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Future prospects and conceptual foundation for institutional theory in corporate marketing.

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A b s t r a c t

The institutional setting has a major impact on how businesses act, are structured, make decisions, and run their operations. Managers are trying to establish credibility while keeping operations lean to obtain an edge in the market. We suggest a developmental process of institution-driven and legitimacy-embedded efficiency, and we highlight the convergence of legitimacy and efficiency in the context of commercial marketing to show how these ideas might be put into practice. We conclude by pointing out numerous fruitful avenues for further study of institutional theory and its application in corporate marketing. Finally, we provide a short overview of each article included in this issue.

Keywords: Institutional theoryLegitimacy Institutional logic Business marketingMarketing strateg

1. Introduction

DiMaggio and Powell (1991) and Scott (2008) argue that institutional theory offers an alternative economic explanation for organizational behavior and strategy. Institutions guide the economy by establishing norms for production, trade, and distribution. To improve their performance in different institutional settings, businesses must conform to prevailing norms and values and make use of available social, economic, and political resources (Yang, Su, & Fam, 2012).
Institutional theory, according to Scott (2008). has matured into maturity. While there has been some study of institutional theory in the field of corporate marketing, it is by no means comprehensive. Business markets are experiencing more complicated and frequently contradictory institutional frameworks as a result of the open system and fast globalization. As a result, many researchers have asked for more in-depth examinations of many issues concerning the growth and use of institutional theory in corporate marketing (e.g., Grewal & Dharwadkar, 2002; Yang, Su, & Fam, 2012).
Taking on the task of inspiring novel research that is both theoretically and empirically sound, the editors of this special issue of Industrial Marketing Management delve into two broad, interconnected arenas of institutional theory that bear on the legitimacy and efficiency of business marketing. The first area is the creation and conceptualization of different institution-based constructs and their connections to other well-established theories such transaction cost economics, resource-based perspective, ecology theory, agent theory, and social network theory. Companies use methods like isomorphism, decoupling, and ceremonial adoption to win over stakeholders and establish credibility (Martinez & Dacin, 1999). How can we incorporate these ideas into channel-management marketing strategies? The second field is investigating the interaction ramifications of institutional settings on performance. Such dynamic viewpoints inquire into how businesses adopt strategic solutions to institutional constraints and capitalize on institutional resources. Strategic business activities impact company performance (Grewal & Dharwadkar, 2002; Oliver, 1991), and these acts are prompted by distinct institutional pressure and process (such as regulating, validating, and habitualization).

2. The developmental process of institution-driven andlegitimacy-embedded efficiency

To gain competitive advantages in an institutionally different mar- ket, firms tend to strive for legitimacy while maintaining efficiency (Martinez & Dacin, 1999; Yang & Su, 2013; Yang, Su, & Fam, 2012). Nev- ertheless, institutional environments may influence firm decision mak- ing through various mechanisms, which result in the firm's strategic responses aimed at coping with the institutional pressure they perceive (Oliver, 1991). In this introduction, we propose a conceptual frameworkthat captures the developmental process of institution-driven and

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legitimacy-embedded efficiency for business marketing and highlights the major research issues in the area. The conceptual framework is shown in Fig. 1.

Institutions are considered the collection-point for 'rules of the game'. Thus, understanding institutional environments will guide firms when they compete in the market. Depending on the level of anal-ysis, organizational theorists have provided different schemes to classifyinstitutional environments. For example, at the macro level (often re- gional or country level), scholars take a broad view of institutions which include such aspects as political, regulative, economic, normative,and cultural-cognitive institutions. In the context of organizations, Scott (2008) has classified institutions and has identified three distinct as- pects: regulative, normative, and cultural-cognitive institutions. His scheme is still conceptually oriented and often causes confusions among the three aspects. Scholars have therefore adapted the scheme and have further developed it with operational measures in various disciplines. Indeed, it is desirable to develop a comprehensive, opera- tional scheme that classifies institutional environments in the setting of business markets.

Bearing these institutional environments in mind, managers may interpret and evaluate their impacts on business strategies. A funda- mental question is: do institution environments pose constraints on orfunction as a facilitator for firms to gain competitive advantages? Rele- vant literature documents that institutional environments provide both challenges and opportunities (Scott, 2008; Suchman, 1995). On the onehand, institutional distances, as reflected in legal, normative, and cogni- tive differences between societies and/or regions, may pose legitimacypressures that make firms, as outsiders, liable to their local partners (Martinez & Dacin, 1999; Scott, 2008). Such institutional liability ad- versely affects efficiency because of distrust and market ambiguity (Yang, Su, & Fam, 2012). To mitigate these institutional liabilities, Dacin, Oliver, and Roy (2007) conceptually propose five legitimacy needs, that is, market legitimacy, relational legitimacy, social legitimacy, investment legitimacy, and alliance legitimacy. From a more general perspective, Suchman (1995) classifies organizational legitimacy needs into three categories: pragmatic, moral and cognitive legiti- macy and further divides each category to four sub-categories

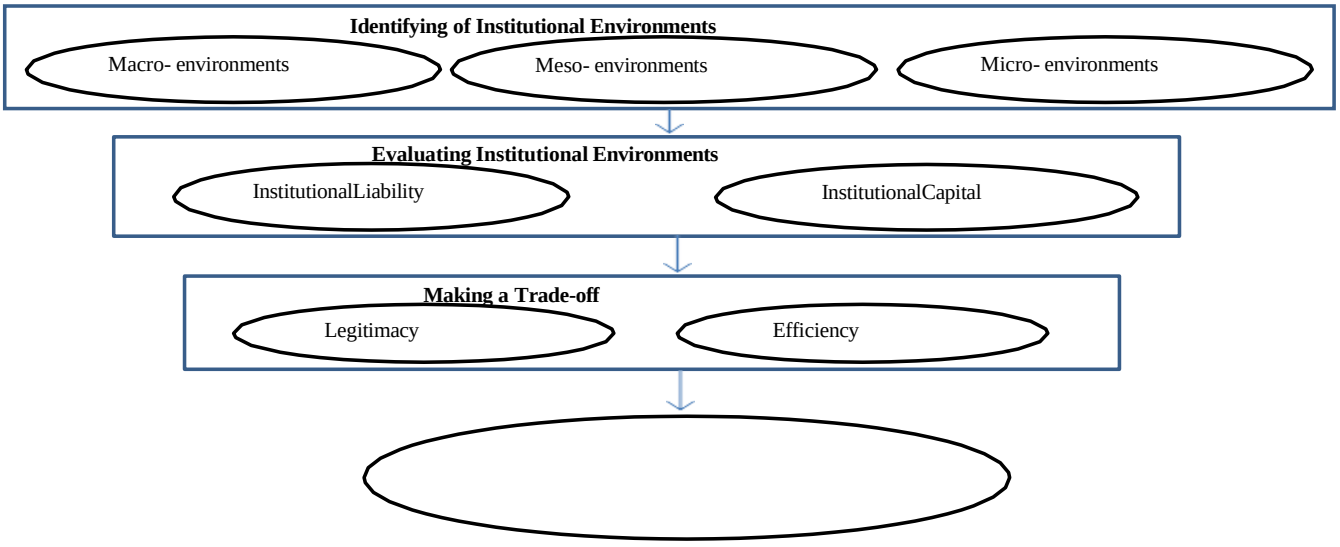


Fig. 1. The developmental process of institutional-driven, legitimacy embedded efficiency.

based on two dimensions: focus of legitimation (actions versus essences) and temporal texture of legitimacy (episodic basis versus continual basis). Firms must gain legitimacy to build trusting and cooperative relationships in an institutionally different market.

On the other hand, the adaptive effort and investment in mitigating institutional liability may enable firms to establish institutional capital that leads to competitive advantages (Suchman, 1995). To build legiti- macy, firms may invest in developing extensive connections with various stakeholders to gain social acceptance; firms may also take stra-tegic actions such as lobbying, co-optation, membership, standardiza- tion, and influence to facilitate cooperation (Oliver, 1991). This way, institutional capital accumulates that creates obstacles for new entrantsand helps firms win over the competition in the market (Bresser & Millonig, 2003).

Firms tend to make a trade-off between legitimacy and efficiency along the way, depending on the balance of their institutional liabilitiesand capital. As such, the most challenging task for a manager is to effec-tively tackle the dilemma of efficiency and legitimacy. Neo-institutional theorists have devoted much effort in addressing such a long-standingparadox. For example, isomorphic change proposed by DiMaggio and Powell (1991) has been employed to examine the coercive, normative,and mimetic

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influences in the institutionalization of marketing prac- tices such as customer relationship management (Hillebrand, Nijholt, & Managers are supposed to manipulate and employ evocative symbols to engender social support and safeguard technical rationality. Firms may also utilize loose coupling, decoupling strategy, and ceremonial adoption, to reconcile the conflicting pressures orrequirements from diverse legitimating institutions

in the market (Kostova & Roth, 2002). Suchman (1995) proposes various strate- gies to gain, maintain, and repair organizational legitimacy in terms of general, pragmatic, moral and cognitive legitimacy. Proactive legitimat-ing strategies at the organizational level should also consider the poli- tics of propriety, trust, power sense-making, and alliance building (Vanharanta, Chakrabarti, & Wong, 2014–in this issue; Newton, Ewing, & Collier, 2014–in this issue).

Notably, Yang, Su, and Fam (2012) provide a governance solution to
this dilemma by drawing upon the interface of institutional theory and transaction cost economics. They propose that firms operating in an institutionally distant market can design novel governance strategies to resolve the dilemma as a particular governance structure may servea dual role of gaining legitimacy while safeguarding efficiency through the accumulation of firm institutional capital. Their findings are intrigu-ing, but still leave much room for future research.

3. Future research directions

Drawing from our conceptual framework of legitimacy-embedded efficiency, we propose several promising research directions for the theoretical development and applications of institutional theory in thecontext of business marketing.

3.1. Theoretical development

Researchers can contribute to institutional theory by conceptually refining and extending current concepts and models to the field of business marketing, particularly in marketing channels. In the past three decades, numerous new, interesting concepts that emerged from various disciplines have broadened the scope of institutional theo- ry and provide a solid foundation on which it can be further developed.Take several recent studies as examples. Borrowing a term coined by Ostrom (2010), *institutional polycentrism*, which includes institutional multiplicity, institutional configuration, and institutional context speci- ficity, Batjargal et al. (2013) examine the effect of this concept on new venture growth and find that weaker and more inefficient institutions will enhance the positive effect of structural holes on new venture growth, as personal relationships may align otherwise disconnected

regional operations. Another concept is *institutional distance* which hasbeen employed to study its impact on cross-country business activitiesand strategies (e.g., Yang, Su, & Fam, 2012; Zhang, Zhong, Wen, & Jiang, 2014–in this issue). Still another example is the concept of institu- tional pluralism (Kraatz & Block, 2008). In the area of international busi-ness, scholars have extensively investigated the antecedents and consequences of institutional duality resulting

Nijssen, 2011).

from the host and home institutional environments which a multinational enterprise sub- sidiary faces and strategically responds to (Kostova & Zaheer, 1999). A novel model of institutional pluralism in business markets, however, awaits further research effort.

In addition to the development of new theories and concepts, an in-viting door is also open to integrating institutional theory with other relevant theories, such as transaction cost economics, resources-based view, resource dependence theory, ecology theory, agent theory, and social network theory (Greenwood, Oliver, Sahlin, & Suddaby, 2008). Beyond transaction cost determinants and considerations, scholars have called for the integration of two seeming distinct theories: transac- tion cost economics and institutional theory in examining governance strategy (Martinez & Dacin, 1999; Roberts & Greenwood, 1997; Yang, Su, & Fam, 2012). The institutional logic becomes more powerful in explaining firm behavior and strategy when it is

converged and inte- grated with many relevant theories. Take sense-making theory (Weick, 1995) as an example, researchers may study, from both cogni-tive and normative perspectives, how stakeholders make sense of busi- ness strategy in order to effectively implement such a strategy. Weberand Glynn (2006) posit that institutions serve both cognitive con- straints and substance for sense-making. Such theoretical conjectures,however, await more empirical validations.

To develop and enrich institutional theory in business marketing,
scholars should also address several critical issues related to methodol-ogy. The first issue is level of analysis, including macro-, meso-, and micro-institutions. Defining the right transaction field and identifying the interactions among the three levels of institutions are two essentialsteps when examining the complicated institutional pressures and pro-cesses in business marketing. With the advent of globalization and the digital revolution, transaction fields in business markets have been dra- matically broadened. Furthermore, the measurement of new constructs of institutional theory needs to be further developed in the context of business markets. Numerous concepts in institutional theory have been proposed and discussed, but never rigorously measured. The lackof operational measures for new constructs often prevents further the- oretical developments and applications. The third issue is to employ di-versified and innovative research methods in addition to the existing methodological tools. Multiple methods, such as longitudinal study, his-torical case study, interpretative approach, archival and secondary data analysis, questionnaire survey, and ethnographic methods could be used in combination to validate data and provide more reliable findings.

3.2. Applications of institutional theory to business marketing

We highlight three broad, promising arenas in business marketing inwhich institutional theory could play a significant role. They are inter- firm relationship and governance, knowledge management and innova- tion, and institutional change. These three areas still await both theoretical development and empirical validation. First, managing in- terfirm relationships in business markets requires firms to employ strat-egies that are able to cope with institutional challenges (Yang, Zhou, & Jiang, 2001). In line with this research stream, researchers can investi- gate (1) the

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linkage of the institutional environment to the internal pol-ity and economy of channel dyads; (2) the effect of institutional environments on trust development in channel management; (3) effec- tive legitimation or delegitimation strategies in organizational net- works; and (4) the institutional effects of interfirm on collaborations and opportunism in business markets.

Regarding governance strategies, scholars should address the legitimacy considerations of a firm's choice of business partners, socialization, incentive, and monitoring to reveal regulative, normative, and cognitive determinants (e.g., Heide, 1994; Hitt, et al., 2004). Furthermore, with growing applications of institutionaltheory to emerging economies, much attention should be paid to exam-ining effective strategies used to mitigate the liability of foreignness caused by institutional distances between two business partners conducting cross-national marketing activities (Kostova, Roth, & Dacin, 2008; Zaheer, 1995).

The effect of institutions on knowledge management (e.g., acquisi- tion, storage, and transfer) and innovation in business marketing is an- other promising avenue for further study. Researchers can examine the influence of institutional environments on effectiveness of exploitativeversus exploitative learning strategy. It is constructive to examine how cognitive biases and information processing limitations, constrained by cognitive maps, affect knowledge acquisition, storage, and transfer. Regarding innovation, it would be fruitful to reveal the adoption and im- plementation of various marketing practices (e.g., new distribution channel design) and their diffusion processes across organizations, industries, and countries from the institutional perspective. An exami-nation of innovations of rule of games in marketing and their effect on business performance also holds future promise.

A long-standing issue for neo-institutionalism is how to resolve the paradox of embedded agency (DiMaggio & Powell, 1991). In marketingchannels, channel members such as manufacturers and distributors arealso institutional agents of change. How can they mobilize their social,economic, and political resources to adapt and change institutional en- vironments within or on the periphery of the market? In business mar- kets, researchers should endeavor to reveal the mechanisms through which organizations embedded in the institution system strategically revise, rewrite, or even create an institution which is favorable for their development. Hargrave and Van de Ven (2006) propose four dis-tinct models of institutional change. They are: institutional design, insti- tutional adaptation, institutional diffusion, and collective action models.These models serve as a good starting point to study the evolution of various marketing systems (e.g., Wallman, 2014–in this issue). Further- more, at the organizational level, it is interesting to understand how power, politics, trust, and numerous group interests affect and are af- fected by institutional processes and changes.

4. Studies in the special issue

The primary focus of this special issue is devoted to advancing insti-tutional theory in the context of business marketing. We are delightedto present seven interesting and high quality papers that address dis- tinct aspects of institutional theory using diversified methods. Belowwe summarize each paper according to its primary research questions. How can marketers innovatively design a transaction game benefiting customers while catering to the distinct demands of mar- ket participants? Wallman (2014–in this issue) addresses this criti- cal issue in organizational institutionalism by studying a historical case of the American cotton factor.

Using the transaction file map, Wallman demonstrates how marketers map their strategic actions in three different transaction stages (i.e., negotiation, commitment, and execution stage), although constrained by the factors of marketing,financing, and operations. For each factor, marketers can create newrules and action so as to facilitate the formation of new forms of market-ing intermediaries, thus gaining competitive advantage. The findingsprovide a guide for marketers to develop and sustain transaction fields and professional fields. The author's introduction of two interestingconcepts, the transaction field and the transaction field map, has brought about a new perspective in the study of institutional entrepre- neurship, specifically in the setting of business marketing.

How should managers tackle market uncertainty and weak legal commitment in emerging economies? Jia, Cai and Xu (2014–in this issue) address this question by empirically examining the impact of market uncertainty and contractual commitment on supplier perational performance through the mediating role of information sharing. Among the three moderators, i.e., regulative, normative and cognitive protection, regulatory protection reduces the positive effect between market uncertainty and information sharing. Normative pro- tection enhances the positive effect of contractual commitment on in- formation sharing. Yet cognitive protection mitigates the positive effect of effect of contractual commitment on information sharing. Mar- ket uncertainties and weak legal enforcement are two major challenges in the emerging markets. Hence, we believe such findings are valuablefor managers who can implement appropriate measures related to in- stitutional environments so as to improve firm performance.

What is the mechanism underlying loose coupling in reconciling contradictory institutional demands? Newton, Ewing and Collier (2014–in this issue) examine the mechanism of loose coupling strategyadopted by four subunits within a multinational professional marketingservices firm. They take a new perspective to integrate trust and organi-zational power with loose coupling strategy. Specifically, managers can minimize oversight from the parent company by leveraging vertical trust (organizational superiors trust on subsidiaries) so that they can im-plement strategies and cater to local institutional demands. Another ef- fective approach to tackling conflicting institutional demands is to build alliances through horizontal trust and mythologized absurdity. Their findings enrich our understandings of the mechanism of loose couplingemployed by firms to strategically respond to institutional duality.

What is the impact of the timing of market entry and firm performance? Li, Li and Cai (2014–in this issue) study institutional isomorphism among multi-national enterprises in the Chinese insur-ance service market. They find that early movers have a significant,

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pos- itive effect on the imitation of market diversification by followers and latecomers. The more similar the entrants' home-country cultures are,the more imitations occur in the market. Due to less deviation from the industry norm, imitators tend to be more labor productive and prof- itable in comparison with the non-imitators. Findings from the largest emerging market provide evidence that institutional isomorphism does matter in handling complex markets.

When will intuitive decision-making be more effective? Vanharanta, Chakrabarti and Wong (2014–in this issue) address the issue by looking at the institutional dimension, in addition to the cognitive aspect of in- tuitive expertise. Based on cognitive effectiveness and institutional le- gitimacy of intuitive decision-making, they classify intuitive decision- making into four fields: virtuoso dominance, procedural dominance, misplaced virtuosity, and frustrated virtuosity. They point out that ef- fective intuitive decision-making requires careful legitimization in the inter-organizational context. Their findings also illustrate the situations under which intuitive decision-making is favorable or unfavorable in marketing management.

How does institutional image contribute to customer perception ofproduct country-of-origin image? The empirical examination of this issue by Wang, Zhou, Mou and Zhao (2014–in this issue) enhances our understanding of country-of-origin from the perspective of legitimacy. Based on online customer comments and discussions about Chinese products' country-of-origin written by Indian and American consumers, they developed a coding scheme to classify two product images, performance image and institutional image driven bysocial legitimacy. Driven by pragmatic legitimacy, performance image is mainly related to product performance at the firm level and nationaleconomic strength, including product quality, price, firm competence, and economic development. Based on social legitimacy, institutional image contains national power, business culture, national institutions,and cultural and social norms. Based on the two images, customers judge product legitimacy and form their perception of product country-of-origin image. The institutional perspective reveals the developmental process country-of-origin image and provides useful guidelines for managers to improve their product's country-of-origin.

What is the moderating role of institutional distances in the effect of asset specificity and complementarity on multinational enterprises'ownership strategies? Zhang, Zhong, Wen and Jiang (2014–in this issue) examine multinational enterprises' ownership strategies by integrating transaction cost economics and institutional theory. Following the study by Yang, Su, & Fam (2012), the authors explore the impact of institutional distances on firm strategies in the setting ofinternational marketing channels. Based on a survey of 206 managers,the authors reveal that the degree of ownership is positively affected by asset specificity and negatively affected by complementarity. Moreover, regulative distance and normative distance play a significant moderating role in the effect of asset specificity and asset complemen-tarity on degree of ownership. When regulatory distance is larger, the positive impact of asset specificity on ownership is strengthened. On the other hand, when normative distance is larger, the negative effect of asset complementarity on ownership is enhanced.

5. Conclusion

The recent development of institutional theory in other disci- plines opens a wide door for innovative research in business market- ing. Refining, enriching, and extending institutional theory in the setting of business markets require both reflective theoretical dis- cussion and empirical examination. Our conceptual framework of the developmental process of institution-driven and legitimacy- embedded efficiency provides a guide for the directions of future re- search and for business strategies. The essential issue is: how can an organization keep one eye on efficiency and one eye on legitimacy? Further advancement of institutional theory by addressing this issue will enable firms to better interpret, manipulate, revise, and elaborate institutional environments in business marketing. We hope that this special issue will encourage marketing scholars to devote considerable effort to establishing innovative thinking and methods in order to make a significant contribution to the develop- ment of institutional theory in the context of ever-expanding busi- ness markets.

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