

NOTE

INSTITUTIONAL THEORY IN THE STUDY OF MULTINATIONAL CORPORATIONS: A CRITIQUE AND NEW DIRECTIONS

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This paper was motivated by the growing interest of scholars of multinational corporations (MNCs) in the institutional perspective. Our review of the literature suggests that international management applications of this perspective have been dominated by a narrow set of neoinstitutional ideas. We develop a set of provocations that challenge the validity of traditional neoinstitutionalism in the context of MNCs. We then offer ideas for more novel theory building in the study of MNCs, based on integrating "old" and "new" institutionalism.

We take a critical look at institutional theory as it has been applied to the study of multinational corporations (MNCs). It is our view that current research has fallen short in understanding the theoretical implications of the MNC context and that utilizing the distinctiveness of these organizations holds potential for stronger theory building in this area.

We start with a brief review of current applications of institutional theory in international management, identifying the primary issues that have been studied and the main institutional ideas that have been used. We find that this work has been dominated by a narrow subset of institutional ideas primarily coming from neoinstitutionalism, yet the nature of the MNC raises fundamental questions about the validity of this perspective for this context. Specifically, how meaningful are the notions of organizational field, isomorphism, legitimacy, and decoupling when MNCs are considered? To stimulate more critical thinking, we present a set of provocations that challenge these neoinstitutional tenets. We then introduce ideas regarding how to address these limitations and how to enrich MNC theorizing by incorporating ideas

from "old" institutionalism. Many of our suggestions may raise questions and stimulate debate. This is exactly our intent—to be provocative and challenging and to start a dialogue among MNC scholars so as to stimulate more creative applications of the institutional perspective.

CURRENT APPLICATIONS OF INSTITUTIONAL THEORY IN MNC RESEARCH

An increasing number of international management scholars are applying institutional theory to the study of MNCs (Dacin, Goodstein, & Scott, 2002) since it provides a rich theoretical foundation for examining a wide range of critical issues and also allows for theorizing at multiple levels of analysis, which is essential for MNC research (Djelic & Quack, 2003). Table 1 summarizes the fundamental applications of institutional theory in the current international management literature: (1) to conceptualize national environments in terms of regulatory, cognitive, and normative "pillars," introducing constructs such as country institutional profile; (2) to conceptualize processes of large-scale transformation of national systems through the notions of institutional transition, upheaval, and imperfection; (3) to explain comparative national business systems based on institutional embedded-

We thank guest editor Marta B. Calás and the anonymous reviewers for their insightful comments and suggestions.

TABLE 1^a
Summary of Institutional Theory Applications to the MNC Context

Topic Descriptions	Exemplary References	Main Institutional Ideas
<p>Institutional profile/institutional distance</p> <p>Country institutional profile is conceptualized as a three-dimensional construct, including regulatory, cognitive, and normative dimensions</p> <p>Country institutional dimensions are practice or issue specific (e.g., quality management, entrepreneurial activity)</p> <p>Institutional distance is defined as the difference or similarity between the institutional profiles (i.e., regulatory, cognitive, normative) of two countries on a particular issue</p>	<p>Busenitz, Gomez, & Spencer (2000), Eden & Miller (2004), Kostova (1997, 1998), Kostova & Roth (2002), Kostova & Zaheer (1999), Xu & Shenkar (2002)</p>	<p>Institutional arrangements are mostly country specific since they evolve within the boundaries of the socioeconomic environment and become established as a result of social interactions</p> <p>Institutions and institutional environments are composed of three "pillars": regulatory, cognitive, and normative</p> <p>Institutional arrangements define the social context of organizations and shape organizational actions</p>
<p>Institutional change/transition economies</p> <p>Large-scale institutional transformation defines transition economies</p> <p>Transitional institutional environments are characterized by</p> <ul style="list-style-type: none"> ● Institutional upheaval ● Institutional baggage ● Institutional imperfection ● Corruption and "state capture" <p>Different stages in the transition process</p> <p>Transitional institutional environments require certain types of strategies and lead to particular firm behaviors (e.g., bribes)</p>	<p>Hoskisson, Eden, Lau, & Wright (2000), Newman (2000), Peng (2000, 2002, 2003), Roth & Kostova (2003b), Whitley & Czaban (1998), Wright, Filatotchev, Hoskisson, & Peng (2005)</p>	<p>Change and transformation of institutional systems is a process following distinct stages characterized by a different degree of maturity and stability of the new institutional arrangements</p> <p>Economic action of individuals and organizations is institutionally determined:</p> <ul style="list-style-type: none"> ● Institutional patterns from the previous system continue to be observed owing to persistence and inertia of institutions ● When the new institutions are not fully developed, proliferation of organizational patterns may be observed
<p>National institutional systems</p> <p>Comparative capitalism and economic action</p> <p>National (and institutional) origin of business systems</p> <p>Institutional features of different types of business systems and comparative firm characteristics (e.g., ownership patterns, state coordination, trust in formal institutions, dominant firm type, growth patterns)</p> <p>Comparative capitalism approach to the issue of MNC corporate governance</p> <p>Extent of MNC embeddedness/disengagement with national institutional systems</p>	<p>Casper & Whitley (2004), Hill (1995), Morgan, (2003), Morgan & Whitley (2003), Ornu, Biggart, & Hamilton (1991), Quack, Morgan, & Whitley (2000), Quack, O'Reilly, & Hildebrandt (1995), Whitley (1999, 2000, 2003)</p>	<p>Determinism of (national) institutional environments in shaping business systems</p> <p>Within institutional environment (country) similarity (i.e., isomorphism) of business systems and organizational characteristics</p>
<p>Institutional constraints on MNCs</p> <p>Institutional environments determine the most effective MNC strategies and structures:</p> <ul style="list-style-type: none"> ● Entry mode decisions in international expansion ● Partner selection in international alliances ● Country's propensity for entrepreneurial activity ● Firm strategic choices (e.g., diversification) 	<p>Child & Tsai (2005), Dacin, Oliver, & Roy (in press), Davis, Desai, & Francis (2000), Flier, Van den Bosch, & Volberda (2003), Henisz & Delios (2001), Hitt, Ahlstrom, Dacin, Levitas, & Svobodina (2004), Kogut, Walker, & Anand (2002), Lu (2002), Yiu & Mackino (2002)</p>	<p>Determinism of (national) institutional environments in shaping organizations' practices and structures through institutional pressures for isomorphism</p> <p>(National) institutional environments can be more or less supportive of particular types of economic activity (e.g., entrepreneurship), depending on the established regulatory, cognitive, and normative institutional arrangements</p>

(Continued)

TABLE 1^a
(Continued)

Topic Descriptions	Exemplary References	Main Institutional Ideas
<p>Diffusion, adoption, and institutionalization of organizational practices and structures across units within the MNC and across national borders</p> <p>Institutional explanation of cross-country differences in MNC practices and structures</p> <p>Institutional explanation of cross-border diffusion, dissemination, convergence/divergence of organizational practices</p> <p>Institutional constraints on transferring organizational practices across national borders; "permeability" of borders</p> <p>Multiple and complex institutional environments from which MNC subunits "draw" their practices and structures</p> <p>Handling of conflicting institutional pressures on MNCs and MNC subunits from the internal organizational environment and their multiple external environments; the role of managers (limited active agency)</p> <p>Relational context within MNCs and context's role in the institutional process of transfer and diffusion of organizational practices within the firm</p>	<p>Eden, Dacin, & Wan (2001), Gooderham, Nordhaug, & Ringdal (1999), Guler, Guillén, & Marcperson (2002), Kogut (1991), Kostova (1999), Kostova & Roth (2002)</p>	<p>Determinism of national institutional environments in shaping organizations' practices and structures by enforcing isomorphism through coercive, mimetic, and normative mechanisms</p> <p>National institutional environments can be more or less supportive of particular types of certain organizational practices</p> <p>As a particular practice becomes fully institutionalized, it assumes a "taken-for-granted" status; developed institutional environments (external as well as internal) are characterized by clear expectations for firms' actions</p> <p>New emerging practices are brought in by outsiders or "peripheral/marginal" organizations that are successful; others start mimicking them, motivated by their increasing legitimacy; as a result, new patterns of organizational action become shared and gradually institutionalized</p>
<p>MNCs, MNC subunits, and host country institutional environments</p> <p>Liability of foreignness of MNCs in host countries:</p> <ul style="list-style-type: none"> • Sources and determinants of liability of foreignness • Dynamics of liability of foreignness over time • Strategies for overcoming liability of foreignness • Consequences of liability of foreignness • Measurement of liability of foreignness <p>MNC legitimacy:</p> <ul style="list-style-type: none"> • Nature and distinctiveness of MNC legitimacy • Factors of legitimacy of MNCs and MNC subunits • Multiplicity and complexity of legitimating institutional environments/actors for MNCs • External/internal legitimacy of MNC subunits <p>Dependence and dynamics between host countries and MNCs</p>	<p>Kostova & Zaheer (1999), Lawrence, Hardy, & Phillips (2002), Levy & Egan (2003), Mezias (2002), Miller & Richards (2002), Zaheer (1995), Zaheer & Mosakowski (1997)</p>	<p>(National) institutional environments grant legitimacy of organizations based on organizational compliance with institutional requirements</p> <p>Institutional requirements are established within the boundaries of an organizational field (class); organizations can be part of multiple organizational fields</p> <p>Legitimacy is necessary and critical for organizational survival</p> <p>Legitimacy is achieved through becoming isomorphic as a result of adopting practices and structures that are institutionalized in a particular environment (field)</p>

^a Rather than provide a complete list, we reference select articles that exemplify the main types of applications.

ness; (4) to explain similarities in practices across organizations resulting from isomorphic pressures; (5) to study constraints on the diffusion and institutionalization of organizations' practices across borders and units of MNCs; and (6) to explain the relationship between MNCs and their host environments based on such notions as legitimacy and liability of foreignness.

In general, most international management scholars have adopted a narrow view of institutional theory, drawing exclusively from neoinstitutionalism (e.g., DiMaggio & Powell, 1991; Meyer & Rowan, 1977; Scott, 1995) and utilizing the concepts of organizational field, legitimacy, isomorphism, and mechanisms of institutional pressures. The neoinstitutional model essentially holds that organizational survival is determined by the extent of alignment with the institutional environment; hence, organizations have to comply with external institutional pressures. While allowing for a nominal amount of agency, neoinstitutionalists largely suggest that incorporation of institutionally mandated elements allows organizational actors to portray the organization as legitimate, thereby enhancing its likelihood of survival.

THE MNC AS A CHALLENGE TO NEOINSTITUTIONAL THEORY

Multinational organizations are substantially different from domestic firms, and some of these differences are not only "in degree" but also "in kind" (Westney & Zaheer, 2001). In their discussion of diversified MNCs, Doz and Prahalad suggested that the main distinction is based on "the combined consequences of multidimensionality and heterogeneity" (1991: 146). Fundamental to these discussions is the cross-border condition, which results in diverse, nonmonolithic, fragmented, and possibly conflicting sets of external environments for MNCs. In addition, MNCs have complex internal environments, with spatial, cultural, and organizational distance; language barriers; interunit power struggles; and possible inconsistencies and conflict among the interests, values, practices, and routines used in the various parts of the organization.

Recognizing this distinctiveness, Kostova and Zaheer (1999) offered special theorizing on legitimacy of MNCs, which they argued is necessary because the MNC case highlights a condition of complexity not taken into account in previous

work (complexity in the external legitimating environment, the intraorganizational environment, and the process of legitimation). In our previous work we also emphasized the heterogeneity and complexity of MNCs, which we found motivates international management researchers to use this context for validating and extending existing management theories (Roth & Kostova, 2003a).

We submit that these characteristics of MNCs limit the applicability of neoinstitutionalism to these organizations. Although subject to institutional forces, MNCs have a very different institutional story that better fits the conditions of equivocality, ambiguity, and complexity. Below we offer several provocations that reflect how MNCs challenge basic neoinstitutional tenets regarding organizational field, isomorphism, decoupling and ceremoniality, and legitimacy. We then present ideas for a more refined and intellectually rich institutional theorizing.

Organizational Field

Tenet 1: Organizations function in organizational fields, where distinct patterns of organizational action emerge and become institutionalized, institutional pressures are exercised, and legitimacy is granted.

Provocation 1: The notion of organizational field in the traditional institutional sense does not apply to MNCs.

In neoinstitutional terms, the environment is conceptualized as an organizational field. Fields determine the socially acceptable patterns of organizational structures and actions. Thus, defining organizational fields and specifying their boundaries is critically important (Washington, Ventresca, & Suddaby, 2005). DiMaggio and Powell defined an organizational field as "those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies and other organizations that produce similar services or products" (1983: 148). Organizational fields encompass both populations of competing organizations and interorganizational relationships (Powell & DiMaggio, 1991). Although fields may initially consist of diverse organizational forms, they undergo structuration (Giddens, 1979) over time. Through increasing interaction, organiza-

tions develop mutual awareness that they are involved in a common domain with clearly defined coalitions and patterns (e.g., Friedland & Alford, 1991; Hoffman, 2001).

We suggest that organizational fields, in the neoinstitutional sense, do not exist in the MNC context, or are ill-defined at best. MNCs and their subunits face multiple, fragmented, nested, or often conflicting institutional environments. Such conditions, coupled with spatial, language, cultural, and organizational barriers, preclude sufficient interorganizational interactions, which are fundamental to structuration and field formation. Inconsistencies between these different environments do not easily allow the emergence of shared patterns necessary to define a field.

Two qualifications are in order with regard to organizational fields in MNCs. First, one could argue that, at a very high level of analysis and generality, MNCs as a specific type of organization form their own organizational field. In this sense, MNCs across countries and industries belong to an institutional class or field that operates according to particular rules, logic, and norms and that might be subject to scrutiny and sanctions by certain legitimating actors in the case of deviation or violation. This is consistent with recent trends in the practice of the global management of establishing guidelines and expectations for MNC behavior on a worldwide basis, primarily in the area of social responsibility. Examples include environmental standards, human rights issues, and ethical labor practices and safety. Thus, here the idea of an organizational field has some relevance and may be useful in explaining MNC management. However, we would still note that this field departs from the conventional institutional conceptualization in that it is very broad and narrow at the same time. It is broad in the sense that it encompasses MNCs in general, but it is narrow with regard to the number and scope of institutionalized values and practices that it enforces. We refer to this as a *metainstitutional* field to distinguish it from the fragmented and ambiguous *meso* field discussed above. Such transnational institutions, resulting from globalization, are becoming, it is argued, increasingly disconnected from national institutional systems (Djelic & Quack, 2003: 11).

Second, if the MNC subunit is considered, the notion of organizational field may have a different focus and expression. Given the lack of a

well-defined organizational field and, therefore, a clear external institutional environment, to which such subunits belong, they may refocus internally within the MNC. Scholars have noted the existence of intraorganizational institutional environments in MNCs that, similar to the external ones, are characterized by a set of regulations, cognitive structures, and norms (including organizational culture) that make certain practices and structures more acceptable and desirable than others (Kostova & Zaheer, 1999; Westney, 1993). From this lens, all units in an MNC might be viewed as belonging to the same *intraorganizational* institutional field, which is contained within the boundaries of the firm. Such a field may be even stronger in exerting influence over its members—that is, MNC subunits—than the traditional external field discussed in neoinstitutionalism. This is because subunits are often more dependent on the parent company than their local external environments for critical resources. The intraorganizational field is overlaid with the formal authority structure, which further enhances its influence. It also serves the strategic purposes of transferring and leveraging core competences and capabilities across units on a global basis; hence, firms are likely to consciously create and strengthen their intraorganizational field so as to reinforce and disseminate a shared business model. It reduces the ambiguity and provides a sense of direction, certainty, and legitimacy needed in these circumstances.

In summary, we have argued that the MNC context requires revisiting the notion of organizational field. In the MNC, fields (in a neoinstitutional sense) are ill-defined or nonexistent. At the meso level, fields are multiple, fragmented, ambiguous, and inconsistent. However, at the meta level, MNCs are part of an emerging global class of organizations that share a set of values and patterns (albeit limited in scope). MNCs also form their own intraorganizational field, which serves as an “institutional environment” for their subunits.

Isomorphism

Tenet 2: There is substantial isomorphism (i.e., similarity) among organizations that results from the adoption and diffusion of certain business models, practices, and structures estab-

lished as a standard in the respective organizational field.

Provocation 2. There is limited institutional isomorphism in MNCs.

Our discussion in the previous section led to a very distinct picture regarding institutional pressures and isomorphism in MNCs. Fundamentally, isomorphism in the traditional neoinstitutional sense is not possible in MNCs. This is because (1) isomorphism only occurs in a field and (2) as argued above, a single clearly defined organizational field does not exist for these organizations. In addition, isomorphism is unnecessary, especially at the meso level. However, we acknowledge that some form of isomorphism can occur within the meta- and intraorganizational fields, as discussed above.

In our view, the multiplicity and ambiguity of organizational fields at the meso level result in more diverse but weaker institutional pressures for MNCs overall. The diversity among the many institutional systems that they are exposed to and the unique sets of arrangements that each MNC unit faces give these organizations broader latitude in picking and choosing which models to adopt and to what extent they should respond to institutional influences. They are, in a way, buffered, protected, less dependent, and in some cases perhaps even exempt from institutional pressures because of their unique and complex positioning in the web of organizational sectors.

Yes, there are pressures from the host country, but rarely for local isomorphism. Since MNCs bring something distinctive to their host countries that is valued and appreciated by local constituents, it is less likely they will be expected to adopt locally established practices. If there is an expectation for compliance, it will be limited to the regulatory and legal domains. MNCs might also be viewed as belonging to a different class altogether because of their foreignness and, as a result, may be excluded from local isomorphic pressures.

Furthermore, local institutional environments may have limited capacity to enforce MNC isomorphism. First of all, host countries do not have a clear view of which companies belong to a certain organizational field, since field boundaries are blurred and shifting. Thus, there cannot be a very clear set of requirements for MNCs to follow certain patterns. Also, in the simplest

sense, local environments do not necessarily control all scarce resources that MNCs need, given that they may have alternative sources. As long as they act within the boundaries of the law, foreign firms have the latitude to choose their level of responsiveness to the local institutional environment. While there will be some power to enforce regulatory institutional rules through coercion, there will be very little enforcement of cognitive and normative institutional components for MNCs.

In addition to such "institutional freedom," MNCs enjoy a rich institutional landscape, being exposed to a multitude of diverse practices and patterns of activity. This allows them the discretion to choose patterns that they think fit them best. In their international operations they may decide to follow local practices or to borrow from any other institutional model they are aware of. Thus, similarity among firms may be observed. However, it is the result of choices firms make rather than compliance with external isomorphic pressures. This condition highlights the critical importance of agency in MNCs.

In summary, the combination of multiple institutional pressures from the metaglobal field, the MNC internally, and the idiosyncratic institutional environment of each particular MNC unit results in a complex picture of isomorphism. Isomorphism among MNCs is partly impossible and partly unnecessary. It is less observed in general, it is limited in scope, and it is diverse with regard to the reference class. MNCs have layers of practices, each of them possibly isomorphic with different classes. The first layer, consisting of the practices mandated by metainstitutions, will be surprisingly similar across organizations. The second layer, consisting of practices mandated by headquarters, may also be somewhat similar across subunits. However, a large part of what MNCs actually do will be unique and unpredictable, for it has been shaped by diverse institutional influences over time and also as a result of choices firms have made at their discretion. As such, isomorphism is not a necessary condition for legitimacy or survival.

Decoupling and Ceremoniality

Tenet 3: Organizations engage in ceremonial adoption of institutionalized

structures and practices while at the same time decoupling themselves from the environment by actually using different structures and practices they view as more economically efficient.

Provocation 3. Decoupling and ceremonial adoption are not prevalent in MNCs.

We contend that MNCs will engage in less decoupling and ceremoniality than typically suggested by neoinstitutionalists. This follows directly from our previous provocations, which suggest less pressure for isomorphism overall and at the meso level in particular. We recognize that our idea is counterintuitive and contrary to what has been proposed by international scholars. As we pointed out earlier, the logic behind current views that decoupling and ceremonial adoption are prevalent in MNCs is based on the assertion that this is the only way MNC entities can reconcile the conflicting models imposed on them by diverse legitimating actors (Kostova & Roth, 2002). The single operating model actually used by a given MNC subunit has to be approved and accepted by many actors, externally and internally, who might perceive the unit to be part of different organizational fields and expect it, therefore, to adopt different institutionalized standards. In this situation MNCs cannot function without practicing decoupling and ceremonial adoption of certain legitimating standards. These arguments, however, have been based on the assumption that isomorphism with these multiple and diverse institutional environments is necessary.

Our challenge to the assumption that isomorphism is necessary provides for novel theorizing on ceremoniality and decoupling in MNCs. There are two primary reasons for our views on this issue. First, the term *decoupling* implies adoption as ceremony—that is, a conscious effort on behalf of the organization to portray itself as following the institutionalized “rules” while actually conducting business in different ways that it believes are more efficient. Such efforts are not only impossible but also unnecessary in the absence of isomorphism expectations, particularly at the meso level. MNCs will use diverse structures and practices that often differ from those established in the many environments in which they operate. However, such di-

versity will be tolerated, and there will be no need to adopt the same practices as “myth and ceremony” (Meyer & Rowan, 1977).

Second, at the other two levels (meta and intraorganizational), while MNCs will be pressured to adopt institutionalized practices, they will be less likely to do this ceremonially. Because the institutionalized practices at the meta level are very few but widely recognized, and because MNC actions worldwide are increasingly transparent, it would be risky to engage in manipulation of compliance instead of actual adoption. The actions of MNC units are also visible and transparent when the intraenvironment is considered. Subunit activities are likely to be monitored and controlled internally through formal and informal mechanisms. Furthermore, internal ceremonial adoption is less likely because subunit managers may be motivated to comply with headquarters’ expectations for actual adoption either because of their personal career interests or because of a belief in the value of the practices diffused.

Legitimacy

Tenet 4: Legitimacy (i.e., acceptance and approval of organizational actions by external constituents) is critical for organizational survival. It is achieved primarily through isomorphism, where organizations become similar to other organizations in their organizational field.

Provocation 4: MNCs engage in actor-specific manipulation and negotiation of their status aimed at social construction of their acceptance and approval. Achieving legitimacy in this context makes companies less, not more, similar.

Achieving and maintaining legitimacy are very difficult for MNCs because of the multiplicity and complexity of legitimating environments, intraorganizational complexity and diversity, and ambiguity in the process of legitimation (Kostova & Zaheer, 1999). In our view, the MNC context does not challenge the need for legitimacy. On the contrary, it is even more important for these organizations to become accepted and approved by multiple legitimating actors owing to their inherent disadvan-

tages (i.e., liability) of being foreign. However, we argue that the MNC context challenges the traditional explanation of the mechanism through which legitimacy is achieved.

We suggest that for MNCs, especially at the meso level, it is impossible to achieve legitimacy through isomorphism. Conforming to the myriad regulatory, cognitive, and normative institutional expectations coming from multiple and conflicting sources is not feasible. Therefore, in MNCs the emphasis is on alternative legitimating mechanisms. Here, the way to become legitimate in the eyes of the important legitimating actors is to negotiate this status with each of these actors. By negotiation, we mean a political process of interaction, communication, and exchange, which creates a perception about the organization without its necessarily having to implement certain models and practices. Legitimacy, therefore, is more a social construction than a function of isomorphism. Symbolic image building becomes critical.

For example, under these circumstances managers can use "legitimacy spillovers" by associating their units with other highly legitimate units known in a particular environment (Dacin, Oliver, & Roy, *in press*; Kostova & Zaheer, 1999). Building on the reputation of others, including the entire MNC, helps create this positive perception about the focal unit. In addition, managers can further decrease the need for compliance and possibly gain exemption status from all parties by using their complex institutional situation to play the different sources of legitimacy (e.g., parent company, host country) against each other. Finally, in an effort to further enhance their positive image in local environments, MNCs may engage in practices and activities that are not required by the local institutional context but are viewed as socially desirable. Through engaging in such discretionary activities and publicizing them well, organizations can build additional local support. Inasmuch as these processes of legitimacy social construction and negotiation are firm and actor specific, they will result in increased diversity rather than similarity between organizations.

REJOINDERS: ENRICHING THE INSTITUTIONAL APPROACH IN MNC RESEARCH

Given all these limitations, should MNC scholars abandon institutional theory? Our po-

sition is that, on the contrary, there is a lot to be gained from employing institutional perspectives. However, international management scholars must break away from the few basic institutional ideas that have been used continuously and indiscriminately. As argued above, these ideas have limited validity and require serious theoretical reconsideration for the MNC. In our discussion we began to suggest how the basic notions of fields, isomorphism, decoupling, and legitimacy need to be modified given the nature of MNCs. Looking forward, we propose that international scholars must develop more sophisticated institutional theory applications for the study of MNCs by incorporating the broader institutional literature.

Taken as a set, our provocations have two related underlying themes. First, MNCs are embedded in multiple, fragmented, ill-defined, and constantly evolving institutional systems conceptualized at different levels of analysis, each characterized by a distinct institutional process and degree of determinism in shaping organizational behavior. Second, because of this, we suggest that MNCs' relationships with their institutional environments are dynamic, discretionary, symbolic, and pro-active. In contrast to the deterministic neoinstitutional view, MNCs have an important agency role reflected not only in their varying degree of compliance to institutional pressures (Oliver, 1991) but also in that they must make sense of, manipulate, negotiate, and partially construct their institutional environments.

Theoretically, we believe that these conditions could be much better understood if ideas from "old institutionalism" were blended with the neoinstitutional views currently employed. As opposed to the neoinstitutional emphasis on "statics, outcomes, cognition, and the dominance and continuity of the environment," "old" institutionalism focuses on "dynamics, change, social construction, and values" and emphasizes a more subjective, agency-dominated view (Hirsch & Lounsbury, 1997: 406). Rather than being merely exogenous constraints that organizations have to consider, institutions are conceived of as enacted and socially constructed shared understandings and as outcomes of a social process in which the organization and its subunits and actors are actively involved.

We do not advocate abandoning the neoinstitutional perspective. Instead, concurring with

many sociologists (e.g., DiMaggio & Powell, 1991; Hirsch & Lounsbury, 1997; Selznick, 1996; Stinchcombe, 1997), we suggest that "old" and "new" institutionalism be brought together for the study of MNCs. The ideas below introduce elements of such an approach and can be viewed as an initial reply or a "rejoinder" to the provocations above and as a foundation for more refined and novel institutional theorizing about MNCs. We are influenced by the work of Alvarez, Mazza, Pedersen, and Svejnova (2005), who have advanced a complex theory of action. Based on the notion of "optimal distinctiveness," they suggest that social actors strive for a balance between seeking legitimacy through isomorphism and maintaining unique identities to differentiate themselves.

We retain the neoinstitutional premise that organizational success depends on factors beyond technical efficiency and that these other factors are essentially socially constructed. However, instead of emphasizing a static and deterministic view of well-defined fields, we suggest that it might be more instructive to conceive of social environments as evolving rule systems that are the products of a continuous process of sensemaking, enactment, and negotiated political interactions. This approach conceptualizes fields as systems of shared meaning that emerge as actors coalesce around issues and shared logics or ideologies. Field boundaries are illuminated and differentiated via observed conflicts. Central to this institutional process are social agents both internal and external to the organization. Conceptualizing these social agents and their role, the related processes of interpreting and/or constructing the rule systems, and the organizational responses to these rule systems represents new directions for theory development in MNCs.

In thinking about the role of social agents in the MNC context—and consistent with "old" institutionalism—we posit that actor preferences are influenced by socialization processes involving norms and values and that these norms and values arise largely from localized or national settings. However, in the MNC context, social agents must reconcile such preferences at collective levels above the level of a particular national environment, thereby confronting institutional complexity, contradictions, and even voids. This highlights a very distinct institutional process.

First, MNC actors must engage in simplification processes using cognitive tools such as scripts, schemas, and typifications so as to bring some order to their understanding of their complex institutional settings. At the individual level such cognitive processes will remain influenced by individualized and localized experiences and, as a result, will not be collectively held. Therefore, second, individual actors must engage in a process of creating some level of a shared understanding of what constitutes the rule system. We expect this to be a negotiated political process where power and influence come into play since different outcomes would benefit the interests of different actors. Who influences this process and how it is done are therefore critical to understanding institutional explanations of MNCs. Third, the combination of (1) substantial institutional contradictions, voids, and ambiguities; (2) strong agency; and (3) the political nature of the collective institutional process will lead to an institutional reality characterized by pluralism, dynamics, and instability. Furthermore, we expect that social actors in the MNC context will continually try to create new institutions to benefit their organizations and/or to maintain or strengthen their own power.

There are several bodies of literature related to institutionalism that are instructive in developing more insightful ways of addressing the theoretical issues that follow from the above discussion. For example, among many other issues, how do institutions emerge; how do organizations make sense of their complex institutional environments; how do they actively position themselves in and out of meta, meso, and intra fields; how does agency take place; whom is agency embodied in; what are the driving forces for organizational similarity or dissimilarity; and how do organizations survive given the complex social constraints they face? Particularly instructive is the work on institutional entrepreneurship (DiMaggio, 1988; Lawrence & Phillips, 2004), rhetorical and discourse strategies (Phillips, Lawrence, & Hardy, 2004; Suddaby & Greenwood, 2005), and institutional contradictions and praxis (Seo & Creed, 2002), as well as the very interesting theorizing on enactment of organizational environments (Smircich & Stubbart, 1985).

Seo and Creed, who studied the link among institutional contradictions, change, and praxis

(i.e., a form of human agency, a "political action embedded in a historical system of interconnected yet incompatible institutional arrangements" [2002: 223]), suggest that "the likelihood of praxis increases as contradictions within and across social systems develop, deepen, and permeate actors' social experience" (2002: 230). Since the MNC context is characterized by substantial institutional contradictions, it highlights the role of agency (i.e., praxis) and the likelihood of continuous institutional change. This results in an institutional picture of change and heterogeneity among organizations as opposed to a stable and isomorphic state. Similar conclusions could be derived from the work of Lawrence and Phillips (2004), who also suggest that institutional change in the form of new institutional arrangements results not only from the exogenous macrohistorical context but also from the action of institutional entrepreneurs. Morgan and Quack (2005), along with Djelic, Nooteboom, and Whitley (2005), argue as well that internationalization brings forth the power of firms as institutional change agents.

The notions of praxis, discourse, sensemaking, symbolic interactionism, and power and politics in organizations are also critical to understanding legitimacy in the MNC context. As our provocations suggest, legitimacy in MNCs is symbolically established. Understanding the mechanism by which this occurs requires going beyond the simplistic notion of isomorphism. Legitimacy will be achieved by those who are able to develop an accommodation with existing cultural schemas (Van de Ven & Garud, 1993), and power will play a major role in these dynamics.

This is also consistent with the work on new structuralism (Lounsbury & Ventresca, 2003), which emphasizes multilevel political, cultural, and social aspects of organizational behavior and phenomena. Accordingly, more powerful political contestants in the social arena will be able to have their schemas reflected within institutional logics. Essentially, those agents who are skillful in using persuasive language or rhetoric and who are sensitive to contradictions and voids can influence institutional logics, as well as the criterion for legitimacy that is encoded with these logics (Suddaby & Greenwood, 2005). They will have the opportunity to maintain this influence through further exploitation of change, or even through inducing change, as well as establishing additional contradictions

or ambiguities to serve their interests. Thus, to the extent that the social agents of the MNC maintain constructionist contradictions and ambiguities, the MNC will not confront isomorphic pressures, nor will it need legitimacy to be conferred based on conformity with such pressures. This process of legitimation is different from the one narrowly described by conventional neoinstitutionalism.

CONCLUSION

Our objective in this paper was to be provocative. This may have led to some extreme statements that are beyond the comfort zone in academic writing. However, we believe that the field of international management is ready for such a critical approach and that it can only move forward in a significant way if we question and reassess established paradigms. We have followed Kilduff and Dougherty's recommendation to "engage in the active critique of the rarely challenged assumptions guiding our field. . . . To achieve pluralism and change, it may be necessary to challenge the hegemony and conventional interpretation of taken-for-granted texts" (2000: 778). We have asked fundamental questions, such as "Is institutional theory useful in international management research? Are its main ideas valid in the MNC context? Which of them apply, which don't, and which need to be modified and further developed?"

We started with formally challenging the current institutional applications in MNC research through a set of provocations, where we believe we responded to Whetten's (1989) call to study the contextual (i.e., in MNCs) limits of institutional theory, particularly its neoperspective, which has been dominating international management research. We then attempted to offer some ideas of how to address these limitations. Although it was beyond the scope of this paper to provide a comprehensive alternative institutional model for studying MNCs, we presented our views of how broadening the theoretical lens could benefit international management work. We advocated moving toward a blended institutional perspective, where the broad concepts of social embeddedness of organizations are intertwined with the ideas of agency, social construction, and power and politics. This approach better fits the complex theoretical nature

of MNCs and allows for a more refined and relevant examination of institutional processes in these organizations.

The challenges to neoinstitutionalism in the MNC context occur mostly at the meso level of analysis and less so at the meta and intra levels. Therefore, the alternative or "blended" institutional process that we presented will be most relevant to this meso level. In Sutton and Staw's terminology, we identified the conditions under which our model is "most and least likely to hold" (1995: 376). It is most appropriate under conditions of institutional ambiguity and contradictions (i.e., the meso level) and, while still valid, less so when applied at the meta and intra levels of analysis. This is further supported by the work of Whitley (2003), who also suggests that because of the institutionally weak international business environment, MNCs are likely to pursue more idiosyncratic ways of organizing at the interface with host and home environments. Since the meso level is exactly where most MNC research is done, we invite international management scholars to more carefully consider the special case of MNCs and to engage in less parochial and more intellectually sophisticated theory building within the institutional perspective. This requires multidisciplinary approaches and an ontological shift away from pure positivism and empiricism.

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