
UNDERSTANDING THE INSTITUTION BASED VIEW AND ITS IMPLICATIONS IN THE ENTREPRENEURIAL ACTIVITY

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Abstract

Based on the previous research in strategic management, this paper addresses the different views about strategy of organizations and focuses on the Institution Based View (IBV). The central argument encompasses the understanding of the underlying theory and its practical implications, discussing how institutions interfere on the actions and strategies of firms. The comprehension of institutions is based in North (1990) and Scott (1995), the IBV as a theory is primarily based on Peng (2009). To deepen in the theme, the four prepositions are studied, prepared and presented by Peng and Khoury (2008), the four fundamental questions of strategic management of Rumelt, Schendel and Teece (1994) with Peng's (2009) vision of the theory will be presented in this article. After that, real evidences are pointed out, about how institutions act through the American, Japanese and Indian pharmaceutical industry, a brief explanation of the Chinese context and the case of the genetically modified soybeans in the United States, Brazil and Argentina. Finally, it is discussed the implications of such real evidence according to the theory, concluding that the rules, both formal and informal ones, can influence and encourage the environment as a whole in order to build more companies and update entrepreneurially the existing ones, moreover, the rules of the countries can also benefit for firms to internationalize it or not.

Key words: *Institutional Based View, Rules of the Game, Entrepreneurship.*

COMPREHENDING INSTITUTIONS BASED VIEW AND ITS IMPLICATIONS IN ENTREPRENEURIAL ACTIVITY

1. Introduction

Research in strategic management have two traditional perspectives, Industry-Based View (or Industrial Organization) and Resource Based View, predominantly developed by Michael Porter in the 1980s and by Jay Barney in the 1990s, respectively. Since the years 2000s a new perspective, Institutions-Based View (IBV), has gained strength. Peng (2009), explores the VBI, which apart from the conditions at the industry level and the firm, organizations must also consider broader influences, from the state and from the society, in order to develop their strategies.

Thus, the paper aims to explore the state of the art of The Institutions Based View (IBV) through a literature review and subsequently developing a critical discussion on the topic, relating it to entrepreneurship, thus tracing future avenues of research and ongoing research. Thus, the main question which this paper expects to answer is:

"WHAT ARE THE FUNDAMENTAL THEORIES OF THE INSTITUTIONS BASED VIEW AND THEIR IMPLICATIONS FOR ENTREPRENEURIAL ACTIVITY?"

Based on theories, on empirical evidences and reflections on the topic, this study has the following main objectives: to contribute to the existing literature on the VBI in research administration; to present and discuss empirical research and real facts to support the importance of developing and in the use of the theory; to assist the comprehension of how institutions interact with organizations and influence their strategic decisions, especially when it is related to innovation and entrepreneurship; prove that in the current globalized and competitive world it is necessary to understand the "rules of the game" which enable firms to internationalize successfully.

To achieve the objectives and to answer the question proposed in this research this paper will be presented in six parts. The first explores and explains the Institutions Based View in the context of studies in strategic management as well as develops the concept of institutions according to North (1990) and Scott (1995). The second contains the propositions related to the subject prepared and presented by Peng and Khoury (2008). Third, lists the four key issues of strategic management Rumelt, Schendel and Teece (1994) with the vision and the theory proposed by Peng (2009). Then, in the fourth part, it will be raised and exposed empirical research, facts and evidence to comprehend the importance of institutions to the real world Industries. American, Japanese and Indian pharmaceutical industry, in addition the case of genetically modified soybean seeds will be presented in the fourth section. From these, the theory and the real evidence included, the fifth part will discuss the connection between institutions and their implications on issues such as entrepreneurship and internationalization of firms. Finally, conclusions, recommendations and limitations of this work will be presented.

This work hopes to help clarify the interaction between institutions and organizations, assisting in the understanding of entrepreneurial activity and internationalization of firms in different institutional environments, as advocated by several authors, the institutional environment affects the stimuli for entrepreneurs and the conducting of efficient gains.

2. The Institutions Based View

Studies on strategic management, according to Peng et al. (2009), has its first period of development by Porter through the Industry-Based View or Industrial Organization (IO), in the 1980s and the second in the 1990s by Barney defending the Resource-Based View (RBV). Thus, it is clear that the field of strategy is a relatively young discipline, existing about thirty years of study, and is in constant search for new perspectives (Chen & Hambrick, 2008 *apud* Peng, 2009).

Porter (1989) argues that the relative position of a company within your industry is strategic to competitive strategy, it also helps identify whether the profitability is above or below the industry average. For a sustainable competitive advantage, defined as above average performance in the long term, the same author states that there are only two types of competitive advantage a firm can possess low cost or differentiation, which combined with the scope of the company generate three generic strategies : cost leadership, differentiation and focus. The five forces model, developed by Porter (1980), considers the analysis of competition between firms: rivalry among competitors, bargaining power of customers, bargaining power of suppliers, threat of new entrants and threat of substitutes.

In the following decade, Barney (1991) suggests that in order to sustain competitive advantage, firm's resources must be heterogeneous and immobile, thus they cannot be distributed evenly among competitors or provide easy mobility between firms, thereby resulting in differences between resources used in each of the firms. The author also points out that not all resources are potential sources of competitive advantage, since some may be essential to the business, or so simple that everyone can have them. To be a strategic a resource should be valuable, rare, imperfectly imitable and irreplaceable.

Despite the relevance and the existing of numerous studies conducted on the Industry-Based View and Resource-Based View, Peng et al. (2009) points out that the frustration associated with the lack of attention to context, made a new theoretical perspective began to be built to overcome this gap and to help explain the different strategies of firms, this new theoretical perspective was the Institutions Based View. Monteiro and Piana (2012) point out that the vision-based on institutions examines how the institutional environment can influence the strategic behavior of firms, thereby aiding the understanding of the variability of strategies explored by firms.

As illustrated in Figure 01, the theoretical positions have complementary analyzes of strategy. Industrial Organization (IO) with the industry analysis, the Resource-Based View (RBV) with the analysis of the internal environment and Institutions-Based View (IBV) with the analysis of the institutional environment as a whole. They together influence directly on the performance of the firm.

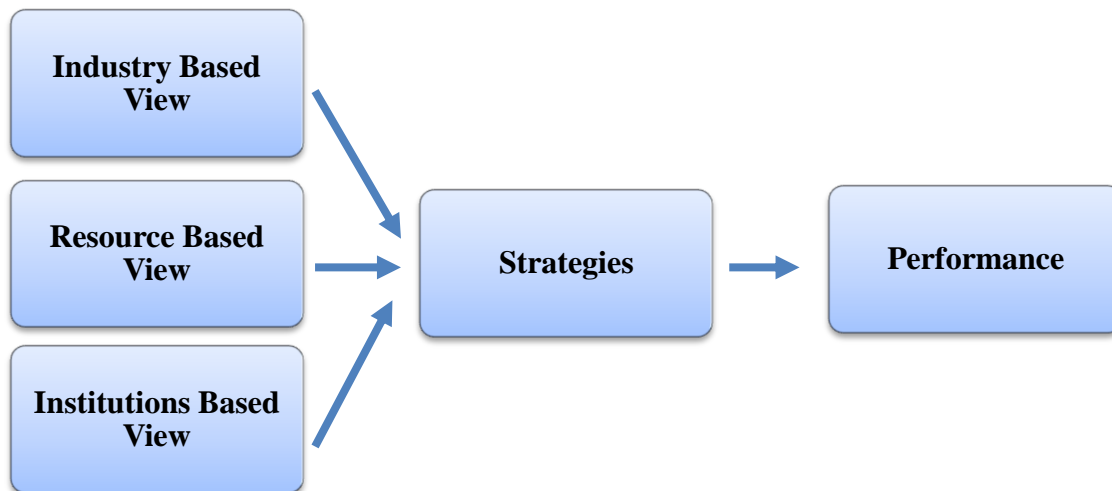


Figure 01: Institutions-Based View: The third leg of strategy tripod
Source: Adapted from Peng, 2009.

Institutions, according to the definition of the economist North (1990, p.03) are "the rules of the game", restrictions designed by people who structure human interactions, moreover, the author divides rules between formal and informal. North also points out that the difference between the ratings is related to the degree of formalization, the first starting from a set of taboos, customs and traditions, while the latter are written rules. In addition, according to the definition of the sociologist Scott (1995, p.33) they are "structures and activities regulative, normative and cognitive that provide stability and meaning to social behavior." Peng (2002, 2006, 2008, 2009), in his work on institutions, using an approach that integrates the two definitions, as is shown in Table 01 below.

Table 01: Dimensions of Institutions.

Level of Formality (North, 1990)	Examples	Supporting Pillars (Scott, 1995)
Formal Institutions	Laws	Regulative (coercive)
	Regulations	
	Rules	
Informal Institutions	Standards	Normative
	Culture	Cognitive
	Ethics	

Source: Adapted from Peng et al. (2009, p. 64)

Monteiro and Piana (2012) argue that through the lens of the organizational environment, formal and informal institutions represent the contextual conditions that act as control variables in a model of strategic analysis. Moreover it is the dynamic relationship between the institutions and organizations that shapes the set of strategies available to the firm.

Thus, Institutions-Based View is seeking to expand research on strategy within the business, considering national dimensions related to the context, culture, government transactions and social interactions (Peng and Khoury, 2008). The theory assists in

understanding the question about the importance of institutions for the formatting of business strategies and considers the question proposed by Peng (2002): "Why the strategies of firms from different countries differ?"

3. Proposals of the Institutions Based View

Peng and Khoury (2008) advanced the institutions based view developing and decomposing the assumption that 'institutions matter' in two distinct and complementary propositions, which according to the authors, have exploratory and predictive power. Moreover, it is important to note that the dynamic interaction between institutions and organizations generate strategic decisions (PENG, 2002).

Proposition 01: "Managers and firms rationally pursue their interests and make strategic choices within the constraints of formal and informal rules in a given institutional environment"

Both firms and individuals prepare their strategies based on the conditions imposed by the institutional environment. Peng and Khoury (2008) to formulate the first proposition assume that institutions are useful to reduce uncertainty through conditioning the dominant norms of the behavior of firms and the definition of the limits that are considered legitimate. Additionally, it is clear that agents have their individual interests and act rationally in their direction.

In parallel with the definition of institutions of Scott (1995), Peng and Khoury (2008), based on the understanding that uncertainty hampers the trial of the agents and the decisions and actions flow from the relevant institutions, argue that institutions generate a rational basis supported on three pillars: (1) convenience - regulative pillar, (2) social obligation - normative pillar and, (3) given as background granted - cognitive pillar.

Proposition 02: "While formal and informal institutions combine to direct the behavior of the firm in situations where formal restrictions are unclear or fail, informal constraints will play a greater role in reducing uncertainty, providing guidance and giving legitimacy and rewards for managers and firms "

Therefore, from the second proposition, it is possible to understand that the strategies used by firms are formulated from a combination of formal and informal institutions and, despite their differences, can be useful in solving the same organizational problems, being complementary.

Peng and Khoury (2008) point out that the average balance between formal and informal institutions may vary among nations and time periods and generally firms that share the same institutional environments may be based on similar institutions reach similar decisions. On the other hand, the same authors point out that firms that share the same institutional environment can use different combinations of formal and informal institutions for their decisions, thus creating, among others, differences among firms.

4. The Four Key Issues Of Rumelt, Schendel And Teece (1994) Presented By Peng Et Al. (2009)

Peng et al. (2009) systematized the new knowledge from Institutions-Based View in the form of answers to four key issues of strategic management formulated by Rumelt, Schendel and Teece (1994). The four questions help define the strategic management field, its boundaries as they exist today, their concerns and how they can contribute to the practice of management (RUMELT, SCHENDEL and TEECE, 1994).

"Why are firms different?"

Rumelt, Schendel and Teece (1994) argue that the strategy is a concept that was developed from the perception that firms in the same industry often compete in different ways, therefore, organizational theorists began to relate the structure of the firm to the environment which it is embedded. Specifically for institutions, Peng et al. (2009) argue that when firms operating in the same institutional environment are observed widely, they tend to be similar, however, firms differentiate among institutional environments. Additionally, it is believed that the more formal institutions are designed to support emerging in the market, the lower the strategies based on informal relationship of trust in networks and greater reliance on strategies based on market conditions (PENG et al. 2009).

"How do firms behave?"

The strategic behavior has some models that are conditional on asymmetric information and uncertainty. To Rumelt, Schendel and Teece (1994) the economy has sought to model all important phenomena as the result of rational actions. The Institution-Based View, as pointed out by Peng et al. (2009), adds the argument that, in addition to industry and firm conditions, it is also necessary to take into consideration the influences of formal and informal rules, which can generate a large difference among firms.

"What are the functions of the matrices in a multi-business firm?"

In strategic management, a central issue which researches have addressed is related to the development of multidivisional and multi-business firms (RUMELT, SCHENDEL and Teece, 1994). To this question, Peng et al. (2009) argue about who determines the scope of the firm regarding the scope of its products. Institutions-Based View is seeking to explain decisions over diversification or conglomeration from formal and informal institutions existing at a given time. Thus, the authors also point out that it is the combination of the impact and changes in institutions that underlie the evolution of the scope of the firm.

"What determines the success or failure in international competition?"

Rumelt, Schendel and Teece (1994) argue that this question is based on the current trend of markets globalization and industries, therefore, the fundamental question is how the success and survival at the global level is different from any national or geographical lower level . Peng et al. (2009) adds to the theory of strategy the argument that the forces emanating from institutions also help understand the differences in performance among firms in the case

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of international firms, stressing the importance of knowing and understanding the various formal and informal institutions related to the market which they wish to join.

With the theory presented IBV, the next session will discuss real examples of how institutions act and influence the strategies of firms and final results of some countries to subsidize the further discussion of the performance of institutions in the real world, focusing on the implications for the stimuli to entrepreneurial activity.

5. Empirical Research And Facts Which Support The Institutions Based View

This section of the paper is organized as follows; firstly it will be presented the evidence already discussed in the literature about the case of pharmaceutical industry in the United States, Japan and India. The following topic introduces a brief background on the Chinese economy and the last topic is the evidence based on the case of transgenic soybean seeds.

5.1 - Pharmaceutical Industry

5.1.1 - The North American Pharmaceutical Industry

Initially it will be showed the case illustrated by Peng (2009) in the book "Global Strategic Management" on the U.S. pharmaceutical industry. This industry is called by many multinational entrepreneurs as "The Big Pharma Industry." Some companies, like Merck, Eli Lilly, Bristol Myers, Pfizer, La Roche, Novartis and Glaxo Smith Kline (GKS) make high investments in research and development (R&D) along with the characteristics of the favorable institutional environment which allow the U.S. pharmaceutical industry being one of the most profitable industries in the world. Not only has the industry itself, with its investments and structure, but also the institutional environment collaborated to make this sector a significant example of profitability.

The institutional environment supports the U.S. pharmaceutical industry as an example of the existence of such support, there is the "Food and Drug Administration (FDA)," an agency created by the government that stimulates and strengthens entry barriers, rises medicaments prices and hence the largest margin billing industry as a whole. Peng (2009) mentions that each year the American population spends more and more on drugs than the combined annual investments of Canadians, French, Italian, Japanese, German and British. Peng et Al, (2008) also mention Porter (1980) on the forces that govern the competitiveness, and the barrier to entry of these forces. It is worth mentioning that the institutional changes, such as antidumping laws are rarely considered in the literature as barriers to entry in International Business. In the example presented here, the U.S. pharmaceutical industry managed to increase their sales margins due to its resources, structures, investments in research and development, and especially the role played by the favorable institutional environment, because after the creation and validity of the FDA pharmaceutical firms were able to capture higher margin billing and practice higher prices.

5.1.2 - The Japanese Pharmaceutical Industry

Japan is known worldwide for presenting high technology, flexibility and agility in their processes of production. The main industries of this country recognized for innovation capacity are the automotive and technological ones. Many think that industries on other bases in the country, such as the pharmaceutical, also exhibit the same characteristics of innovation that the automotive and technological industries have. However, the country's pharmaceutical

industry does not follow the same patterns; the main reason for this fact is based on institutional rules (PENG et. Al, 2009).

Firms belonging to the pharmaceutical industry in the country do not have sufficient incentives to invest in research and development and launching new medicines, aiming constant innovation. This is because the institutional rules do not allow the free pricing for products new and old, in addition, it is known that the unit production costs decrease over time due to economies of scale and initial dilution of fixed costs. Thus, the drug recently launched on the Japanese market have lower rates of return existing ones, being more advantageous to keep the drugs on the market for a long period of time in order to capture the most revenue as possible before the launch of a new one. Thus, following the formal rules of Japanese institutional environment, it is difficult for firms to capture high economic returns on investments in large and constant innovation in the pharmaceutical industry; it is preferable to maintain older products on the market (PENG et al., 2009).

5.1.3 - The Indian Pharmaceutical Industry

Political, social and legal strategies in India affect Indian companies and also companies from other countries that operate within the country. India is currently one of the largest players in the field of information technology and services related to this technology. Not only the resources of the firms, but also an insight into the institutions could help to understand the political, legal and social institutions, favoring such a scenario (PENG et Al, 2008). An explanation based on institutions is based also to understand the various legal and regulatory reforms that helped to open and release the country's economy since 1991. After the Indian economic reform it was possible the existence of a competitive and entrepreneurial environment (Kedia et Al, 2006. Cited PENG et Al, 2008). Along with the mentioned context, the intensification of globalization after the 1990s, encouraged the internationalization of many companies, and even large firms such as Microsoft, began to invest in India due to the reforms stimulated by the government of the country that allowed openings market.

The Indian pharmaceutical industry is currently the fourth largest industry producer of medicines in the world in terms of capacity and it is the thirteenth in terms of value (KOLE, 2007. Apud PIANNA & MONTEIRO, 2012). Among the factors responsible for stimulating the Indian pharmaceutical industry, it is possible to point out the possibility of international markets opened by the United States through the establishment of the Hatch Waxman Act, strengthening of Indian patent laws and increased outsourcing of pharmaceutical multinationals. The Hatch Waxman Act facilitated the export of generic medicines manufactured in India to the United States, through the act of 1984, the U.S. Congress established that drug manufacturers would not have to conduct clinical tests for generic products, which facilitated the export from India to the United States (PIANNA & MONTEIRO, 2012).

Encouraged by the possibility of market expansion, Indian industries from the pharmaceutical sector increased its exports from U.S. \$ 1.90 million in 1999 to \$ 5.2 million in 2005 (MONTEIRO & PIANNA, 2012). After about thirty years focusing only on the domestic market, the country's pharmaceutical industry has emerged as one of the largest global players, favored by institutional actions and also due to a significant portion of the global demand for generic drugs (Greene, 2007 *apud* MONTEIRO & PIANNA, 2012 .) In anticipation of capturing income, newcomers were attracted to the sector increasing its competitiveness. The contracts between research organizations and manufacturing were important in this new context, such as the acquisition by Jubilant Organosys of Target Research Associates and 64% of Lab Trinity (MONTEIRO and Pianna, 2012).

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The establishment of the Hatch Waxman Act and increased outsourcing were some factors which stimulated the Indian pharmaceutical industry in the development of new capabilities. The Indian pharmaceutical industry period of development was in the post-independence (1947) and can be divided into four stages (Pradham, 2006 apud PENG, 2008). First, during the 1960s and 1970s the local market was controlled by western pharmaceutical firms, which high prices were charged and controlled about 80-90% of the Indian market. In the second phase, in 1970, came the desire for national independence of Western companies, two firms controlled by the State were created and institutional rupture occurred to patents, the government abolished the patent on the product, therefore, the government wanted Indian population to have access to low-cost drugs and the development of national pharmaceutical industry was stimulated. The third stage is when the pharmaceutical industry is going through processes of innovation and changes in their production engineering. The fourth phase is the presence of large, medium and small companies operating in the pharmaceutical sector, producing generic drugs and existing high competition, internationalization and high volume of production. It is possible to observe that the institutional changes allowed the development of capabilities and resources for Indian pharmaceutical industry. Its internationalization occurred in the 2000s, changing many operations and the magnitude of the sector in the country.

5.2 - Evidence in the Chinese Economy

China is currently one of the largest global economic powers, although it presents institutional issues that are not very clear and there is operations fragility of some of its formal institutions, the country were able to grow economically and many companies have found favorable conditions for its progress and development capabilities in China.

China is an example of an emerging economy which has grown significantly even containing formal institutional orders that do not seem very clear, however, interpersonal relationships maintained by managers and investors can be viewed as informal substitutes to formal support institutions (PENG and HEALTH, 1996 apud PENG et Al, 2008). Such relationships do not remain only on a micro level, they are taken to a broader level allowing, among others, strategic alliances (PENG and LUO, 2000. Cited PENG et Al, 2008). Supported by North (1990), Peng et Al (2008) consider such a context based on the realization that it is the combination of formal and informal concepts that shape the strategic choices. In situations in which the roles of formal institutions are weak, informal institutions, such as interpersonal relationships, begin to play a more forceful role on the establishment of strategies of firms. With regard to governance, the failure of institutions on monitoring agency conflicts in emerging economies may result in weak corporate governance reforms, even leading to disastrous consequences (PENG et Al, 2008).

5.3 Genetically Modified Soybean Seeds

The collection of copyright (royalty) on genetically modified seeds, exemplified by the case of transgenic soybean seeds (MONTEIRO & ZYLBERSZTAJN, 2012) allows such seeds to be seen as vectors of technology, it is important to consider that the attributes conferred by a transgenic plant are not observed in conventional species. The transgenic seed is a complex of features that are the result of high investments in research and development, such as soybeans resistant to glyphosate (the active ingredient of the herbicide Roundup), bringing about advantages to the producer such as the cost reduction in agrochemicals, since there is less consumption by plants. However, producers who purchase such seed must pay

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royalties to the company which holds the rights of legal ownership over the technology (MONTEIRO & ZYLBERSZTAJN, 2012). The payment of royalties can be seen as a way to protect the economic rights over the property rights of manufacturers and technology owners. Producers might use seeds obtained from crops for future planting or even plants can reproduce, what decreases the capture of the economic rights of ownership for manufacturers.

In the United States since 1980 years patent law have acted favorably in detention and protection over biotechnology employed. In the U.S. institutional environment there are patent protection and clear rules that facilitate the business strategy, which is centralized in the legal system.

In Brazil the commercialization of genetically modified seeds were prohibited until 2005 by Institutions. After this year, the laws allowed contractual arrangements that facilitated the arrest of property rights and Monsanto, a multinational company, was the first to sell genetically modified seeds in the country (MONTEIRO & ZYLBERSZTAJN, 2012). Currently in Brazil there is patent protection, but institutional environment is still weak, which leads firms to exploit more and contractual arrangements to ensure and strengthen themselves in the market, revealing the importance of the informal institutional environment and relationships between developers and seed producers.

Between 1964 and 1995 patent system in Argentina was governed by laws, however, during this period there was not a specific rule neither for patents on plants nor occurred a request to patent a plant. In 1995 the process of patents on plants was strictly forbidden, but in 2000 a law was approved favoring patents on biotechnical organisms. After this law, due to economic crises that occurred between the years 2000 and 2004, the government ignored the issue of patents on plants and their seeds, as a consequence, Monsanto, a big player in the industry in the country put an end on its activities in Argentina in 2004. Thus, in the case of Argentina, in addition to the weak institutional environment, there is no patent protection what prejudices firm's ability to capture income over their property rights.

Thus, the different institutional setting of the three countries makes the attractiveness of seed and the pattern of operation having their peculiarities according to local need.

6. Discussion

In the present discussion it is initially assumed that the institutions are also components which interact in the strategic framework of organizations, thus influencing the decisions and playing an important role on the decision making of agents who respond by firms. Facts involving society and the State interfere in the formulation, establishment of laws and behavior of firms, this last one can also generate the need to develop and practice new rules. It is possible to observe that the three strands of the strategy, Industry Based View or Industrial Organization (IO), the Resource Based View (RBV) and Institutions Based View (IBV) are important for deciding and planning strategic actions in organizations. Although in this Article it is given greater focus to IBV, it can be stated that the understanding of the performance of firms is a function of the aforementioned prospects and can be expressed with the following equation: $Pf = OI + RBV + IBV$.

Specifically on the IBV in any context of strategic actions firms should consider both the rules of formal and informal institutions for their decisions, firms have to take into consideration that in certain environments, informal rules may be more important in shaping strategic organizations, as occurs in the Chinese business environment. It is also observed that the strategies of firms around the world and across sectors may be different, because besides

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being inserted in different environments, rules can represent different relevance for firms in their respective contexts, which was illustrated using the examples of the pharmaceutical industry and of genetically modified soybean seeds industry.

In the cases illustrated, it is clear that the U.S. pharmaceutical industry has high prospect of revenue due to government actions that was important for firms in this sector, such as the creation of the Food and Drug Administration (FDA), allowing this industry to be one of most profitable in the world. Interesting counterpoint is illustrated by the Japanese pharmaceutical industry, where the institutional environment does not promote innovation nor incentives for obtaining high profit margins. In the Indian context it is clear that institutional changes were essential to the changes in the pharmaceutical sector and the current relevance in the global market. This comparison is very interesting for a deeper understanding of the importance of institutions in the strategic framework of the organizations, it is clear that firms in the same industry are influenced by different rules which can represent opposing billing and value capture perspectives.

Moreover, institutional rules of a foreign environment can influence positively or negatively the prospects of a particular industry, as illustrated using the example of the Indian pharmaceutical industry, which managed to gain and export generic medicines to the United States due to the implementation of the Hatch Waxman Act by the government of this country. This illustration indicates that firms should be aware not only to information on the local environment and institutions, it is crucial in a globalized world to understand and obtain information regarding the rules established and practiced by different nations and governments.

In the example of genetically modified seeds it is possible to observe that the institutional rules which strength the capture of economic rights allow the protection and enhancement of a firm's asset, in this case the assets are technology research and development, which establish, in a sense, a bridge with the theory based on resources previously mentioned in the article. Thus it can be argued that institutions also have influence over the control of capture of the economic rights about a firm's asset what was illustrated in this article with the case of royalty collection in the United States, Brazil and Argentina.

For both industries presented, pharmaceutical and genetically modified soybean seeds, it is possible to relate reality with "Proposition 01" from Peng and Khoury (2008). In such cases, managers and firms involved, acted in accordance with the constraints of their environments, conferring distinct strategies and results. It is worth mentioning that for the case of soybeans, suffering greater influence of informal norms and relational contracts between seed suppliers and producers, charging and controlling the use of the seeds occurs in different ways in different Brazilian regions indicating that the institutional environment within the same country may also have peculiarities according to the case.

In the case of the Chinese economy, in turn, it points out that the laws and informal institutions can be stronger than formal ones on the performance of firms in some cases, however, it is important to consider that the formal rules, theoretically, are more clear and precise for firms. Informal rules may be not of common knowledge, which allows them to be seen as valuable information which provides competitive advantages for some organizations and their stakeholders. The Chinese case is a practical example of how to place the implications of "Proposition 02" from Peng and Khoury (2008), showing that in this situation the formal constraints fail, informal constraints played a more important role for the functioning and relationships among firms.

Aiding and adding in understanding the relationship between institutions and the functioning of organizations, Casson (1998) states that a manager should know how the resources and rights of the firm have been used and controlled, he also points out that property rights are held by institutions. Moreover, the same author argues that the firm is also an institution as well as the state is and this last one determines the legal forms that firms should follow, therefore, the author, following North (1981) notes that the enforcement of individual rights by State is costly and requires proof.

On the other hand, individuals may attempt to breach the limits of the implementation and executing of rules by the State to meet their personal interests, some kind of ethics compromise could minimize possible conflicts. The institutions shall coordinate and exercise the rights which are conferred on citizens and organizations; these may involve physical, financial, and other valuable information. Thus, institutions are in some way responsible for the coordination and some issues of decision-making by individuals therefore must establish trust (CASSON, 1998).

The institutional environment also influences the incentives to entrepreneurs and the conducting of efficient gains. Cruz and Cardoso (2012) point out that there is an optimum combination of formal and informal institutions which determines the influence on entrepreneurship. The unproductive entrepreneurship fosters economic damages, such as the rent-seeking which generates deadweight. Social and economic crimes generally harm social results in lack of credibility in the institutions (Cruz and Cardoso, 2012). Empirically, Sauka (2008) sought to understand the relationship between entrepreneurial activity and institutions from interviews in two different years (2005 and 2006) the owners of 130 businesses with fewer than 250 employees in Lithuania found that the most productive firms and which revealed a higher level of entrepreneurial orientation are less involved in tax avoidance or illegal business. The study indicates the existence of a stable social environment, together with the exercise of activities in accordance with the rules, provided the productive contribution of entrepreneurs. Moreover, it is possible to reflect on the grounds of Baumol (1990) that as the entrepreneur acts at a given time and place depends heavily on the rules of the game - the reward structure of the economy - which prevails.

On the internationalization process of firms, when the institutional environment of the other country is very different from the original environment of the firm, this firm must act carefully and behave objectively considering strategic analysis and decisions because there is the probability of internationalization not be successful if some institutions, whether formal or informal, the company would lose efforts and resources. International expansion of the firm can stimulate changes in its governance structure, standards and processes generate high transaction costs, generate the need of the firm to obtain new resources and consequently result in stranded costs. It is evident that institutions affect both organizations as some social and political behavior; they may also affect institutions and firms, being a two-way street. Thus, the IBV is also part of the strategic behavior of firms involving their internal and external borders.

Thus, according to the theory and the real cases it is possible to relate the differences in levels of entrepreneurial activity with the institutions. Formal and informal rules can influence and promote changes in the environment as a whole so companies should update themselves in an entrepreneurial way; moreover, these institutions also shape the outcomes and processes of entrepreneurial activity which are more appropriated for the context in question. The rules of a country can also benefit firms to internationalize and the institutions of foreign countries can determine where a multinational could better expand.

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7. Conclusions, Limitations And Recommendations

This study explored a new theoretical perspective of strategic management, the Institution-Based View (IBV), which as shown by Peng (2009), this theory supports that beside the conditions at the industry level and inside the firm, organizations should also take into account the broader influences, from the state and society, in developing their strategies.

Initially, it was contextualized and explored the IBV in the studies on strategic management, as well as developed the concept of institutions according to North (1990) and Scott (1995). Two propositions were then presented and discussed by Peng and Khoury (2008). In the next session, the four fundamental questions of Rumelt, Schendel and Teece (1994) were related to the vision and the theory presented by Peng (2009). After this theoretical discussion, illustrations inside the pharmaceutical American, Japanese and Indian industry have been described in conjunction with the case of genetically modified soybean seeds in Brazil and Argentina in order to illustrate real facts and empirical research conducted about the IBV theory. Finally, there was a discussion integrating the IBV and the real facts with a focus on implications for entrepreneurial activity and internationalization of companies.

As general conclusions, according to the proposed goals and the main question explored in this work, this research contributes to the literature on the IBV, discussing the existing theory and arguing that the institutional environment is a factor which influences the strategies adopted by organizations. Both formal and informal institutions, act as guides in the choice made by entrepreneurs and firms. Decisions ranging from country and sector in which to work on, how to allocate resources internally in activities such as marketing and research and development are influenced by the institutional environment. Therefore, it is clear that the institutions are related to the degree of entrepreneurship in a particular context and it is essential to know the environment and existing institutions in the internationalization process of small companies as institutional differences can generate different results on final performance. On the other hand, it is important to note that setting clear rules entrepreneurial activity does not have a direct and infinite behavior in an environment where everyone has access to knowledge about the institutions has room for entrepreneurial activity. The paper also presents a counterpoint to OI, showing that it is the market that determines the strategies and the institutions that will shape the strategies.

Finally, it is important to note that since IBV is a relatively new subject and a new perspective on the rise, a limitation of the work involves little diversity of authors who study specifically IBV, which generates a decrease in the number of discussions and possible relationships. Moreover, it is also important to draw possible future avenues for this theory development, which in this case, involving primarily the empirical investigation of different institutional environments and their implications on the strategies adopted and the results obtained by firms from selected industries, specifically, a possible study could involve conducting comparative research between countries in order to analyze their institutional environments and their implications for entrepreneurial and innovative environment.

8. References

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