Journal of International Business Studies (2008) 39, 537–539
© 2008 Academy of International Business All rights reserved 0047-2506 $30.00
www.jibs.net

INTRODUCTION

Institutions and international business

Witold Henisz and
Anand Swaminathan

Special Issue Guest Editors

Journal of International Business Studies (2008) **39,** 537–539.
doi:10.1057/palgrave.jibs.8400381

The call for papers for this special issue on "Institutions and International Business" began by noting that

> International business is the study of transactions between counterparties who either reside in different nations or who reside in one nation but are compared to a pair of counterparties in another nation. This simple definition focuses our attention on the key facet of research in this area that distinguishes it from other fields. International business research necessarily requires attention to the institutional characteristics that alter the costs of engaging in business activity of a given form in one nation as compared to another. These institutional characteristics span the regulative, normative and cognitive domains. They influence every aspect of behavior by multinational enterprises including their location choice; the organization of their local subsidiary; their choice of technology, capital and labor staffing; and their sequence of investment. Whereas scholars have begun to establish the importance of variation in the level of institutional characteristics across home and host countries on such behaviors, we have less scholarship providing a link to subsidiary-level performance or linking change in institutional characteristics within a country to the behavior or performance of multinational enterprises. We also know little about the type of foreign firm or behaviors best able to cope with institutional variation or to positively influence institutional change. We encourage scholars in international business, political science, sociology, economics and psychology without constraints upon methodological approach or the geographic domain of inquiry to submit papers to this Special Issue that address these broad questions.

In response to that call, we received 58 submissions, of which eight appear in this issue. Per our hope, the authors of the published papers span departments, methodological approaches and geographic domains of inquiry and even geographic locations. We see the results of the engagement of the broad question of "How institutions influence international business" by scholars of comparative politics, entrepreneurship, industrial organization, marketing, political economy, sociology, strategic management and even international business. The papers also vary in their methodological approaches from a comparative and synthetic survey, an inductive analysis of 23 cases, and fuzzy-set analysis to more conventional econometric analyses using survey or secondary data. Though by no means a result of editorial intent, the authors also span the globe with fewer authors in the United States (4) than Asia (6) or the EU (10). Furthermore, of the four US-based authors, one is Canadian and a second is a Spaniard. Three papers were written by co-authors who themselves span national boundaries and in one case the Atlantic as well. Finally, but perhaps most importantly, the authors and these editors were assisted by a rich and diverse team of 67 referees who together drafted 88 constructive and thoughtful referee reports.

The issue begins with an exploration of the construct of institutions in the literatures on comparative capitalism and

international business. Jackson and Deeg do much more than survey these literatures. They remind us that while institutions are a central or the central construct of our field, in our understanding of that construct we need to draw upon established disciplinary insights including those from political science. International business has no corner on the concept of institutions. Rather we typically play the role of arbitrage in drawing upon key insights from political science, political economy and sociology, and examining how firm-level strategy or performance varies across different institutional constructs developed elsewhere. If there is ever to be much backward flow of insights from international business into the disciplines, we need to stay abreast of developments in those disciplines and consider how insights from our own field offer potential extensions to or modifications in established disciplinary perspectives. Ironically, two political scientists have done an exemplary job of such a synthetic review, providing insight into not just what we mean by institutions but how our approach to conceptualizing, operationalizing and testing the impact of institutions can benefit from a deeper understanding of recent developments in a core discipline. Jackson and Deeg argue that we need to move beyond treating the institutional environment as a parameter to a rich and interdependent configuration of structures. Likewise, if we are successful, we may be able to demonstrate to the core discipline the central role of multinational firms as strategic drivers of institutional change. Such a research agenda would offer substantial insights into our understanding of success and failure in transition and emerging market contexts.

The next paper, co-authored by Orr and Scott, adopts such a rich perspective on institutions, drawing upon institutional theory in sociology to inform an inductive analysis of the drivers of unforeseen costs in 23 large global projects. Orr and Scott examine the process by which managers come to terms with variation in the institutional context and generate a response to that variation. Their process-based approach offers exactly the sort of rich context-specific analysis that Jackson and Deeg called for and, as a result, precisely the sort of understanding into actual project-level performance outcomes so absent from much of the extant literature on institutions and international business. They further begin to outline the process by which institutional distance – defined not from a survey of IBM employees in the 1960s but as misunderstandings regarding specific rules, practices or norms that generate conflict – can be reduced over time.

The third paper, by Luk, Yau, Sin, Tse, Chow and Lee, also considers the performance implications of a firm's response to its institutional context. The authors outline and demonstrate the different mechanisms by which social capital (i.e., guanxi with government officials or peer managers) impacts performance in the "transition economy" of China *vs* the "market economy" of Hong Kong. By working through the impact of social capital on information, innovation and influence in these two different institutional contexts, the paper builds upon Jackson and Deeg and Orr and Scott by providing a richer perspective on the mechanisms by which a firm's institutional context impacts performance than that present in much of the literature. One of the strengths of this analysis is that it allows for social capital, which is typically viewed as a single construct, to play a different role via different channels in the two environments.

The next two papers operate at a higher level of analysis moving from the project or firm level to that of dyadic pairs of countries in the international state system. Clougherty and Grajek make two important contributions. First, like Luk et al., they develop theoretical arguments and empirical evidence for the differential impact of one institution (ISO 9000 adoption) on different forms of economic activity. Second, they use the context of dyadic trade and investment flows to isolate the effect of that institution from other country-specific institutions as well as unobserved country-level heterogeneity. This confound is one of the major empirical shortcomings of the literature on the economic impact of country-level institutions. Cuervo-Cazurra similarly makes use of dyadic foreign direct investment data and the natural experiments of the passage of the US Foreign Corrupt Practices Act and the OECD Convention on Combating Bribery of Foreign Officials to identify the contingencies under which coordination between national and international laws can decrease the attractiveness of investment in countries characterized by high corruption. The normative implications of this work suggest an important partial answer to overcoming the prisoner's dilemma of corruption in emerging markets.

While previous research has documented the influence of institutional environments on FDI, the evidence is often inconsistent or ambiguous. Pajunen argues that this is because institutional environments vary across countries as complex

combinations of particular institutional factors. Pajunen attempts to disentangle the interactions among these institutional factors and their effects on FDI by using the method of fuzzy set analysis. His analyses reveal the existence of differences, both by geographical region and level of economic development, in the combinations of institutional factors that influence FDI. His descriptive results present an opportunity to deepen our understanding of FDI by theorizing about the sources of such differences.

Coeurderoy and Murray analyze differences in the international expansion paths of new technology-based firms from the UK and Germany. They highlight the differences in sensitivity to different elements of the institutional environment of the host country for firms from these two different home country institutional environments. Furthermore, they consider what firm-level attributes might help alleviate specific gaps or challenges posed by the distance between the home and host country institutional environments. While property rights protection and political risk are typically analyzed in the context of large established multinational enterprise, another contribution of this article is the extension of that analysis to entrepreneurial ventures.

Capelleras, Mole, Greene and Storey compare the growth rates of start-up firms in Great Britain and Spain. The institutional environment for start-ups differs considerably across these two countries because Great Britain is a lightly regulated economy whereas Spain is a heavily regulated economy. They find that greater regulation increases the scale of entrepreneurship and lowers the growth rates of start-up firms, but only when considering registered firms that appear in official government statistics. These differences disappear when all firms, registered and unregistered, are considered. Their results suggest that the institutional environment in a country, in this case the regulatory environment, affects the distribution of entrepreneurial activity across the formal and informal sectors of an economy, rather than its overall volume.

Turning to the substantive contribution of the assembled articles, future studies of the intersection of institutions and international business should note

(1) The institutional environment is not a parameter but a rich constellation of interdependent structures and systems within a country, across dyadic pairs of countries and at the level of the international state system.
(2) Firms' responses to (unexpected) variation in the institutional environment of an investment capture a significant share of senior managers' time and are a key determinant of success and failure.
(3) Firms' responses and their performance implications to a given institutional construct will vary according to multiple criteria including aspects of a firm's prior experience in its home country institutional environment as well as those of other countries in which it has operated.

While these three points have been argued before in various venues including in prior issues of this journal, the papers assembled here build upon that prior work using new theoretical developments in associated disciplines and fields, new empirical methodologies and new data sets to make substantive progress in the analysis of the impact of the institutional environment on strategy and performance. They offer more richness in the conceptualization of the institutional environment, more depth in the mechanisms by which they impact firm strategy, more clever research design and econometric analyses to capture those impacts and more ideas for future research in this domain than previously collected in one issue of this or any other journal.