

Title: Initiating and Acting: Crafting Strategic Deployment for Catalyzing Institutional Change

Summary: This study focuses on how firms strategically navigate and proactively catalyze institutional environmental changes for survival and competitive advantages. Using the Institution-Based View, the study investigates the motivations and processes behind firms initiating institutional environmental changes – from the micro-level of how individual firms shape a new institution to the meso-level of how other industry players respond, and finally to the macro-level of institutional environmental changes. The study deconstructs, discerns, and interprets how strategic positioning unfolds. Facing dynamic environmental shifts, it is important to understand one's role and strategically initiating institutional changes can effectively reshape the game rules of industry. Through in-depth interviews, this study may contribute to both academics and practice on firms' strategic actions.

Track: Strategy (development paper)

Word count: 1,348

Initiating and Acting: Crafting Strategic Deployment for Catalyzing Institutional Change

The environment is changing rapidly and becoming more complex, challenging the stability and resilience of organizations. This phenomenon reflects that intuitions are more than background conditions (Oliver, 1997; Peng & Heath, 1996). Instead, institutions will directly influence an organization's performance and competitive advantage. It means the more the organization is familiar with the “rules of the game,” the more capable it is of maintaining or establishing competitive advantages. How could the firms catalyze the institution changes to establish or maintain a competitive advantage?

There is a need to trace the theoretical development back to institutions. Institutional theory originated from the research of Meyer and Rowan (1977), emphasizing the significance of the institutional environment. The institutional environment strongly constrains the behavior of organizations and individuals. Regarding the types of institutions, North (1990) introduces *formal institutions*, such as laws and regulations, and *informal institutions*, such as customs and culture. Scott (1995) further proposes three dimensions of institutions: *regulative*, *normative*, and *cognitive*. In the discussions within sociology and economics literature, new perspectives have inspired a new approach to business strategic management.

The institution-based view asserts that the structure and context of the institutional environment can influence the behavior of both organizations and individuals and may even directly impact a firm's ability to maintain its competitive advantage (Peng, 2006, 2009). Aside from the main view of strategy—industry-based and resource-based views, the institution-based view points out that “environment plays an important role.” Exploring the behavior and performance of organizations within the institutional environment, DiMaggio and Powell (1983) identified three forces that lead to organizational isomorphism within the institutional environment: *coercive*, *normative*, and *mimetic* forces. The results of different organizations conforming to the same institution are driven by these isomorphic forces, leading to increasing similarities among organizations regarding goals, structures, products, and services (Yang & Cho, 2017). Meanwhile, this perspective is applicable in emerging markets and holds influence in developed markets. For instance, the COVID-19 pandemic and the conflict between Ukraine and Russia, causing global geopolitical instability, have significantly changed the “rules of the game” (Liu et al., 2022).

Nowadays, it becomes evident that the institutional environment shapes changes in business behavior, significantly impacting performance (Yiu et al., 2018). Therefore, the institution-based view highlights the necessity for businesses to identify the dynamic changes in the institutional environment when formulating strategic plans.

However, organizations could catalyze institutional change. Institutional change refers to differences over time in the form, essence, or state of institutions (Hargrave & Van de Ven, 2006). When individuals or organizations begin to deviate in their thoughts and behaviors, they may seek to change existing institutional practices on a macro level or even create entirely different practices (Holm, 1995). The driving force behind institutional change may stem from a “bottom-up” perspective and imply how a minority of individuals or organizations purposefully exert critical influence to prompt institutional change (Dacin et al., 2002).

Further discussing the types of institutional change, the first scenario is “*institution formation*,” involving the emergence of a new logic, new governance framework, or the rise of a new field. The second scenario is “*deinstitutionalization*,” representing the decline and disappearance of existing logic or traditional governance structures regarding functionality, politics, and societal aspects (Oliver, 1992). The third scenario, “*reinstitutionalization*,” manifests as a new logic or governance framework replacing existing logic or traditional governance structures (Scott, 2001) or transforming a mature field. From the above, it is evident that institutions are not fixed and unchanging. Individuals or organizations can initiate institutional change, creating opportunities or avoiding threats for businesses. Implicitly, when the priority of institutionalization differs, the actions taken by roles in the industry will also vary.

In the field of political science, it has been found that within the institutionalization process, roles can be categorized into “*institution-maker*,” “*institution-promoter*,” and “*institution-taker*,” based on the dimensions of the degree of “preference divergence” and “regulatory capacity” (Aydin, 2021; Lavenex et al., 2021; Stoney et al., 2023, Figure 1). These role differences lead to varied motivations and considerations, prompting firms to act.

		Preference divergence	
		High	Low
Regulatory capacity	High	Institution-maker	Old Institution-promoter
	Low	New Institution-promoter	Institution-taker

Figure 1 The roles in the institutional environment

Source: revised from Aydin, 2021; Lavenex, Serrano, & Büthe, 2021; Stoney et al., 2023

Finally, the importance of the institution-based view in business operations is recognized, and it is found that actors in the industry purposefully drive institutional changes (Dacin et al., 2002). In other words, how firms in the industry understand their role positioning enables them to identify opportunities and threats within the institutional environment, respond to institutional changes, and proactively influence the institutional environment to turn the situation around or even create their structures. Although the institution-based view has been applied in discussions on many strategic issues, comprehensive and systematic empirical research is still needed (Peng et al., 2023; Li & Ma, 2023). This study anticipates using practical case process analysis to deconstruct the interactive and evolving relationship between the institutional environment and firm decisions.

Through digital transformation, enterprises can develop a competitive advantage. The impact of digital transformation includes improving internal efficiency, creating external opportunities such as offering new services and embracing disruptive changes, such as altering the roles of firms (Parviainen et al., 2017). Despite the benefits of transforming, existing enterprises, with their legacy in existing systems, may face various challenges and obstacles when implementing digital business model innovations. (Christensen et al., 2016; Markides, 2006) Therefore, firms consider the incentives for digital transformation, as well as their preference divergence and regulatory capability within existing systems. They choose to play different roles in the institutionalization process. For the “institution-maker” initiating institutionalization, comprising competitors from the existing institutional environment can facilitate impactful actions, triggering the possibility of “deinstitutionalization.” To accelerate the diffusion and legitimacy of digital transformation, institutional formulators are also inclined to share knowledge with participants in the existing institutional environment,

promoting the occurrence of "reinstitutionalization." This study explores the roles and interaction relationships among diverse participants in institutional environmental changes. In summary, this study aims to thoroughly depict the real phenomena, reflecting the correlation between firm roles and the processes of deinstitutionalization and reinstitutionalization. The goal is to understand the complete dynamic process of institutional environmental transformation.

Proposition 1: To establish competitive advantage, firms can shape industry regulations and influence industrial development by actively initiating institutional environmental changes.

Proposition 2: In the process of institutional environmental changes, firms playing different roles will take various actions, influencing the direction and effectiveness of institutional environmental changes.

Proposition 3: Actions by firms drive changes in the institutional environment, thereby influencing the evolutionary direction of industrial development.

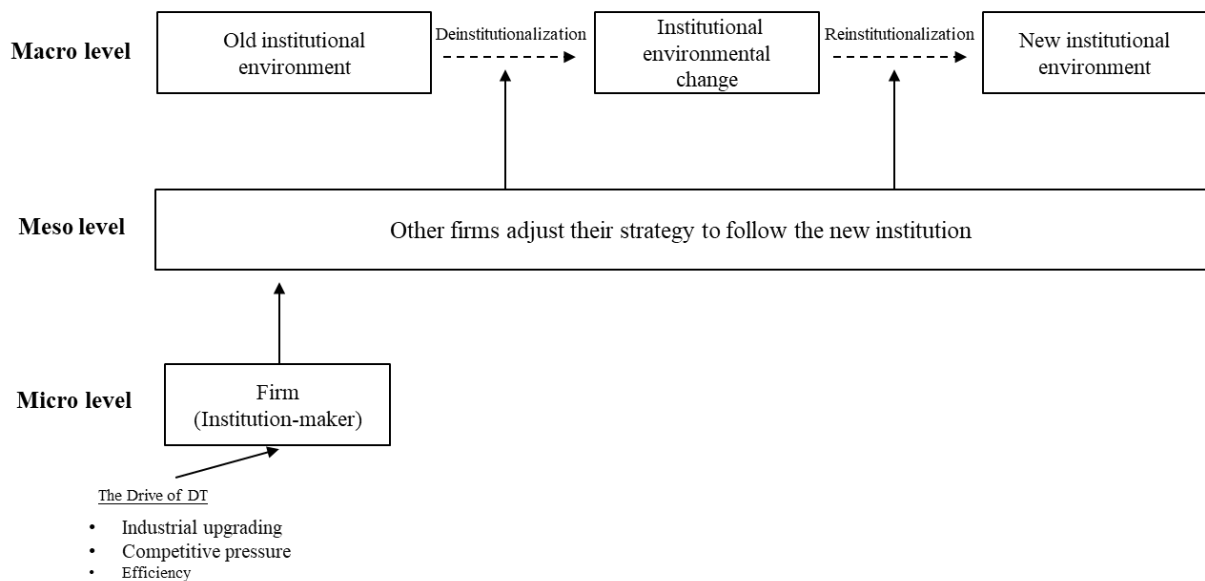


Figure 2. A framework of strategic deployment for catalyzing institutional change

This study strives to verify our proposition through in-depth interviews with employees familiar with digital transformation and participating in related activities, focusing on Taiwan's textile industry, which plays an essential role in the global market. The main contribution will be developing a path to how firms could catalyze institutional change to maintain or build their competitive advantages. For academics, empirical research on developing the institution-based view further validates the relationship between the roles of firms in institutional environment changes and the

evolutionary process of the institutional environment. For practice, when contemplating strategy, firms can observe the influence of key roles in the industry and subsequently work to alter the institutional environment.

References

- Aydin, U. 2021. Rule-takers, rule-makers, or rule-promoters? Turkey and Mexico's role as rising middle powers in global economic governance. *Regulation & Governance*, 15, 544-560.
- Christensen, C. M., Bartman, T., & Van Bever, D. 2016. The hard truth about business model innovation. *Sloan Management Review*, 58, 30–40
- Dacin, M. T., Goodstein, J., & Scott, W. R. 2002. Institutional theory and institutional change: Introduction to the special research forum. *Academy of Management Journal*, 45, 45-56
- DiMaggio, P. J., & Powell, W. W. 1983. The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 48, 147-160.
- Hargrave, T. J., & Van De Ven, A. H. 2006. A collective action model of institutional innovation. *Academy of Management Review*, 31, 864-888.
- Lavenex, S., Serrano, O., & Büthe, T. 2021. Power transitions and the rise of the regulatory state: Global market governance in flux. *Regulation & Governance*, 15, 445-471.
- Liu, Y., Peng, M. W., Wei, Z., Xu, J., & Xu, L. C. 2021. Organizational Resources, Country Institutions, and National Culture behind Firm Survival and Growth during COVID-19. Policy Research Working Paper 9633. The World Bank.
- Markides, C. 2006. Disruptive innovation: In need of better theory. *Journal of Product Innovation Management*, 23, 19–25
- Meyer, J. W., & Rowan, B. 1977. Institutionalized organizations: Formal structure as myth and ceremony. *American Journal of Sociology*, 83, 340-363.
- North, D. C. 1990. *Institutions, institutional change, and economic performance*. Cambridge, MA: Harvard University Press
- Oliver, C. 1997. Sustainable competitive advantage: Combining institutional and resource-based views. *Strategic Management Journal*, 18, 679 –713.
- Parviainen, P., Tihinen, M., Kääriäinen, J., & Teppola, S. 2017. Tackling the digitalization challenge: How to benefit from digitalization in practice. *International Journal of Information Systems and Project Management*, 5, 63–77.
- Peng, M. W. 2006. *Global strategy*. Cincinnati, OH: South-Western Thomson
- Peng, M. W. 2009. *Global strategy* (2nd ed.). Cincinnati, OH: South-Western Cengage Learning.

- Peng, M. W., Sun, S. L., Pinkham, B., & Chen, H. 2009. The institution-based view as a third leg for a strategy tripod. *Academy of Management Perspectives*, 23, 63-81.
- Peng, M. W., Wang, J. C., Kathuria, N., Shen, J., & Welbourne Eleazar, M. J. 2023. Toward an institution-based paradigm. *Asia Pacific Journal of Management*, 40, 353-382.
- Scott, W. R. 1995. *Institutions and organizations*. Thousand Oaks, CA: Sage.
- Stoney, C., Asquith, A., Kipper, K., McNeill, J., Martin, J., & Spano, A. 2023. Policy-making, policy-taking, and policy-shaping: Local government responses to the COVID-19 pandemic. *Australian Journal of Public Administration*, 82, 440-461
- Yiu, D. W., Lam, L. W., Gaur, A., Lee, S. H., & Wong, C. S. 2018. Asian relevance, global impact: Asian management research entering a new era. *Asia Pacific Journal of Management*, 35, 565–571.