

# International Business Studies and the Imperative of Context

Exploring the 'Black Whole' in Institutional Theory

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# International Business Studies and the Imperative of Context. Exploring the 'Black Whole' in Institutional Theory

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## Abstract

The aim of this article is to take a critical look at how to perceive informal institutions within institutional theory. Douglas North in his early works on institutional theory divided the national institutional framework into two main categories, formal and informal institution or constraints as he called them. The formal constraints consisted of political rules, judicial decisions and economic contracts, whereas informal constraints consisted of socially sanctioned norms of behaviour, which are embedded in culture and value systems. As formal constraints are straight forward to deal with the informal ones are much more vaguely defined and thus more difficult to grasp analytically. This imprecise perception of informal constraints is surprising as they basically constitute the foundation of the society in question, whereas formal constraints 'only' constitute the functional aspects of the state apparatus in that particular society. In order to, however, begin excavating what lies further behind the informal constraints and their impact on the functionality of the formal constraints it is important to take an overall critical look at the way in which institutional theory relate to a given societal context. This article suggest that this is done by first employing an overall international business (IB) approach to analyse a national economy, in this case the Malaysian economy. This will not, however, be done according to the generally accepted procedure in IB studies using either a firm specific or a generic market-based approach, but rather by employing a combination of selected IB theories and a 'glocalised reading' on how the relationship between the global economy and a national economy pan out and how this translate into impacting a given societal setup. In other words, IB theories are not only employed in the economic sphere, but also confronted with a variety of societal factors that have a positive or negative impact on the explanatory power of the individual IB theories employed.

**Keywords:** *global economy, 'glocalisation', international business studies, institutional theory, informal constraints, societal embedment, Malaysia*

## Introduction

As the notion of the global economy is not a given in terms of how to identify the different drivers behind it this article finds it imperative to identify the signifiers that lies at the heart of the different interpretations of the global economy, as each of these interpretations produce different sets of explanatory factors that caters for different 'readings' of what constitutes the global economy thus producing different modes on how it is impacting a national economy. Accordingly, this article has chosen to focus on four different approaches on how to 'read' the global economy. The first one, the so-called decoupling approach, focuses on whether it is possible to decouple or delink from the global economy (Rugman and Verbeke 2004). Here the main finding is that due to the continuous integration of and thus increasing interdependency between the various national economies the content and structure of the global economy changes accordingly thus making decoupling from the global economy very problematic if not impossible. Basically speaking the global economy is gradually transformed into a tight interlinked transnational economic web. Being as it may the weak point in this perspective is that it does not take the impact of local societal factors on individual national economies into account thus constantly changing the preconditions for the societal setup in which the national economy is to perform. In other words, the societal factors constitute a kind of more or less unpredictable game-changer in the relationship between the national and global economy.

The second approach on how to 'read' the global economy does likewise not take the societal factors and their impacts on the individual national economy into account. Here the main focus is on how to visualise the global economy. The question is on whether it is 'flat' or 'spiky' (Friedman 2005)? When 'flat' the global economy is approaching full integration and harmonisation of the different national economies, thus standardising economic practices in the different types of markets regardless of various societal factors. This perception of the global economy is, however, disputed and thus a likewise visual counter perception has been forwarded: the world can be divided into various kinds of 'spikes', 'hills' and 'valleys', representing different levels of

economic activity (Stiglitz 2006). Local societal specificities in this context are thus reduced to set-pieces ready to be fitted into a frame that is conditioned according to whether we are talking about 'spikes', 'hills' or 'valleys'.

The third approach is a typical international business view of the global economy. Here the global economy is divided into three main types of markets: developed markets, emerging markets and bottom-of-the-pyramid (BOP) markets (Peng 2009). It is a categorisation that is currently losing momentum as the different types of markets are either catching up, stagnating or are gradually merging into one another thus producing hybrid forms of markets that are difficult to define when only employing the before mentioned market typology. The main drivers behind this dynamic (dis-)aggregation of different types of markets can be identified as an increasingly complex differentiation and capitalisation of the three main types of markets. A good case in point is Asia where all three types of markets co-exist and interact thus making navigating these markets from a company perspective very complex. Again, societal factors do not constitute naturally integrated aspects of how this navigation has to be done. Instead here the key words are generic theories analysing different types of institutional setup, industry specific theories or firm specific theories coupled with different kind of entry modes thus leaving societal specific entities like norms, values and other informal constraints out of the equation (Hall and Soskice (2001), Carney, Gedajlovic and Yang (2009)).

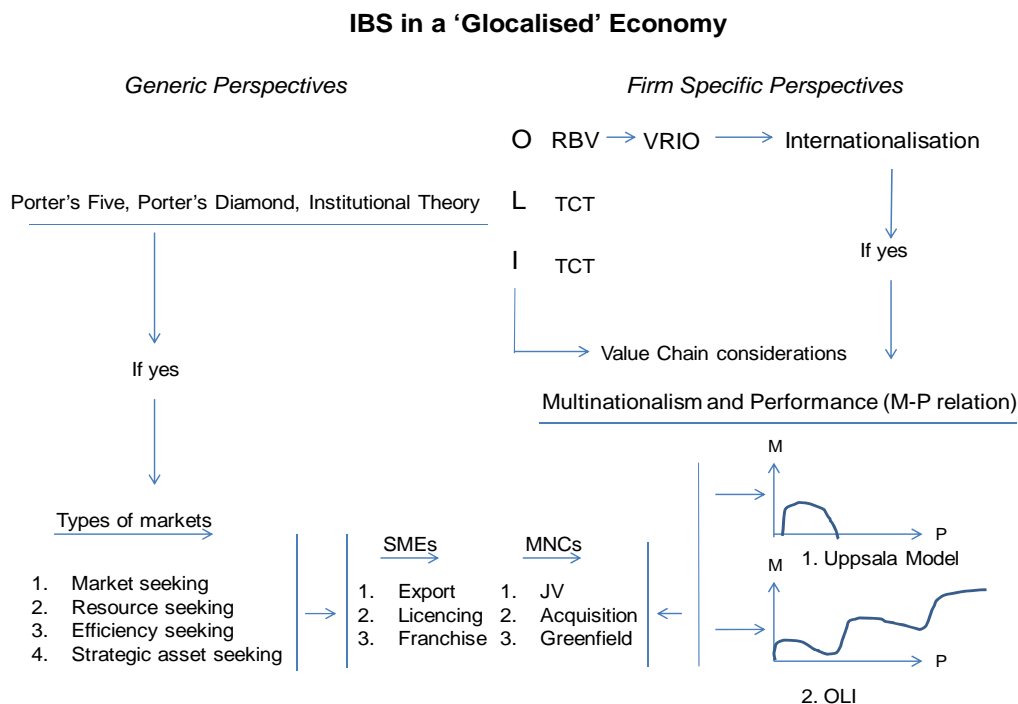
The fourth and in this context final approach of how to 'read' the global economy can be described as a 'glocalised' perception of the relationship between the global and national economies (Ferguson and Mansback (2012)). Thus, global developments, including political and societal as well as economic ones, cannot be disentangled from a given national context. The key word when engaging a perspective as glocalisation is context; context matters in all aspects of the global community. According to this perspective, it is not possible to disentangle the local or national economies from the global one; they condition each other through a complex web of interdependencies, thus blurring their individual points of reference. This last approach is the one employed in this article.

## Contextualising IB studies

Taking a glocalisation approach positions IB studies in a critical perspective, as the individual theories within it are exposed to a specific societal context that puts a strain on their employability and explanatory capabilities. In order to counter this various IB theories can be combined into a model in which the individual theory is supported by other pertinent IB theories that can either constitute a specific theoretical model designed exclusively for, for example, the Malaysian case or constitute a generic model that can be employed on other national economies. In the context of this article, the IB model below is specifically designed to fit the Malaysian economy.

To give an example of how such a model can be designed, several interrelated IB theories have been combined (Figure 1).

**Figure 1**



(Source: Own design July 2012)

The selection of IB theories and approaches in Figure 1 can be combined into one major model as illustrated in Figure 1 or into several interrelated smaller ones the size and composition of which depends on the specific context in which the model is to be applied. The overall context is generally a given national economy in either a developed or an emerging market, in this particular case Malaysia perceived as belonging to the emerging market category. The point of departure for the major model is Dunning's (2000) Eclectic Paradigm, the so-called OLI model. Basically, the model depicts a company that has decided to go international. To assess whether the company's ownership-specific advantages ('O') can be maintained during an internationalisation process Barney's (1991) Resource Based View (RBV) is applied to the 'O'. After having checked whether the tangible and intangible company resources are in such a state that they are capable of being applied in a specific foreign market a further check on the ownership-specific advantages can be carried out by employing the so-called VRIO framework, also developed by Barney in 2001. VRIO stands for: value creation (V), rarity (R), limitability (I) and organisation (O).<sup>1</sup> An affirmative answer to each of the qualifiers indicates that a firm can sustain a competitive advantage in, for example, a foreign emerging market.

If both the RBV and the VRIO sanction the initiation of an internationalisation process, the company theoretically has two new options to operationalise the internationalisation procedure, namely an incremental approach using the Uppsala model or a 'head on' approach that is, entering a foreign market that is not closely linked to the company's home market, by employing the OLI model. To give an example of the latter approach, a Danish company goes directly to a pertinent Asian market without first accumulating experiences in either Scandinavian or European markets. As a consequence, the company confronts a rather steep learning curve that is more or less dictated by a trial and error approach.<sup>2</sup> Depending on the size of the company, an appropriate entry mode can now be selected. For SMEs, the options most often employed are exporting, licensing or franchising due to budget constraints; in the case of a larger company, options revolve around joint ventures (JV), partial and full acquisitions or various types of greenfield



investments. This list of entry modes not exhaustive; these are just the most typical ones employed.

If we now turn to the location-specific advantages ('L') in the OLI paradigm, then the perspective turns from employing firm-specific theories to generic ones. After a company assesses the location-specific advantages to see whether the market in question is positive towards its products and/or services, it then checks whether the company's specific resources and capabilities, as determined through the RBV and VRIO, can be sustained in that particular market. If so, the company might proceed by employing more generic theories such as institutional theory as defined by North (1991) and Scott (2008) when positioning the targeted foreign market in an overall societal context.<sup>3</sup> These theoretical insights into the relationship between formal and informal institutions in a given societal context and how they in return react to and impact on international business provide the company with an analytical and dynamic understanding of how the market it is interested in works. This is important as such knowledge has a major impact on what kind of business strategy as well as what kind of entry mode to employ when actually entering that particular market.

After carrying out this generic macro-analysis, our company is interested in becoming more familiar with the competitive environment in a pertinent domestic industry in which the company is to engage in. Here, for example, Porter's Five Forces or his Diamond model (1998, 2008) can be employed, depending on whether the state is an active and perhaps a dominant player in that particular market or just to assess in what way the state tries to facilitate the industry in question. If our fictitious company is satisfied with the market and the industry analysis, it is now, according to our model, ready to make the final identification of what kind of market it is seeking and thus what kind of entry mode to employ. The selection made using the generic-market analysis should match the selection made on the basis of the firm-specific analysis. If this is the case, then the company is almost ready to enter the foreign market, relatively sure of making the best of the opportunities and constraints awaiting it there.

There is, however, according to Dunning (2000), one final analysis to

make namely an analysis of the internalisation advantages, the so-called 'I' factor. According to Peng and Meyer (2011: 173-174), when focusing on the 'I', one is focusing on how to organise the value chain. This means, how to organise company assets and potential suppliers and subcontractors, thus deciding on whether the value chain should be organised 'in house' or whether the new market can be drawn on in sourcing the supplies necessary for the company to succeed in this market. One of the key considerations in this connection is transaction costs. If our company can replace local market suppliers it will do so, due to the fact that the transaction cost is lower than if it sources what it needs from local suppliers. The tendency to internalise and thus tighten up the value chain becomes much stronger when the foreign market is characterised by market failures. Basically this means that the imperfections that characterise the foreign market mechanism make some of the transaction costs prohibitively high for our company. Thus, it will choose to tighten up the value chain, that is, internalise the production process to the highest degree possible to keep down the cost of doing business in that market.

If we now return to the overall IB model shown in Figure 1, we can see that the OLI paradigm constitutes the central point of departure for employing both a firm-specific perspective and a more generic market perspective of a given company's internationalisation strategy. As such, the overall model provides us with some basic input for developing a business strategy designed to deal with both the positive and negative outcomes of the firm-specific and generic-market perspectives. This again constitutes the basis for selecting what entry mode to employ in a particular market. In this way, the business strategy that takes its point of departure in part from a business model and in part from the outcome of both the firm-specific and generic perspective analyses of the market is thus attuned to the local institutional arrangement, both the formal and informal, as well as dealing with the specificities of the local market in the most optimal way. Our company is now amply prepared to initiate its internationalisation process.

## **Societal Embeddedness in Economic Approaches**

The overall model or any combination of it works most efficiently under perfect market conditions, at least theoretically. Perfect competition serves as a benchmark against which to measure real-life and imperfectly competitive markets. The assumption of perfect market competition as the foundation of price theory for product markets is often criticised for making agents passive, that is, removing active attempts to increase one's welfare or profits by price undercutting, product design, advertising or innovation, activities that critics argue characterise most industries and markets. This criticism is reinforced when comparing the first three modes of reading the global economy, which are, regardless of which perception you prefer, socially and politically sanitised versions of how the markets work. In other words, they are ideal modes of reading the global economy.

For example, if we take the three descriptions of the global economy discussed above - integration versus decoupling, whether the global economy is 'flat' or 'spiky', and the IB approach that operates on the basis of market differentiation - all three operate with a rather standardised notion of international business practices in which the societal embeddedness of the global economy does not have a significant impact on economic performance, neither internationally or nationally. The same lack of impact from societal forces on state performance in the three perspectives also applies to the main non-economic player in this context, namely the role of the state, regardless of whether it acts as an initiator of economic activity or as a facilitator in both the national and global economies.

The option of decoupling is measured against the political possibility of withdrawing or at least shielding off the national economy from the impact of the global economy, and whether the global economy is 'flat' or 'spiky' depends on how the economy is organised on both a global and national level. The societal impact on the economy, whichever level, is strongly underplayed, thus basing economic performance on almost perfect market conditions. The fourth and final approach to seeing the global economy was identified as a glocalised perception of the global economy in the national economy and vice versa. This

approach strongly indicates that societal factors have a major impact on the performance and functionality of the economy, both the global and national, as well as on state performance. The main premise here is that (societal) contexts matter when working on economic developments regardless of level, and on the functionality of the state, regardless of type. Due to the inclusive or holistic perception on which glocalisation is based, it is as already mentioned the one preferred in this study. There is, however, a weak spot in this connection that has to be taken into account.

### **Zooming in on Institutional Theory**

What is actually meant by 'societal context' here? To explain this, I will focus in particular on institutional theory, as this approach constitutes the background knowledge against which firm-specific theories within IB studies are positioned. It is also the approach where analysts benefit the most when measuring the impact of societal embeddedness on economic performance. The key elements within institutional theory are the relationship between various kinds of institutions. According to Scott,

*'...institutions are social structures that have attained a high degree of resilience. They are composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life. Institutions are transmitted by various types of carriers, including symbolic systems, relational systems, routines, and artefacts. Institutions operate at different levels of jurisdiction, from the world system to localized interpersonal relationships. Institutions by definition connote stability but are subject to change processes, both incremental and discontinuous'. (Scott 1995: 33)<sup>4</sup>*

Scott's sociological approach to institutions and their embeddedness and dynamics within a given societal context is quite intriguing and revealing but it does not contain the specific international business angle to institutions that I am looking for. Douglass North's 1991 article on institutions summarizes much

of his earlier work on economic and institutional change. Here North defines institutions as 'humanly devised constraints that structure political, economic and social interactions' (North 1991: 97). Constraints, as North describes, are devised as formal rules (constitutions, laws, property rights, etc.) and informal restraints (sanctions, taboos, customs, traditions, code of conduct, etc.), which usually contribute to the perpetuation of order and safety within a market or society. The degree to which they are effective is subject to varying circumstances, such as a government's limited coercive force, a lack of an organised state, or the presence of strong religious precepts (North 1991: 97-112).

At a first glance this more economically oriented approach to the role of institutions in a societal context provides us with a more direct understanding of how institutions, societal factors in general and business relate to each other in a rather operational manner. To set in motion the dynamic relationship between the three nodes mentioned above, the market differentiation that IB theories are based on and relate to comes in handy. As mentioned previously, according to IB theories, markets can be divided into three main types: developed markets, emerging markets and bottom of the pyramids markets. The difference between these three main types is the way in which the formal and informal institutions relate to each other. On the basis of this, the following market characteristics can be identified.

*Developed markets.* These markets are characterised by firmly implemented institutions that are backed by law thus keeping modifying and potentially destabilising forces from the informal institutions at bay. This kind of market and the accompanying societal institutional arrangements are characterised as 'high trust' societies by Fukuyama (1995), as individuals have confidence in the overall societal organisation and believe in the implementation, functionality and impartiality of the formal institutions.

*Emerging and transitional markets.* These markets are generally defined as having more or less functioning formal rules and regulations. The informal institutions are characterised by traditional norms and religious practices combined with collectivist and family-oriented value systems. These informal

institutions or constraints have a great impact on the implementation and functionality of the formal institutions, thus necessitating the development of strong business-to-business networks (B2B) as well as strong business-to-government networks (B2G) to deal with institutional voids. Furthermore, some of these markets are in the process of moving from a planned economy to an open market economy. The most obvious examples here are Russia, the Eastern European countries, India, China and Vietnam. They can furthermore be characterised as having high growth rates and very competitive, low-cost production. They are high-risk economies with unstable political regimes. In general, the societies in this category of markets can again according to Fukuyama (1995) be defined as low-trust societies, as individuals generally do not trust the formal institutions due to heavy influence from informal institutions.

*BOP markets.* These markets are characterised by an almost complete absence of formal institutions. This means that informal institutions in the form of kinship relations, religious communities and localised norms and values are the governing features in this kind of market. Seen from a business perspective, access to this market is not through high profit margins but through high volume and low profit margins, as the purchasing power of potential consumers is around less than US\$4 a day (Peng 2009: 6). The main companies working in these markets are often successful first movers. A good example of such a company is Unilever Hindustan.<sup>5</sup>

### **Informal Institutions: A 'Black Hole' in Institutional Theory?**

Moving beyond a simple application of institutional theory on a given type of market and returning to a more general discussion of the theory per se, it is possible to argue that North's perception of the relationships between formal and informal institutions represent a rather circular and functionalist explanation. I base this assumption on that they, that is, the formal and informal institutions, according to North, condition each other. This means that the implementation and functionality of the formal institutions depend to a large extent on the impact from the informal institutions (North 1991: 97). I argue that such a functionalist reading of the relationship between the two does not necessary exists. It could

just as well be that informal institutional constraints simply block the development, implementation and functionality of the formal institutions, thus increasing the scope of the so-called institutional voids, also defined as the absence of intermediaries that facilitate the functioning of the market (Khanna, Krishna and Sinha 2005). We are thus not talking about a mutual dependent relationship between the two but rather a somewhat unpredictable and conflicting impact on behalf of the informal institutions on the formal ones.

If we now take a closer look at what Scott (2010) has to say about institutions, both formal and informal ones, the following interesting observation about the relationship between the two is relevant for this study. As mentioned above:

*Institutions are social structures that have attained a high degree of resilience and are composed of cultural-cognitive, normative and regulative elements that together with associated activities and resources provide stability and meaning to social life. (Scott 2010: 6)*

In order to move beyond a mere listing of these three institutional characteristics, I suggest that we 'read' them from the perspective of how we store experiences in the form of expanding our meta-cognitive capabilities so as to navigate in the most sensible and strategic way those cultural-cognitive, normative and regulative elements that normally characterises informal institutions. The idea behind this suggestion is to link these characteristics to individuals which basically constitute the agents that man and impute dynamics into what kind of institutions we are talking about. As a kind of following up on the above I suggest that we look further into how we handle the experience of unfamiliarity, how we navigate an unfamiliar social landscape, how the experience of this learning process adds to our meta-cognitive capabilities, and finally how we label the unfamiliar as 'culture', either as our own or a culture that belongs to the 'other', the strangers! Posing these kinds of questions allows us to venture further into the current 'black whole' that informal institution constitute in terms of analytical insights. To follow up on this let us take a closer look at each of the three elements. Scott writes:

*Those stressing regulative elements give more attention to rational choice and design. Regulative elements are more formalized, more explicit, more easily planned and strategically manipulated. (2010: 6)*

Here Scott is talking about formal institutions that guide and/or structure social behaviour. Informal institutions are to some extent suppressed in order to conform to formal requirements. He continues:

*Scholars emphasizing normative elements stress the social embeddedness of political and economic behaviour. (2010 (cited in Granovetter 1985): 6)*

Normative elements are more difficult to identify, as they can be found both in formal and informal institutions. If normative elements, for example, originate from within the informal institutional setup, that is, from various cultural specific groupings within the national hinterland, then these cultural specific normative elements have the capability to impact the functionality of the formal institutions due to the fact that representatives from these cultural specific groups are employed in the various formal institutions. Because of this the latter might work in multiple ways not envisioned by the formal requirements that define their functionality in the first place. The reason for this is that actors migrate between formal and informal institutions, normatively colouring them in the process according to their personal (meta-cognitive) and social (cultural) background.

If the normative elements emanate from the regulative elements then we are talking about imposing official norms of behaviour in, say, a multi-cultural national landscape. We thus have normative elements that flow back and forth between the formal and informal institutions as well as within the formal and informal institutions respectively. This is an important observation when trying to identify key markers that actors create to help them navigate an unfamiliar social or administrative landscape. As a kind of support for these suppositions Scott goes on to say:

*Personal ties and informal relations with co-workers, as well as specific situational demands, often trump narrowly defined self-interest and utilitarian*



concerns. (2010: 6)

Here he almost negates the notion of rational choice and designs previously stressed that define the regulative elements, thus emphasising context and situated-ness as key signifiers in social interaction. This leads us to the third and final group of elements, namely the cultural-cognitive elements. Elaborating on this Scott says:

*The most recent contributors to the institutional discourse are those scholars who stress the importance of cultural-cognitive elements. The elements are cultural because they are socially constructed symbolic representations; they are cognitive in that they provide vital templates for framing individual perceptions and decisions. (2010: 7)*

Before commenting on this I would like to cite Scott once more:

*Cultural-cognitive elements provide the bedrock for normative prescriptions and regulative controls, because norms and rules must refer to institutionally constituted entities. However, they are also capable by themselves of providing a framework for order. (...) Although these three elements exert an independent effect on social order and it is possible to identify situations in which one or another is predominant, they most often appear in varying combinations to collectively undergrid existing social arrangements. But even in such situations, differences among the three elements give rise to dilemmas and tensions, sparking misunderstandings, conflicts and confusion that open up possibilities for change. (2010: 7)*

According to his final comment on the relationship between the three elements, he perceives them as constituting a total societal entity, as inter-dependent elements that together form the overall framework for what happens within a society. Arguably, this is somewhat problematic as I see the different societies in Southeast Asia, and in this particular case Malaysia, as consisting of several societies within an overall national society, framed in an ethnically defined hierarchical or stratified order. This means that dividing Malaysia into one set of formal and informal institutions is a simplified way of seeing this society. There are several societies within the Malaysian society that coexist,

not in a symmetrical societal structure but rather in a layered and politically engineered order (the ethnic Malays at the top, the ethnic Chinese in the middle and the ethnic Indians at the bottom of the societal pyramid). The social landscape in which, for example, Malaysian ethnic Chinese entrepreneurs are to navigate is thus not a one-dimensional landscape but a multi-layered one that consists of a complex multi-ethnic web of normative prescriptions that is not always easy to disentangle for a given actor. This is complicated by the Malaysian government's politically engineered management of that complexity.<sup>6</sup>

Arguably, the overall framework for navigating this landscape consists of aggregated sets of regulative, normative and cultural-cognitive elements that put together make up the Malaysian nation. Thus when an ethnic Chinese entrepreneur is to navigate that part of the societal landscape that he knows the best, he can not only focus on his local bit of it, but also has to take the overall cultural-cognitive elements into account, as they too constitute parts of the socially constructed symbolic representations of his own immediate landscape. This complex social landscape constitutes the background against which he is to identify the different societal 'markets' and then navigate them. We are thus talking about informal institutions within informal institutions as identified by Scott. From a strategic point of view, the ethnic Chinese entrepreneur will navigate only those aspects of the overall informal institutions that are of relevance for him here and now. For him the keyword is thus the immediate *context*.

This reading of Scott's three constituent institutional elements fits perfectly into a perception of a multi-layered national ethnic landscape. The point of departure here is thus not only the local ethnically distinct markers that our entrepreneur tries to identify in his immediate social landscape but first and foremost a meta-cognitive understanding of the overall national multi-ethnic landscape; only after that can he identify those markers that he intends to use to navigate in his immediate surroundings. We are still talking about social constructs, that is, the markers, which have their origins in the meta-cognitive repertoire of a given navigator. They are originally thus not loaded with a given cultural bias. They only become 'cultural' when our entrepreneur experiences

them as unfamiliar in relation to his meta-cognitive and/or tacit pool of experience.

To further zoom in on how to specify the dynamics governing the various informal institutions, I suggest employing a twofold analytical approach consisting of an *etic* and an *emic* perspective so as to capture the diffuse nature of these institutions.

An *etic* perspective is similar to the typical way in which we work with IB theories, that is, from an investor perspective looking at a given market. Basically it is to assess a given market, be it a developed, an emerging or a BOP market. This perception of *etic* was originally coined by the linguist Kenneth L. Pike in 1967.<sup>7</sup> His definition is still widely used in anthropological studies. He defines an *etic* account as a description of a norm or belief formulated by an observer that is external to the culture studied (see also Keesing 1976). Put simply, this means ideally speaking that an *etic* account attempts to be culturally neutral, as it is foreign to the observer's own cultural background.<sup>8</sup>

A general definition of an *emic* perspective goes beyond the *etic* observations and focuses on how local investors and entrepreneurs themselves perceive, navigate and/or handle the informal constraints (and of course also formal institutions). This definition is also in accordance with Pike's definition of *emic*, namely that an *emic* account is a description of behaviour or beliefs that are meaningful (consciously or unconsciously) to the actor; that is, an *emic* account comes from a person who originates from the culture under investigation. Most accounts that are recorded directly from an indigenous informant contribute to building up an *emic* perspective.

Combining *etic* and *emic* perspectives on informal institutional constraints not only provides us with another and perhaps complementary empirical set of data compared to an account based purely on an *etic* account, but also includes data emanating from local entrepreneurs and other pertinent indigenous informants. This provides us with a holistic perspective of how to perceive informal institutional constraints and how they impact formal ones, setting the scene for a qualified analysis of the global–local nexus, thereby disclosing the

interconnectedness between the economic, political and societal aspects on which this article is based, namely a glocalised approach.

### **A Note on Culture in International Business Literature**

So far the notion of culture in both a generic form and in relation to international business has not been dealt with in any detail. This does not mean that this concept is not important in this context. The reason why I first deal with the notion of culture at this stage is that I would like to question the use of culture as an explanatory concept or framework of the above-mentioned definitions of informal institutions. The use of culture in international business literature abounds and confuses more than clarifies due to the fact that it is poorly defined, if at all. There are national cultures, organisational cultures and societal cultures, just to mention the concepts most often referred to in the literature. The following is an attempt to clarify why the notion of culture in business studies is problematic and what other explanations can be forwarded, thus avoiding the 'veil of mist' that the use of culture generally clouds these studies in. First, I will discuss different uses of culture in international business studies. Then I will move on to show that the analysis or use of 'culture' in a business context is not the same as an anthropological notion of culture. As it is currently used in the contemporary international business literature, the term 'culture' covers social and societal processes that on the surface produce images of what we normally identify as culture, whether in a national, organisational or societal context.

For example, according to Hofstede (1991), national cultural values differ mainly along four (later five) dimensions identified as: power distance, individualism/collectivism, masculinity/femininity, uncertainty avoidance and finally Confucian values (the fifth one). These dimensions and values constitute a framework that can be used to compare countries quantitatively and assess differences in national cultures. Hofstede characterises culture as a sum of values, customs and beliefs that collectively programme an individual's mind, thus making them believe that they form part of an imagined community.

Hofstede's notion of culture and his five dimensions are rather

problematic. The data on which his study is based originates from fieldwork that he conducted among IBM employees from more than 70 countries during the period 1967 to 1973. The data are generally perceived as outdated and static, as no follow-up study has been undertaken and thus they represent a snap-shot of that particular period in time. Therefore, they do not take into account that huge changes have occurred in the economy, market and society after this period.

Fang goes against this static notion of culture and suggests that the nature of culture is dialectical and paradoxical and that one should embrace such opposite forces instead of thinking that everything must be 'either/or' (Fang 2006: 72-73). He compares culture to the ocean. The wave patterns of the ocean symbolise the visible values and behaviours. There is, however, more depth to the ocean than merely the waves on the surface. This means that there is more depth to culture than the behaviours that are on the surface. Furthermore, there are numerous ebbs and flows underneath the surface where unknown cultural values and behaviours are. Given internal yin-yang-like mechanisms, that is, societal forces that balance out each other, and external forces, such as economic and political globalisation, these unknown values might surface to become the visible and guiding values and patterns at the next historical moment. Fang incorporates the ocean and yin-yang metaphors to emphasise that neither national nor organisational culture is static but rather dynamic and has the ability to change and adapt to local specificities, depending on time and context.

Basically Fang's ocean metaphor claims that culture changes and the modern individual is not constrained by cultural beliefs but adapts to changes in the societal make-up (Fang 2006: 83-85). In a sense, Fang's blue ocean perception of culture relates closely to Yoshikawa's dialogical model on how to handle the crossing of cultural boundaries. According to Yoshikawa, individuals do not live isolated from each other. Human beings are only complete when engaging in social relationships; they are thus inevitably interdependent in their very being (Yoshikawa 1987; see also Chen 2002).

Regardless of whether one perceives culture as static or dynamic, one is

still employing the notion of culture as a more or less objective construct that provides guidelines for how individuals assess the behaviour of the 'other' and act accordingly. In order to move beyond such an objectified understanding of culture, the focus had to be turned towards those actors who construct and operationalise such notions of 'culture'. One of the scholars who have tried this is Clifford Geertz:

*The concept of culture (...) is essentially a semiotic one. Believing, with Max Weber, that man is an animal suspended in webs of significance he himself has spun, I take culture to be those webs, and the analysis of it to be therefore not an experimental science in search of a law but an interpretive one in search of meaning. (Geertz 1973: 5)*

It is the reference to a semiotic understanding of culture in this quote that I found most conducive for my research on excavating dynamic factors within and among informal institutions in a given societal arrangement. The bridge between the concepts of culture discussed above (Hofstede, Fang and Yoshikawa) and a semiotic understanding of culture can be found in Schein's analysis of organisational culture. Schein identifies three distinct levels in organisational cultures: artefacts and behaviours, espoused values and basic assumptions. The three levels refer to the degree to which the different cultural phenomena are visible to the observer. Artefacts include any tangible, overt or verbally identifiable elements in an organisation. Architecture, furniture, dress code and office jokes all exemplify organisational artefacts. Artefacts constitute the visible elements in a culture and they can be recognised by people not part of the culture.

Espoused values are the organisation's stated values and rules of behaviour. Basically these relate to how the members represent the organisation, both to themselves and to others. They are often expressed in official philosophies and public statements of identity. Espoused values can sometimes be a projection for the future, of what the members hope to become. A good example is the mission and vision statements on which a company is based. Another example of this could be codes of employee professionalism, or a 'family first' mantra.

Shared basic assumptions are the deeply embedded, taken-for-granted behaviours, which are usually unconscious, but constitute the essence of an organisational culture. These assumptions are typically so well integrated into the office dynamic that they are hard to recognise from within. They generally originate with the founder(s) of the company and thus constitute the identity of the company (Schein 1985).

Schein's model mainly refers to various normative levels within an organisation or company and how they relate to each other. It could be inferred from this that the model is based on a *tabula rasa* understanding of organisational culture, meaning that employees dispose of their societal normative understanding of how to behave outside the company in which they are employed. It is assumed that the normative standard for acceptable conduct and the work ethic in the company, only needs to be adhere to as long as they are there. The problem with Schein's model, however, is thus that it is confined to the company and thus does not link up to the society of which the company is a part.

Brannen also takes Schein's model as a point of departure and uses it both as a diagnostic tool to uncover the basic assumption of an organisation and as a comparative tool to heighten organisational cultural differences that matter when managing cross-cultures behaviour (Brannen 2005). However, she goes beyond the above mentioned confinement and relates the model to a more generic understanding of the relationship between a company's understanding of 'culture' and the society in which it is embedded. She thus employs a slightly different interpretation of Schein's model, based on artefacts, values and assumptions. Artefacts are on the surface, what can be sensed easily. Values are what can be inferred or articulated. And assumptions are hidden; they can deal with people and the environment, human nature, human roles and relationships, reality, time, risk taking, etc.

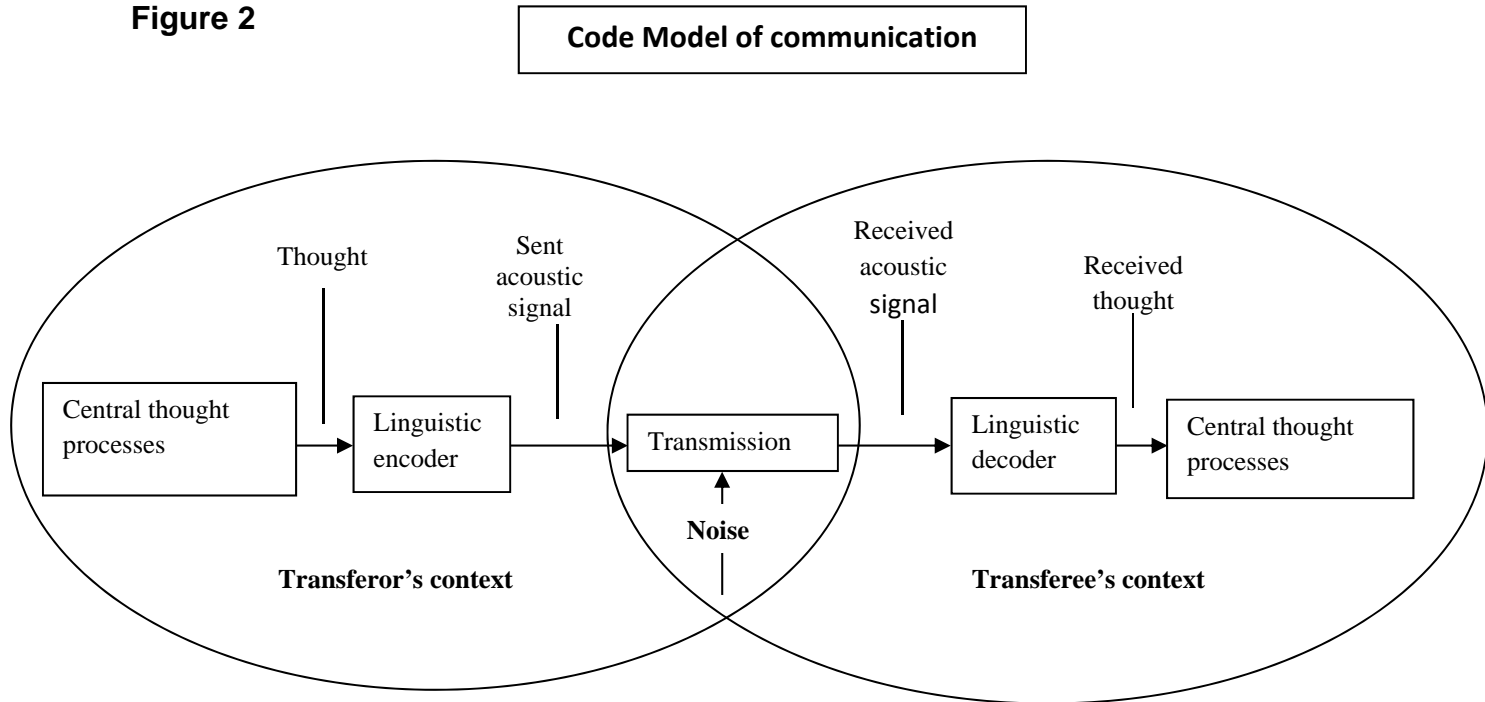
When comparing Brannen to Schein's three levels, it seems as if Brannen is merging organisational and societal normative behaviour, thereby negating the notion of *tabula rasa* in Schein. This is especially true when comparing Schein's 'basic assumptions' and Brannen's 'assumptions'. Whereas

Schein exclusively refers to an organisation, Brannen refers to a generic, more societal related understanding of 'assumptions'.

Taking a point of departure in this difference, the way is now open for a semiotic understanding of cross-cultural differences, or perhaps more correctly, for a semiotic understanding of differences, not only within an organisation but also in a societal context. By focusing on the semiotics of differences one is moving away from focusing on artefacts and values and concentrating instead on the relation between signs and the things or meaning to which they refer.<sup>9</sup> In this way Brannen and Geertz refer to the same thing when Geertz, wrote, as quoted above, '*Believing that man is an animal suspended in webs of significance he himself has spun, I take culture to be those webs*'. In a sense, this mode of understanding (cultural) differences negates the notion of culture per se, as it refers to a whole range of social processes that, due to their complexity, obstruct clear-cut explanations of why human beings behave differently in different contexts. By branding these complex processes 'culture', we all presumably know what is referred to! As a suggestion of how to go beyond this fallacy and identify these social processes, Brannen has developed a simple model that shows the important consequences of (mis-)understanding differences in diverse forms of communication (see Figure 2).



Figure 2



*(Adapted from Sperber and Wilson (1986) and Ronen (1986) in Brannen (2004).*

*(Has not yet sought permission to reproduce this model here!)*

The important thing to be noted in this model is the transferor's linguistic encoding of a message and the transferee who is to linguistically decode the transferor's encoded message. The more the transferee's social and/or societal context differs from the context of the transferor, the greater the chance of the former to misinterpret the latter's message. The result of this miscommunication is what Brannen terms 'noise', which is why a re-contextualisation on behalf of the transferee of the original message begins, thus producing a complication in terms of misunderstanding of what is being conveyed between the transferor and the transferee. This, I would argue, is where the so-called cultural differences in the form of cultural stereotyping originate. As one thus does not understand the message conveyed, stereotypical perceptions of the 'other' take over, producing 'real' differences between the transferor and the transferee. Cultural differences do not arise because of what can be observed or inferred but rather because the semiotic background between the parties is different due to differences in normative values and socialisation systems governing the

respective societal backgrounds.

This way of thinking about 'cultural' differences permeates the notion of differences in this article. For example, the ethnic Chinese entrepreneurs in Penang, Malaysia, are not only classifying themselves as Chinese because their ancestral background relates them to China. It is also a result of the discourse of what 'Malayness' means, understood as a cross-ethnic construct encompassing all three main ethnic groups in Malaysia (ethnic Malays, ethnic Chinese and ethnic Indians) and on whose conditions the discourse is based. Without going into detail here it suffices to say that the discourse generally promoted in international business literature by Hofstede (1991), Nisbett (2001) and Gesteland (2005) is based on *etic* stereotypical understandings of local differences and not on the underlying currents of re-contextualised notions of what ethnic identity means. If a full analysis of the above extrapolations it would be important to debunk such stereotypical notions of 'Chinese-ness' by first positioning Malaysia in a Southeast Asian context. Then move on to discuss the origin of the Chinese in the region and finally take a closer look at the politically engineered understanding of ethnicity in a specific Malaysian societal context. Only then can we understand how Malaysian-Chinese-owned SMEs in the automation sector in Penang position themselves, not only in an economic sense but also in a national political sense, a perspective that generally conditions the overall Malaysian business community. Such an analysis, however, is outside the scope of this article.

### **Concluding Remarks**

The main goal of this article has been to provide some analytical tools for how to understand the various processes that takes place within the informal institutions or informal constrains as they are also called depending on whether the analyst perceives institutions as constituting part of the formal societal setup or whether they constitute dynamic processes that have a major impact on the implementation and functionality of the formal institution, especially in emerging markets.

The way in which this was done was first to discuss various ways in

which the global economy can be 'read', as this has a major impact on how the analyst perceives the drivers behind and ramifications of the global economy on the national and local level. The discussion arrived at a notion of the global economy as being not only global but also 'glocal', meaning that it is impossible to disentangle the global from the national and/or the local. This laid the foundation for a triangulation approach that constitutes one of the underlying theoretical cornerstones in this article, a triangle that consists of the global economy, a given national economy and various societal factors that in their own way condition the functionality of the two other points in the triangle due to the notion of societal embeddedness.

The second step in the analytical process took a more detailed look at the theoretical landscape surrounding IB theories especially in relation to how they dealt with societal factors that to different degrees had a positive or negative impact on their explanatory reach and depth. The article finally zoomed in on institutional theory, and especially the part of it that dealt with the relationship between formal and informal institutions. Here the informal institutions or more correctly informal constraints became the ultimate theoretical focus, as I believe they have not been adequately discussed in the pertinent IB literature. The main findings here was that one has to look at societal processes and how they are interpreted by the actors in a given context, as these processes constituted the point of departure of how they are to navigate the societal landscape.

Third and finally a note on how to perceive the notion of culture in IB literature was forwarded. Again social processes and not culture per se was the focus of the analysis. Culture per se was identified as reflections of social encounters and perceived as differences that could not be explained on the basis of the actors' meta-cognitive stowage. An explanation of this non-perceptible difference had to be designed by the actor via a process of enculturation of the 'other'. This way of arguing has as a consequence that cultural explanation does not produce a 'correct' or 'real' perception of what is being observed. Rather, it reflects what the viewer herself wants to see and thus understand. The key words that this article has forwarded when focusing

on informal institutional constraints are thus a given *societal context* and an *actor oriented point of analytical departure* if processes of societal embedment are to be understood. This goes for both global economic and national economic processes of societal embedment. This is the main theoretical contribution that this article has to offer current IB literature.

## Notes

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<sup>1</sup> For a detailed discussion of the VRIO framework, see Peng and Meyer 2011, pp. 106ff.

<sup>2</sup> For a discussion of the Uppsala Model and the OLI paradigm, see Dunning and Lundan 2009, and Johanson and Vahlne 2009.

<sup>3</sup> For a detailed discussion of institutional theory, Peng and Meyer (2011: 35-88).

<sup>4</sup> For further details in this connection see also Scott (2008, 2010).

<sup>5</sup> For a pertinent case study in this connection see 'Realities of Emerging Markets: Some Lessons from Unilever's Strategy for Lifebuoy & Sunsilk in India'. (<http://www.icmrindia.org/casestudies/catalogue/Marketing1/MKTA008.htm> Case Studies Collection) (2008).

<sup>6</sup> For a more detailed description of this ethnic layering and the complex social and political management of it, see Michael Jakobsen (2014 *forthcoming*), Chapter 3: '*The Malaysian State and Economy in the Southeast Asian Region*'.

<sup>7</sup> See James Lett on Pike's notion of emic and etic: <http://faculty.irsc.edu/faculty/jlett/Article%20on%20Emics%20and%20Etics.htm>. Accessed 23 Oct. 2012.

<sup>8</sup> For typical examples of etic observations see Gesteland (2005), Nisbett et al. (2001) and Chen (2002).

<sup>9</sup> Semiotics is closely related to the field of linguistics. Semiotic theories take signs or sign systems as their object of study when analysing, for example, how human beings construct order in an otherwise chaotic social reality.

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