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DO INSTITUTIONS MATTER IN BUSINESS STRATEGY? – THE CHANGING FOCUS OF STRATEGIC MANAGEMENT TO INSTITUTIONS: A LITERATURE REVIEW

The post-crisis managerial literature emphasizes the roles of institutional factors in any disruption of the ecosystem of market capitalism and puts it in the middle of its analytical framework. It has become clear that nowadays, scientific discussions about the measure of increase of direct state involvement in certain economic areas has become more relevant. The socio-economic model based on market coordination was no doubt shaken by the crisis in 2008 across the world and inspired various representatives of the scientific and political community to revise their theses on coordination mechanisms that support the way out of an economic downturn.

This paper intends to give a brief summary of the two leading strategic management approaches (Porter's five forces and the resource-based view of the firm) on institutions. The author's aim is to demonstrate that incorporation of the institution-based view into the mainstream theories can enrich the analytical framework of strategic management by providing deeper understanding of the contextual factors that underpin interactions between institutions and organizations.

Keywords: **strategic management, Porter's five forces, resource-based view, institution-based view**

The institutional environment – including regulatory bodies, state entities, governmental and municipality agencies – influences a firm's strategic decisions by creating and defining *entry and exit barriers*, *market rules* and *regulations*. Albeit the mainstream micro-economic theory traditionally paid relatively little attention to the mutual interconnections between firms and their institutional environment, perceptions of the importance of the institution-firm relationship rapidly changed after the 2008 global economic downturn. Coase and Wang (2012) note that a belief in political solutions increased when set against market economy solutions because of the limited practical usefulness of theoretical statements pertaining to economics. *"In times of crisis, when business leaders lose their self-confidence, they often look to political power to fill the void. Government is increasingly seen as the ultimate solution to tough economic problems, from innovation to employment"* (Coase – Wang, 2012, p. 36.).

Economists, analysing particular market strategies, also highlight the challenges that successful corporate strategies have to face. The model of creating shared value, which is described in the study of Porter and Kramer (2011), emphasizes that companies can only create economic value if they create social value at the same time. Innovative collaboration, focusing on the creation of value, is necessary between the government, civil sector and individual companies. However, the authors do think that the main focus of state policy still has to be regulation. It is the government's responsibility to create legislation, which makes companies more interested in shared value creation and not in short-term profit maximization. Bower et al. (2011) note the inadequacy of the institutional regime of market economies to react to the challenges of a changing world. Yet governments and international institutions appear ill equipped to handle the complex social, environmental and economic challenges such as inequality, populism, migration, environmental degradation, the decline of public health and education and the rise of *state capitalism*.

Bremmer (2014) introduces the notion of *guarded globalization* to interpret the radically changed attitude of governments – not only in the developing, but also in developed countries – as regards to foreign investments. The new way of globalization is more selective and affected by the increasing influence of the host country.

Governments tend to protect local players by curtailing market liberalization process, and envision specific sectors as being of greater strategic importance, in line with the ideology of national security. *"The objective of state capitalism is to control the wealth that markets generate by allowing the government to play a dominant role through public-sector companies and politically loyal corporations"* (Bremmer, 2014, p. 104.).

There are significant strategic differences between countries as to how they evaluate industries of national strategic importance. Companies that are active in industries affected by *guarded globalism* have to permanently monitor institutional changes, anticipate risks and react to the changing political attitudes of host countries. Ghemawat (2010) has a partly similar conclusion in that besides the definition of new strategic corporate directions, it is important to highlight the impact of strengthening *state protectionism* and the absolute necessity of managing an altered (private) corporate identity and reputation.

The above citations from the post-crises management literature reflect the changing view on institutional factors in business strategy. It seems clear that discussion about the role of institutions received deeper attention in business strategy in recent years. However some questions are still open: (1). Can we say that the institution-based approach has become a substantial part of the strategic management thinking? (2) Has the institution-based view provided a well-defined research programme for strategic management? (3) Can the institutional approach offer useful tools to solve the post-crisis strategic dilemmas of firms and managers?

The current paper aims to highlight the development of the viewpoint of the main strategic management theories on the nature of firm and institution relationship. I narrow the focus of my study and limit the research to the two most influential strategic management approaches, Porter's five forces theory and the resource-based view of the firm. After a short theoretical introduction about the institution-based view, I show the relevant statements of the strategic management theories on the firm-institution relationship. I close my paper with a review of the recent Hungarian scientific studies and suggest some areas for further research.

Institution and firm relations in economic and management theories

The general framework of institutions contains within it social, cultural, political and economic institutions. As the most commonly used definition of Douglass North clarifies (North, 1990, p. 3.): *"institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction."* Daron Acemoglu (2008) emphasizes three essential points in this definition: *"(a) they are 'humanly devised', which contrasts with other potential fundamental causes like geographic factors, which are outside human control; (b) they are 'the rules of the game' , ones setting 'constraints' on human behaviour; and (c) their major effect will be through incentives"* (Acemoglu, 2008, p. 2.).

There are huge number of researchers focusing on firm-market-institution relations in line with the seminal works of Coase (1937) on the costs of transactions and with Williamson (1985) on the boundaries between firms and markets. Institutions determine in different ways the opportunities had by all actors (individuals, organizations, firms) in society, and organizations look for ways to capture the benefits existing within such determinations. The institutional environment is part of a complex system, including firms and organizations at the micro-level, industries (or the competitive environment) on a meso-level, and the social, ecological, political, technological and economic environment on the macro level.

The International Society for New Institutional Economics (ISNIE) defines the research field of New Institutional Economics as an interdisciplinary combination of economics, law, organization theory, political science, sociology and anthropology. The theory's major focus is to explain, *"what institutions are, how they arise, what purposes they serve, how they change and how – if at all – they should be reformed."* While the main role of institutions *"is to reduce uncertainty by establishing a stable (but not necessarily efficient) structure for human interaction"* (North, 1990, p. 6.), this does not mean that the institutions themselves are unchangeable. The relationship between institutions and organizations has a mutual impact: *"institutions affect the economy and are themselves shaped by the behaviour of the actors in the economy"* (Nye, 2008, p. 76.).

However, the meaning of the word institution has a complex nature. Firstly, following North (1990) we can differentiate the formal institutions, including *laws, regulation and rules* from the informal institutions such as *norms, cultures and ethics*. Secondly, we can follow Scott's approach (1995, 2014) and differentiate the institutions based on their main operational mechanism such as *regulative, normative and cultural-cognitive* systems.

The academic literature uses different words concomitantly for the institutional approach, which sometimes causes confusion in the common understanding. This situation can be traced back to the symbiotic roots of the theory in sociological, economic, legal and business sciences. The sociologists tend to use the label "*institutional theory*", while economists got the label of "*institutional economics*". Peng et al. (2009) suggests a new word, the *"institution-based view",* for the strategic management oriented research field to differentiate the management-oriented researches from existing work in economics and sociology.

This paper follows Peng's approach. Although both the economic and the sociological theoretical background have inspired my work, I would like to tighten my focus mostly on business strategy aspects of the firm-institution relationships. My main question rests on whether the company passively adapts to the environmental changes coming from regulation, policies and dominant political ideology or in contrast, has capabilities and power to influence interactions between institutional actors and the firm.

The major management theories have a different focus on the firms' reactions to changes in their environment, and they also differ in their interpretation of the causality of such interactions between firms, institutions and the environment. Volberda and Lewin (2003) group the main management theories by the different scopes of the firm-, meso- and macro-level factors in relation to strategic adaptation, selection and retention. The first group of theories (Resource Based View, Behavioural Theory of the Firm, Learning Theory) are concerned with capacities and strategies for adaptation and survival at the firm level, and they pay limited attention to population-level adaptation. In contrast, the meso-level theories (Transaction Cost Theory, Industrial Organization Theory, Institutional Theory, Organizational Ecology) provide a theoretical foundation for linking firm adaptation to the macro institutional and competitive environment, and they tend to ignore firm-level micro adaptation.

Figure 1

Connection between institutional-based view and the main research fields of strategic management (compiled by the author)

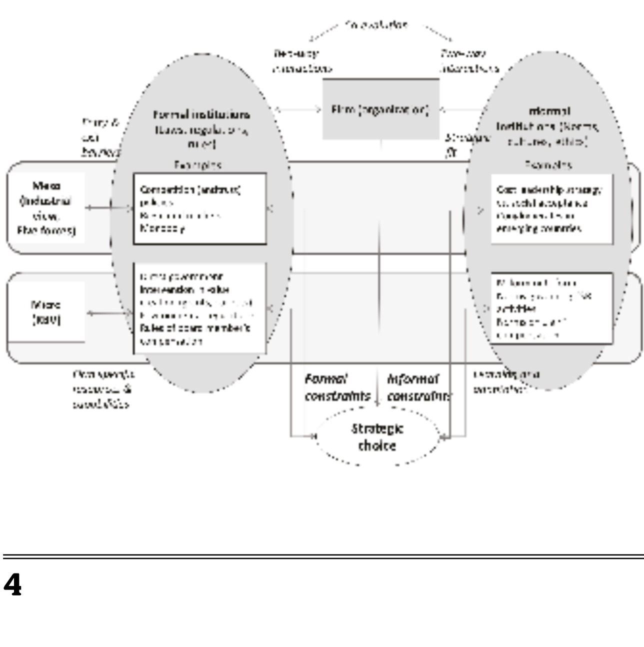


Figure 1 illustrates the analytical approach of this paper with narrowing the focus of Volberda and Lewin to the two most influential strategic management frameworks, Porter's five forces concept and RBV.

The firm is in a permanent state of interconnection with its formal and informal institutional environment. We can identify various issues, both at the firm and industry level, where the institution-based view can enrich the industrial (meso) and firm (micro) level strategic management theories with its statements. The following section of my paper will summarize the main standings of Porter's five forces and the RBV on institutions, highlighting the most important points for further discussion.

At the end of the methodological section I will present the *co-evolutionary framework*. The interactions between the firms and the institutional environment have much greater mutual effects on each other than a simple passive adaptation on the firm level. Figure 1 demonstrates these two-way interactions between firms and their institutional environment. The theoretical concept of co-evolution offers a powerful practical-analytical tool to describe and synthesize the different perspectives of the micro-, meso- and macro-level factors that influence firm- and sector-level evolutionary changes. The co-evolutionary theory focuses on the mutual influence and impact of organizational and environmental factors on corporate adaptation and selection mechanisms. The general meaning of the expression reflects a situation where two or more populations can causally influence each other's evolution (Hannon et al., 2013). Corporate co-evolution is concerned with the ways in which firms and their environments develop interactively with each other over time. (Rodrigues – Child, 2003).

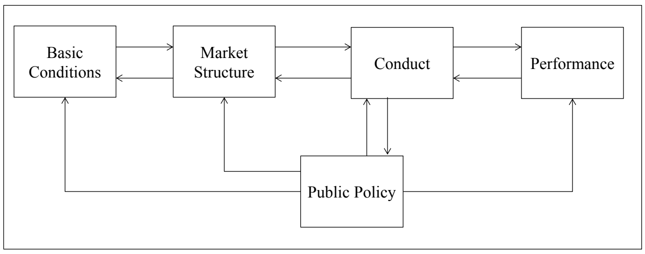
Figure 1 also illustrates some practical examples for further empirical research at the 'crossing points' of meso- and micro-level strategic management approaches and the formal or informal institutional environment. I think that the incorporation of the institution-based view into the traditional method of industry-based or resource-based views through complex empirical studies can enrich the whole research field. As Peng et al. (2009: 77) wrote about the increasing importance of the institution-based view: *"it is the emergence of the third leg that sustains a strategy tripod."* I believe that the institution-based view is a very opportune third leg that can help develop the whole scientific field.

The approach of Porter and the RBV theorists on institutions

While it seems that the analytical framework of Porter's competitive strategy concept paid relatively little attention to the role of institutions in strategy conceptualization, he does have some noteworthy remarks to make on this topic. Porter's concept is strongly based on the structure-conduct-performance (SCP) framework of industrial organization (IO) theory (Porter, 1981). As IO theory has developed, the original concept of SCP became 'supplemented' with the effects of government policies (Carlton – Perloff, 2003). Figure 2 shows the causal relationship between public policies and the SCP framework.

Figure 2

The Structure – Conduct – Performance framework (adapted from Carlton – Perloff, 2003



Government policies (including taxes, subsidies, anti-trust regulations, price control, international trade rules, etc.) have a strong impact on the basic conditions for and the structure of industry. Traditionally, IO characterizes the *industry structure* as an exogenous factor within the model, whereas *"the firm itself was stuck with the structure of its industry and had no latitude to alter the state of affairs"* (Porter, 1981, p. 613.). In contrast, there is a two-way interconnection between the *conduct* (pricing behaviour, advertising, research & development activities, investments, legal tactics, etc.) and the *public policy* dimensions. Although Porter notes that the determinism in the traditional IO model limits the applicability of the theory for business practitioners, the IO framework can help them better understand under what circumstances and with which type of strategic action firms can change the rules of the game for their industries.

In his book on competitive strategy (Porter, 1980 (2004)) Porter emphasizes that the forces outside the industry affect all competing companies and *"the key is to be found in the differing abilities of firms to deal with them*" (Porter, 1980 (2004), p. 3.). Porter uses the terms *government policies* and *regulation* rather than *institutions* or *institutional environment* in his book. He divides the *outside* forces into five major groups, and the institutional relations are discussed as one aspect of entry and exit barriers. He says that government subsidies to industrial firms are able to function as an entry barrier as they favour established companies over potential new entrants. Regulatory requirements often cause potential new entrants specific disadvantages (compared to established firms) as compliance costs affect newcomers more heavily. Thus government policies can directly affect the intensity of competition: *"Government can limit or even foreclose entry into industries with such controls as licensing requirements and limits on access to raw materials"* (Porter, 1980, p. 13.).

Joan Magretta (2013), the author of a remarkable book on Porter's strategic framework, also stresses here that there are situations created by changes to the institutional environment where corporate strategy will have to be modified. *"Regulation can hold an industry in an artificial equilibrium by defining customer needs in an arbitrary way. Deregulation can unleash pent-up economic forces, allowing new needs to emerge"* (Magretta, 2013, p. 170-171.).

The entry and exit barriers are not the single elements of the five forces framework when the institutions have a strong impact on industry. The intensity of the competitive rivalry strongly depends on institutional factors. For example, when trust in the regulatory regime is falling the innovation activity can decline, which strongly impacts the pricing strategies of the industrial players. The cooperation of potential competitors, the cartel or the formal and/or informal market sharing between the market leading entities also have strong interconnections to the institution based view.

Porter's framework focuses mainly on the industrial forces existing throughout the firm, those that have a major influence on both strategic positioning and economic performance. The resource-based view of the firm (RBV) makes a point that differences in performance can be explained chiefly via differences in resource endowments. It emphasizes the importance of unique, difficult-to-imitate resources in sustaining performance (Rumelt et al., 1991). While RBV notes the internal factors to any sustainable competitive advantage in explaining performance differences between firms, the theory does not ignore the role of external factors. Yet the contradiction between the two model frameworks seems, to a degree, artificial.

As clear evidence of the combination of the two leading strategic school's viewpoints, Wernerfelt (1984) in his seminal article uses Porter's five forces' framework to explain the differences between *entry barriers* (control over critical input or a monopolistic market position) and *resource position barriers*. The notion of the entry barrier reflects the relationship between incumbents and potential new entrants, while the resource position barrier reflects also the effect of unequal resource allocation between already active incumbent players. Yet a resource position barrier would be eminently valuable in its conversion to a market entry barrier. As he says: "*an entry barrier without a resource position barrier leaves the firm vulnerable to diversified entrants, whereas a resource position barrier without an entry barrier leaves the firm unable to exploit the barrier*" (Wernerfelt, 1984, p 173.).

In comparison with the traditional framework of IO, which argues that a long-term, over-the-market profit reflects the monopoly power or collusion of actors, the RBV sees above-the-normal profits as rents for costly-to-copy assets (Conner, 1991). But this distinction does not mean that the RBV's analytical focus neglects the institutional factors of competitive advantage. The notion of *strategic fit* (Grant, 2008) creates a connection between the industrially competitive arena and the organization. Grant explains this process in his article on the practical framework of a resource-based approach to strategy analysis as follows: *"Select a strategy which best exploits the firm's resources and capabilities relative to external opportunities"* (Grant, 1991, p. 115.).

Strategic fit is critical for proper allocation of resources and capabilities. Capabilities themselves can be seen as institutions inside the firm, as they require complex patterns of coordination between physical and human resources. The way of organizational learning and routines are governed by norms and culture of the organization. The degree of control over a specific resource or a capability depends on formal and informal structures inside and surrounding the firm. For example, the human-capital-intensive industries have permanent issues on how to *institutionalize* the individuals' performance and knowledge and how to reduce their bargaining power and increase the firm's control over the VRIN resources and capabilities.

The successful strategy must be consistent with the firm's external environment and also with its internal environment (values, goals, resources and capacities, structure and systems). *Industry attractiveness* (entry barriers, monopoly, vertical bargaining power) and *competitive advantage* (cost advantage or differentiation) are the two major sources of the above-average rate of profit in a competitive environment. The sources of the competitive advantage are limited in "efficient" markets, where the set of resources required to compete are similar for all competitors (for example in commodities or financial markets). The absence of the internal sources of long-term over-the-market returns means that differences in the performances of firms reflect more the industry attractiveness factor, such as when having different bargaining powers or a monopolistic position among sector firms. In the view of RBV – as with the school of Porter – performance differences between companies in an industry possessing homogeneous products are the result of external environmental factors, especially the successful management of institution-firm relations.

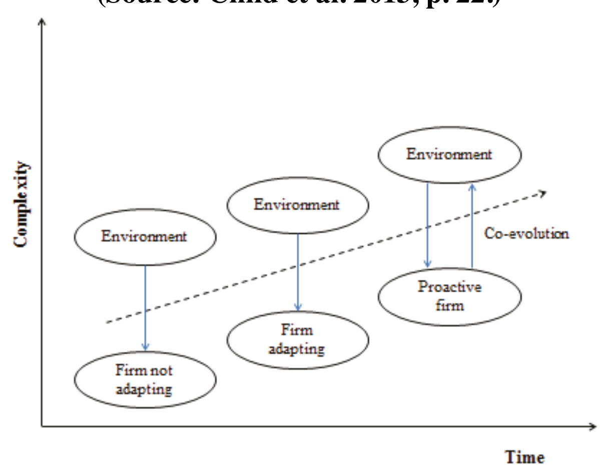
From evolutionary thinking to the co-evolutionary framework

Although a change in any institutional environment is a slow process, the distribution of resources and political institutions tend to be persistent; and this fact does not represent an unchangeable constraint but, rather, a slow, evolutionary way of modification of institutions and firms (Acemoglu, 2008). The permanent change is a pre-coded survival program for organizations because of their being in competition for scarce resources. Simon (1993, p. 132.) describes this motive as follows: *"each organization competes with others for scarce resources, and their fates must consequently be decided by some combination of natural selection and rational adaptation."*

While organizations are changing, they are still in some form of permanent interaction with their environment. Strategy can be planned by the management or imposed by forces, ones outside the organization. The motivation for government action like extensive regulation or deregulation tends to be a *"way of overcoming the sort of strategic inertia that has arisen as a result of strategies developing incrementally on the basis of history, experience, existing cultural norms or the compromises that come from the bargaining and negotiations of powerful groups within an organisation"* (Johnson – Scholes, 2002, p. 73.). The interaction can be different in its direction (Child et al., 2013), as Figure 3 demonstrates.

Figure 3

Relationship between a firm and its environment (Source: Child et al. 2013, p. 22.)



As the environment is changing because of the effect on it by an external body such as a government, legislative authority or a competitor, firms have three different ways to react. The less complex situation occurs when a firm does not adapt to changes because of its own decision or because it lacks the ability to do so. The second reaction occurs when a firm understands the changes and adapts to them via a learning process. This method requires more time to react and results in a more complex answer. Proactive firms do not simply adapt to changing constraints but also try *"to alter the external circumstances, such as proposed legislation, through negotiation and persuasion"* (Child et al., 2013, p. 21.). This two-way, reciprocal interaction points to a more complex relationship between firms and their environment.

Volberda and Lewin (2003) introduced the concept of corporate co-evolution to analyse the process of firm-level adaptation and population level selection. They explain that co-evolutionary changes to the micro and/or macro level are not simple outcomes of adaptation or environmental selection, but, rather, are the mixed result of managerial intentions and environmental effects. Rodrigues and Child (2003) extended the scope of the co-evolutionary perspective from competitive industries to a highly institutionalized environment. They followed both a deductive and inductive method to formulate a relevant research framework relating to a public infrastructure organization. The main focus of their model is the two-faceted, mutual impact of performance, processes, objectives and structural forms on the macro, meso and micro levels.

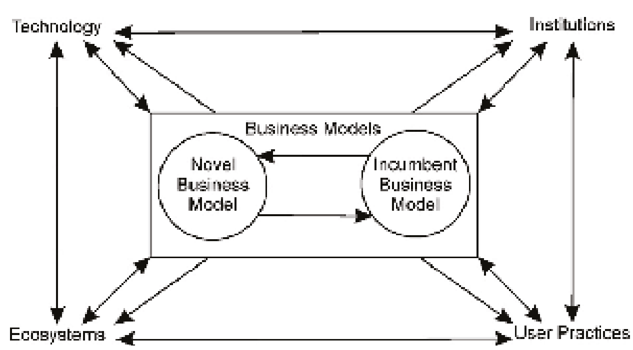
In the authors' interpretation, co-evolution is the *two-way interaction* between the meso (industrial) and micro (firm-level) factors. The performance of an industry has a strong effect on the performance of individual firms. However, a company can also influence sector conditions, principally if it has a dominant market position or a leading role as regards innovation. Sector performance also has an impact on the overall performance of an economy.

There is strong pressure on political actors to make changes in the political regime by modifying the dominant socio-economic ideology and policies if the macroeconomic indicators are underperforming. The changes in the institutional regime in combination with exogenous factors, like technology and new entrants, have a strong effect on sector business models. Modification of the business model has an effect on sector performance through changing objectives and competitive and/or political sector dynamics. Moving to firm-level effects, there is an evident two-way causal relationship between organizational performance and sector performance. Similarly, mutual interaction can be noted in the case of organizational and industrial processes. Targets, norms and objectives typifying the sector have a co-evolutionary interaction with firm-level objectives, just as the sector dynamics interconnect with organizational procedures.

Co-evolutionary research combines different methodologies and analysis procedures in order to understand the bidirectional connections between environmental factors and corporate behaviour. Foxon (2011) in his pentagonal model framework suggests the combination of the socio-technical and techno-economic transition with co-evolutionary approaches. The five key *co-evolving* systems in his framework are *ecosystems*, *technologies*, *institutions*, *business strategies* and *user practices*. Hannon et al. (2013) partially modified the original model of Foxon, replacing the *business strategy* dimension with the *business model* and moving it to the middle of the framework. Hannon et al. (2013) use the *business model canvas* of Osterwalder and Pigneur (2010) to represent in detail the main characteristics of the sector from in their empirical study of co-evolutionary interactions between UK energy service companies and traditional energy utilities. (Figure 4)

Figure 4

The co-evolutionary relationship between business models and the wider socio-technical system (Source: Hannon et al., 2013, p. 1034.)



The authors distinguish the incumbent players' business models from the newcomers' models – and note that the incumbents typically wield more economic and political power compared to the non-incumbent or niche population of firms. The study provides both interesting theoretic insights and empirical results. By comparing the business models adopted by energy service companies and the incumbent British Energy Utility Company, the authors examine how market, technological, social and regulatory environments shape business strategy in the UK energy sector.

Suhomlinova's article (2006) focuses on other dimensions of co-evolutionary research. Her research examines 26 transition economies of Central Eastern Europe in the period following the change of political regime. According to her model, based on the analysis of co-evolutionary effects between micro and meso level phenomena, four organizational characteristics influence organizational survival: 1) competitive structures, 2) product strategy, 3) control structure, 4) exchange strategy.

It can be concluded that co-evolutionary research studies rely on various methodologies and adopt a case-study approach with a focus on a particular sector of industry or geographical scope. All of the authors based their research into the connections between theory and practice on solid empirical results, and discovered correlations which allow for generalizations and which fit into the wider theoretical framework as well.

The institution-organization context in Hungarian strategic management literature

Although the Hungarian strategic management scholars have published several studies on the competitiveness of Hungarian firms, the institutional approach received relatively lower coverage in these studies. However, the Hungarian strategic management literature makes several notable remarks on the interactions between firms and their institutional environment. The following list (Table 1) gives a brief summary of Hungarian management scholars' recent publications with a deep focus on the institutional approach.

Balaton (2007) gives a thorough overview of organization and management theories that serve to explain organizational changes. He argues that institutional theory provides a powerful explanation for understanding the adaptation mechanism of firms in relation to their environment. Following DiMaggio and Powell (1983/2000), he distinguishes three ways of interconnection between firm-level adaptation and the institutional environment. *Coercive institutional pressure* means direct governmental pressure on firms to adopt certain rules and traits for their operations. The *normative influence* refers to the common usage of professional industrial standards or specifications. Companies can legitimize their market activities only by following these normative rules and standards. The *mimetic process* reflects a firm's own adaptive decision to follow another firm's (possibly a competitor's) technology, organizational structure and/or procedures. Balaton highlights the importance of social embeddedness as a topic related to the institutional approach.

Czakó (2000) describes the relationship between economics and business and management studies on the development of theories of the firm. She says that „*the theoretical framework of new institutional economics can be regarded as a school aiming to establish a connection between economics and business studies as it studies the limits of the firm and its internal operations on the basis of Coase (1937) and Williamson (1985)"* (Czakó, 2000, p. 13.).

Kapás (2007) suggests an evolutionary approach can uncover a deeper understanding of the firm's development. She argues that technology, institutions and firms are developing in an evolutionary way, and this evolution from time-to-time produces new *mutant* forms of organization. She analyses the evolutionary path in a socio-technological context and distinguishes between concepts of *physical* and *social technology*. The new mutant forms of firms, such as the M-form and project organization, are a part of

Table 1

Hungarian management articles and studies with deep focus on institutional approach

Author(s)	Main focus of the study	Level of analysis	Leading empirical methods	Remarks on institution-based view
Balaton (2007)	Organizational changes after the Hungarian system turnaround	Meso / Micro	Case studies, small scale surveys	Evolutionary approach. Firm's adaptation is influenced by coercive pressure, normative influence and mimetic processes.
Czakó (2000)	Competitiveness at industry level	Meso	Surveys, case studies	New institutional economics can be promising for globalization and analysis of transnational companies.
Kapás (2007)	Evolutionary development of the organizations	Micro	-	Distinction of the role of physical and social technology in the evolution of the organization.
Kozenkow (2012)	Role of institutions in the economic performance of Hungary and Poland	Macro	Pairwise comparison of formal and informal institutions	Different political institutions have strong impact on economic performance.
Rosta (2012)	New public management and its institutional background	Macro	Quantitative modelling based on statistical data	The effectiveness of NPM depends on fit of informal and formal institutional system

social technology; and they are the results of prior technological "revolutions". The wider institutional environment according to North might be also regarded as an aspect of social technology. Kapás says that the use of social technology is more suitable than an institution as it allows for an analysis of the effects of physical and social technologies on each other – and provides a common framework for analysing the interrelations between the two subsystems and within each independently.

Kozenkow (2012) compares Hungarian and Polish economic performances in the transition period after the political system changes of the early 1990s. She gives a detailed literature review of the development of institutional theory and concludes that the different economic performances of Poland and Hungary are predominately attributable to diversified political institutions.

Rosta (2012) in his doctoral thesis on the institutional determinants of New Public Management (NPM) emphasizes the New Institutional Theory's influence on NPM. He gives a detailed literature review of the institutional theory's complex research field, including the transaction cost economy, property rights-based theory, the collective action approach, the evolutionary economy and the principal-agent theory. He argues that the *"introduction of management methods belonging to this (NPM) approach can only be effective if these instruments fit in with the informal and formal institutional system being followed and applied by the society of the given country"* (Rosta, 2012, p. 13.).

There are more than a hundred working papers and articles describing various aspects of firm-level competitiveness emerging from the systematic analytical work of the Competitiveness Research Centre of Corvinus University of Budapest, highlighted by the robust longitudinal statistical database of competitiveness surveys carried out from 1995 to 2013 (Csesznák – Wimmer, 2014). Although some studies in this research program were more concerned with the role of non-economic factors (including technological, social and governmental) in relation to the competitiveness of Hungarian firms, the majority of publications considered the regulatory and institutional environment to be an exogenous factor in firm-level competitiveness.

Chikán and Czakó (2002) highlight the importance of adaptation in companies when the role of the government is to outline priorities, work to prepare development policies and to define resources and economic instruments to achieve macro-level goals. The authors made their model framework more complex in later research (Chikán – Czakó, 2009, p. 80.), clarifying the causal relationship between governmental actions and firm- and nation-level competitiveness. According to their model, governments can influence input factors, demand, organizational strategies and structures through *macroeconomic policies* and through effects had on social norms. Yet governments are also influenced by social institutions and civil organizations – which have a direct influence on the development of *social norms*.

In his doctoral thesis, Szabó (2010) analysed the *strategic adaptation*, *ambidexterity* and firm level *competitiveness* of Hungarian firms between 1992 and 2010 on the basis of the competitiveness surveys' database. He describes the *quality of legislation* and *domestic political changes* – being macroeconomic indicators of the institutional environment – as potential sources of uncertainty. Balaton (2005) demonstrated the increased role of *institutional factors* in the noted uncertainty and unpredictability of Hungarian managers at the time of Hungarian EU accession based on a comparison of the 2001 and 2004 survey data. Szepesi and Czakó (2012) also investigated the role of public policies on competitiveness. They claim that even though institutions can support firm- and nation-level competitiveness, results always depend on the interactions between individual and organizational actors. *"The features of actors concerning policy action can be put into four categories: (1) their position concerning the issue, (2) their degree of involvement in the issue, (3) the characteristics of their decision,* and *(4) the policy-relevant impact on them*."

One of the reasons for the relatively limited attention given to the institutional approach in the Hungarian competitiveness literature may be a methodological one. The surveys, which were the empirical basis of the studies cited above, tried to explore general factors related to competitiveness with a relatively low degree of focus going into industry-specific effects and without analysing such industry-specific phenomena. The quantitative database did not support any thorough investigation of industry-specific variables appropriately.

The co-evolutionary approach requires thorough empirical background work. For example Rodrigues and Child (2003), studying the South-American telecommunications company, TELEMIG, interviewed almost a hundred managers, analysed more than 500 company documents, and reviewed the company's financial reports from 1973 to 2000. Joined later by K. K.-T. Tse (Child, J. – Tse, K. K.-T. – Rodrigues, S. B., 2013), they carried out a similar analysis of the Chinese YICT container terminal, studying the interrelations between the company and surrounding institutional players.

There are only a limited number of examples of the application of a deep industry-focused, case-oriented approach in the Hungarian strategic research publications. I found only two studies concentrating on firms' adaptation strategies with strong a sectoral focus as a result of checking the last six years' articles of *Vezetéstudomány*. Szabó (2008) identified different adaptation strategies in the formulation of the bioethanol industry – and concluded that each adaptation strategy might be successful if given effective execution. Meanwhile Kis (2014) analysed the impact of strengthening state involvement in the Hungarian telecommunications industry.

My belief is that, contrasting with the big sample questionnaires, the case- and industry-oriented approach gives an appropriate methodological answer regarding how to successfully analyse the impacts of the institutional environment on the development, performance and competitive position of certain industrial organizations.

Conclusions

The years after the economic downturn strengthened methodology pluralism as academics had to face the fact that the explanatory power of former theories was limited. In the field of economics and management sciences, more and more proposed a rethinking of the balance between the practical usefulness and academic rigour of theories. I argued in this paper that the deeper incorporation of institution-based perspective into the mainstream framework of strategic management studies can enrich the scientific field. Although I feel the program of Peng a bit too ambitious, suggesting to build up the third leg of the strategic management on the basis of the institution-based view, I believe that the theory can deliver massive added value compared to the 'traditional methods' in regional and national focused studies.

Central Eastern Europe (and particularly Hungary) offers an excellent empirical field for institution-based studies to analyse the impacts of formal and informal institutions on business strategy. The demand for direct political influence was always present in recent decades regardless of government and political system. Liberalization and centralization periods followed each other in accordance with the existing political ideology – yet the development of the industries and firms is generally characterized by short, permissive pro-market changes and then fast regressions and corrections. The rapidly changing institutional regime significantly influences the market opportunities of the sector firms mainly in highly institutionalized industries such as banking, utility or healthcare.

I think that preparation of empirical, industry-specific studies following the institution-based view and using the co-evolutionary research framework – mainly the method developed by Child and Rodrigues – could help further explain the complex, two-way mutual interactions between firms and their institutional environment in the current turbulent period.

I defined three questions about the potential impact of an institution-based view on strategic management research in the introduction. Although it is too early to say that the institution-based approach has become a substantial part of the strategic management research field, I believe its research programme offers highly valuable statements to the viewpoints of strategic management theories based on Porter's industrial approach and the resource-based view of the firm.

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