

**An Institution-Based View of International Business Strategy:
A Focus on Emerging Economies**

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Dr. Mike W. Peng, the UT Dallas Provost's Distinguished Professor of Global Strategy, has teamed with Professor Denis Y. L. Wang of the Chinese University of Hong Kong and Assistant Professor Yi Jiang of California State University, East Bay, to analyze an institution-based view of international business strategy. That view of societal factors—society's institutions, they say, is positioned as one leg that helps sustain the "strategy tripod," with the other two legs consisting of the industry- and resource-based views. Their work appeared in the July-August issue of the Journal of International Business, Vol. 39, No. 5, pages 920 to 936.

This paper leverages recent practitioner and academic interest in emerging economies and argues that an institution-based view of international business strategy has emerged. Institutions are the rules of the game—both formal and informal. Once companies go out of their home country (especially when they go to emerging economies such as Brazil, Russia, India, and China), the familiar rules of the game are often not available. To capture the hearts, minds, and wallets of customers in emerging economies, companies need to pay attention to the rules of the game there, especially unwritten informal ones. For example, Coca-Cola and PepsiCo, whose products have been perfectly legal, have been singled out by activists in India for selling allegedly contaminated products. Failure to understand, anticipate, and then work with informal (but powerful) consumer sentiments can get multinationals into big trouble.

Likewise, companies venturing abroad from emerging economies also need to know more about the rules of the game abroad. Another example lies in the area of antidumping. Many Chinese firms are surprised that their low cost strategies, following translated Western textbooks (such as Michael E. Porter's), are labeled "illegal" and "unfair" dumping in the very countries whose scholars have preached about the virtues of "free market" competition. In reality, even in developed economies, "free markets" are a myth—markets are not necessarily "free." Companies from emerging economies that venture abroad will ignore the institutional intricacies governing competition in developed economies at their own peril.

The conclusion from this research is that institutions matter. The new institution-based view of international business strategy helps promote and advocate such awareness, and urges companies to thoroughly do their "homework"—not only in terms of traditional due diligence in product markets and consumer demand, but also in terms of the deep underlying formal and informal rules of the game.
