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MNEs as institutional entrepreneurs: A dynamic model of the co-evolutionary process

Antonia M. García-Cabrera ^{a,*}, Juan J. Durán-Herrera ^b

^a Universidad de Las Palmas de Gran Canaria, Facultad de Economía, Empresa y Turismo, Campus Universitario de Tafira, Edificio Departamental Módulo C. Despacho, C-3.03, 35017 Las Palmas de Gran Canaria, Spain

^b Universidad Autónoma de Madrid, Facultad de Ciencias Económicas y Empresariales, Centro Internacional de Investigación Carlos V, Módulo XV-2^a planta, 28049 Madrid, Spain

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ABSTRACT

Co-evolutionary theory suggests that firms and their environments interactively influence each other over time due to the interplay between them. However, international business (IB) literature has paid little attention to the study of the co-evolutionary process. Therefore, new research that delves into the process in order to identify how the reciprocal influences between institutions and multinational enterprises (MNEs) take place, and that identifies key variables that determine the extent to which MNEs will affect the environment, is necessary. The current study addresses this call and examines the interplay between institutions and MNEs in order to explain such a coevolution. The paper provides a cohesive theoretical model for the co-evolutionary approach in the IB literature. Some suggestions for lines of inquiry and of methodological challenges for future research in the IB field are provided.

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1. Introduction

Co-evolutionary theory suggests that firms and their environments influence each other over time (Child, Rodrigues, & Tse, 2012) in a bi-directional way (Madhok & Liu, 2006), so suggesting the existence of an interplay between firms and their environments (Ahlstrom & Bruton, 2010). While evolutionary approaches deal with changes at industry/country or organization level, co-evolutionary theory attempts to identify the outcomes of the interaction between these processes of change (Pajunen & Maunula, 2008). Thus, co-evolutionary theory suggests the need for a conjoining framework that allows academics to understand institutional change (Cantwell, Dunning, & Lundan, 2010).

The traditional international business (IB) view emphasizes that firms must conform and adapt to institutional pressures if they

wish to gain legitimacy within any organizational field (DiMaggio & Powell, 1983). A central belief in institutionalism is the way these ideas and values take root in the minds of individuals and social groups, leading to behaviours that characterize the particular field. This is called embeddedness (Granovetter, 1985). In particular, Scott (1995) differentiates three institutional dimensions that use different mechanisms of influence over the actors within the fields: (1) The regulative dimension refers to existing laws that exert coercive pressures; (2) the normative dimension deals with the cultural domain, including socially shared values, so they rely on norms; and (3) the cognitive dimension emphasizes cognitions and actors' generally shared perceptions of what is taken for granted, and they exert mimetic pressures. These institutional forces influence the decisions managers make and lead organizations to adopt similar practices – hence so-called isomorphism – because these influences are relatively uniform in a given organizational field (DiMaggio & Powell, 1983). From this early approach of institutionalism, MNEs are expected to accept the external institutions as given, and hence decide in which institutional environment to operate abroad, for example, by adapting their internal practices

* Corresponding author.

E-mail addresses: antonia.garcia@ulpgc.es (A.M. García-Cabrera), juanjose.duran@uam.es (J.J. Durán-Herrera).

and policies to the conditions of said environment – i.e., institutional adaptation (Cantwell et al., 2010) – or delocalizing some business activities from certain host countries to others with more favourable institutional frameworks – i.e., institutional avoidance (Cantwell et al., 2010).

Institutional environmental changes can derive from governments' and supra-national agencies' regulations, markets and competition, and the demands of civil society (Greenwood, Suddaby, & Hinings, 2002), as they are relevant actors in current global capitalism (Dunning, 2003). Firms follow institutional changes in an attempt to answer to the new institutions (Jackson & Deeg, 2008). Normative and cognitive institutions are expected to change very slowly as they have an evolutionary origin and are very inertial, while regulative institutions are designed by government in the executive, legislative, judicial and bureaucratic areas (Williamson, 2000). However, facts show that regulative changes triggered by governments do not always have the expected effect in MNEs. In this respect, Child et al. (2012) suggest that the limits of government enforcement depend on firms' economic power, and that the firms' power is conditioned by the power of governments to facilitate or hamper business opportunities. Also, the need for complementary institutions in the environment is highlighted (Williamson, 2000), given that regulative changes are usually not enough to reach a successful change in the field if institutional congruence with normative and cognitive institutions fails (Fatas-Villafranca, Sánchez-Choliz, & Jarne, 2007). Thus, institutional environmental changes do not always force MNEs to introduce internal changes in order to adapt to the new institutions. MNEs do not always consider institutions as a framework that needs to be avoided or adapted to, but instead often regard them as a bundle of resources to be tapped into in order to solve their coordination problems and to develop specific capabilities (Jackson & Deeg, 2008). In the same way, as MNEs try to change institutions for their own benefit, other actors can also respond to MNEs' agencies by facilitating new external changes.

The institutional change process seems to require the use of a bi-directional causal link approach (Fatas-Villafranca et al., 2007), such as that proposed by co-evolutionary theory, in order to show the interdependence between managerial decisions and institutional environmental changes (Lewin & Volberda, 1999) over time (Child et al., 2012).

In the study of the co-evolutionary process, some research works have focused on the coordinated action by firms – usually SMEs or other actors – that share the same or similar objectives in the field (e.g., Wiig & Kolstad, 2010; Verdu, Gómez-Gras, & Martínez-Mateo, 2012; Khavul, Chavez, & Bruton, 2013). These firms adopt strategies that are harmonised in an attempt to act upon the environment. Khavul et al. (2013) refer to these processes of co-evolution as a collective and incremental phenomenon, rather than in terms of the decisive role of a specific actor. However, MNEs as an organiser of economic activity (Dunning & Lundan, 2008), play a relevant role in a range of environmental, social, poverty-related and human rights issues (Kolk & van Tulder, 2010). The specific role that a single MNE can take in modifying the institutional environment may be relevant and, to a certain extent, they may behave as a “lone hero” – i.e., change agent – (Wright & Zammuto, 2013). According to Cantwell et al. (2010), the potential role/power of the MNE to act on the environment through co-evolution is mainly related to the increasing autonomy of the subsidiaries. They identified some characteristics of the environment (in terms of stability and dynamism) that are present in those cases where MNEs use the institutional avoidance, adaptation, and co-evolution forms of engagement in changes. However, these authors “do not go further into the processes by which co-evolution might come about” (Child et al., 2012).

Stemming from these previous works, this research examines the co-evolutionary process between institutional environment and the MNE. Specifically, we go beyond the recognition of the potential role of MNEs to have an influence on the environment and focus on the way in which a given MNE interacts with institutions over time until accomplishing institutional changes. So we add to the intricacies of the process in order to propose a cohesive theoretical model for a co-evolutionary approach, which we will contribute to the IB literature. We aspire to construct such a theoretical model through the analysis and interpretation of several published, real-life experiences in order to identify causal associations and, hence, put forward a proposal of said model. This method termed “appreciative theory” was initially proposed by Nelson and Winter (1982), and subsequently described and used by several authors (e.g., Nelson, 1994a,b; Cantwell et al., 2010) as a kind of qualitative economic analysis which aims to theorise on areas where quantitative data are not appropriate – e.g., new forms of business organization, new institutions (Nelson, 1994b). Following on from them, this paper provides a number of real-world examples that are discussed and allow us to propose a dynamic model for the co-evolutionary approach.

This paper contributes to the literature in different ways. Firstly, the existing literature features only a few works which examine the role of MNEs as potential actors of institutional co-evolution (e.g., Cantwell et al., 2010; Dunning & Lundan, 2008; Pajunen & Maunula, 2008). Our paper goes further and delves into the process of identifying how the reciprocal influences between institutions and the MNE take place and lead to an implementation of institutional changes, that is, the sequence and mechanisms that give rise to institutional changes based on co-evolution. In doing so, we identify key variables that determine the extent to which MNEs will affect the environment. We detect characteristics of the environment, as Cantwell et al. (2010) do, but we extend our research to include other variables (e.g., the extractive and inclusive nature of institutions that involve the political and economic conditions of countries). We also search out the features of MNEs that condition the process (e.g., co-evolutionary capabilities, firm's performance, ideology). According to this, we provide a theoretical model for the co-evolutionary approach for the IB literature.

We will proceed in the following manner: we start to briefly outline the theoretical issues of the study by conceptualizing MNEs, clarifying the concept of institutional entrepreneur, and then examining the MNE-level and the field-level conditions under which MNEs are likely to engage in co-evolutionary processes (Section 2). These theoretical issues aim to integrate findings from different streams of literature as a kind of appreciative theory (Nelson & Winter, 1982). As this theoretical body leaves out a full explanation of how the co-evolutionary process between the MNE and the institutional environment happens, we used a method based on appreciative theorizing to build a dynamic model of the co-evolutionary process for IB literature. After the methodological design is clarified in section 3, we look at the available empirical evidence provided by published, real-life situations. First, in section 4 we analyse the role and peculiarities of MNEs in their interplays with the institutional environment. The interaction between firms and institutions has mainly been depicted by literature in the entrepreneurial research field, so we discuss and refine its findings in light of several real-life examples that illustrate how MNEs interact with the environment in a co-evolutionary process. Then, in section 5, we address the research objective of this paper and build a dynamic model of the co-evolutionary process that we contribute to the IB field. This way of applying appreciative theory is consistent with Geels (2002) and Cantwell et al. (2010). We conclude with some findings and recommendations for future works.

2. Theoretical issues: MNEs as institutional entrepreneurs and the enabling conditions needed to coevolve

MNEs operate within a network structure that spreads over their internal affiliates and external agents (Cantwell et al., 2010), thus going beyond their own foreign production facilities to include all their value-creating activities, on which they have a significant influence (i.e., foreign sourcing of inputs, production, marketing, and distribution activities). As these activities are developed in different countries, these firms are interested in efficiently allocating their resources at the international level.

As a result of these activities, MNEs also create wealth and welfare in the countries where they operate. Indeed, recent literature on IB highlights the concept of corporate social responsibility (CSR) to refer to “corporate activities that address the interests of agents other than the owners” (Wiig & Kolstad, 2010, p. 179) – in other words, activities to provide, in addition to the economic returns to owners (e.g., profits) and to countries where they operate (e.g., GDP, employment), social contributions such as safe and healthy working conditions in factories or attention to the environmental impacts of operations (Doh, 2005).

MNEs are simultaneously immersed in and exposed to multiple levels of environment. At the external macro level, the MNE – or its subsidiaries – is externally exchanging resources with other organizations in each country where it operates. At the micro level there also exists an internal exchanging process for resource production and allocation among subsidiaries (Madhok & Liu, 2006). Chan and Makino (2007) highlight the relevance of these different institutional environments for the MNE. As each country has its own historical trajectory (Cantwell et al., 2010; North, 2005) which causes different ideas and values to take root in the minds of individuals and social groups and leads to specific behaviours (Granovetter, 1985), the MNE must face different external institutional frameworks, e.g., demands from civil society and NGOs (Kolk & van Tulder, 2010), levels of corruption that affect FDI (Cuervo-Cazurra, 2006), ways to make efficient external exchanges, and different institutional change processes (Acemoglu & Robinson, 2012; North, 2005). The internal institutional environment is made up of the set of structures and practices established over time and which include the rules and norms that govern relationships within MNEs and those between them and their external stakeholders (Dunning & Lundan, 2008). Thus, these private institutions only affect actors who are part of each MNE (Ingram & Silverman, 2002), so they are different from external public institutions in their scope.

As the MNE is exposed to these multiple institutional environments, it must face uncertainty in the decision-making process. A common source of uncertainty is the existence of external and internal institutional pressures, particularly when either external pressures in different host countries or external and internal pressures suggest different organizational forms (Déniz-Déniz & García-Cabrera, 2014). For example, when the external institutional environment pushes German MNEs to enter the Spanish market through a joint venture – as many previous German firms have been made to do – but internal institutions suggest they look for internal legitimacy, transferring internal practices through expatriates and hence choosing a greenfield as a more suitable method of facilitating this internal transfer of institutions, the MNE must face the uncertainty provided by these two conflicting pressures (Déniz-Déniz & García-Cabrera, 2014). Interconnected global markets are also a source of uncertainty, particularly the uncertainty related to informal institutions (e.g., social norms, beliefs etc.) as they result in a non-ergodic world of incessant and forecasted changes, i.e., it is almost impossible to predict future events from past structures and trends (North, 2005). In these contexts,

each decision-maker must use their ability to choose to respond to institutional challenges in each country where they operate, thus carrying out different purposeful actions of agency (Cantwell et al., 2010). Additionally, in cases where these solutions are new, they can result in the emergence of an institutional change of the system they are part of (Battilana, Leca, & Boxenbaum, 2009). For instance, MNEs can transfer their own institutional advantages (e.g., governance mechanisms, strategic knowledge, and business models), developed at headquarters or foreign subsidiaries, to other intra- and cross-country affiliates, thus influencing the institutional change process if such MNEs' internal institutions are diffused among other actors in the organizational field (Madhok & Liu, 2006).

With the aim of explaining how actors may indeed contribute towards changing institutions, DiMaggio (1988) provided the notion of institutional entrepreneur and introduced it into institutional analysis (Seo & Creed, 2002). Specifically, according to Battilana et al. (2009), we can consider an MNE to be an institutional entrepreneur when it “[...] initiates, and actively participates in the implementation of changes that diverge from existing institutions, independent of whether the initial intent was to change the institutional environment and whether the changes were successfully implemented” (p. 72). However, MNEs face a fundamental obstacle when it comes to taking an active role as institutional change agents. This obstacle is the so-called *paradox of embedded agency*, which describes how actors can influence institutional change when they are immersed in and conditioned by the same specific institutional environment they are trying to change (Seo & Creed, 2002). After reviewing extant literature, Battilana et al. (2009) identify two main categories of conditions that enable actors to become institutional entrepreneurs despite institutional pressures: actor-level and field-level conditions. We study these conditions below.

2.1. MNE-level conditions needed to coevolve

These conditions include actors' social positions across organizational fields and co-evolutionary capabilities. The first refers to actors' participation in different situational contexts and the relevance of their social position, which allows them to cooperate with agents from other fields in order to achieve institutional change (Lawrence, Hardy, & Phillips, 2002). As a network, an MNE operates in multiple organizational fields and usually enjoys a relevant social position because of its size and contribution to economic growth. In fact, MNEs are the main producers and diffusers of technological, commercial, and managerial capital as they organize and coordinate a large part of the world's production, and they account for more than 3% of direct employment globally. In developing countries, the relevance of MNEs is even greater given that they can contribute to the diversification of economies beyond primary production and extractive industries into manufacturing, assembly or services, and offer new possibilities of wealth and growth. Thus, MNEs meet the main enabling actor-level conditions suggested by Battilana et al. (2009) to potentially become institutional change agents or, in other words, institutional entrepreneurs.

Second, MNEs must have co-evolutionary capabilities (Madhok & Liu, 2006) as the enabling conditions needed to coevolve. Specifically, we refer to private institutions and internal abilities that determine firms' flexibility to act and react when changes in the environment take place, in other words, the alertness to external changes and the ability to mobilize effectively both the internal resources and the external supports to respond to them. In particular, MNEs have their own private institutional environment that governs relationships within the firms and those with the stakeholders (Dunning & Lundan, 2008). These internal institutions

may constrain the opportunity to behave as institutional entrepreneur. For example, internal institutions determine firms' ideology and how the firm is prone to use its material power bases to influence authorities and other field actors. In this respect, motivations toward CSR can be different in each MNE and such motivations condition the MNE's intention to exert influence over the government or to cooperate with it instead, i.e., is CSR based on the firm's code of conduct, on pressures from stakeholders, or on the opportunity to get contracts from government? (Wiig & Kolstad, 2010).

Furthermore, MNEs also require certain internal abilities to behave as institutional entrepreneur, such as social and negotiating skills. As fields are relational spaces that comprise groups of organizations – i.e., suppliers, consumers, regulatory agencies, etc. – (DiMaggio & Powell, 1983), Wright and Zammuto (2013) warn that single actors may fail to implement institutional changes in the environment if they do not successfully mobilize support from other actors who collectively maintain the field status quo. In this respect, the social skills – e.g., discursive resources, cooperative abilities (Wright & Zammuto, 2013) – and negotiating skills required to effectively use power resources (Child et al., 2012) are likely to be relevant for the MNE to mobilize other actors in the field.

In addition, as the MNE operates in different countries, the existence of institutional and cultural distances between the home and the host countries, and between the internal institutional environment and the external ones must also be considered in the process of looking for supports in the field. To this end, locational embeddedness in the decision-making process (Madhok & Liu, 2006) may give rise to obstacles that impede MNE's mobilization of supports from other actors in different countries. For example, the new policies and practices that the MNE tries to introduce in a host field are likely to be congruent with their internal institutions and with those in its home country, and so they will be incongruent with existing institutions in the host countries in cases of institutional distance. So these new practices can be difficult to understand or accept for actors in host countries. This problem emerges because institutional changes in a country must be consistent with its historical path and the institutional framework (North, 2005). Clearly a greater understanding by the MNE of a host country's culture and current institutions would contribute to a better handling of the process of mobilizing supports in favour of institutional change.

2.2. Field-level conditions for MNEs to coevolve

Field-level conditions are those that make the institutional environment unstable (Battilana et al., 2009) and easier to change. They can be caused by multiple circumstances that are usually connected and include economic crisis, a low degree of institutionalization, and new regulations and institutional contradictions, among other things (Leca, Battilana, & Boxenbaum, 2006; Seo & Creed, 2002; Wright & Zammuto, 2013). In this respect, the distinction between two kinds of political and economic institutions, as proposed by Acemoglu and Robinson (2012), deserves to be considered because they generate different levels of instability in the environment: The extractive institutions in which a small group of individuals concentrate power and opportunities and do their best to exploit the rest of the population, and the inclusive ones in which the rule the law applies – many people take part in the process of governing and the level of exploitation drops. In regards to inclusive institutions, Acemoglu and Robinson (2012) argue that political institutions must provide justice, the enforcement of contracts, and education, and so support innovative actions by firms, economic success and growth. According to these authors,

extractive institutions can also provide growth, but only temporarily. Obviously, countries with inclusive institutions show higher economic development and living standards than countries with extractive institutions. Since the existence of inclusive institutions is less common in developing countries, it can be expected that field conditions cause more instability (e.g., weak law enforcement, ongoing economic crisis, existence of contradictions between different institutions such as law and social values), hence, MNEs may be more likely to exert influence over the environment. Thus, although MNEs are expected to internationally allocate their resources and make external exchanges to promote the creation of wealth and welfare in the countries where they operate, in locations where extractive institutions dominate, they may be tempted to use their relevant conditions to influence the environment in order to take advantage of these weak institutions, and so using the external exchanges to contribute to their own enrichment and that of the few other powerful actors that maintain the existing field conditions. In this respect, it deserves to be considered that the quality of external institutions can condition the attraction of different foreign investors: inclusive institutions are likely to attract investors with more advance ownership advantages, whereas extractive institutions will probably attract investors mainly searching for less stringent rules.

Even in the context of developed economies, where inclusive institutions are common and the rule of law is genuine, new regulations passed by national governments can be limited, for example, to guarantee the country's competitive advantage in case this regulation erodes MNEs' privileges (e.g., rules to limit tax heavens). This is so, as MNEs do business in the spaces between nations (Nasra & Dacin, 2010). Also, as many MNEs meet the relevant conditions needed to influence the environment, they may not act as passive players submissively seeking legitimacy (Riaz, 2009) in their relations with new regulations and government, even in developed economies; instead they will probably implement actions which can either cause the failure of regulative change efforts or result in coevolution.

Thus, a more integrated model is needed to understand how internal and external institutions act and evolve.

3. Building a model of the co-evolutionary process based on the interplay between institutions and MNEs: a method based on appreciative theorizing

Co-evolutionary theory suggests that firms and their environments interactively influence each other over time (Child et al., 2012). Our aim is to understand this process by looking directly into the bi-directional causal link between a given MNE and the institutions it comes into contact with. To that end, we use appreciative theory, which was initially proposed by Nelson and Winter (1982) and later on used by Nelson (1994a,b) and other authors (e.g., Ernst & Kim, 2002) to undertake economic analysis. To be specific, the economic analysis that stays relatively close to the data and is expressed mostly in words, but which involves theorizing, is called appreciative theory (Nelson & Winter, 1982). Nelson and Winter (1982) differentiate between appreciative theory, which is mainly based on qualitative analysis and historical accounts, and formal theory, which is largely based on quantitative analysis of data and magnitudes. Obviously the connection between these two forms of theorising can enrich understanding of economic enquiry (Muchie & Baskaran, 2009). However, appreciative theory and formal theory are not always consistent, and a dissonance between them suggests the existence of analytic problems (Nelson & Winter, 1982). In order to reduce the potential gap between appreciative and formal theorizing, Nelson (1994b) states a bridge between these two forms of theorizing.

Despite the bridge, the two kinds of theorising currently appear to remain separate as the formal theory is mainly followed by the evolutionary economists whereas appreciative theories tends to be favoured by national innovation system perspectives and others in institutional and business economics (Muchie & Baskaran, 2009). For example, Cantwell et al. (2010) recognize that their contribution corresponds with the nature of what Nelson (1994a) has described as appreciative theory, rather than with formal theory. In their opinion, and when researching in the field of social science, appreciative theory may rely on a particular interpretation that is consistent with a complex variety of experiences identified and discussed in the previous literature. Thus, and according to these authors, although researchers using this method cannot examine the full series of historical experiences, they may support the argument through reference to a number of illustrative examples drawn from the literature. Considering the research objective of our work that aims to understand the process of coevolution between a given MNE and its institutional environment, we mainly follow Cantwell et al.'s (2010) approach in the application of appreciative theory.

In addition, both Nelson (1994b) and Cantwell et al. (2010) highlight that appreciative theory pays more attention to institutional and contextual specificities as different historical accounts tend to focus on different countries, sectors and events. For example, as the world economy comprises many different countries idiosyncratic economic, political and cultural conditions, the opportunity for building a theoretical model about the co-evolutionary process between the MNE and its institutional environment on the base of appreciative theory seems to require the choice of a particular setting. Leca et al. (2006) suggest that emerging and fragmented settings are especially fruitful for institutional entrepreneurship. In the particular case of MNEs and the institutional environment, a fertile setting for institutional entrepreneurship is provided by developing countries where extractive institutions are common (e.g., weak law enforcement, ongoing economic crisis, existence of contradictions between different institutions such as law and social values). Also, Cantwell et al. (2010) refer to developing countries as faster-moving environments because of the process of political and institutional reforms they face, and so where the coevolution of MNE and the institutional environment is more likely. So we choose that setting and obviously recognize that generalisations of our analysis, if possible, may only extend to developing countries characterised by the extractive nature of their institutions. According to this methodological decision, we reviewed the previous empirical literature and other publications, such as news releases, to identify real-life examples about the interaction between MNEs and the institutional environment that took place in such settings.

On the one hand, we looked for studies which analyse the underlying mechanisms and variables that affect the co-evolutionary process in the IB literature and found very few empirical works (e.g., Pajunen & Maunula, 2008; Verdu et al., 2012). These works mainly analysed the successive changes that had taken place in the industry and within several organizations involved in a particular co-evolutionary process. They did not, however, examine the way in which actors interacted, or the strategies they had used in order to deliberately influence others; indeed these works mainly focused on how the decisions taken by firms in order to adapt to new external institutions eventually influenced the evolution of the institutional environment. In addition, the examples provided by these works had taken place in developed countries, Finland and Spain, respectively. An exception to these was the work of García-Cabrera, Suárez-Ortega, and Durán-Herrera (2015) that referred to coevolution in international business as a potential trail to tourism sustainability in Africa. We also looked for the empirical

studies in the literature on entrepreneurship and found several works that analysed the co-evolutionary processes; some of them examined in-depth the interaction between actors, e.g., Ahlstrom and Bruton (2010); Khavul et al. (2013); Wright and Zammuto (2013). Thus, we took into account the suitable examples and findings provided by empirical literature in both research fields.

On the other hand, we also looked for published detailed and short examples from MNEs which have interacted with external institutions – although these examples have not been previously discussed from a co-evolutionary approach. Specifically, we searched for detailed examples that met two criteria in order to make the achievement of our research objective feasible: the process had taken place between a given MNE and the environment in a host developing country, and the case was well-documented. We found and disregarded several examples as they did not meet some of the required criteria. For example, we found cases of several MNEs that had used their powerful position to deal with government regulations. The MNEs' initiatives aspired to exert influence over the local authorities in developed countries and ignored the co-evolutionary alternative, and were thwarted by governments (e.g., the lobbying efforts of EuroVegas before entry into the Spanish market in an attempt to modify the enforcement of anti-smoking regulations in their facilities); other cases, despite aiming for coevolution in developing countries, were either insufficiently documented in public media or the actors involved had not yet reached a settlement in their dispute and coevolution was therefore in process, for example, MNEs in several countries, including Bangladesh, China and India, with respect to human rights violations in the garment sector. All these real-life examples occurring in developing countries have been taken into account in order to build a theoretical model of the co-evolutionary process, but they did not allow us to theorize about every stage of the process due to the fact that they are short, insufficiently documented or coevolution is still in progress. After a thorough search, we identified the cases of Inditex in Bangladesh and Coca-Cola in India that met the required criteria to offer a full illustration and allow a full discussion. These detailed “real-world” examples illustrate why and how two relevant MNEs, nurtured with vast economic, social and power resources, interacted with external institutions leading to new private and public institutions. Table 1 offers some details about the chosen real-life examples.

Below we examine the role and peculiarities of MNEs in their interplays with the institutional environment in light of an historical account of the examples of Inditex and Coca-Cola, but we make our discussion more general by referring to the evidence provided by other less-detailed examples concerning the interaction between MNEs and their institutional environment. Later on we will build a dynamic model of co-evolutionary process on the base of all these real-life examples. So, the following are thoughts from our study of previous theoretical and empirical research works and their comparison with the selected examples in order to reason the role and peculiarities of MNEs in the co-evolutionary process and the identification of a dynamic model of coevolution for IB literature. In particular we provide links between these pieces of empirical evidence and the proposed model. This way to apply appreciative theory is consistent with Geels (2002) and Cantwell et al. (2010).

4. Peculiarities of MNEs in the co-evolutionary process

4.1. Initiation of the co-evolutionary process

Some empirical works in the entrepreneurship field have focused on the co-evolutionary process between a particular firm and its environment, pointing to an individual actor located in a key

Table 1
Examples of MNEs that have interacted with institutional environments in developing countries.

Real-life examples	Firms	Countries	Source of information
The institutional controversy			
The hotel chain faced serious problems to receive withheld VAT from the African government ^a	Foreign hotel chain	African country	García-Cabrera et al. (2015)
The national government established a new tax policy (very complex and with heavy taxation in inflationary time), which provided a difficult environment for business activity because of high levels of taxes joined to corruption, and interference from the government ^a	Local entrepreneurial firms	Russia	Ahlstrom and Bruton (2010)
As all Chinese ports, the movement of cargo in Yantian port is subject to the approval of government regulatory authorities for customs, frontier inspection and quarantine.	Yantian international container terminals (local firm)	China	Child et al. (2012)
Limited access to capital from local banking by potential entrepreneurs within poorest segments of society. Microfinancing organizations did not accept the taken-for-granted assumptions than those living in poverty were "unbankable" and entered into Guatemala bringing innovative loan-making practices to solve it without directly challenging the traditional banking logic ^a	Commercial banks, microfinance organizations, cooperative credit unions	Guatemala	Khavul et al. (2013)
Emergence of a business system (privatization) ^a MNEs come under pressure from civil society and nongovernmental organizations to be more responsive to social need in developing countries, including working conditions in the factories and attending to the environmental impacts of their activities	Local business sector Walmart Nike, Levi's united fruit, Motorola, Mattels, etc. Starbucks, Nestle, Procter & Gamble, Sara Lee/Dovve Egberts, Altria group (previously called Philip Morris and parent company of Kraft Foods) Coca-Cola	China Bangladesh Several developing countries (e.g., China, India) Guatemala	Krug and Hendrischke (2008) Cedillo-Torres et al. (2012) Several sources (Doh, 2005; press, digital press) Kolk (2005)
Local soft drink manufacturers that sustained much lower prices were believed to be engaged in tax evasion that was overlooked by government.		Brazil	Gertner et al. (2005)
A report was published providing evidence of the presence of pesticides in Coca-Cola beverages. NGOs also raised awareness of Coca-Cola's groundwater depletion and pollution of water causing local communities to suffer from droughts.	Coca-Cola	India	Cedillo-Torres et al. (2012)
The firm faced social challenges after a factory in Bangladesh, where their products were assembled, collapsed (i.e., NGOs and society strongly demanded that Inditex repair the damages).	Inditex	Bangladesh	Several sources (Chércoles Blázquez, 2012; Universidad Complutense de Madrid, 2013)

^a Names omitted by researchers to preserve the anonymity of actors involved.

position and nurtured with ideological and material resources to initiate a process of co-evolution. Some actors may use their position to create opportunities for institutional entrepreneurship. However, we did not find any examples of a foreign MNE taking a relevant role in the emergence of a co-evolutionary process on its own initiative in a host developing country. We have, however, found examples of MNEs that have used their powerful position to facilitate a co-evolutionary process once it had been initiated by other actors or unforeseen events, such as Coca-Cola in India, Inditex and Walmart in Bangladesh, Starbucks in Guatemala or an international hotel chain in an African country whose interaction with the government is illustrated by García-Cabrera et al. (2015). Thus, whereas some authors studying institutional entrepreneurship frequently refer to firms' internal incentives to initiate changes (Battilana et al., 2009), when MNEs are involved, these changes seem to have been exogenously initiated and/or motivated (e.g., by government regulations or the demands of civil society), that is, the triggers identified by Greenwood et al. (2002) as external sources of change.

When exogenous changes emerge, it is challenging for a firm to react or evolve successfully to new internal forms that can later be transferred and spread across the environment. As an example, we can refer to the case of Inditex, a relevant worldwide MNE. In 2005, this MNE faced social challenges after a factory in Bangladesh,

where their products were assembled, collapsed (i.e., NGOs and civil-society strongly demanded that Inditex atone for the devastation). As a result, the MNE offered an innovative solution to compensate victims, designing an actuarial compensation and pension scheme, which was intended to be fair and could be replicated in the case of future accidents not only in Bangladesh, but also in other developing countries. Inditex then became a member and aspiring leader within the Global Compact, being the first Spanish company to sign the Global Compact Commitment. Its CSR Director was the first president of this platform in Spain, and the firm was also key in promoting the "Square Table" (Mesa Cuadrada) approach among Spanish corporations. Thus, Inditex can be considered a leading private actor in the transformation of institutions in the CSR field in Spain – that is to say an institutional entrepreneur – albeit triggered by unforeseen external events in a particular developing economy that affected their competitive conditions and made the firm confront its own ideology and morality.

Similar problems have persisted in Bangladesh over time. In 2012 there were significant fire incidents and in 2013 a large, new building collapsed, shocking the global community. The big five international retail brands – which do not include Inditex – were under scrutiny and intense pressure from NGOs and civil-society, who were appealing to the government to act. In this case,

Bangladeshi authorities seemed to be the only field actors with power bases strong enough to lead the required co-evolutionary process, whereas other MNEs involved in this organizational field did not take part in the process. They still have not perceived the need for institutional change to successfully compete under the new environmental conditions. Therefore, not all MNEs, despite sharing the same sector and even the host country, become institutional entrepreneurs and create new private and/or public institutional forms. This is similar to what has happened in other developing countries such as China or India, but also in other sectors, such as coffee in Guatemala (Kolk, 2005). In addition, the quick and easy diffusion process that took place among Spanish firms led by Inditex deserves to be highlighted. Obviously, the social position and the co-evolutionary abilities of Inditex, as well as the inexistence of cultural and institutional distance between the pioneer, Inditex, and the following Spanish firms, facilitated the process, as the literature suggests (Battilana et al., 2009; Madhok & Liu, 2006).

Another example is provided by Coca-Cola in India (see Table 2), a case which has been well-documented by Cedillo-Torres, Garcia-French, Hordijk, and Nguyen (2012). In 2003, the Indian NGO "Centre for Science and Environment" published a report providing evidence of the presence of pesticides in Coca-Cola beverages. They also raised awareness of Coca-Cola's role in groundwater depletion and pollution of water sources in India, causing local communities to suffer from droughts. This triggered a significant change in market conditions, which negatively affected Coca-Cola's sales, reputation, and consumer trust, posing a challenge for the firm to evolve to suit new practices in India (Cedillo-Torres et al., 2012). However, Coca-Cola's reaction was similar to that of the large international retail brands in Bangladesh, China or India: none of them responded to the new external conditions as fast as Inditex

had. This is due to the fact that co-evolution encompasses changes in both public institutions – i.e., in the external environment – and in private institutions – i.e., in MNE's internal environment (Pajunen & Maunula, 2008). Madhok and Liu (2006) state that co-evolution at these two different levels tends to occur at different speeds, based on the firm's capability to co-evolve and, hence, engage in institutional change (e.g., flexibility, attention to external changes, mobilizing the organization to effectively manage changes, etc.). The difference in the speed of change between the MNE and its environment creates a dis-synchronization effect in the co-evolutionary process, which potentially impacts on firm performance (Madhok & Liu, 2006). This dis-synchronization effect provoked an increasing fall in Coca-Cola's reputation and performance in India until 2008, when Coca-Cola finally became aware of its mistake in handling the controversy in India. Similar problems were faced by Nike in 1998 when damage to its reputation was beginning to be felt in the account books as a result of their products being associated with slave wages, forced over time and arbitrary abuse (New York Times, May 21, 1998), without the MNE making the decision to initiate changes in order to meet the growing demands of the civil society.

The economic interests and ideology of MNEs are also relevant in determining the engagement of MNE's in institutional change. For instance, the literature on IB has highlighted how greater institutional distance between home and host countries decreases a MNE's intention to use Foreign Direct Investment (FDI) to enter foreign countries. However, evidence shows how this institutional distance can increase MNEs' use of FDI to enter developing countries with extractive institutions to manufacture products while benefiting from a low-cost workforce and less-restrictive conditions to operate in, that is, in order to take advantage from

Table 2
Main events in the Coca-Cola's case of coevolution in India.

Year	Events
1967–1977	<ul style="list-style-type: none"> • First entry into India, and exit.
1993	<ul style="list-style-type: none"> • Re-entry into the India.
2000	<ul style="list-style-type: none"> • The company established its production operations in Plachimada (Kerala State in India). • Local people claimed that they started experiencing water scarcity soon after the operations began.
2003	<ul style="list-style-type: none"> • The Indian NGO Centre for Science and Environment provide evidences of the presence of pesticides in Coca-Cola beverages. They also raised awareness of Coca-Cola's groundwater depletion and pollution of water sources in India, causing local communities to suffer from droughts. • The High Court of Kerala (local authorities) prohibited Coca-Cola from over-extracting groundwater. • The Indian government set up a joint committee to examine the level of pesticides in soft drinks and found that it failed to meet European standards, but was considered safe under local standards. • The Indian Government promised to pass a new law in 2004. • Coca-Cola denied having produced beverages containing elevated levels of pesticides, as well as having over-exploited and polluted water resources. • The impact in Coca-Cola's annual sales of the conflict was a decline of 15% in overall sales.
2004	<ul style="list-style-type: none"> • Coca-Cola suspended its production operations, while it attempted to renew its license to operate. • Coca-Cola was facing a long judicial procedure and ongoing demonstrations. • The Indian NGO claimed that despite the enormous public outrage generated by this social and environmental conflict with Coca-Cola, the decision by Indian government to raise health standards for soft drinks industry was blocked by powerful interests.
2006	<ul style="list-style-type: none"> • Coca-Cola is successful in obtaining the license renewal and re-establishes operations. • New tests provide the same evidence of a high content of pesticides in beverages. • The government of Kerala banned again the manufacture and sale of Coca-Cola products in Kerala because beverages are considered to be unsafe due to its content of pesticides. • The High Court of India reversed Kerala's Court decision.
2007	<ul style="list-style-type: none"> • Increasing social values stressing the importance of public health, civil alarm and refusal of those firms that only care for profits. • The brand suffers a great loss of consumer trust and reputational damage in India. • Coca-Cola faces new and long legal procedures against the Indian government. • This highly publicized conflict in India also caught the attention of consumers abroad and ten American Universities temporarily stopped selling Coca-Cola products at their campus facilities.
2008	<ul style="list-style-type: none"> • The company became aware of its mistake in handling the controversy. • Coca-Cola start dialogues with water leaders to co-create solutions to these conflicts. • An independent study concluded that the water used by Coca-Cola in India is free of pesticides.
2011	<ul style="list-style-type: none"> • Coca-Cola stated the commitment of recycling water through wastewater treatment and returning all water used in manufacturing processes to the environment at a level that supports aquatic life and agriculture (reached at 96%).
2012	<ul style="list-style-type: none"> • Coca-Cola' operations in India achieves full balance between groundwater used in beverage production and that replenished to nature and communities through the project of water harvesting from raining.

Source: Cedillo-Torres et al. (2012) and mass media

extractive institutions – e.g., low enforcement of law, few actors exploiting a huge part of the population, etc. (Acemoglu & Robinson, 2012). In these contexts, MNEs may be interested in maintaining this kind of institutional distance so as to benefit from low transaction costs with decision-makers supporting such decisions. In other words, managers try to support the political institutions of the host country in order to exploit their effects on the economic ones. In this respect, Wiig and Kolstad (2010) found evidence in a developing country (Angola) that shows that if institutional change shifts resource rents from MNEs to host country populations, institutional improvement may not be in the interest of MNEs. So, the more the MNE has morally-neutral internal institutions – contrary to Kolk and van Tulder (2010) recommendation, CSR is not suitably balanced with internationalization strategies by the MNE – the more it will try to maintain the status quo in those fields where no tight prescriptions force the firm to respect a country's environmental resources or social and human rights. DiMaggio (1988) refers to those who benefit from the status quo and rise to defend existing beliefs and practices in the field as *Institutional defenders*.

However, when unforeseen events occur, national and international pressures (e.g., demands from supra-national agencies, governments, NGOs, civil society, unions, etc.) can emerge and cause instability in the field. These events may hamper an MNE's reputation and performance, but also may raise its awareness about a host country's conditions and about the need for being responsive to such conditions (e.g., CSR), consequently introducing internal incentives for MNEs and the environment to co-evolve. Even if MNEs meet the main enabling conditions required to become institutional entrepreneurs, they will probably never initiate the process if they are having efficient external exchanges in the host country and not encountering conflict over their own ideologies or with other field actors. They will, however, react to those processes arising from unforeseen events and/or other economic and social actors that cause conflicts to arise; that cause an increase of the social responsiveness, as in the case of Inditex or Nestlé, or a decrease in performance (e.g., economic outcomes, reputation), as showed by Coca-Cola, Nike and other MNEs. Again, the speed of the answer will depend on the MNE's co-evolutionary capabilities (e.g., flexibility).

4.2. The slow advancement of the co-evolutionary process

4.2.1. Feedback loops and interruptions in the process

In all the empirical works that we reviewed, we found that once the co-evolutionary process emerges, an interactive process takes place between the environment and the economic and/or social actors, both making demands of and influencing each other to engender co-evolution. As a result, the institutional change moves slowly (Ahlstrom & Bruton, 2010; Khavul et al., 2013). Interruptions and strong interventions by embedded actors during the process frequently attempt to restore an advantageous order in the field. Child et al. (2012) refer to this as *feedback loops*. For example, in 2003 the Indian government set up a joint committee to examine the level of pesticides in soft drinks and found that it failed to meet European standards, but was considered safe under local standards. As a consequence, the Indian government acknowledged the need to adopt stricter standards, although this new regulation was never enacted – public opinion considered this a consequence of lobbying efforts by Coca-Cola. Three years later new tests provided the same evidence of a high concentration of pesticides in beverages (Cedillo-Torres et al., 2012). That is similar to what has happened in other developing countries, including Bangladesh and China, with respect to human rights violations in the garment sector. In these latter cases, recommendations have been made by

NGOs and experts to local authorities, to the home countries of the multinational brands and garment distributors, and to manufacturers and international brands and retailers sourcing in the targeted host countries. However, critics claim that still not enough has changed to improve conditions.

4.2.2. Regulatory impositions and the need for complementary institutions

Given that regulative changes alone are usually not strong enough measures to reach a successful change – Fatas-Villafranca et al. (2007) highlighted the need for complementary institutions to co-evolve – complementary actors are needed. For example, in 2003 the High Court of Kerala (local authority) prohibited Coca-Cola from over-extracting groundwater, and this interfered with Coca-Cola's business activities. Thus, Coca-Cola had to stop production operations and struggled to renew its license to operate. The firm argued that patterns of decreasing rainfall were the main cause of the drought and tried to show it with on-going demonstrations. Finally, Coca-Cola succeeded in obtaining the license renewal (Cedillo-Torres et al., 2012). Another example is provided by the Russian case. In 2000 the government established high levels of taxation and regulation that hindered business activities in the face of the reestablishment of stability; but Russian firms increasingly answered by formally registering with nonprofit organizations, albeit making transactions in cash and with funds kept offshore (Ahlstrom & Bruton, 2010). MNEs have a great deal of power and economic resources, which are especially useful for them in developing countries where institutions are weaker, the investments of MNEs are needed (Choi, Kim, & Kim, 2010), and extractive institutions exist (Acemoglu & Robinson, 2012). In developing countries, MNEs are in an advantageous position to try and influence the local authorities and ignore the co-evolutionary alternative.

Some empirical evidence shows that the development of complementary institutions which ensure institutional congruency, such as norms and cognitions, is key to achieving a successful co-evolution (Fatas-Villafranca et al., 2007). For instance, in the Russian case, the development of complementary normative institutions stressing the idea that *bureaucratic and private corruption should not exist* and cognitive institutions emphasizing *the need to expand businesses taking formal credits* from banks, which require them to be formally constituted as a firm, seem to be necessary. In the Coca Cola case in India, the development of complementary normative institutions was also necessary, such as, promoting social values, stressing the importance of public health and the notion that firms that care only for profits – and not how the profit is obtained – should not exist. Indeed, in 2008, Jeff Seabright, Coca-Cola's vice president of environment and water resources, publicly recognized that the company had not adequately handled the controversy, that the local communities' perception of the operation mattered, and that – for the company – having goodwill in the community was an important thing (Cedillo-Torres et al., 2012). Subsequently, they began dialogues with water leaders to facilitate sharing and co-create solutions. Since MNEs are continuously questioning and assessing how the process evolves, once a firm's performance seriously drops and/or their ideology is seriously confronted, the MNE will probably look for new internal alternatives – i.e., private institutions – to interact with the external public institutions.

4.2.3. The need for a relational framework to cooperate

Although co-evolution is always a challenging process, the difficulty seems to be greater when competition between macro-level and micro-level institutions takes place (Krug & Hendrischke, 2008). Co-evolution seems to require different actors to share a

common purpose. Empirical evidence from [Krug and Hendrischke \(2008\)](#) and [Child et al. \(2012\)](#) shows that relationships between actors are relevant, as they are necessary for constructing a relational framework in which actors negotiate, cooperate, and reach agreements. This framework can take the form of networking, participation in rule-setting agencies, or collaboration between firms and governments ([Krug & Hendrischke, 2008](#)). In the case of Coca-Cola, only after finding a common motivation – that is, after water became one of the company's main concerns in 2008 – was the firm able to start cooperating with other field actors in India (such as NGOs and governments) through a relational framework, for example: a partnership with the World Wildlife Fund; becoming a member of the CEO Water Mandate; and the establishment of the Coca-Cola Indian foundation. It was the resulting institutional cooperation that led to co-evolution. We have also witnessed institutional cooperation processes among MNEs, nonprofit organizations and supra-national agencies, which have given rise to co-evolution in several countries. The development of statements of business principles – also called codes of ethics or codes of conduct – provides some evidence at industry level – e.g., sporting goods ([Tulder & Kolk, 2001](#)) or coffee ([Kolk, 2005](#)). For example, micro family-owned firms located in different parts of the world produced 70 percent of the world coffee supply – i.e., to nearly 125 million people ([UNCTAD, 2003](#)). These small farmers faced poor working conditions, poverty and social shortcomings. As a result, intense pressure emerged from nonprofits which joined those from other industries suffering similarly unjust business practices – e.g., child labor and unfair working conditions by global clothing brands and retailers, environmental damage by mining and quarrying, etc. In this context, a dynamic of cooperation between both large multinationals – e.g., Nestle, Procter & Gamble, Sara Lee/Dovwe Egberts, Altria Group (previously called Philip Morris and parent company of Kraft Foods) – and other smaller industry-wide MNEs – e.g., Starbucks, Utz Kapeh – emerged to give rise to successive codes of conduct. In this process an MNE internally implemented a business principle that later on diffused to its supply chain and which was eventually adopted by other MNEs ([Kolk, 2005](#)).

4.3. The ending of the co-evolutionary process

Over time, as new practices or business models become institutionalized, some followers can take control over them ([Khavul et al., 2013](#)), especially if they are in a strong, core position in the field. For example, the initiative “CEO Water Mandate” is able to take a leading role in water preservation projects in India, just as Global Compact and Square Table did for CSR in the case of Inditex. This process of spreading is similar to the previously mentioned case of MNEs in the coffee industry. All these processes of change acceptance and diffusion were favoured as the new practices and institutions were eventually consistent with institutional frameworks within the MNE and the host country, both having evolved during the process as knowledge about each other and consciousness about the problem increased. Thus, in the end, the change met the congruency condition ([North, 2005](#)) and took root in the host country field, so leading to new standards of behaviour by embedded individuals and social groups ([Granovetter, 1985](#)), and allowing a new status quo to be reached.

5. Toward a cohesive theoretical model for a co-evolutionary approach in the IB literature

[Fig. 1](#) presents the proposed cohesive theoretical model for a co-evolutionary approach in the IB literature. It shows the interaction between a given MNE and the institutional environment in which it

operates. This interaction must be understood as a co-evolutionary process in which MNEs (that meet the conditions required to act as institutional entrepreneurs) have an effect on institutional change (affect the environment) but are also affected by the institutions. Below, we present the model. After reviewing previous literature and analysing several cases, we identified a five-stage model and the specific key variables and interactions that affect them. The model we propose is consistent with [Lewin's \(1947\)](#) model of change – consisting of three states: unfreezing, moving and freezing, which we extend using the logic of entrepreneurial processes. Specifically, we consider [Ardichvili, Cardozo and Ray's \(2003\)](#) model, which distinguishes between the entrepreneurial opportunity identification and the entrepreneurial opportunity exploitation.

In detail, as resistance to change exists in the form of a reaction against the change being attempted by a social group, with actors embedded in that group adopting this response in order to maintain the status quo, a stable stage 1 prior to the “unfreezing” of stage 2 proposed by [Lewin \(1947\)](#) is expected. This is consistent with arguments in institutional theory as institutions take root in the minds of individuals and social groups (e.g., [Granovetter, 1985](#)), reinforce one another, and exert normative, coercive and mimetic pressures over the actors embedded in that field to help maintain the current institutional framework ([Szylowicz & Galvin, 2010](#)). In the second stage, “unfreezing” takes place. During this second step, the MNE's awareness of how the existing status quo is hindering the organization to some extent emerges, so a need for change becomes evident. In the next stage of Lewin's model, the “moving”, the organization must transition into a new state so that the change is implemented. But, this step requires the complex task of finding a proper solution that solves the external conflict between the MNE and the environment, and matches both firms' internal private institutions and those in the environment. As the MNE must perform as an institutional entrepreneur at this stage because it should intentionally promote internal and/or external changes, the “moving” stage of [Lewin's \(1947\)](#) model can be split into two, key stages in an entrepreneurial process: “opportunity recognition” (the search of a potential solution to make efficient external transactions) and “opportunity exploitation” (the implementation of the solution). Finally, in the stage of “freezing”, which we term in this work re-embeddedness to better express the events taking place, the firm's new practices are diffused, reinforced and stabilized in the field in order that the change be accepted as the new standard, hence preventing actors from returning to the old way of doing things. Re-embeddedness does not exclude that the new standard can be enhanced as a result of a process of learning from the experience over time. We discuss the proposed model below.

5.1. Status quo stage

According to institutional theory, regulative, normative and cognitive institutions are taken for granted and provide a stable framework for actors' behaviour ([Scott, 1995](#)). For example, [Khavul et al. \(2013\)](#) found that when the first microfinancing organizations entered Guatemala, these organizations faced a financial system which was stable and structured, so that their members (mainly commercial banks and regulators) had the same understanding of who appropriate banking clients were and which were the acceptable banking practices to use. So, in this first stage, MNEs will look for efficient external exchanges and higher returns based on the current institutional framework, as Inditex and Coca-Cola's examples also show. In this context, it can be assumed that there is a coupling between MNEs and institutions and no need for institutional change is perceived. However, it is also likely that economic or social imbalance between them, albeit hidden, can exist

(e.g., increasing groundwater depletion, pollution of water sources, firms' reputational damage). As there are relevant transaction costs in changing existing institutions, both individuals and organizations usually initiate changes with caution (Dunning & Lundan, 2008) or even reject this possibility (Lewin, 1947). In the particular case of MNEs from developed economies acting in developing ones, if they are gaining advantages from extractive institutions, they likely do not try to promote any change. This is clearly demonstrated by the closely-examined example of Coca-Cola and other MNEs in Table 1 such as several MNEs in the garment sector that operate in different developing countries, which is consistent with Wiig and Kolstad's (2010) findings. They propose that in countries where appropriable rents are high, democratic accountability low and civil society weaker, incumbent MNEs will place more emphasis on improving those institutions that promote stability and the current efficiency of operations, rather than on introducing institutions that promote equity. In this respect, Adisu, Sharkey, and Okoroafo (2010) refers to associations of MNCs with rogue governments that sustain them in power. In addition, institutional distance and MNE's unawareness of culture and other specific institutional knowledge of the host country may condition a certain unconsciousness of the need for institutional change. Also, if any MNE with a different ideology and motivation, or the local authorities, attempt to make changes which break this status quo in order to improve local institutional conditions, they will likely face opposition from the vested and dominant interests of other actors in the field (Dunning & Lundan, 2008). This behavior by institutional defenders (DiMaggio, 1988), in our case Coca-Cola, Walmart

or Nike, among others, is consistent with actors' embeddedness in fields where institutions are rooted and taken for granted (Granovetter, 1985).

5.2. Unfreezing stage

In this stage, some kind of conflict emerges between the firm and the environment where it operates. As a result, the MNE becomes aware of how the existing status quo is hindering the organization to some extent and a need for change becomes evident. Although this feeling may be generated as a result of a MNE's search and scanning process aimed at finding better ways to interact with the environment and reach efficient external exchanges, the examined real-life examples show how the occurrence of unforeseen events that modify the external conditions are more often the main antecedent in this stage. These events can be either positive or negative and of varying nature, such as, political (e.g., coup d'état, democratic change), economic (e.g., deep crisis, recession), technological (e.g., radical technological changes that give rise to changes in relative prices), or social (e.g., civil social and NGO's demands about working conditions in factories). If unforeseen events enhance competitive conditions or offer a chance for opportunism, they will likely push MNEs towards implementing internal changes in order to take advantage of the external ones. Also, if competitive conditions worsen and hamper MNEs' viable strategies and performance, the need for internal and/or external institutional changes emerges. For example, when Coca-Cola believed they had noticed that local soft drink manufacturers in

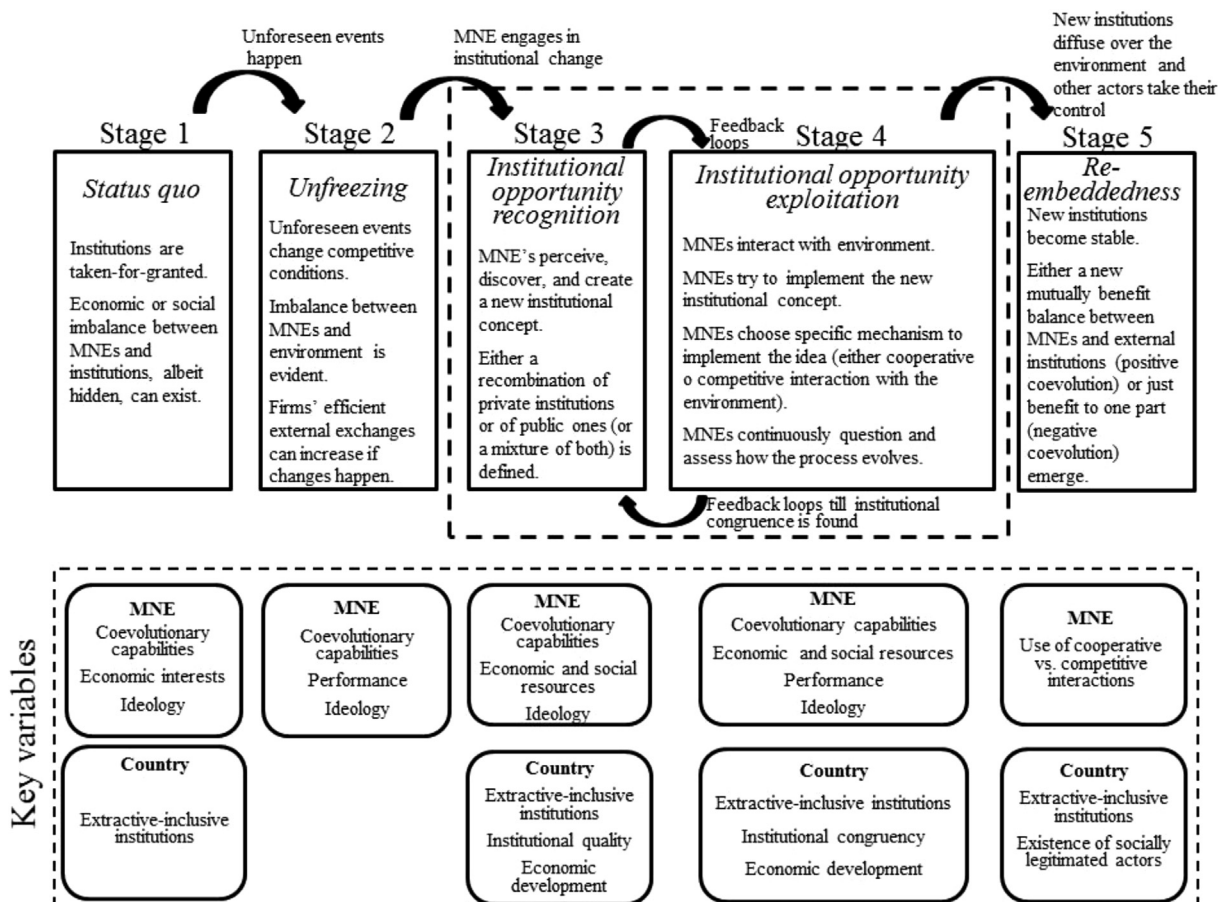


Fig. 1. Dynamic model of co-evolutionary process.

Brazil sustained much lower prices because they were engaged in tax evasion that was overlooked by Brazilian government, the MNE perceived the need to act, lobbying tax agencies and lawmakers in this country to increase governmental control over such competitors (Gertner, Gertner, & Guthery, 2005). Unforeseen events show the imbalance between MNEs and their environment thus highlighting the existence of an institutional gap that must be closed to improve firms' efficient external transactions. According to Lewin (1947), we can expect that the more the MNE feels an internal change is necessary and urgent in order to restore an efficient exchange with the environment, the more it will be motivated to initiate that change. But again, MNEs' co-evolutionary capabilities, such as the alertness to external changes, and their ideology may condition the firm's engagement in this stage. This is relevant because the firms' performance is potentially and negatively affected by the dis-synchronization in the evolution of the environment and the MNE (Madhok & Lui, 2006). The quick answer by Inditex or Nestlé and the slow response by Coca-Cola or Nike to unforeseen events provide evidence of these different effects.

5.3. Institutional opportunity recognition stage

This step involves a cognitive process that takes place in the MNE. It comprises three sub-processes which have been identified in the literature on business entrepreneurship (Ardichvili, Cardozo, & Ray, 2003): "perception", "discovery", and "creation" of a new institutional concept. Perception is the awareness of the reasons for the existing imbalance between the firm and its environment. In the process of discovery, the MNE analyses its current private institutions and the external ones, and investigates the possibility of new institutional combinations that allow the allocation and use of internal resources and makes efficient external transactions. Thus, this is the stage in which new, potential institutional combinations emerge within the MNE. As a result, the creation of an institutional concept corresponds to the recognition of the best solution, which can include either a recombination of the private institutions or a motivation to change the external ones (or a mixture of both). That is, MNEs will decide either to adapt in order to better fit into new institutional frameworks (i.e., *institutional adaptation*), to leave the country and relocate activities as a consequence of the restructuring process (i.e., *institutional avoidance*), or to *co-evolve* by leading internal and external institutional changes. There are relevant factors that determine this decision, such as some characteristics of the MNE or those of the host country. Whereas MNEs' internal flexibility provides them with the capacity to implement internal restructuring and external changes (i.e., *co-evolutionary capabilities*), MNE's economic and social resources provide the strength to exert power over other actors in the field (Child et al., 2012). Additionally, there are factors that condition how effectively the power resources are used within a relational framework, such as, social skills to mobilize support, discursive abilities to present causes, or skillful negotiation (Child et al., 2012). Also, the MNE's ideology and awareness of the host country's needs are relevant (e.g., CSR) because they can increase internal incentives to coevolve with the environment. As for the country, the quality of institutions and the level of economic development – both related to the existence of inclusive and extractive institutions (Acemoglu & Robinson, 2012) – can affect the MNE's choice. Developing countries have weak institutional environments (Choi et al., 2010), for example, poor regulative frameworks and corruption, and they have a high interest in MNEs' investments to help boost their economies. Consequently, the greater the relative power of the MNE compared to the local country, the greater the use of institutional entrepreneurship by the MNE. In this context, institutional avoidance and institutional adaptation seem to be less

advantageous options for MNEs. In addition, if institutional entrepreneurship is chosen, institutional changes can take either the inclusive or the extractive form, with it being mainly contingent on the type of prevailing institutions in the field. While inclusive institutional change is likely to increase the economic growth in the country and reinforce an open and pluralistic political system, the extractive one tends to generate the opposite effect. In the latter case, it is common that the authorities favour economically powerful actors (Acemoglu & Robinson, 2012), such the MNEs. The characteristics of these firms and countries can be identified in the well-documented case of Coca-Cola in India, with the firm initially resisting any internal change to adapt to new external conditions and taking advantage of their greater relative power combined with weak external institutions in order to impose their own interests on the environment.

5.4. Institutional opportunity exploitation stage

This fourth stage includes the firm's materialisation of the new institutional concept. Again, in this stage, the MNE's economic and social resources, performance, and ideology are of great importance and determine the chosen mechanism to implement the idea (either cooperative or competitive interactions with the environment). The greater the relative power of the MNE compared to the host country's actors, the more the MNE's interests are negatively affected and the more it lacks a particular social consciousness and ideology, thus, the greater the use of competitive interactions by MNEs. This happens because MNEs are aware of their economic relevance to the local economy, the lack of local regulative guarantees, and the existence of support from certain local authorities. Also, firms' resources affect the successful implementation of the new private and public institutions. In addition, the institutional and cultural distances between the institutional environments involved in the co-evolutionary process also condition the successful implementing of new institutional concepts. According to Madhok and Liu (2006), MNEs' new policies and practices that aim at specific purposes in a host country are likely embedded in the MNE's internal institutional environment and/or in their home institutional framework. So, actors in distant institutional host countries are likely to find them difficult to understand or accept. This can also be a problem in cases where the attempted changes are incompatible with existing institutions in the host country. Additionally, in this exploitation stage, the institutional entrepreneur continuously questions and assesses how the process evolves. This is especially relevant when not using cooperative interactions, given that other field actors, such as, government, supra-national agencies, civil society and NGOs, also try to implement their own new institutional concepts. This evaluation can, at any point in the process, lead the MNE to modify either the new institutional concept being implemented or the mechanism to do so. For example, after using competitive interactions without any positive results, and firms' performances dropping as a consequence of the imbalance between MNEs and the institutional environment, MNEs can be forced to move to cooperative interactions and look for an agreed new institutional concept with other actors in the organizational field, as happened in the case of Coca-Cola. The move from competitive to cooperative interactions is also illustrated by the example of a foreign hotel chain in an African country, which is provided by García-Cabrera et al. (2015). Thus, stages 3 and 4 will feedback to each other in a process of trial and error and continuous evaluation (and rectification if necessary) until a solution that is institutionally congruent with the MNE and with the environment is found, and a final settlement to the dispute emerges (DiMaggio & Powell, 1983). So, the ability to learn from failure, which allows entrepreneurs to discover how to acquire new resources and

deploy them in new tactics, is relevant (Wright & Zammuto, 2013) as it represents their ability to learn about the host country's culture and institutions; hence we again refer to co-evolutionary capabilities. For example, the foreign international hotel chain modified its strategy on several occasions in order to solve a persistent problem with local authorities related to receiving VAT withheld by the particular African government – e.g., the firm directly asked the government for the reimbursement of VAT, asked for help from country-of-origin authorities, or asked for the VAT to be invested in specific infrastructures related to its own interests – the unsuccessful negotiation was prolonged until the tourism MNE became sensitive to poor conditions locally and began cooperating, for example, by researching the needs of the indigenous population and being aware of the concern of the local authorities as a prelude to dialogue with them about where to invest the VAT funds (García-Cabrera et al., 2015).

5.5. Re-embeddedness stage

This is the last stage where new practices and institutions that solve a given conflict between the MNE and the environment are implemented by the MNE, diffuse over the environment and are gradually taken over by other powerful actors in the field. As a result, the institutional change process that emerged for solving the conflict ends. Specifically, this stage advances as new institutions prove to be offering institutional solutions which successfully resolve issues where previously conflict existed. According to Child et al. (2012), the public recognition of an increased performance achieved by actors as a result of institutional changes implemented during a co-evolutionary process enhances the legitimacy of new institutions; also, the process itself is reinforced by this positive feedback. Then, as institutionalism states, the new institutions gradually become consolidated and taken for granted within the field (Granovetter, 1985), that is, the embeddedness for these new institutions take place. New institutions provide a different framework for actors' behaviour (Khavul et al., 2013; Scott, 1995) and MNEs will look for efficient external exchanges and higher returns based on such new institutional frameworks. This last phase is facilitated by the existence of socially legitimated local actors that can contribute to the diffusion process. In the case of Coca-Cola, actors such as Water Mandate or World Wildlife Fund offered credibility to the new institutions.

Yet we are aware that the suitability of this state can be questioned for two reasons. First, MNEs are expected to be constantly ready to affect their environments. Second, even under a seemingly stable institutional framework, there exists an unstable equilibrium where the environment usually changes. For example, during decades of dictatorship and political and social stability in different countries (e.g., Egypt, Libya, Tunisia), gradually increasing restlessness emerged, the mismanagement of which eventually gave rise to the Arab spring movement that provoked the fall of several national leaders. Nevertheless, the re-embeddedness stage happens to entail the stabilization of the recently implemented practices and policies (the solution to the conflict), and the institutions involved. Re-embeddedness does not preclude that field actors gradually enhance and refine these recently implemented institutions as a result of a process of learning from the experience. Indeed, according to the principles of co-evolutionary theory, changes are expected to be continuously happening. The consolidation of these advancements seems to be a condition for MNEs to be disposed towards initiating new and complex processes of change. For example, a positive feedback of the co-evolutionary process that took place between a local firm and governmental agencies in China in order to reduce the high level of government intervention in the port sector increased the legitimacy of the firm

that lead the process (YICT) as a pilot for subsequent sector-wide reforms (Child et al., 2012). Conversely, in cases where stabilizing should not take place, field actors might revert back and keep the dispute stuck in the middle of stages 3 and 4, without finding any settlement. Indeed, Khavul et al. (2013) found in the case of provision of microfinance in Guatemala that normative and cognitive institutions must evolve over time and settle after repeated interactions among field actors (e.g., commercial banks, microfinance organizations, cooperative credit unions) in order to overcome the struggle associated with the rounds of institutional redefinition and to reach the reconstitution of the new institutional logic after the change process. Reverting back after finding a settlement should be inefficient both to the MNE and the environment, since the co-evolutionary process requires time and effort. Thus, we consider that re-embeddedness will not harm subsequent institutional change processes that may be needed to face new (or different) institutional conflicts. In fact, we believe it will actually support these new processes.

In addition, coevolution is expected to end successfully and the imbalance between MNEs and institutional environment to disappear. For example, a positive co-evolutionary process will give rise to new public institutions that are facilitators of economic activity and social progress, resulting in the MNE's decision to stay in that country and in a civil society satisfied with the new balance between MNEs and external institutions. However, sometimes the institutional change fails. A negative co-evolutionary process gives rise to institutions that can interfere with and hinder IB activities, thus increasing transaction costs and reducing a country's attractiveness to investors. As a result, this coevolution can negatively condition MNEs' location choice and promote its decision to divest from a country. From a social point of view, a negative coevolution can facilitate MNEs' operations in the country but impinge on the rights of civil society. Obviously as explained above, the inclusive versus extractive nature of institutional changes will probably condition the outcomes of the process (Acemoglu & Robinson, 2012), with the former mainly offering opportunities to reach a positive coevolution. Also, cooperation between MNEs and other field actors, rather than competition, is expected to culminate in positive coevolution.

6. Final remarks and recommendations for future works

Although IB literature has traditionally paid great attention to early institutionalism, it has recently been introducing the statements of new institutionalism, albeit mainly from a theoretical approach. As a result, the study of institutions faces some limitations in this literature. MNEs have been almost entirely ignored in the study of coevolution, which contradicts the fact that MNEs meet the main actor's level enabling conditions to become institutional entrepreneurs at both national and transnational levels. In addition, there are limitations that hinder scholars in their understanding of how institutional changes take place (e.g., changes in institutional environment made by governments often do not affect MNEs or their effects do not respond to authorities' expectations; MNEs' changes can be difficult to spread over the environment). Hence, the use of a more dynamic and co-evolutionary approach is necessary to reach a better understanding of the environment-MNE relationship, as our work suggests. Also, the role and peculiarities of MNEs in the process are almost unknown, as are the field-level conditions that push MNEs to coevolve. Our work identifies and later examines them with respect to every stage of the co-evolutionary process.

In addition, our work corroborates the idea that institutional avoidance and institutional adaptation, as firms' forms of engagement in institutional changes highlighted by traditional

institutionalism, and institutional coevolution, proposed by recent institutionalism, are not mutually exclusive, as Cantwell et al. (2010) suggest. Indeed, “MNEs are likely to exhibit both adaptation and coevolution with institutions in different home and host countries, in different industrial sectors, and at different points in time” (Cantwell et al., 2010, pp. 557). This being the case, and after looking into the process for the particular setting of developing countries, our work finds that a given MNE may use these three forms of engagement in institutional changes in the same host country and industrial sector, even to solve a single controversy with the institutional environment. MNEs will use a process of trial and error and continuous evaluation (and rectification if necessary) until a suitable solution to the controversy is found, and a final settlement to the dispute emerges. When institutional avoidance and institutional adaptation turn out not to be successful forms of solving the given conflict, the MNE will use institutional coevolution. So, these three forms can be used by MNEs simply as different ways to focus the search for a solution to a given conflict. The enabling MNEs-level and the field-level conditions to coevolve will affect the MNE's choice of these alternatives.

From a methodological perspective, the scarce studies carried out on new institutionalism have mainly focused on antecedents and outcomes of institutional change, as opposed to studies focusing on the same process of change. This prevalent focus prevents academics from answering relevant questions on how the change occurs (Child et al., 2012) and, in particular, raises questions on the sequence and mechanisms that enable it. For example, our study shows that reciprocal influences between MNEs and external actors are a vital part of the co-evolutionary process, with these interactions taking the form of competition or cooperation. So, although literature on coevolution mainly suggests that this process occurs as a result of competing interactions between actors in the organizational field (Krug & Hendrischke, 2008), which sometimes cause change efforts to fail (Khavul et al., 2013), we have witnessed relevant cases in which coevolution only happens as a result of an interplay based on institutional cooperation among MNEs, governments, and NGOs, which can take place, or not, after a period of great dispute between them. We also found that some characteristics of the MNE and the country can be relevant as they determine the co-evolutionary dynamics that will emerge and their likely effect on the local economy. Thus, we must pay attention to the characteristics of the countries where these processes take place and to the potential relations of power between MNEs and local authorities.

To conclude, the role of MNEs in the process of coevolution and the mechanisms and sequences underlying that process are still to be addressed by IB research. Although we offer a cohesive theoretical model for a co-evolutionary approach in the IB literature, our model can only be considered as a first step towards conceptualizing and arguing about co-evolutionary process in the field.

Finally, the co-evolutionary process needs to be better understood in order to identify new and useful, practical suggestions in the field of public policy. For example, the national institutional framework (e.g., economic, political, and social institutions) can be considered a relevant location factor that affects the attractiveness of a given country, both as a host and home to MNE activity (Dunning & Lundan, 2008). Institutions can attract FDI but also promote FDI emission to other countries, hence affecting FDI flows both inwardly and outwardly. Consequently, IB literature should be especially interested in understanding the co-evolutionary process due to its potential effects on MNEs' decisions to invest or divest from a country. Thus, the co-evolutionary process, in which MNEs are involved, needs to be understood if IB researchers are to make new and qualified managerial and practical suggestions to governments.

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