

Study on the Application of Institutional Theory in Enterprise performance

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Abstract

Although scholars have conducted a lot of research on institutional theory, the views on the role of institutional theory in enterprise performance are still scattered. Therefore, the author identifies the most important key factors of institutional theory's influence on enterprise performance by combing relevant literature. The most three elements in the institutional environment are institutional consistency which means enterprises management complies with national laws, institutional support which refers to policy support and financial support of government and organizational behaviour mainly study on the firm's compliance with rules, all of these elements have a profound impact on enterprise management and development. Through the comparison and analysis of the institutional theory concept proposed by different scholars and the effect of institutional theory on enterprise performance, the influence of accidental factors is reduced, and certain reference value is provided for enterprises to better apply institutional theory so as to achieve better performance.

Keywords: institutional theory; enterprise performance; systematic literature review.

1. Introduction

The evolution of institutional theory make a great contribution to organizational research nowadays [1]. Usually the development of institutional theory has attracted great attention from scholars with more and more papers have begun to study this theory from different perspectives such as national policies, institutional reforms and a firm's accounting research and institutional theory research projects can cover and explain many phenomena [2-4]. Recent developments of institutional theory has focused on the characteristics and advantages of institutional entrepreneurship, institutional work and institutional logics theories are concerned by many scholars [5-7]. Institutional theory is often used to explain enterprises' environment-related strategies [8]. Usually, there are three elements in the institutional environment that have attracted the attention of scholars.

It posits that, one of the factors in the institutional environment is institutional consistency, the reason is that organization wants to make sure its legitimacy through institutional regulations [9]. Hence, they try their best to pursue the unity of enterprises and social values, and do their best to meet the needs of organizations and stakeholders [10]. In order to reduce concerns about legality, enterprises are more inclined to use management practices that meet social expectations [11]. Similar to environmental strategy, previous literature has shown that firms demonstrate excellent environmental performance to get legitimacy when faced with

pressures of institution [12]. Institutional pressure is usually manifested as regulatory pressure, normative pressure from the government and imitation pressure from competitors [13]. Family businesses in particular value it more, as they pursue a good fame and sustainable development [14].

Some scholars believe that institutional support is another factor that will have a profound impact on enterprise management [15]. On the contrary, there are some researchers argue that institutional support for enterprises may inhibit investment by firms themselves. Aslam et al. (2023) believes that government support can promote the development of family businesses, such as tax incentives, policy support and financial support are all crucial to the development of these enterprises, they are less likely to invest in corporate social responsibility than businesses without the support of government [16]. Besides, government support may make companies dependent on it, thus reducing their efforts to respond to external pressure (such as external criticism) [17]. Studies have also shown that government support may discourage firms of research and development [18].

Organizational behavior is the third factor of institutional theory, it mainly study on the firm's compliance with rules [19]. It is worth noting that institutional theory derives from economics, sociology, and political science [3,7]. Some scholars have studied the legitimacy of institutions from the view of sociology, they believe that organizations are affected by different pressures from outside and within the

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organization [20-21]. For example, Villodre et al. (2021) points out that there are theoretically two dimensions that reflect organizational institutionalization: one is the organized pattern of action (external), and the other is the reference to formal structures [22]. The three elements in the institutional environment and their main areas of concern can be shown in Figure 1.1.

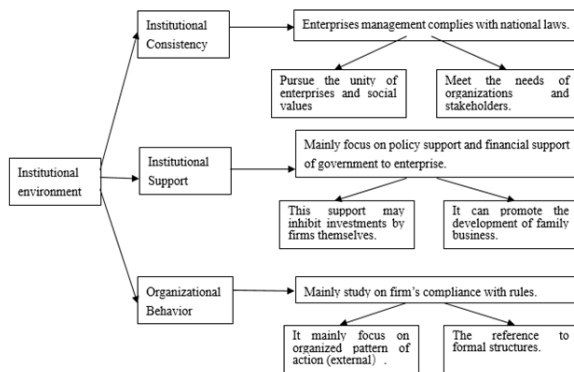


Figure 1.1 The three elements in the institutional environment and their main areas of concern

The normative pressure of the organization makes it pay more attention to the application of legal elements, and the usage of these elements the probability of survival of the company. Therefore, Lin & Ho (2011) examines three aspects of institutionalization, which are broader institutional environment, other organizations, and the internal structure of organizations. In the views of sociologists, it can be concluded that the institutional characteristics of the external environment of an organization influence both the objectives and the ways of the organizations [23]. As a result, researchers have become interested in institutional actors (states and professional institutions) [24]. Subsequently, research has expanded to institutional supervision, norms, and cultural perceptions [25]. At the same time, economic researchers also agree that institutions are the rules of social games [1]. This paper systematically reviews the relevant literature about the role of institutional theory on firm performance on WOS, and tries to answer the key points from which institutional theory has an important impact on firm performance and explain its practical significance.

2. Research Method

In order to better understand the development of institutional theory and the significance of institutional theory to improve enterprise performance, we use Web of Science (WOS) as the main retrieval tool to conduct a preliminary literature query. The first step is to make sure that "institutional theory" is included in the title and keywords, and that the literature selected is a research article (not a review) classified as "Business and management" in the scientific network, and that the H-index cited is higher than the average H-index for all articles. Secondly, search the keyword "corporate performance and institutional theory" to analyze the content of the selected articles and combine them into a data set. To verify that our literature sample contained relevant articles, we applied

another search engine (SCI Verse Scopus) with the same search criteria as the original WOS search. In order to better understand the scientific contribution of institutional theory, this paper adopts the Systematic literature review (SLR) method. According to Littell et al. (2008), a systematic literature review is one that "comprehensively identifies and synthesizes research relevant to a particular question, using organized, transparent, and replicable procedures at each step of the process" [26]. However, Hiebl (2023) pointed out that although systematic literature review is a comprehensive study, it cannot represent all the studies on the selected topic, because it is difficult to do all the studies on the selected topic [27].

3. Development of the Institutional Theory

Scholars have conducted extensive theoretical and empirical research on institutional theory, emphasizing that social regulations and common expectations are important sources of organizational structure, action [28]. Institutional theory is regarded by many scholars as one of the most outstanding organizational research methods [1,20]. There are three main stages in the development of institutional theory. From 1950s to the 1970s, the first phase of organizational analysis was largely overshadowed by the rise of contingency theory [29]. Some traditional scholars focus on studying changes in disparate areas of organizational structure and rely on several key theoretical assumptions [30]. The first view is that the elements that make up formal structures in organizations, for example, operating procedures, job requirements, and the number of managers and employees are constantly optimized to maximize productivity [31]. The second assumption is that the efficiency of a particular structure depends on organizational traits, for instance, the size of the organization as well as its core technology [32]. By the 1970s, traditional research increasingly begun to shift its focus from focusing on the characteristics of internal organizations to the external environment, but retained the basic theoretical assumption of earlier times: that actors determine formal structures with a view to improving productivity [33].

The second phase came in the late 1970s, when Meyer and Rowan (1977) presented a major challenge to this view in their classic paper, which is the origin of contemporary institutional theory, sometimes was called the new institutional theory [34]. A key reason for their analysis is that formal organizational structures are both norms and help people consciously regulate their behavior. Hence, corporate organizational norms, such as recruitment requirements, employee norms, or chief financial officers financial requirements, represent both the corporate culture and the value of equality for all employees [35-36]. However, contrary to the old concept of Selznick (1957), an "institution" is an organization that acquires broad social value, and after Meyer and Rowan (1977), the term was recognized as a specific collection of elements with a formal structure (policy, practice, job title, etc.) [37]. These factors can be diffused in organizational communities, and this process has attracted great attention from scholars in institutional theory [38]. This,

in turn, puts a certain pressure for consistency on organizations that do not yet use these specific structural elements, thus it also makes these structural elements concerned by more people [35].

What's the same, in explaining formal structures, scholars began to study external environmental factors unrelated to the production process, such as laws and regulations and government policies and normative developments within organizations [39-40]. Thus, Zucker (1983) put forward that scholars need to pay more attention to the aspects of the organization that can promote quality and productivity improvement, rather than those forces that produce variation [39]. Based on Meyer and Rowan (1977), they came up with three key forces influencing the system [39]. The first is coercive pressure, usually caused by government administrative directives or powerful groups that control resources. Another force is imitative stress, and usually the leader of an organization will reference to the actions of competitors or other organizations to determine the strategy to adopt. The last one is normative pressure, it is an effort by professionals or to get an organization to adopt specific policies and practices. Garfinkel (1967) was the first to criticize basic theory, and he believed that institutional theory ignored "agency", besides, he argues that institutional theory does not clearly state the importance of interests in institutionalization and weakens the possibility that changes in the strategies and behaviors of objective-oriented managers which may relevant to changes in organizational structure and practices [40]. He suggests, to some extent this issue reflects a combination of phenomenological views of social interaction translated into a theoretical argument [40]. The constraint effect occurs partly because people think the behavior becomes a habit, and partly because the actor tries to avoid possible negative social reactions. What's more, Meyer and Rowan (1977) show that organizations generally are inclined to minimize the constraints of institutionalized structures on the organization's management and production activities, which represents highly strategic management behavior of organizational decision makers [34]. However, in the view of Tolbert and Zucker (1996), how this kind of strategic management is compatible with the phenomenological opinion has not been distinctly stated in current research [41].

The third stage of it was empirical research on institutional entrepreneurship, but it didn't really begin until the 2000s [42]. Stockmann & Meyer (2020) defines institutionalization as the interaction of strategy, meaning, and behaviors and it

also describes the development of institutional change in the crisis period [43]. In a now highly cited paper, Greenwood et al. (2002) studied the change in the Canadian accounting industry to produce a model of institutional change processes driven by institutional entrepreneurs [44]. Based on the previous study, some scholars have put forward that for institutional entrepreneurs, the focus of management and business activities is theorizing or translating opinions into a form easily understood by the masses [44]. They proposed the accounting field justifies accounting firm structures and practices by describing contradictions in existing practice fundamentals and showing how these changes align with mainstream values of the industry. Besides, Long et al. (2023) demonstrate how the newly established entrepreneurs' organization has been adjusted, and management departments and teams of different business sectors have been added to adapt to the implementation of the diversification strategy [45].

Subsequently, David et al. (2013) created a model of institutional entrepreneurship in order to legitimize new organizational forms [46]. What's more, in the view of these authors, institutional entrepreneurship involves not only the establishment of enterprise institutions, but also collective action with other peers. Empirically, they shed light on the process by which early management consulting agencies gained legitimacy, affiliated with prominent universities, scientific groups, and organizations involved or created by the social elite [46]. These "professional" management consultants have formed an association to set up a common code of conduct that allows others to refer to it [47]. Based on these researches, Canales (2016) illustrates how business managers in Mexican SMEs credit market agreed to suspend the existing system and began to find partners and resources, innovate working methods, construct organizational strategies, as well as establish political alliances [48]. To sum up, institutional entrepreneurship is consistent with the changes caused by exercises of agency in the pursuit of profit by organizational managers in the past [46]. As a new research field, it makes up for the insufficiency of agency exploration in institutional theory to a large extent [49]. Farkas (2019) have divided institutions into two kinds which are formal constraints (laws, regulations, and constitutions) and informal constraints (institutions, conventions, and individual behavior requirements) [50]. Besides, Mykhaylyova et al. (2023) argued that studying institutional theory from sociology and economics can make institutional theory more perfect [51].

The three main stages of Institutional Theory Development

Stages	Main concept	Sources	Time
The first stage	Institution is an organization that acquires broad social value.	Selznick (1957)	From
	Elements that make up formal structures in organizations, such as operating procedures, job requirements, and the number of managers and employees are constantly optimized to maximize productivity.	Scott 1975	1950s to the 1970s
	Research increasingly begun to shift its focus from focusing on the characteristics of internal organizations to the external environment.	Lawrence & Lorsch 1967	

The Second stage	Formal organizational structures are both norms and help people consciously regulate their behavior.	Meyer and Rowan (1977)	In the late 1970s
	Institution is a specific collection of elements with a formal structure (policy, practice, job title, etc.	Abrahamson 1996	
	Organizations generally are inclined to minimize the constraints of institutionalized structures on the organization's management and production activities, which represents highly strategic management behavior of organizational decision makers.	Meyer & Rowan (1977)	
The Third stage	Institutionalization as the interaction of strategy, meaning, and behaviors and it also describes the development of institutional change in the crisis period.	Stockmann & Meyer (2020)	After 2000s
	It created a model of institutional entrepreneurship in order to legitimize new organizational forms.	David et al. (2013)	
	Researchers from an economic perspective distinguish between two types of institutions: formal constraints (laws, regulations, and constitutions) and informal constraints (institutions, conventions, and individual behavior requirements).	Farkas 2019	
	The author argued that studying institutional theory from sociology and economics can make institutional theory more perfect.	Mykhaylyova et al. (2023)	

Institutional Theory in Enterprise performance

Institutional pressure is a kind of coercive pressure faced by organizations in the external institutional environment, which mainly comes from external regulations, policies, industry standards and social expectations [52]. However, it is worth noting that customers can also bring a certain amount of pressure to the operation of a business. Thus, coercive pressure can be thought as pressure exerted by other organizations or customers [53]. In the face of institutional pressure, organizations usually choose different strategies according to their own conditions, which are influenced by organizational resources, strategic goals and managers' cognition [54].

Some scholars have pointed out that enterprises are restricted by various systems and supervised by different organizations, hence, the production and operation of enterprises should meet the requirements of the system and operate in a standardized way [52]. In addition, enterprises will adjust their processes, strategies and production in time according to changes in market environment and institutional policies to achieve long-term development [55]. More importantly, because they operate in similar environments, the institutional pressures faced by enterprises are similar, which also makes the operation and production of enterprises increasingly homogenized [52]. While adapting to the institutional environment, enterprises will also adjust their strategies accordingly under the institutional constraints to maximize performance [54]. According to the institutional theory, the development of enterprises also needs to make timely changes according to the changes of internal and external institutional environment [55].

On the one hand, formal and informal activities among groups within an enterprise can affect the formation of internal institutions [56]. Changes in the external environment are related to the firm's response to institutional norms and laws,

as well as other organizational strategies [57]. In the process of enterprise development, the institutional environment is constantly changing, and the change of market system will also produce new business competition [54]. In particular, when the government relaxes its intervention in the market economy, it can make enterprises more dynamic, make the flow of resources more convenient, and at the same time, it can make enterprises more innovative in order to create new business opportunities. With the change of government market system, the value of firms' internal market capabilities will decrease over time [58]. However, at the beginning, the market infrastructure is relatively backward and various resources are relatively lacking, and the market system is not perfect, which brings great uncertainty to the development of enterprises [59]. With the relaxation of restrictive market policies and the subsequent establishment of an integrated market mechanism, the development of enterprises will also be greatly promoted [58].

It is worth noting that China's institutional changes also have an important impact on the market environment, which has experienced from almost no market competition in the initial planned economy to fierce market competition at present [60]. In addition, most companies in China are also inconsistent in responding to uncertain market conditions compared to other countries [21]. Institutional change fundamentally changes formal and informal institutional rules [61]. Thus, while firms in developed economies have also experienced some environmental changes, the scale and scope of the changes have not been the same as the institutional transformations experienced by firms in developing countries [23].

Although a large proportion of Chinese enterprises face a highly uncertain environment, there are also parts of China where enterprises experience a relatively low level of environmental dynamics [62]. The Chinese government is also committed to promoting the development of certain types

of enterprises and providing strong institutional support for the development of these enterprises, so as to reduce the risks arising from changes in market dynamics [60]. In addition, institutional changes are not large-scale, and occasionally only institutional adjustments in individual industries. During the past years, for example, the government announced several policies to slow the rise in housing prices [63]. These policies have a huge impact on the relevant companies, making these enterprises face huge institutional pressure, and also affect the future development direction and performance of enterprises, such as companies in the construction and real estate development industry [63].

4. Discussion

Elements of Dynamic Institutional Theory

From the perspective of economics, some scholars divide institutions into two types: one is the institution of formal constraint, which is composed of laws, regulations and constitutions; The other is a system that acts as an informal constraint, consisting of rules, conventions, and ethical requirements [50]. However, some researchers believe that the coordinated development of institutions and organizations determines the development of economic institutions [64]. In addition, some scholars have studied the role of institutions in restraining behaviors, the importance of institutions in maintaining the stable development of the market and society, and the role of institutions in corporate performance [56,57,63]. At the same time, some scholars believe that the system established by the government has the most important influence on the organization [62,64]. However, scholars are also asking what is the core of the system? What constraints are involved, and what are their effects on the members of the organization? In order to solve these problems, scholars apply institutional theory to business management and study institutional theory from the perspective of sociology and economics. Mykhaylova et al. (2023) proposed that studying institutional theory from this new perspective is an innovative behavior and can also make institutional theory more perfect [51]. Kauppi & Luzzini (2022) analyzed and summarized the views of previous researchers and believed that institutional pressure came from the relationship between macro social environment and internal organization [52]. Therefore, scholars not only study the elements of the external system, including laws, regulations and systems, but also study the reactions of other companies in the same industry or different departments within the same company to the system. The research results show that most team members obey the system constraints and their behavior patterns are consistent with the system requirements. However, scholars in the field of business management put forward a different concept of system, pointing out that system is a behavioral requirement or rule accepted by the vast majority of people (Lawrence et al., 2002). At the same time, Amis et al. (2018) identified three elements of institutions, namely regulation, cultural cognition, and norms [64].

The importance of institutionalization processes

Organizational institutionalization is the ability to develop norms that fit behavior into fixed patterns based on shared

values [65]. The formal structure of the organization may deviate from the actual operation, it is an organization's response to the internal and external environment [42-43]. Unlike the contingency theory prevailing at the time, this view held that formal structures could be built into organizations without regard to quality or production costs [43]. This is markedly different from the common assumption in economic explanations of organizational behavior that the most important factors in organizational development are efficiency and quality [13]. Scholars in the field of phenomenology believe that explaining how social interactions continue over time is key, and explanations often emphasize the process by which individuals form conventions about specific behaviors and the ways in which those conventions constrain behaviors [51]. To address this issue, Farkas (2019) suggest focusing on studying institutionalized processes (rather than outcomes [50]. They argue that these processes are the result of participants' efforts to achieve their goals, and lead researchers to recognize that "the establishment of institutional projects and the construction of institutional forms depend on the game of behavioral relative power." This perspective forms the basis of the study of "institutional entrepreneurship," in which policymakers often (directly or indirectly) employ a variety of policies and practices to ensure the achievement of personal or organizational goals, or even establish entirely new forms.

Understanding the institutional theory Framework

This way of thinking about organizational systems is consistent with scholars' views on exploring environmental relations as a source of organizational action [66]. It can be seen that the application of institutional theory as an important and was frequently used framework for the analysis of different organizations has been rapidly accepted and disseminated in this thesis. Similarly, in the field of organizational research, the dominance of institutional theory has been demonstrated in different ways by different scholars. Its continued dominance in the field of organizational research is evidenced in different ways [66]. Besides, the stability of professional journal publishing and books sales proves that they are still attracting attention. To some extent, scholars' persistent interest in institutional theory reflects that organizational frameworks have also expanded over time to address the limitations and limitations of earlier theories. These have resulted in a number of different workflows, most famous are institutional entrepreneurship and logic. Thus, as other organizations begin to use these specific structural elements, they gradually become institutionalized [56]. These opinions are validated by a number of studies that have investigated different actions in organizations, however they were soon questioned for not being meticulous enough because they neglected to consider the forces that mitigate this diffusion pressure [44].

5. Conclusion

The study of institutional theory is very important for enterprises. Firstly, the external institution (such as laws, regulations, and potential rules prescribed by society) and the internal institution of enterprises have important guiding

significance for the legal and compliant operation of enterprises. Previous studies have also proposed that the synergistic development of institutions and enterprises has a significant impact on enterprise performance. They believe that when enterprises are affected by external institutions, such as national and local governments, industry rules and other organizations, they will follow institutional forces to gain rewards, prestige, support, and legitimacy [52]. Secondly, when the institutional transitions, it will affect the market environment, which further makes the enterprises form a new competitive situation. Because market orientation affects the competitive strategy of enterprises, as well as the provision of products or services, and when the system changes dramatically, it will affect the change of the industrial pattern. Therefore, when formulating or changing the institution, the institution makers should conduct comprehensive research and fully consider the possible impact of all aspects, especially the impact on the market economy. Thirdly, as far as the enterprise itself is concerned, its internal institution is very important to restrict the behavior norms of employees, guide the work process as well as rewards and punishments of the enterprise, and form a unique corporate culture. Therefore, the formulation of the internal institution of the enterprise should have a long-term consideration in order to improve the enthusiasm of employees and form a good corporate culture.

Limitations of this study and recommendations for future research are as follows. First, as the largest developing country with a large number of enterprises, China has better support for studying the impact of institutional theories on enterprises [67]. Second, different institutional environments may have different levels of institutional development [67], thus the impact on enterprises is also different. Therefore, it is necessary to make a detailed comparison of the institutional impact among developed countries, developing countries, and developed countries and developing countries, so as to better understand the impact of institutional differences and corporate performance.

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