different from each other while some countries like Anglo-American countries are very similar to each other in terms of their institutions. We can say Asian and European countries have large 'institutional distance' between them, the extent of dissimilarity between institutions between countries (Kostova 1999). Generally the larger the institutional distance between its home and host country for an MNE, the more difficult it is for the MNE to enter and operate in the host country (Kostova and Zaheer 1999). This is because in an institutionally distant country, the MNEs have more problems in obtaining legitimacy from the local environment. In addition, both the market size and geographical proximity are reasons why FDI by U.S. firms is concentrated in Canada, developed countries in Europe, and institutionally close countries. These factors account for 70% or so in recent years (UNCTAD 2007).

Institutions are not static, but unstable and changeable particularly in developing countries and thus some countries often move from one institution to new ones, undergoing institutional transitions. Institutional transitions are fundamental and comprehensive changes in formal and informal institutions that affect people and organizations (Meyer 2001). Recently former communist or socialist countries in Central and Eastern Europe (CEE) and Asia have been undergoing such transition changing their political and economic systems into democratic and market-based economies. Such changes in 'transition economies,' along with the globalization of the world economy, gave MNEs from many countries strong incentives to expand their geographical scope into the institutionally new world. In so doing, however, many of them particularly from developed countries such as the U.S. have still encountered institutional obstacles in political, economic, and socio-cultural aspects, caused by large institutional distance between the home and host countries (Gelbuda, Meyer and Delios 2008).

Then, what makes the institutional differences between countries and what are their strategic implications for MNEs? In this section, we will look at how the integrated approach, discussed previously, of the three approaches, the industrial, resource-based view and institution-based view can help us understand the institutional distance between the U.S. and developing economies in transition in CEE and Asia, and the implications for U.S. MNEs investing in such transition economies. In doing so, we focus on economic institutions directly related to MNE activities, rather than considering the whole range of political, economic, socio-cultural institutional factors.

In his study of the difference in the institutions between countries in the East and West, Whitley (1994) captures three components of economic institutions regarding how economic activities are organized. The first one focuses on the nature of economic actors in an economy and the resources they control. In pure market economies, private owners have the largest power over resources and economic activities, and exercise the exclusive ownership to property rights. The second component concerns the way in which relations between economic agents are structured to form markets. In pure market economies, exchange transactions between them are arms' length and impersonal. The third component regards the ways of organizing and controlling activities and resources within authority structures. In North America and Western Europe, they are governed by more formal and impersonal rules and procedures than in countries in East Asia where authority is often informal and personal. Besides such Whitley's three factors, we include the U.S. market as an additional variable which is deemed to be unique and different from the rest of the world, but which also is related to Whitley's, comprising another significant component of U.S. economic institutions. The extent to which these components occur and the way in which they are interrelated determine the configuration or institutional context of an economy, which vary among countries and over time.

The Nature of Economic Actors and Resource Control. The U.S. economic institutions are based on free market and enterprise system, and private ownership system (Whitley 1994). In the U.S. any private individuals can freely set up enterprises and withdraw the established firms, i.e., the entry into, and exit from, the market are very flexible. Private owners have economic resources and activities and exercise exclusive ownership over them. Such private ownership is strongly supported by the legal framework under the laws and regulations. The state makes minimal intervention in the market. On the other hand, emerging economies dominated by state ownership in their economy and undergoing institutional transition from a central planning to market-based economy, have the legacy of state directed planned economy still lingering in the whole economy (Rondinelli and Black 2000), meaning that firms are dominated by government ownership and monopoly power. Emerging economies also lack of sufficient legal framework for well-defined property rights, rendering futile MNEs' efforts for intellectual property protection (Peng and Heath 1996)

Relations Between Actors. The U.S. market is characterized by atomic competition (Ferner 2000). Firms are compelled to compete against each other to make profit through new innovations and products. Transactions in the market are arm's length and impersonal, meaning much of it is conducted by firms that are unrelated each other. Firm ownership is dispersed among many shareholders and firm management is conducted by professional managers through delegation of authority from ownership to management. In such system of separation of ownership and control, the principal–agent conflicts between shareholders and managers, stressed in the agency theory literature (Eisenhardt 1986) are common. In emerging economies, network–based transactions are much more frequently conducted among actors who are closely related by informal bonds such as family ties and tight personal relationships, and many competitive advantages come from networks or belonging to them (Hoskisson, et al. 2000). Emerging economies still have a very high portion of the informal sector, ranging from 30 to 60% (London and Hart, 2004). Firm ownership are still commonly found under massive family control and accordingly the principal–principal conflicts between controlling and minority shareholders, little researched in the traditional corporate governance relationships in Anglo–American firms are commonly found (Young, et al. 2008)

Organization of Activities within Authority Structures. In the U.S. firms internal activities are usually governed by impersonal and formal rules and procedures (Whitley 1994). The relationships between employees in vertical relationships as in superior–subordinate relations are stipulated by a formal contract. Large firms, especially as they grow in size, have adopted the multidivisional organizational form where authority is passed on to division managers (Ferner 2000). In emerging markets, authority is still dominated by personal and informal relationships and often under hands of a few discretionary hands as seen in family dominated firms.

Market Size, Competition and Innovation. The large size of market led U.S. firms to engage in mass production and mass marketing to serve the market since the early period of industrialization (Ferner 2000) and the traits of the U.S. market such as consumers with high income enabled U.S. Firms to innovate their technology and product tailored to them. Through such home based innovations, U.S. MNEs have entered into European or Japanese markets and later emerging markets as illustrated in the original product life cycle model (Vernon 1966). U.S. MNEs are often blinded by the sheer size of their home market, neglecting the local institutions especially when entering into emerging economies at the 'bottom of the pyramid' (London and Hart 2004).

Then, how can U.S. MNEs that are embedded in the context of their home country survive and succeed in institutionally constrained markets in emerging economies? First of all, U.S. MNEs should have a better understanding and analysis of the unique institutional contexts in emerging economies. Foreign example, viewed from the resource-based view of the firm, MNEs' competitive advantages come from their intangible assets and when transferred abroad, can be more effective in foreign countries where the legal framework for intellectual property is fully ensured. However, since many of the emerging economies still do not provide such support, U.S. MNEs should look for measures to overcome this hurdle. This approach is based on the notion that emerging economies will finally evolve into a developed country like the U.S. where much stronger formal support is provided; however, considering the present preponderance of the informal sector in emerging economies, many of them are not expected to exactly follow developed countries in economic development (London and Hart 2004). Accordingly U.S. MNEs should go beyond looking at the current institutions and use strategies more based on the underpinning of emerging markets. For example in some developing countries the microloan business is conducted based on the pressure of peers in the same community which is called a group-lending model (Akula 2008).

Also we need to recognize that there is much variance among emerging economies in terms of the types and extents of the institutional stability (Hitt 2006). One way application of a uniform international strategy across emerging economies should be avoided and their heterogeneity should be considered. Additionally, rather than simply responding to the current institutional context, U.S. MNEs should be prepared for the future institutional change in a dynamic sense.

Ⅴ. Conclusion

International business environment is different from a domestic environment in economic, political, and social aspects; specifically, the international business environment requires MNEs to use international strategies that are different from domestic ones. Existing research on international strategy research was conducted mainly through the industrial approach and the resource-based view; however, in neither the industrial approach nor the research-based view were institutions adequately recognized. Even though the countries' institutions have profound impacts on the strategic choices of MNEs, a narrow range of institutional factors were considered and the models assumed that these factors were "natural." Specifically, as former communist countries in Europe and Asia have transformed their institutions since the early 1990s, institutions are becoming more critical factors for survival and success in emerging economies. MNEs should overcome institutional barriers and obtain legitimacy in host markets, particularly of emerging economies of which institutions are quite dissimilar to those of developed countries. Thus it has become essential to more seriously and explicitly consider the variables of formal and informal institutions in international business strategy.

This intention of this paper was to critically review existing approaches to international business strategy, to emphasize the significance of the institution-based view and to integrate the three approaches in the spirit that both the industrial approach and resource-based view did not pay adequate attention to institutional factors. Then we compared the institutions between the U.S. and emerging economies in terms of the nature of economic actors and resource control, the relations between actors, organization of activities within authority structures, and finally market size, competition and innovation. It was concluded analyzed that the institutional differences between them are still large although many emerging economies have transformed their institutions into more formal and market-based ones. In entering and operating such emerging markets, U.S. MNEs should be more aware of the deeper underpinnings of the local institutions and should better respond to the present institutions, and their dynamic changes.

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Abstract

The Emergence of Institution-based Strategy of International Business and the Implications for U.S. Multinational Enterprises

Wonchan Ra

Formal and informal institutions have seriously affected MNEs' activities and their performance in foreign countries, but they have not been adequately considered in the existing research. Recently the institution-based view of strategy focusing on the institutional contexts of different countries has emerged. This paper attempts to integrate the existing approaches in international business strategy, the industrial approach and the resource-based view with the institution-based view, suggesting that an explicit consideration of institutional variables in international strategy formulation be essential. Then we compare the institutional differences between the U.S. and emerging economies and draw important implications for U.S. MNEs.

Key words : International strategy; institution-based strategy; resource-based strategy; industrial approach to strategy; emerging market strategy

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이름: 나 원 찬
소속: 한국외국어대학교 국제경영학과 교수
주소: (130-791)서울시 동대문구 이문동 270 한국외국어대 경영대학원 국제경영학과
전화: 02-2173-2399
이메일: wonra@hufs.ac.kr