THE INTERNATIONAL JOURNAL OF
BUSINESS & MANAGEMENT

Strategy Research on Emerging Economies: Focusing on the Institutional Theory of Strategy

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Abstract:
Comparing the differences between emerging and advanced economies and examining the applicability of the traditional perspectives on the strategic management (industry-based and resources-based views of strategy based on advanced economies such as the U.S.) to emerging economies, an increasing number of scholars have studied the uniqueness of emerging economies, especially in terms of strategy. This paper aims to review the strategy research on emerging economies and focuses on the institutional theory of strategy. In essence, investigating the institutional theory of strategy, this paper examines the extent to which the theories and methodologies used to study strategies in mature, advanced economies are suited to the unique social, political, and economic contexts of emerging economies. I review and integrate awide range of literature on strategy in emerging economies in order to elaborate a conceptual framework for the institutional theory of strategy particularly in connection with emerging economies.

Keywords: *Emerging economies, institutions, institutional theory of strategy, traditional perspectives on the strategic management*

1. Introduction

Globalization has been reducing the significance of state boundaries, lowering the traditional trade and investment barriers among countries and connecting countries in the world into an integrated global economy. Emerging market countries, today, seem to be more converging with developed market countries. Therefore, distinguishing emerging economies from advanced economies seems to be less important today than before. However, the fundamental argument of this article is that scholars and practitioners still need to distinguish emerging economies from advanced economies, particularly in terms of strategy. Emerging economies, collectively, have different environments (or contexts) from advanced economies that have critical implications for strategy formulation and implementation. In addition, individual emerging market countries themselves have also different market environments from each other. In other words, there is still a tremendous need for researchers to study further the uniqueness of emerging economies in terms of strategy. First of all, researchers need to explore further the extent to which the theories and methodologies used to study strategies in mature, advanced market economies are suited to the unique social, political, and economic contexts of emerging economies (Wright et al., 2005).Second, researchers also need to explore further the considerable variations that exist among emerging economies themselves in terms of the progress in economic and institutional development.

The growing importance of emerging economies is reflected in strategy research, particularly in international strategy research, on the topic in recent years. Especially, the growing importance of and interest in emerging economies are reflected in two recent special issues on strategy in emerging economies in prominent journals: first, Hoskisson et al.’s (2000) the Academy of Management Journal special issue; and, second, Wright et al.’s (2005) the Journal of Management Studies special issue. Since Hoskisson et al.’s (2000) overview of the strategies in emerging economies, a number of publications have been produced to study the uniqueness of emerging economies, particularly in terms of strategy, comparing the differences between emerging economies and advanced economies and examining the applicability of the traditional theoretical perspectives on the strategic management (which have been developed based on advanced economies such as the U.S.) to emerging economies.

This paper focuses on the institutional theory of strategy particularly in connection with emerging economies. To build a more robust conceptual framework for the institutional theory of strategy for emerging economies, I review and integrate a wide range of literature on: first, how to define emerging market economies; second, strategy research on emerging market economies; third, how to understand institutions in terms of strategy; fourth, the emergence of an institutional theory in the area of international strategy; and lastly, the significance of the institutional theory of strategy in emerging market economies. Examining the institutional theory of strategy in emerging economies, this paper examines, especially, the extent to which the theories and methodologies used to study strategies in mature, advanced market economies are suited to the unique social, political, and economic contexts of emerging economies.

2. What are Emerging Economies?

The term emerging markets was coined by economists at the International Finance Corporation (IFC) in 1981, when the group was promoting the first mutual fund investments in developing countries (Khanna & Palepu, 2010). The term emerging markets by IFC refers to a small number of medium-sized developing countries with relatively high income (BOAO Forum for Asia, 2009). Also, in the early 1980s, the term 'newly industrializing countries' was applied to a few fast growing and liberalizing Asian and Latin American countries. Because of the widespread liberalization and adoption of market-based policies by most developing countries, the term 'newly industrializing countries' has been replaced by the broader term emerging market economies (Hoskisson et al., 2000). Later, the scope of emerging markets has been expanding to include more countries and regions. In essence, both 'newly industrialized economies' and 'emerging markets' were replaced by 'emerging economies' which cover more economies (BOAO Forum for Asia, 2009). Thus, in a broad sense, emerging economies have become almost the same as developing countries and this has made the concept too vague and general.

On this point, some scholars and institutions have paid special attention to the concept of emerging economies in its narrow sense. In a narrow sense, emerging economies generally refers to the special types of developing countries or regions and there are mainly six criteria for dividing emerging economies into special categories (BOAO Forum for Asia, 2009). First, based on economic growth rate, emerging economies refer to economies whose businesses or social activities are in the process of rapid growth (or rapid industrialization) (Jain, 2006). Second, based on economic growth and systematic adjustment, emerging economies can be defined by two criteria: (1) fast economic growth; and (2) government policies that support economic liberalization and establishment of market-orient systems (Arnold & Quelch, 1998). Third, based on export growth rate in a designated time period, the French Center d'Etudes Prospectives et d'Information (CEPII) held that emerging economies should refer to countries whose per capita GDP during a designated time period is less than half of the average of developed countries while export growth is at least 10 percentage points higher than the average level of industrial countries (BOAO Forum for Asia, 2009). Fourth, based on financial market development and level of 'opening up', emerging economies should be defined as developing countries whose financial market development level is lower than that of developed countries but still convenient for foreign investors to make investment in large numbers of areas (IMF, 2004). Fifth, based on the level and velocity of information technology (IT) development, emerging economies refer to those countries or regions which, with limited or partial industrialization, are experiencing high-speed IT development (BOAO Forum for Asia, 2009). Lastly, based on the political influence of developing countries, emerging economies can be defined as countries where, for the market, politics is at least equally important with economy (Jain, 2006).

In particular, Hoskisson et al. (2000) define emerging economies as low-income, rapid-growth countries using economic liberalization as their primary engine of growth. Similar to Arnold et al. (1998), Hoskisson et al. (2000) point out that an emerging economy can be defined as a country that satisfies two criteria: first, a rapid pace of economic development, and, second, government policies favoring economic liberalization and adoption of free-market system. The authors also argue that emerging economies fall into two groups: first, developing countries in Asia, Latin America, Africa, and the Middle East; and, second, transition economies in the former Soviet Union and China.

Recently, a small number of countries have been combined into certain special groups to define emerging economies, such as BRICS (Brazil, Russia, India, and China), Next-11 (Bangladesh, Egypt, Indonesia, Iran, Korea, Mexico, Nigeria, Pakistan, the Philippines, Turkey, and Vietnam), and BASIC (Brazil, South Africa, India, and China). Defining emerging economies by groups has been widely accepted for its uniqueness, concision, and representativeness, although it has shortcomings, such as simple division using only the criterion of economic prowess and/or high dependence on function (BOAO Forum for Asia, 2009).

The recent World Economic Outlook (WEO) produced by IMF divides the world into two major groups: first, advanced economies, and, second, emerging market and developing economies (IMF, 2014). As the WEO indicates, this classification is not based on strict criteria, economic or otherwise, and it has evolved over time. The 36 advanced economies include the seven largest, in terms of GDP, major advanced economies (i.e. the US, Japan, Germany, France, Italy, the UK, and Canada), often referred to as the Group of Seven (G7). The members of the Euro area are also distinguished as a subgroup within the advanced economies (IMF, 2014). The group of emerging market and developing economies (153) includes all those that are not classified as advanced economies. Emerging market and developing economies are also classified according to 'analytical criteria' (IMF, 2014). The analytical criteria reflect the composition of export earnings and other income from abroad; a distinction between net creditor and net debtor economies; and, for the net debtors, financial criteria based on external financing sources and experience with external debt servicing (IMF, 2014).

In sum, it is hard to say whether there is a consensus on defining emerging economies, although some scholars and institutions have tried to present the concept of emerging economies in its narrow sense. One of the problems of various definitions on emerging economies is the failure to fully reflect the 'freshness' (BOAO Forum for Asia, 2009) of those economies. For instance, in some definitions on emerging economies, some economies (or countries), although they are no longer 'emerging' in terms of development stage, are still included in the list of emerging economies. Therefore, scholars and practitioners should develop and introduce the criteria that can define emerging economies in a dynamic, developmental process.

3. Strategy Research on Emerging Economies

Hoskisson et al. (2000) identified four different perspectives on strategy in the context of emerging economies: transaction cost theory; agency theory; resourced-based theory; and institutional theory. However, the adoption of these advanced economy-based theoretical and methodological perspectives in emerging economies has limitations, particularly because emerging economies provide a new context characterized by stronger government and societal influences which is a different context in advanced economies. Therefore, for emerging economies, the relative strengths and weaknesses of these four perspectives on strategy need to be translated

and understood based on the unique environment (or context) in emerging economies. Moreover, the problem of adopting these advanced economy-based perspectives on strategy in emerging market economies can be magnified by the differences among emerging economies themselves.

Transaction cost theory studies the firm-environment interface through a contractual or exchange-based approach. Specifically, transaction cost theory studies the influence of transaction costs on whether market, hierarchy, or hybrid forms are the most appropriate governance mode (Williamson, 1975). Where the transaction costs of markets are high, hierarchical governance modes will enhance efficiency, although hierarchical modes can have their own bureaucratic costs. Thus, the rational governance choice requires a trade-off, at the margin, between the transaction costs associated with the market mode, a firm's need for control, and the governance costs of hierarchy (Hoskisson et al., 2000).

Agency theory concerns the problems involved in creating the most appropriate form of governance to ensure that managers as agents act in the interests of owners. Like transaction cost theory, agency theory suggests that a firm is a 'nexus of contracts' (Jensen & Meckling, 1976). Agency theory argues that managers are expected to comply with the interests of external owners of private enterprises, but it is difficult for those owners to ensure that managers do comply. In addition, information asymmetry between managers and external investors increases monitoring costs and enables managers to pursue their own goals (Hoskisson et al., 2000). For both transaction cost theory and agency theory, Hoskisson et al. (2000) point out that challenges are likely to arise in emerging economies because of the weak institutional infrastructures triggered by uncertainties arising from economic and political instabilities and a lack of market-based management skills.

The resource-based theory concerns the influence of firm resources and capabilities in explaining why firms differ and how they achieve and sustain competitive advantage (Barney et al., 2001). Evaluating firms based upon their resources could lead to insights different from the traditional I/O (industrial/organization) perspective (Hoskisson et al., 2000). Barney (1986) suggests that strategic resource factors differ in their 'tradability' and that these factors can be specifically identified via a 'strategic factor market'. Barney (1991) later introduced four criteria to more fully explain the idea of strategic tradability. That is, firm resources and capabilities could be differentiated on the basis of value, rareness, inimitability, and substitutability. Penrose (1959) also contends that heterogeneous capabilities give each firm its unique character and, thus, they are the essence of competitive advantage. Firms in emerging economies may face resource scarcities and obsolescence where resources that were valuable under a former institutional regime become less valuable under more market-oriented institutions (Wright et al., 2005). Thus, as Wright et al. (2005) point out, organizational arrangements, such as business groups (e.g. conglomerates) and networks, may have evolved in emerging market economies as a way of dealing with problems of underdeveloped market institutions. But, as emerging economies move toward more market-oriented institutions, business groups may also need to restructure in order to access the resources and capabilities necessary to succeed in a more developed market-oriented environment (Wright et al., 2005). For emerging economies, little research using the resource-based view has been conducted, particularly in connection with examining the differences in strategy between emerging and advanced economies. Many competitive advantages in emerging economies are based on network relationships and close business-government ties that substitute for the lack of institutional infrastructures (Hoskisson et al., 2000). But, as the institutional context changes, there are necessary changes in both firm's asset structures and orientations, and both opportunities and challenges must be met by new resources (Hoskisson et al., 2000). Another challenge for the resource-based view is the need to understand the barriers to the acquisition of these resources and capabilities and how they might be overcome (Wright et al., 2005).

Institutional theory focuses on the role of the political, social, and economic systems surrounding firms in shaping their behavior (Wright et al., 2005). Hoskisson et al. (2000) point out the importance of institutional theory to explain firm behavior in emerging economies as follows:

> We take the view that in the early stage of market emergence, institutional theory is preeminent in helping to explain impacts on enterprise strategies. This is because government and societal influences are stronger in these emerging economies than in developed economies. As markets mature, transaction cost economics and, subsequently, the resource-based view are more important. However, we also emphasize the importance of considering the interactions between institutional theory and other theories in differentiating understandings of emerging and developed market economies. (p.252)

North (1990) propose that institutions provide the rules of the game that structure human interactions in societies and that organizations are the players bounded by those formal and informal rules. The role of institutions in an economy is to reduce both transaction and information costs through reducing uncertainty and establishing a stable structure that facilitates interactions. Institutional theory emphasizes the influences of the systems surrounding organizations that shape social and organizational behavior (Scott, 1995), since institutions affect the processes and decision-making of organizations.

As described more in detail below, however, the number of research, both theoretically and empirically, using institutional theory in emerging economies is limited. In this regard, Hoskisson et al. (2000) suggest that both the impact of the speed and the nature of the institutional change on firm strategies and the interaction between institutional theory and other theories of strategy need to be explored further, although institutional theory would be less important relative to other perspectives (e.g. transaction cost theory, agency theory, and resource-based view) as emerging economies develop.

4. Institutions and Firm Strategy

North (1990) defines institutions as the rules of the game in a society or, more formally, as the humanly devised constraints that shape human interaction. More specifically, institutions can be defined as the humanly devised constraints that structure political, economic, and social interaction, consisting of both informal constraints (such as sanctions, taboos, customs, traditions, and codes of conduct) and formal rules (such as constitutions, laws, and property rights) (North, 1991). In a similar sense, Scott (1995) defines institutions as

regulative, normative, cognitive structures and activities that provide stability and meaning to social behavior. Peng et al. (2009) contend that while terms and labels differ on the surface, North's (1990) scheme of broadly dividing institutions into formal and informal camps is complementary to Scott's (1995) idea of three supportive pillars: regulative, normative, and cognitive. Peng et al. (2008) also illustrate that institutions govern societal transactions in the areas of politics (e.g. corruption and transparency), law (e.g. economic liberalization and regulatory regime), and society (e.g. ethical norms and attitudes toward entrepreneurship).

To understand institutions more fully, especially in terms of strategy, we need to explore the relationship between cultures and institutions. Even though the exploration of the relationship is beyond the scope of this paper, I introduce Hofstede et al.'s (2002, p.800) idea of culture in connection with institutions: that is, culture is a "substratum of institutional arrangements." I define culture as a part of informal institutions in the environment that underpin formal institutions, as Peng et al. (2008) suggest.

According to Peng et al. (2009), institutional perspective of strategy has two different roots, that is, external and internal. The external root relates to the 'new institutionalism' through the social sciences by economists (e.g. North, 1990; Williamson, 1975, 1985) and sociologists (e.g. DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Scott, 1987, 1995, 2008). In addition, the 'new institutionalism' now includes the research on strategic management or international strategy (e.g. Marquis & Raynard, 2014; Peng, 2002; Peng et al., 2008; Peng et al., 2009). While the external root has been developed by these three different disciplines, as Peng et al. (2009) indicate, there is a remarkable consensus on a core proposition: namely, institutions matter. In sum, externally, the 'new institutionalism' through the social sciences has energized scholarly attention in strategy to focus on how institutions matter (Peng et al., 2009).

The internal root of institutional perspective has also grown in response to the traditional perspectives on strategy (i.e. industry-based and resourced-based views of strategy), specifically in response to their lack of attention to contexts (Peng et al., 2009). The resource-based view has been criticized because of its little effort to establish appropriate context (Peng et al., 2009; Priem & Butler, 2001). Peng et al. (2009) also indicate that valuable, rare, and hard to imitate resources and capabilities in one context may become non-valuable, plentiful, and easy to imitate in other context. Barney (2001), who introduced the resource-based view, points out the following:

> …..the value of a firm's resources must be understood in the specific market context within which a firm is operating…..Too many authors have simply assumed away this question, and, thus, have failed to help develop a more complete theory of firm advantages. (p.52)

The industry-based view has also been criticized for ignoring histories and institutions, since it has been derived largely from the patterns of competition in the US in the 1970s (Narayanan & Fahey, 2005). Peng et al. (2009) argue that the industry-based view has not paid adequate attention to contexts and describe the following:

> Take the very first of Porter's five forces, inter-firm rivalry, and its prescription for a cost leadership strategy. The industry-based view seldom questions what is behind such a rivalry. In truth, formal government policies and informal media and consumer sentiments regarding the "dos and don'ts" play a significant role in shaping competition (Dobbin & Dowd, 1997; Fligstein, 1990). Under certain institutional conditions, a cost leadership strategy can be accused of being *unethical*…..Under the other conditions, a cost leadership strategy may become *illegal*…..In international trade, the single-minded pursuit of a cost leadership strategy that ignores host country trade laws and regulations can easily attract legal action centered on antidumping (Schuler, Rehbein &Cramer, 2002). (p.65)

In sum, internally, the lack of adequate attention to contexts from both industry-based and resource-based views of strategy has also called for new theoretical perspectives on strategy and, as Peng et al. (2008, 2009) argue, this resulted in the emergence of an institutional theory.

5. Institutional Theory of Strategy

As indicated earlier, little research on emerging economies, adopting the institutional theory of strategy, has been conducted, although some scholars have argued that the institutional approach is the most applicable perspective to explain firm behavior in emerging economies (e.g. Hoskisson et al., 2000; Shenkar & von Glinow, 1994). But, some scholars have recently produced papers on the institutional theory of strategy, particularly in connection with emerging economies, trying to answer some of the most fundamental questions in the field of international business, such as the drivers of firm strategy in international business and the determinants of the success and failure of firms around the world (e.g. Marquis & Raynard, 2014; Peng, 2002; Peng et al., 2008; Peng et al., 2009).

As described above, there have been two traditional perspectives that address these most fundamental questions in international business. An industry-based view, represented by Porter (1980), suggests that the conditions within an industry (such as rivals, new entrants, substitutes, buyers, and suppliers), to a large extent, determine firm strategy and performance. Meanwhile, a resource-based view, represented by Barney (1991), suggests that they are firm-specific differences (such as resources and capabilities) that drive firm strategy and performance. But, these two views were mainly introduced and developed in the field of strategic management (Peng et al., 2008; Peng et al., 2009), not directly in the field of international business. While international business and strategic management are closely allied fields (Peng et al., 2008), these two views are largely ignoring the influence of institutions (both formal and informal), that provides the environment (or context) of competition among firms, on firm strategy and performance. As Peng et al. (2008) indicate, these two views assume institutions as 'background', because they arise primarily out of the research on competition in advanced economies (particularly in the US), where a relatively stable, market-based institutions can be assumed. Accordingly, for the traditional research on strategy, a market-based institutional framework has been taken for granted and formal and informal institutions have been assumed away as 'background' conditions (Peng et al., 2008).

However, research on international business strategy shows that there are significant differences between advanced and non-advanced economies in terms of the drivers of firm strategy and the determinants of the success and failure of firms. The recent research on

emerging economies, whose institutions differ significantly from those in advanced economies, has led us to the increased appreciation that formal and informal institutions significantly shape the strategy and performance of firms in emerging economies. In this regard, Peng et al. (2008) describe the following:

> …..when markets work smoothly in developed economies, "the market-supporting institutions are almost invisible", according to McMillan (2007), who goes on to argue that when markets work poorly in emerging economies, "the absence of [strong formal] institutions is conspicuous. This problem has long been recognized…..studies dealing with the organization's relationship with its broader environment – which would have been labeled as more "context-based" by the more recent work….. – are more likely to find serious difficulties in applying mainstream theories in developing countries, thus necessitating major adjustments (Kiggundu et al., 1983). (p.922)

As emerging economies are becoming more and more important in the global economy in terms of trade and investment, scholars are becoming more and more interested in these countries or regions. Most of new research on emerging economies essentially calls for new theoretical tools, such as the institution-based view, to capture the complex and rapidly changing relationships between organizations and environments in emerging economies (Peng et al., 2008).

The institutional theory of strategy treats institutions as independent variables and it focuses on the dynamic interaction between institutions and organizations. In addition, the institutional theory considers the strategic choices of organizations as the outcome of such an interaction (Peng, 2003; Peng et al., 2008). In essence, the institutional theory points out that the strategic choices are not only driven by industry conditions and firm capabilities, but are also a reflection of the formal and informal constraints of a particular institutional framework that managers confront (Carney 2005; Hill, 2007; Lee et al., 2007; Lee & Oh, 2007, Wan & Hoskisson, 2003).

In sum, the institutional theory of strategy argues that institutions are more than background conditions. Instead, institutions have direct influence on formulating firm strategy and, also, on creating competitive advantage. The profound differences in institutional frameworks between emerging and advanced economies have forced scholars and practitioners to pay more attention to the institutional theory of strategy, in addition to the traditional theories of industry-based and resource-based views of strategy. In addition, there is another type of difference in institutional frameworks between emerging and advanced economies: that is, 'institutional transition'. As Peng et al. (2008, p.924) point out, while the institutional framework in any given country is always in some sort of transition, "a hallmark of emerging economies is that they tend to have more fundamental and comprehensive changes introduced to the formal and informal rules of the game that affect firms as players, which are labeled institutional transitions." The differences in institutional frameworks between emerging and advanced economies explain the rise of the institutional theory as a new perspective in international business strategy research on emerging economies.

6. Institutional Theory of Strategy in Emerging Economies

Recently, emerging economies have attracted increased scholarly attention with emphasis on examining the role of institutional factors in channeling organizational decisions and actions (Marquis & Raynard, 2014). While there are a number of differences among emerging economies themselves (e.g. differences between traditional developing countries and transition economies such as Russia, China, and former Soviet Union countries in Eastern Europe), emerging economies also share a number of similarities. These similarities not only differentiate emerging economies from advanced economies but also create challenges for firms to navigate their business environments. For this paper, I focus more on the similarities among emerging economies, not on the differences among emerging economies themselves, highlighting the different contexts between emerging and advanced economies. This would help us understand how firms can strategically manage the unique institutional environments in emerging economies which are different from those in advanced economies.

As described above, Hoskisson et al. (2000) define emerging economies as low-income, rapid-growth countries using economic liberalization as their primary engine of growth. This definition reveals the key features of emerging economies in terms of economic and market conditions. In general, countries typically included in emerging economies are characterized by relatively high recent GDP growth rate and moderate GDP per capita with high future growth prospect. In other words, as Marquis et al. (2014) indicate, these economies can also be characterized by rapidly improving living standards, active consumer markets, and a burgeoning middle class population. In contrast, advanced economies characterized by a relatively low average GDP growth rate and high GDP per capita. Marquis et al. (2014) point out that advanced economies have typically reached a relatively mature state of industrial development and are characterized by a service-oriented market and minimal government intervention in the business arena.

Emerging economies differ from advanced economies, in terms of economic and market conditions, in a number of ways. As we have witnessed for the last two decades, industrialization, rapid economic growth, and modernization have made emerging economies very attractive destination for export, foreign direct investment (FDI), and sourcing for manufacturing or production. In other words, emerging economies differ significantly from advanced economies in that they show a higher proportion of manufacturing, labor-intensive industries, and large-scale heavy industrial sectors (Marquis & Raynard, 2014). However, these characteristics of emerging economies, such as lower labor costs, have been changed as emerging economies grow, resulting in rising household income with more opportunities for consumers in terms of discretionary purchases and resulting also in the emergence of a stronger middle-class population.

In emerging economies, capital markets are also less developed than in advanced economies with volatile financial environment and inflation-related risks. Moreover, as Li et al. (2002) indicate, key financial intermediaries, such as accounting firms, financial analysts, and venture capitalists, are either absent or only marginally present in emerging economies. This creates information asymmetry on the part of firms exploiting the information within the markets, increasing the potential for opportunism and making legal contracts

difficult to enforce (Marquis & Raynard, 2014). In general, firms risk a higher degree of volatility with rapidly changing market conditions in emerging economies than in advanced economies.

In addition to the economic and market conditions, institutional conditions (e.g. political, legal, socio-cultural, and technological conditions) in emerging economies differ significantly from those in advanced economies. One important institutional condition in emerging economies is the strong influence of the government and the prevalence of state-owned firms (Douma et al., 2006; Musacchio & Lazzarini, 2014). Kowalski et al. (2013) indicate that the shares of state-owned enterprises, among the Forbes Global 2000 companies, in China, India, and Indonesia currently exceed 50%, in Russia at 39%, and in Brazil at 19%. Therefore, it is important for firms to consider the level of government intervention and the overall stability of political environment in a specific emerging economy. In addition, Hiatt et al. (2014) point out that governments in emerging economies are more susceptible to external conflicts, coups, and internal tensions which can create a risky environment for firms (Hiatt & Sine, 2014).

There are other critical institutional conditions in emerging economies compared to the institutional conditions in advanced economies. Typically, emerging economies are represented by greater informality and less developed government and regulatory infrastructures. As Marquis et al. (2014) contend, at a basic level, both regulatory and enforcement environments in emerging economies are only marginally developed and, thus, market regulation, corporate governance, transparency, accounting standards, and intellectual property protection may not be as reliable as in advanced economies. Accordingly, for firms doing business in emerging economies, corruption and opportunistic behavior are especially huge concern.

In addition to the different political and legal institutions, emerging economies are also represented by socio-cultural environment which is different from that in advanced economies. Ault et al. (2014) argue that it is crucial for businesses to be aware of (and attentive to) the issues, such as income inequality and poverty, gender inequality, and ethnic and linguistic split in emerging economies, since these issues can easily trigger social turmoil and upheaval. Marquis et al. (2014) also argue that emerging economies tend to be characterized by a younger population, an expanding workforce, and rapid urbanization which have important implications for day to day business operations (e.g. Marketing and promotion strategies, staffing and training, and consumer preferences). Moreover, as Lamertz et al. (2003) indicate, many socio-cultural issues in emerging economies are ideology-oriented and, thus, some of the parties involved may have an interest in sustaining rather than resolving the issues.

Lastly, technological environment in emerging economies is another different institutional context compared to advanced economies. Emerging economies, in general, do not have any highly developed or adequate technological infrastructure found in advanced economies. Hitt et al. (2000) maintain that inadequate communication technology, commercial and transportation infrastructures, power generation capabilities, and distribution channels are critical challenges for firms doing business in emerging economies.

In sum, there are a number of critical differences between emerging and advanced economies not only in economic and market conditions but also in institutional conditions. But, differences also exist among emerging economies themselves. Concerning these differences in institutional conditions among emerging economies themselves, Marquis and Raynard (2014) argue that "there are important similarities that provide common ground for the types of institutional strategies, which may be effective or appropriate in these contexts" (p.14). That is, government and societal influences are stronger in emerging economies than in advanced economies. In other words, government is a key constraint in emerging economies. Also, the lack of well-established legal and market infrastructures pushes firms to adopt a strategic perspective that encompasses both market imperatives and socio-cultural concerns (Marquis & Raynard, 2014).

A better understanding of the differences in the contexts between advanced and emerging economies helps firms encounter the challenges of emerging economies (e.g. increased transaction costs, market vulnerabilities to economic and political instabilities, underdeveloped infrastructures, opportunistic behavior, bribery, and corruption) more effectively as well as more efficiently. In addition, a better understanding of the large-scale institutional changes that often characterize emerging economies (Roland, 2000) also helps firms explore the challenges of emerging economies. From this light, several scholars have called for more research on emerging economies adopting the institutional perspective on strategy (e.g. Hoskisson et al., 2000; Marquis & Raynard, 2014; Peng, 2002; Peng et al., 2008; Peng et al., 2009; Wright et al., 2005).

7. Conclusion

Emerging economies are taking an increasingly salient position in the global economy in terms of international trade and investment. Accordingly, as key growth markets for firms, emerging economies have attracted increased attention from both scholars and practitioners, especially in terms of strategy. As indicated earlier, the growing importance of and interest in emerging economies are reflected in international strategy research on the topic in recent years. Among the recent research, two journal special issues on strategies in emerging economies (i.e. Hoskisson et al.'s (2000) the Academy of Management Journal special issue; Wright et al.'s (2005) the Journal of Management Studies special issue) contribute substantially not only to the exploration of the uniqueness of emerging economies in terms of strategy and but also to the examination of the institutional theory of strategy in emerging economies. In addition, several research papers by Professor Mike Peng and his colleagues (i.e. Peng, 2002; Peng, 2003; Peng & Health, 1996; Peng et al., 2008; Peng et al., 2009) on the 'institution-based view of strategy' contribute also essentially to the examination and application of the institutional theory of strategy, particularly in terms of emerging economies, comparing emerging economies with advanced economies. Moreover, the authors investigate the applicability of the traditional theoretical perspectives on strategic management (i.e. industry-based and resource-based views of strategy) to emerging economies. This paper focuses on the institutional theory of strategy particularly in connection with emerging economies. It is important to note that the development of this paper triggered by these existing research papers. I tried to review and integrate these existing research results in order to elaborate a conceptual framework for the institutional theory of strategy especially in terms of emerging economies.

As discussed earlier, distinguishing emerging economies from advanced economies seems to be less important today than before. Nevertheless, the fundamental argument of this article is that scholars and practitioners still need to distinguish emerging economies from advanced economies in terms of the institutional contexts. That is, institutions should be taken seriously, not as background conditions but as independent variables, especially in emerging economies, to explain the interaction between institutions and organizations that results in strategic choices. As Peng et al. (2008) argue, a growing number of scholars have come to realize that institutions matter and, thus, international business strategy research cannot just focus on the traditional theoretical perspectives on strategy (e.g. industry-based and resource-based views of strategy) particularly in emerging economies. In other words, the institutional strategy perspective needs to be adopted, especially in emerging economies, in addition to the traditional perspectives on the strategic management. In this regard, Peng et al. (2009, p.72) argue that "the institution-based view has emerged as the third leg for a strategy tripod."

Emerging economies, collectively, have different social, political, and economic contexts from advanced economies and, also, individual emerging market countries themselves have different market environments from each other. While emerging economies have, recently, attracted increased attention from international business researchers, there is still a tremendous need for researchers to examine further the uniqueness of emerging economies especially in terms of strategy. In essence, first of all, researchers need to explore further the extent to which the traditional theories and methodologies used to study strategies in mature, advanced economies are suited to the unique contexts in emerging economies (Wright et al., 2005).In addition, researchers also need to explore further the considerable variations that exist among emerging economies themselves in terms of the progress in economic and institutional development.

Lastly, future research needs to answer *how* institutions matter in strategy terms. Specifically, future research needs to answer the fundamental questions in the field of international business strategy, particularly in connection with emerging economies: that is, what drives firm strategy in emerging economies and what determines the success and failure of firms in emerging economies.

John Dunning (2004) commented the following in his influential paper:

> I believe that current events are forcing IB scholars to pay more heed to Douglas North's concept of institutions (p.19)…..there can be little doubt that institution-related assets have become more important (p.19)…..I would hope that the fraternity of IB scholars will place these issues at the top of their research agenda over the next decade or so. If we do not do so, I believe that we will be failing both our students and the international community that we seek to serve. (p.24)

The institutional theory of strategy is just one of the perspectives that can be adopted to examine strategic issues in emerging economies, not the only one. It is in combination with the traditional theoretical perspectives, such as industry-based and resource-based views of strategy, that the institutional theory of strategy can add its value.

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