

The Effects of Institutionalization on the Internationalization of Markets: A Conceptual Model of Inquiry

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Institutionalization of economic actors is a more sustainable strategy for achieving such growth than administrative action. This paper offers a conceptual model that identifies relationships among elements that help institutions evolve, and, attempts to reason out the effects of institutionalization on the internationalization of markets. The framework identifies three influencers that directly affect the evolution of institutions and it discusses how such influencers dominate the process of institutionalization. Intra-institutional cultures, be it monochronic or polychronic, interact under the pressures of endogenous and exogenous to the institution forces causing institutional evolution. Inter-institutional congruence empowers institutionalization which helps the internationalization of markets.

AIM OF THE ARTICLE

This article purports to explore into the dynamics of the driving forces that define an institutional framework and their relationship to the process of internationalization. The author focuses on market internationalization recognizing that internationalization also includes relations among nations, specific intergovernmental collaboration, migration, and, technological and economic exchange. Internationalization of markets is viewed as a process by which domestic or national markets develop or achieve the capability to offer sustainable advantage in a cross-border economic exchange. The internationalization of markets may be expedited by institutionalizing the behavior of actors that influence the *economic, social* and *cultural* evolution of the market. It is proposed that increasing economic, social and cultural exchange across markets would require congruency of the *regulative, normative* and *cognitive* dimensions of institutions. An institution, viewed as a microcosm of the society in which it exists, irrespective to its incipient identity such as business, political, economic, social, and so on, is in constant evolution as its endemic subcultural forces exchange on their individual interests and cultural beliefs effecting their expectations and behavior. Relevant studies have indicated the existence of multiple subcultures, referred to as logics, and the friction that exists between these sometimes contradictory settings which define the institution's evolution (Parkera and Parenta, 2009). Existing literature has not habitually addressed the international dimension of the principal issues attempted in this article such as marketing's effect on sociocultural awareness, the relationship between institutional structure and international marketing, the impact of institutional structure on the institution's sociocultural identity and the effect of institutional structure on market internationalization. The multidimensionality of institutional theory has been affirmed and richly celebrated and honored by institutional scholars such as Weber, Meyer, DiMaggio, Rowan, Powell, Bourdieu, Scott, Tolbert, Selznick, Thomas and others. However, their approach to institutional theory has been largely sociological focusing on identifying social structures and how social structures

cope with each other within the confines of organizational environments. In an era of increasing international trade, expedited through the process of multilateralism and regionalism, the emphasis has been on global governance whose role is to accommodate the drive for economic globalization. Under the framework of global governance globalization benefits and costs will be more symmetrical, achieving a more sustainable development of the global economy (Griffin, 2003). The role of supranational institutions and transnational organizations is thought to be central to achieving an optimum or near optimum global governance system (Polychroniou, 2012). In such environment the theory of institutionalization has been challenged to provide leadership in assisting state or private actors become engaged in global governance, in order to effectively produce an optimum design of market and social responsiveness. Non-state, private actors are increasingly assuming an active role in the design and construction of the institutional framework of global governance, warranting the institutionalization of transnational non-state governance (Katsikas, 2011). I argue, seeing the need for undertaking research into such new area, that a theory of *supranational institutionalization* is likely to be explored into by institutional scholars. In this article, culture is recognized as generic. Therefore, the terms business culture and national culture are used interchangeably given that the former stems from the latter.

INTRODUCTION

The rate of internationalization is positively correlated to the increase of international trade which focuses on the economic value of the exchange and its prospective added value. Internationalization establishes the principles, rules and norms, embedded in the world economy, which define acceptable economic behavior by which to manage cross-border flows of capital, technology and goods and services (Yongjin, 2003). The progress in international trade has contributed to the architecture of internationalization since trade has been catalytic to socializing international exchange and instrumental to accentuating the importance of relative intercultural congruence. This has given rise to global governance which recently has been established to serve as a political-institutional structure for supporting global markets (Görg & Brand, 2006). Institutionalization has provided the framework indispensable for stimulating international trade, by way of specific trade agreements, lower trade barriers and a trade-friendly regulatory environment. However, operationally, international trade has been promoted by marketing whose knowhow and set of skills has helped with market penetration, demand generation, commerce proliferation and economic development. The influence of macro-level international marketing, which is importing and exporting, on economic growth and development is evidenced (Mullen, Beller et al. 2001). Beyond its definitive role on economic development marketing has been instrumental in bringing about awareness of the dynamic impact of culture, be it national or business, on economic growth and the growth of an economy. For instance, the exponential-like growth of regional trade agreements (RTAs) seems to be evidence of the impact of geographic proximity on trade development due not only to symmetries in information dissemination, lower direct and indirect trade costs and similar transaction-inducing advantages but also due to relative cultural homogeneity resulting from spatial nearness as well as entrepreneurial innovation which is empowered by marketing knowhow. Cultural distance¹ affects the level of institutional convergence or divergence. That is, the less the cultural distance or dissimilarity between two economies the greater the likelihood of institutional congruence. Conversely, the greater the cultural distance the less congruent the relevant cross-national institutional frameworks are expected to be. The effects of culture on institutional formation and change are manifest through a wide spectrum of economic behaviors and individual actions (Heydemann, 2008). Furthermore, cross-national institutional congruence promotes, and it is promoted by, cultural homogeneity. Empirical research suggests that cultural similarity results from four processes, such as, economic development, cross-national contact, social penetration of religious institutions and imperial legacies (Bonikowski, 2010). Cultural adaptation, an imperative condition for increasing market penetration, would be easier to achieve when cross-national institutional exchange has been cultivated producing greater understanding of relevant cultural dynamics. Adaptation presupposes that the marketing environment is different in terms of cultural idiosyncrasy, which affects both the design and implementation of the entire spectrum of

marketing functions. Cultural idiosyncrasy may be affected by cross-national institutional exchange which in turn could potentially promote cross-national institutional symbiosis. The success of such symbiosis is positively correlated to the sociopolitical environment of cultures that reside in geographic proximity (McCall, 2009). Cultures evolve either internally, resulting from the breadth and depth of subcultural heterogeneity, or externally through reciprocal exchange producing intercultural adaptability and enhancing cultural adjustability. Adaptability is viewed as a mediator whose dialectical process results in effectuating cross-cultural adjustability. Such adjustability is further enhanced in cross-cultural environments that are characterized by relative identity consistency (Church et al. 2008). The presence of cross-cultural adjustability would seem to affect the formation of institutional identity and produce a greater understanding of broader supranational goals expediting an even greater degree of acculturation. Cultural awareness, resulting from acculturation, affects the process of policy analysis and institutional consistency (Geva-May, 2002). International marketing could not achieve sustainable functionality unless it observed relevant cultural imperatives or exclusives and other idiosyncratic characteristics that are pivotal to optimum decision-making, a process of acculturation. For instance, international goods such as food, clothing, music and so on, are subject to cultural approval which makes acculturation both a critical dynamic for a more targeted decision-making and a criterion for encouraging internationalization. The optimum development and the effective growth of internationalization are contingent on the harmonious and complementary collaboration between marketing and institutional evolution.

MARKETING EVOLUTION AND SOCIOCULTURAL CONVERGENCE

Marketing does not just help economic development by increasing the number of transactions but it also subtly provides a forum for identifying cross-border homogeneous needs and for revealing the potentiality of heterogeneous preferences. Global marketing strategies focus on identifying global market segments to which they can offer a standardized marketing program. Standardization which is driven by the quest for increased efficiencies is relative given that a marketing program cannot be fully and invariably standardized. It has been argued that there may be global brands but there are no global motivations (Svensson, 2002). A global culture per se may not exist, however, we may reasonably conjecture that wants may be similar on a global scale, and, although consumers may differ in the way they pursue fulfilling their wants we can infer that they are motivated to do so. It is evident that marketing has helped reveal the influence of culturalization on both the quantity and quality of economic activity. It has been suggested that strategies for cultural development should be integrated with those of economic development (Nivin and Plettner, 2009). Comparative surveys have shown that national culture determinants such as individualism, perspectives on risk and so on affect investment behavior (Beckmann et al. 2008). Marini (2004) suggests that culture determines economic action such as wealth distribution and growth. For economic growth what is required is achievement motivation and trust. Furthermore, what has been generally proposed is that in order to promote economic development an economy must upgrade its relevant institutional framework to follow the pattern of a more advanced economy. It is also broadly accepted that institutional frameworks are considered necessary for bringing about economic development. Bangwayo et al. (2011) using the 2005 wave of the World Values Survey data for 43 countries found that institutions are important in facilitating adoption of values that are considered important for economic development. In order to contribute to economic development such institutions need to have an effective structure and employ a set of public policies that would be favorable to economic development. In a study conducted by Mathers and Williamson (2011) about capitalism's performance in certain cultures and the effectiveness or ineffectiveness of institutional constraints they concluded that culture does enhance the effectiveness of capitalism and its impact on economic growth. Institutional structure and policies need to be designed around the quality of cultural capital, that is, the quantity and level of social and economic exchange that exists in the economy, and assume the role of a catalyst. Such design will likely accommodate an orderly but controlled evolution of culture since institutional rules are designed to safeguard and promote cultural adaptation. Shubin (2010) suggests that people with less-valued cultural capital are disadvantaged in that they have limited access to social

resources and that such cultural capital degrades social bonds and restricts people's capabilities for economic growth. Cultural capital may be upgraded or increased by an institutional structure that has been permeated by marketing technocracy.

IMPACT OF INSTITUTIONAL STRUCTURE ON INTERNATIONAL MARKETING

The essence of institutional structures is to align discordant or inharmonious forces in an environment, be it sociocultural, political or economic, by which to facilitate not only activity and performance but also to help imbue with and effect evolution of managed change. Yul (2004) studying the industrialization policy of Japan and Korea found that first, policy variations stemmed from preexisting developmental institutions and second, that such variations are also affected by how the evolution of structures affects the options of decision-makers. Institutional actors, due to their legitimate authority, employ relevant structures by which to command governance. For instance, it has been suggested that EU treaty reforms affect structure and decision-making and that shifts in inter-institutional operations affect intra-institutional politics (Naurin and Rasmussen, 2011). Such legitimate authority empowers institutional actors enabling them to act as cultural catalysts for effectuating sustainable cultural evolution². The goal would be to both moderate cultural complexity and weaken intercultural barriers. In a relevant study Dubois (2004) suggests that institutionalization comprises among others cultural agents and that institutionalization process could change social and political relations. Furthermore, cultural evolution targeted on harmonizing intercultural differences or lessen their impact can have a favorable and sustainable influence on the proliferation of international marketing and its global development. For instance, different cultures perceive the value to organic foods differently, a cultural positioning which directly affects marketing decision-making to employ either a customization or a standardization strategy, making cultural awareness a pivotal decision-making criterion. A recent study revealed that consumers in the United States, Canada and the United Kingdom who showed preference for organic foods had little understanding of their domestic market's standards, showing weak cultural predisposition. Under the circumstances, the study concluded, harmonization or even the development of a new international standard should be pursued (Sawyer, Kerr et al. 2009). Moreover, it has been suggested that divergent cultures may engender heightened conflict with deleterious effects on channel performance (Mehta, Anderson et al. 2010). Such conflicts may best be managed within the dimensions of an institutional framework which is, by definition, capable of achieving relative harmonization.

THE CONTEXTUAL CHARACTER OF INSTITUTIONALIZATION

Institutional theorists in their effort to analyze and understand the process of institutionalization have proposed a three-component model. Collectively, the three-component framework is defined by three influencers, namely, the *cultural-cognitive* activities emanating from the sphere of culture (Scott, 2001), (Powell and DiMaggio, 1991), *regulative* activities resulting from economic expediencies (North, 1990) and *normative* activities which define sociological structures (Parsons, 1934/1990). Each of these components is thought to be governed by a philosophy and relevant rules which prescribe a particular behavior that interacts with the behaviors of the other components. For instance, the exchange between self-interest and social interest would likely portray an interaction of regulative and cultural-cognitive behaviors that may be critical and which may impact the socioeconomic and political structure of an environment (Polychroniou, 1990). The three influencers exhibit variant rationalities toward achieving their systemic goals, as they are guided by different values. Although delineating the effects of such distinct behaviors on the evolution of those components may be feasible, determining the relevant interactive effects is rather daunting given the incessant and unwavering institutional exchange between the above components and the relevant institutional players. International conditions reflect the degree or level of congruence that underlies cross-border or supranational institutional frameworks. Supranational institutionalization may thus be viewed as having catalytic influence over the development of internationalization. The extent to which internationalization may increase would depend on the strength

of the symbiotic relationship between and among the above components and the relevant institutional actors. Internationalization activities are a product of imperatives decreed by cultural values and evolutionary forces embedded in the process of internationalization. Such forces prescribe the political, social and economic processes of the environment and they are most efficacious when they are organized under an institutional framework. The extent to which said institutional frameworks exert their influence is depicted in the way in which they are able to affect implementation of marketing programs and the proliferation of marketing. Hassler (2006) studying the Indonesian consumer market found that the regulatory policy framework influences firm-specific behavior and marketing strategies. In a relevant study Önsel et al. (2008) concluded that the firms' competitive advantage in global markets depends on, amongst other things, the efficiency of public institutions. Theories which largely ignore the role of institutions are not intellectually sound because it is known that markets cannot work without institutions (Needham, Segeren et al. 2011). The argument is considered plausible given that markets reflect cultural variations which if not assessed and carefully considered they are likely to impede economic growth and development.

INSTITUTIONALIZATION OF CULTURE

Cultural values may be expressed randomly and individually or they may be organized under a formal institutional structure which would define interests to be pursued, categorize values as dominant and subordinate, set collective goals, identify actors and empower them with a mandate to implement programs. A formal structure would be instrumental in solidifying the practice of cultural values but more importantly in socializing younger or new members in the given cultural values. The institutionalization of cultural values is a shield that protects both the identity and existence of such values but it also has the capability of becoming an agent of change which can mediate to bringing about transformation or cultural evolution. For instance, the World Bank has used institutional and cultural transformation to promote rational economic activity and legitimize reforms aimed at reshaping the values in order to facilitate entrepreneurship and competitiveness (Taylor, 2010). An institutional survey, designed to promote strategic development at an educational institution, found that key pedagogic issues would need to be addressed in order to promote cultural change (McLinden and Edwards, 2011). Cornia (2010) in analyzing the dynamics of change that affected the Mediterranean journalistic culture found that the journalists' professional culture was affected through the exchange with EU institutions showing its adaptation to EU institutions' specificities resulting in a Europeanized journalistic practice. Institutionalization is able to justify expediency for transformation by assessing the impact of cultural idiosyncrasies such as historic background, heritage, traditions, customs, spirituality, and so on and bring about an orderly evolution of such transformation. Furthermore, institutional transformation is a purposeful and profound change that permeates the institution affecting its institutional culture (Eckel and Kezar, 2003). It is affected by exogenous factors such as inter-institutional relationships, government policy and regulation, relevant intergovernmental agreements and other supra-institutional actors as well as endogenous factors that define the purpose of the institution per se such as its mission, structure and process. For instance, humans face constraints which sometimes they challenge triggering changes, at the scale of the social group, which produce rule changes (Smajgl, Izquierdo et al. 2008). McMahan (2005) in studying how the transnational involvement has changed the way Romanian ethno-political institutions approach national problems concluded that transnational involvement has had a positive effect on the transformation of institutional actors. Institutional transformation necessitates a change in rationality which guides decision-making. A change in rationality is plausible and feasible because criteria are different. This means that in order to increase uniformity in rationality and avoid systemic entropy the system would have to employ cultural demythicization.³

INSTITUTIONAL STRUCTURE'S IMPACT ON SOCIOCULTURAL FRAMEWORKS

Institutional theorists have long attempted to identify, analyze and understand the similarities and differences between institutions. This may readily be viewed as a rather straightforward exercise but in reality it is daunting to sift through the plethora of diverse driven actors, and assess the interactive effects among them. In order to assess institutional similarity we need to identify those structural forces that define institutional identity. Lopez and Scott (2000) define institutional structure as a domain in which normative and cultural exchange establishes agents' expectations and determines their mutual on-going relations. Institutional structure engages a variety of relational structures that define the institution's social structure which depicts the interconnectedness to which agents are professionally and culturally committed (*ibid*). Elder-Vass (2006) has suggested that relational structure can be thought of as the entire entity which is made up by its parts and their interrelationships. Fleetwood (2008) concluded that social structures effect, influence and shape institutions through rules, norms, values and customs. Furthermore, Archer (1995) differentiated between social and cultural structures interacting within an institutional structure. In practical terms, the incipient structure would be defined by the scope and mission of the institution which is a universal developmental entity. For instance, a societal institution such as a nonprofit organization would have a distinctly different scope than a governmental institution such as a central bank. It would, then, seem that incipient structure similarity is defined by institutional scope and that it would be governed by the *regulative* construct. Institutional activity is performed by the social structure of the institution. It is that social structure that defines the identity of the institution and determines the path to accomplishing institutional goals. Inter-institutional similarity may be promoted using the *regulative* construct because its activities and relevant goals are universally accepted and pursued. For instance, all institutions wanting to be efficient and effective will seek to employ legislation that would help them achieve that. However, efficiency and effectiveness are perceived differently depending on the *cultural-cognitive* construct. For instance, the northern countries of the EU view efficiency and effectiveness differently than their southern counterparts. The proposition to using the regulative construct is based on the assumption that it is largely an objective, rational and technocratic setting, elements which can commonly be used by institutions which might be dissimilar culturally. International agents such as marketing should be promoting the institutions' use of a *regulative* construct in an effort to bring about integration of cross-border institutional frameworks and relative market homogenization. DiMaggio and Powell, (1983) said that institutions through collaboration may become similar without producing synergies. The possible lack of positive synergies results from a misalignment of regulative, cultural-cognitive and normative activities between or among institutions. For instance, low-context task-oriented business cultures (Northern or Anglo-saxonic) are dominated by regulative activities whereas high-context relationship-oriented ones (Southern or Asian) are dominated by cultural-cognitive activities. The effects of these disparate orientations are manifest in terms of both efficiency and performance, with the business culture showing greater actual or potential competitiveness and capability for deeper penetration of international markets when dominated by the "regulative" construct than when dominated by the "cultural-cognitive" one.

INTERNATIONALIZATION OF MARKETS AND INSTITUTIONAL STRUCTURE

In assessing the evolution of international markets the impact of institutional structure and institutional behavior is viewed as determinants of both sustainability and speed with which international markets may evolve. However, the degree of sustainability and rate of speed with which international markets evolve assume even greater importance and point to the catalytic contribution of institutionalization. Evolution of international markets can be thought of as a process by which national markets are penetrated and gradually permeated by international marketing forces whose paramount goal is to expose to and socialize the national market with internationally accepted standards. The process of internationalization is influenced by the continuous interplay between institutional *structure* and institutional *behavior*. Institutional structure is prescribed by the sociocultural infrastructure and defined

by the formal authority relationships and the principles, rules, standards, actions, and prescriptions which the institution must use in order to achieve set goals. Institutional behavior, on the other, hand, denotes the complex of sociocultural and even subcultural elements which inspire, motivate and prescribe how agents are to act and react within the institution. Such behavior is induced by attitudes that have resulted from sociocultural idiosyncrasies, potentially causing conflict leading to institutional inflexibility impeding adjustment and thwarting institutional effectiveness. For instance, Kloot (2009) using Bourdieu's theoretical framework of institutional change found that conflict between teaching and research influences foundation programs because such conflict results from two forms of power, namely, academic capital identified with institutional hierarchy and intellectual capital resulting from autonomy of science. Institutional change may also be effected by the distinct values of subcultural settings that may exist within the institution. The institution of religion directly influences not only trade and economic activity but also other formal or informal institutions which also directly influence economic activity (Lewer and Van den Berg, 2007). Enyedi and O'Mahony (2004) found that the Hungarian state has granted maximum autonomy to Church while the Czech state discourages the Church from being a political actor. As a result these two apparently different government policies, with the Hungarian state employing the German model whereas the Czech state employing the French model, have propelled the Church to establishing different institutional goals. The Czech-controlled Church strives to emancipate itself from the state whereas the Hungarian one set as its goal to contend with new religious movements. For instance, a given institutional cultural setting that is made up of a number of religious subcultures with distinct subcultural values is likely to produce conflicting interests or goal disharmony resulting in suboptimum institutional competence. Institutional rigidity affects the rate of internationalization and lessens the potentiality for achieving inter-institutional goal congruence which is considered a core driver of internationalization. Wessels (2005) observes that in Europe there is a high degree of diversity with regard to how national parliaments should perform, a reality which will slow down Europeanization and will expedite national institutional change and adaptation of national parliaments. For instance, the present (at this writing) problems in the Eurozone have sprung up as a result of the absence of fiscal unification which the incipient Eurozone states, when they were authorizing the monetary unification through the Maastricht Treaty of 1992, showed political incapacity to take on integrating their public financial policies. The lack of political will to venture beyond the monetary unification signifies the interworking complexity of national institutionalism and its relevant endemic propensity to defend against exogenous influences. Institutions are multilevel frameworks, that reflect a segment of the society and, which comprise heterogeneous agents who in an effort to coordinate their needs negotiate competing with each other (Brousseau & Raynaud, 2011). The various agents are guided by a complex of cultural and subcultural imperatives⁴ and influenced by intra-institutional vertical and horizontal relationships as well as other inter-institutional real or perceived circumstances. For instance, members of high-context and low-context cultures view trust or authority differently. As a result, formal and informal relationships have a different impact on agents' behavior both within and outside their institutional environment. Groenewold and Sam Hak Kan Tang (2007), in studying the effects of Hong Kong's changeover of sovereignty on democratic accountability, found that the 1997 institutional changeover had a negative effect on democratic accountability resulting in slowing down the growth of GDP. The Asian financial crisis led to reform of policies and institutions in some areas and in some countries of Southeast Asia but not in others because policymakers did not know either what to do or how to do it (Ritchie, 2005). If institutional change is politically instigated the agents will likely show stiffer resistance to it than they are likely to exhibit if change is incited by cultural expediencies. That is, the agents are more prone to defend their standing by assuming a less flexible negotiating position, if the institutional change concerns cultural values. For instance, Gershtenson, Ladewig and Plane (2006) found that people are more likely to approve of institutions when such institutions are controlled by the political party with which they identify, an institutional approach that influences trust. Misalignment of cultural values or the mere perception of such misalignment is the source of communication breakdown or miscommunication. Cultural values, norms and habits constitute the unspoken and invisible force that determines intra-institutional harmony and defines the inflexibility or responsiveness with which exogenous institutional

influence is managed. The responsiveness with which an institutional cultural framework handles inter-institutional influence would depend on how such influence addresses the needs of the agents. For instance, the shift in the political and administrative culture of East Germany reveals how the rapid shift to a market-driven economy has caused an array of institutional and cultural transformations (Leuenberger, 2007). Intra-institutional transformation is effected by rules that have been set through the institution's mandate and by culture-induced relationships that guide agents' behavior. The rate of institutional evolution directly depends on the rigidity of the dominant culture of the institution. For instance, values such as nationalism and traditionalism or the attitudinal predisposition of centrism, present in the sphere of international marketing, define the level of rigidity that may characterize a particular culture. The nature of such rigidity is determined by its propensity to embrace, what evolutionary transition may bring, through adaptation. Delanty and O'Mahony (2009) suggest that adaptation means bringing together the old and the new in a way that underscores legitimization and produces a political outcome, making relatively rigid cultures more pluralistic. That being accepted, I offer the hypothesis that the institutional evolution of culture depends on the structure, adaptability, balance and scope of institutional framework and the culture's orientation toward economic development. For instance, contrasting task-oriented and relationship-oriented cultures shows that the former displays a greater orientation toward economic goals than the latter whose greater focus is on social ends, affecting institutional evolution differently. Brousseau, Garrouste and Raynaud (2011) suggest that our understanding of what drives institutional evolution depends on assumptions about individual rationality and the role of social efficiency.

A CONCEPTUAL MODEL OF THE INFLUENCE OF INSTITUTIONAL INNOVATION ON INTERNATIONALIZATION

The model I have developed attempts to help institutionalization innovate a new approach by which to cultivate synergies arising from inter-institutional collaboration and which may be used to analyze the propensities that dominant institutional drivers are likely to show in the process of their evolution. I have classified the various institutional drivers for global change into three distinct categories. These are: supranational institutions such as IGOs (intergovernmental organizations) formed through and for intergovernmental cooperation; INGOs (international nongovernmental organizations) largely representing or advocating socioeconomic issues; and, TNCs (transnational organizations) which are effectively weaving up a system of global governance by seeking, on the one hand, to capitalize on the benefits of market homogeneity and, on the other, to mitigate the inefficiencies of market heterogeneity. These are intra-global organizations which seek to achieve relative socioeconomic equilibrium and intercultural symbiosis (Polychroniou, 2012). In defining their goals and developing their strategies these drivers are motivated by distinct principles that represent what they identify as an optimum combination of *idealism* and *pragmatism*, or, *wants* and *needs*. It is, therefore, given that these drivers qualify criteria and prioritize expediencies differently. For instance, a cultural institution will use different criteria and labor to achieve goals that represent institutional identity and promote institutional values. By contrast, an economic institution will be driven by purely economic goals, as those define the institution's identity and determine its core values. Ferrari, et al. (2009), in a study exploring the relationship between students' perception of their institution's mission identity, found that students highly engage with institutional activity if such activity reflects the mission of the institution. So, institutional goals are best adhered to if they are perceived to be congruent with institutional identity and values. I conjecture that internationalization is a function of the degree of inter-institutional congruence.⁵ Internationalization is best driven by a synthesis of global institutions that provide an environment in which global-wide frameworks are positioned, by design, to accommodate and promote international exchange. Chorev (2005) speaking of the impact of the World Trade Organization (WTO) on domestic trade policies suggested that the institutionalization of the international organization is one of the transformations that affect the political influence of those actors who participate in the process of globalization and that internationalization is facilitated by transforming existing institutional arrangements. Laffan (1998)

concluded that the European Union (EU), using institutionalization, has developed a distinctive model of internationalization by focusing on creating both a market space and a community. The effects of internationalization be it economic (market) or sociocultural (community) exchange are a function of the presence or degree of institutionalization of the participant actors. Institutionalization helps harmonization and enhances actors' propensity to rationalize goal uniformity resulting in increased internationalization. Uniformity of goals is essential to furthering integration and greater exchange achieving deeper institutional cohesion and greater internationalization.

THE MODEL

In diagram "A" I offer a 2-dimensional schematic relationship of the model's *regulative* and *cognitive-cultural* components and an attempt is made to delineate their interaction effects and observe resulting potential accommodations. The *normative* aspect, referred to above as "normative modeling", is viewed as the how-to method which the above two components have to use in implementing their goals. The impact of the above two components, namely, *regulative* and *cognitive-cultural* on the institution's transition capability varies depending on which component is dominant and which is subordinate in a given institution. Units of 'regulation' are likely to have different weight than units of 'culture' depending on the character of the institution, its mission and its actors. Thus, the diagram is a simplified delineation of the transition and does not describe the transitory degree between different levels of each component in the two-dimensional space.

Proposition I: The nature of institution designates the particular values that guide its course.

In arguing the rationality of the model I recognize the importance of achieving relative institutional optimality.⁶ This normative model delineates the effect of institutional evolution on internationalization by analyzing two distinct institutional drivers, *Regulative* and *Cognitive-Cultural*, commonly empowered by the *Normative* dimensions, and assessing their differential impact on the process of internationalization. Institutional evolution is driven by either the individual impact or the synergistic effect of the above three distinct drivers acting in a non-sequential mode. *Regulative* comprises a set of elements that are relatively well-defined and structured, such as, administrative values, economic policies, international trade principles, intergovernmental trade agreements, regulatory frameworks and activities and the like. *Regulative* espouses a monochronic/agenda-oriented culture whose preeminent goal is the efficient achievement of technocratic goals such as economic, political and other macro-goals. Institutional organizations such as central banks, bureaus of economic analysis, office of management and budget, the Institute of International Finance (IIF) and other administrative organizations embrace a *regulative* culture which emphasizes clear objectives and goals achieving a great degree of intra-institutional homogenization. Institutions that function within a *regulative* culture exhibit greater cohesiveness, are better positioned to engage in inter-institutional collaboration and promote integration. Cockerham (2010) in his investigation of the regional integration of ASEAN found that although norms and values have affected integration the process of integration has been spearheaded by intergovernmentalism and it concerns functional areas. In coordinating economic policy intergovernmental interaction among the Eurozone states produces common standards for assessing economic situations and guidelines for appropriate policy formulation (Puetter, 2003). During the recent (2009-2012) fiscal crisis of select member-states (PIIGS) of the Eurozone intergovernmental institutionalism would seem to submit to supranationalism as supranational European institutions such as the European Central Bank are poised to assume greater authority pending a fiscal integration. *Cognitive-Cultural* defines the behavioral aspects, attitudinal expressions, propensities, habits, routines, interactions and similar sociocultural dynamics that intra-institutional players engage in. This driver is by definition unstructured and in flux because it entails a cluster of subcultures which bring in divergent values, allowing permeation of influence among players and subcultural integration. Institutional organizations

that are dominated by the *cognitive-cultural* component would include civil and community organizations, social advocacy groups, civil society organizations, and international or non-governmental organizations (INGOs/NGOs). Such organizations are dominated by culture whose ethos reflects the personality traits of the participants and determines their behavior (McCrae, 2009). The institutional structure of such organizations is characterized by a distinct set of constraints that generate a specific administrative process and cultural behavior defined by relevant rules, norms and values (Howlett, 2003). Culture-dominated institutions are usually guided by a plethora of overlapping values which may act as agents of change bringing about much needed institutional flexibility. For instance, music, food and other global products may be used as a common platform with which to acculturate or bridge cultural or subcultural differences resulting in lessening cultural heterogeneity and achieving cultural competence. Cultural competence characterizes an organization's propensity to adapt and it is considered catalytic to an institution's continual evolution. Institutions can best achieve cultural competence by encouraging and incentivizing their actors to seek and, in fact, embrace such idiosyncrasy. In a globalizing environment local-global interconnectedness presents an opportunity for social actors to help socialize shared systems of social representations and promote transnational relations (Mato, 2008). The institutional identity of *cognitive-cultural* driven organizations is characterized by its focus on *relationships*. The development of such relationships is largely influenced by the degree of harmony of cultural values that dominate the organization. The more conflated or the greater the alignment of diverse cultural values the deeper the organizational harmony and the greater the institutional effectiveness. The *Normative* component includes the elements of norms, rules, customs, strategies and tactics. Normative elements or standards are used by any organization although for regulative-oriented organizations the use of normative elements is central to achieving their agenda-like goals. For instance, the normative elements to achieving economic goals would be stringently observed and be of coercive nature. Regulating the economic environment requires the use of principles, rules, guides/procedures, conventions, and standards that are formally contracted out to the actors using coercive power or rewards, economic or noneconomic, tangible or intangible. Such normative regime is intertwined with the *regulative* and *cognitive-cultural components* and it is defined as *normative modeling*. Normative modeling is reflective of the configuration of power which is exercised by the actors in their mutual exchange (Braithwaite and Drahos, 2000). The normative regime is used in order to harmonize, regulate and monitor actors' interactions and exchange with each other as they seek to carry out their commitments and achieve mandated organizational goals (Lopes Cardoso and Oliveira, 2011). A normative regime may best be viewed as the catalyst that expedites and/or confirms the likelihood that organizational goals will be accomplished. By contrast, a nongovernmental organization pursuing a social goal would employ normative elements that would be more yielding or less coercive. The EU represents a paradigm of how the symbiosis of regulative and cognitive-cultural orientations has helped its institutional evolution and Europeanization. The White Paper of the European Commission states that the EU's legitimacy depends on involvement and participation and not solely on its ability to remove barriers to trade or to complete an internal market. The development of the EU has been the result of member-state relations that hinge on cooperation and partnership rather than competition and conflict (Laffan, 2001).

Proposition II: Orderly institutional evolution may best be achieved by maximizing the interactivity between, and by harmonizing the interaction of, the regulative, cognitive-cultural components and normative modeling.

In assessing institutional evolution it is useful to consider the condition of reflexivity that characterizes the impact of institutions upon actors and vice versa. Institutions are formed through individuals' initiatives and thus they are subject to their cognitive-cultural influence but reflexively individuals are also influenced by institutional goals (Sparti, 2001). This bidirectional relationship is a core issue that determines the evolution of institutionalization, be it national or supranational, its impact on its identity and its effect on inter-institutional congruence. In a globalizing environment such relationship although it may also produce institutional divergence, depending on the relative influence of

the institution and its actors, gives legitimacy to the process of institutional homogeneity as values permeate in both directions cultivating institutional congruency. Inter-institutional homogenization, on the one hand, may be empowered by how functional or normative the institutional models are and how congruent are the actors' cognitive idiosyncrasies. On the other hand, inter-institutional divergence is produced by defensive normative and cognitive elements and by expedient institutional autonomies or by the institutional scope for independence (Beckert, 2010). For instance, in Islamic institutions the rule of law and the functioning of a market economy are subservient to autocracy. By contrast, the scope of institutions that are dominated by values such as the rule of law and a market economy would be different accentuating a potential inter-institutional divergence and incongruence which is likely to impede a cross-border institutional symbiotic collaboration and possible supranational institutionalization. Supranational institutions have resulted from the alignment of functional goals of national or lower level institutions which under the supranational design gradually become congruent. For instance, in the 1950s and 1960s the European Coal and Steel Community (ECSC), the European Economic Community (EEC) and the European Atomic Energy Community (Euratom) merged under a single institutional framework that gave rise to what we now know as the EU. The seventeen national central banks of the Eurozone have to embrace the monetary policy of the European Central Bank (ECB), which is primarily price stability. The above cases are a manifestation of how institutions with functional goals rely on formal authority to implement their agenda. Furthermore, the sociocultural disparity between the northern and southern flank of the Eurozone has been the likely cause of fiscal disharmony within it. So, institutional development is best accomplished by the optimum interaction of functional (regulative) and cultural (cognitive) elements that produce an institutional social environment with greater catalytic power with which to promote change and achieve greater integration. Such institutional development would culminate in supranational institutionalization which can encourage the incremental globalization of cultural assets and effectively promote intercultural harmonization. It would not be orthogonal to suggest that intercultural harmonization would allow a more effective use of institutional regulative power resulting in a greater and more predictable advancement of internationalization. Moreover, ensuring congruency between espoused and enacted values, among the institution's membership, as well as economic and political influences can help establish internationalization as an institutional priority (Agnew and VanBalkom, 2009). Diagram "A" shows the evolution of the *regulative* and *cognitive-cultural* drivers and it depicts their interactive effects upon institutional progression.

Proposition III: Institutional evolution is effected endogenously, from organizational actors, and exogenously from political, economic and social micro or macro-environmental forces.

Quadrant A includes institutions whose *regulative* and *cognitive-cultural* impact is of low intensity portraying an institutional framework that is *low-key/passive* in its propensity to evolve and it would be considered laggard and unresponsive to supra-institutional agendas. Such institutional passivity is generated from within either by intra-institutional actors or by institutional values or qualities. For instance, in Hungary the prevalence of distrust towards the elite has given rise to economic populism making fiscal adjustments more difficult and governance ineffective (Györffy, 2006).

The assumption upon which the proposal for Quadrant A is built is that institutions are naturally entrenched and insulated from outside formal or informal influence. Quadrant B represents institutions whose *regulative* elements dominate those of *cognitive-cultural*. Institutions in which *regulative* elements dominate are considered *progressive/responsive* providing strong institutional logics and proclivities for inter-institutional cooperation and supranational institutionalization. Such institutional environment would be most supportive of internationalization because their agendas are normally dominated by, or are oriented toward, economic expediencies. For instance, supranational institutions such as the IMF and the WTO whose agenda has been mainly the recovery of economies and/or economic growth have contributed to internationalization. The European Institute of Technology (EIT), launched by the EU, is mandated to redefine the governance of higher institutions in support of a knowledge-based economy for

EU's economic and social development (Jones, 2008). The proposal for Quadrant B is built on the assumption that institutions are driven by technocratic agendas which are in tune with their organizational culture. Quadrant C would encompass institutions that score high on both *regulative* as well as *cognitive-cultural* elements. Institutions in this category would tend to be by definition *accommodative/adaptive*. Furthermore, the institution's propensity to accommodate institutionalization would depend on the degree of alignment and congruence between the institution's regulative and cognitive-cultural elements with those of other institutions. The greater the likelihood of a symbiotic relationship between institutions the greater their favorable effects on internationalization. The best strategic contribution to strengthening the capacity of institutions is to explore the relationship between individuals' identity, values and purpose and the institution's performance, systems and structure, as this can maximize institutional effectiveness and efficiency (Prempeh, 2003). The proposal for Quadrant C assumes that institutions show organizational flexibility and the propensity to foster a collaborative environment by which to promote commonly accepted goals. Quadrant D would define institutions that would score low on *regulative* and high on *cognitive-cultural* elements. Institutions in this domain would be dominated by socio-cultural agendas which would be responsive to subcultural values and would encapsulate diverse subcultural goals. Institutions in this quarter would be more constraining due to an esoteric-prone predisposition, causing conflict among subcultural actors, institutional cultural pluralism, and the relevant diffusion of authority. Bursens (2002) analyzing Belgium's and Denmark's ability to fulfill EU's directives found that Belgium's institutions were more constraining than those of Denmark and that the relatively unfavorable institutional context affected Belgium's ability to fulfill its implementation duties, concluding that institutions can have a constraining or an empowering impact. The complexity of Belgium's institutional context, influenced by both the northern and southern cultures, has made coordination of implementation efforts difficult. The assumption upon which the proposal for Quadrant D is based is that the core orientation of institutions originates from the socio-cultural values of the various participants in the organization, producing a fragmented and even a polarizing environment. Internationalization may be expedited through the interference of supranational organizations with either formal or informal authority. *Regulative*-oriented institutions have clearly a more quantifiable goal than institutions dominated by *cognitive-cultural* elements, whose scope usually centers on achieving some social goal. Institutions that are dominated by *regulative* elements may be used as catalysts for socializing institutions, which are guided by *cognitive-cultural* elements, into understanding, embracing and facilitating the process of internationalization and for mitigating potential inter-institutional dysfunctional exchange. Socialization of sociocultural institutions would not focus on changing the culture but rather it would seek to achieve cultural adaptation and values-harmonization so that optimality of exchange may be enhanced. Relative intercultural convergence enhances alignment of cultural goals producing institutional structures that accommodate economic development. For instance, EU's economic expediencies have degraded the importance and domination of member states' political ideology empowering the drive toward political unification. Olsson (2008) observed that changes in institutional structure may result from public intervention that would entail introducing new rules by which to govern actors' business behavior rendering a new improved institution more adaptable to the changing demands of the market environment. Jonnergard and Larsson (2007) suggested that regulatory processes help introduce regulatory changes which promote internationalization. The role of marketing is considered pivotal to the evolution of institutional structures, leading to internationalization. Domestic firms embark on their journey to becoming international using marketing technocracy which promotes their commercial goals by managing not only the technical aspects of marketing but also by assessing the impact of the given cultural or subcultural environment of the market. Understanding the foreign culture is indispensable to understanding behavior at the market place. Acculturation produces the framework for developing viable relationships through which the mutual interests of foreign marketers may be promoted. Relationship quality is defined by communication, cooperation, trust and commitment Kuhlmeier and Knight (2010), dimensions whose importance varies from culture to culture. Liang and Cherian (2010) conducted a study which showed that imagery generation differs in the Chinese and American cultures because Chinese and Americans have different views of self, ways of thinking, and mental processes. Lack of cultural

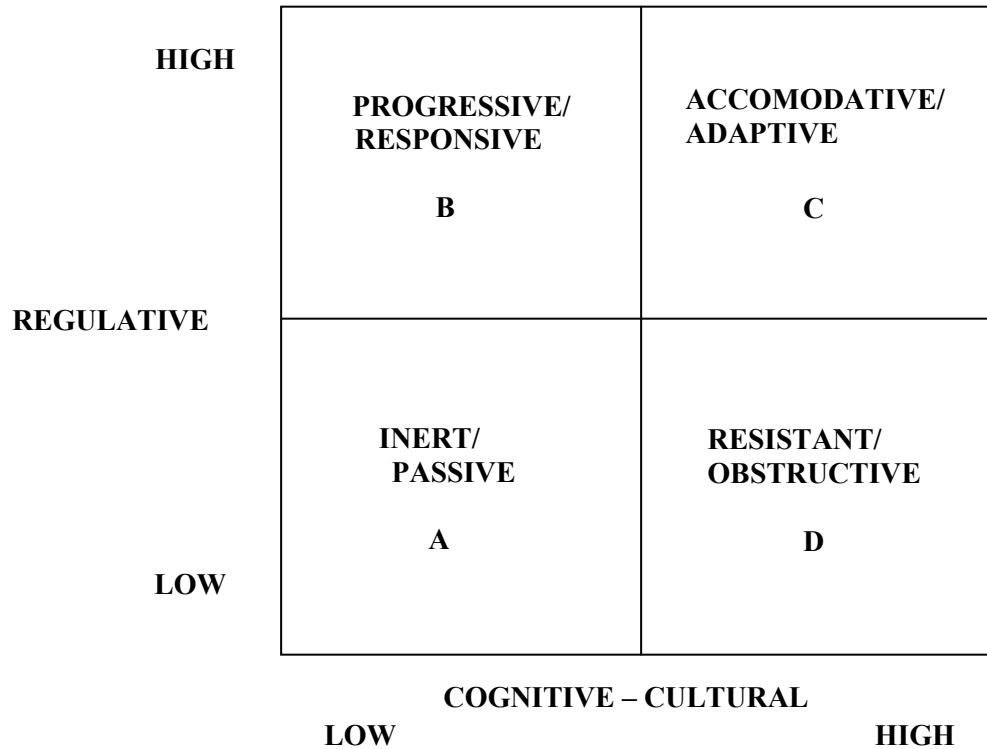
sensibility or the inability to recognize the importance of attitudes and values to the success of a marketing mix, and that such attitudes and values change cross-country, results in marketing failure (Giannakopoulou et al. 2008). In terms of marketing's influence on institutional evolution, for instance, McNally and Griffin (2005) found that relationship marketing institutionalization is associated with increasing joint action and cultural control, making it a potential social institution. The ability of Marketing to integrate the *regulative* and *cognitive-cultural* components of institutional frameworks accommodates and helps expedite the internationalization of markets. Institutional logics, whether *regulative* or *cultural-cognitive*, welcome the impact of marketing technocracy on their evolution because it helps them achieve economic goals as it secures the orderly progression of their socio-cultural identity. Marketing offers a set of skills which work to the interests of both the organization and its people by aligning such interests, increasing organizational cohesiveness and enhancing institutional evolution. On the other hand, institutionalization processes help legitimize the impact of marketing and proliferate its use for harmonizing disparate institutional goals. Such processes seek to reach both economic and noneconomic ends, albeit to a different degree for different organizations. Marketing is deemed to have catalytic impact in moving institutions along through the various quadrants and in helping them upgrade to the Progressive/Responsive quadrant B. Each quadrant in the model requires that marketing employs a distinct approach in helping the institutions of the given quadrant evolve. Institutions in quadrant A may be helped by marketing's capacity to generate demand which gradually fosters the need for exchange with other institutions. For instance, global trade has propelled and expedited the internationalization of well-entrenched national labor unions. In quadrant B institutions apply sophisticated marketing which may further enhance the effectiveness and efficiency with which these institutions operate. For instance, transnational organizations have solidified their presence in the new global economy through the optimum integration of *efficiency* and *customization* strategies. In quadrant C marketing's role is integrative and its impact strategic because of its sui generis capability to use cognitive-cultural elements in order to advance regulative goals and synergize the collaboration between regulative and cognitive cultural elements. For instance, educational institutions use social media and relevant marketing techniques in order to reach regulative goals, as they maintain their institutional profile in the social space. Institutions in quadrant D would tend to use marketing in their quest to maintain their institutional status and promote their sociocultural values. Marketing techniques, such as analysis of psychographic profiles and attitudinal behavior, may be used to identify strategies that would promote intra-institutional harmonization and help accomplish institutional goals. For instance, nonprofit organizations or NGOs such as the World Social Forum may use marketing thinking in order to align their internal actors' potentially diverse goals and maximize the likelihood of achieving institutional objectives.

DISCUSSION

Analysis presented infers that institutions are subject to endogenous and exogenous forces; they may have an economic or a socio-cultural agenda; they are dynamic and their evolution is continuous; they may be either formal or informal; they exhibit a composite of rational/objective and affective/subjective behavior; they pursue utility, although such utility is perceived differently by institutional actors, depending on institutional scope; and, that institutionalization processes depend on the scope of institutional goals. The internationalization of economies is best described as a dialectical process that depends on the rate and quality of evolution of institutionalization. Institutional evolution is thought to be relatively asymptotic as the *cognitive-cultural* elements are ingrained in every institution, even within those that are dominated by *regulative* elements. The core value of institutionalization, in the context of internationalization, is to help identify, cultivate and embrace common goals and bring about an efficient and systematic upgrade of subnational and national institutions progressively helping them to develop into transnational ones. Institutional clustering⁷ may be used to facilitate inter-institutional congruence and achieve a more effective harmonization of diverse institutional values and a more efficient integration of relevant institutional goals. Institutional clustering may be vertical, horizontal or lateral. Vertical clustering would include institutions that are hierarchical in their structure, have technocratic or universal

goals to achieve and which goals are exogenously driven, such as international trade institutions. Horizontal clustering would comprise institutions that are relatively unstructured and organizationally flat, their agenda is largely polymorphic and their impetus is subjective, such as social or cultural institutions. Lateral clustering would include institutions that use hierarchy, they employ clear strategies and they usually pursue specific goals of a social nature, such as environmental NGOs. Institutions categorized under vertical clustering are likely to embrace a multi-institutional approach giving rise to supranationalism which is an effective institutional design for cross-border institutional integration. Vertically clustered institutions are by definition *regulative*, able to exercise leadership in influencing and in helping socialize horizontal and lateral institutions harmonizing relevant institutional goals and achieving inter-institutional congruence. Inter-institutional congruence generates attitudinal homogeneity among institutional actors, empowers institutionalization and promotes the internationalization of institutions which, in turn, creates an environment that favors the sustainable internationalization of markets. Institutionalization can help the internationalization process by acculturating the national and subnational markets into understanding and accepting the goals of internationalization and by helping such markets effectively and efficiently access the benefits of internationalization. On the basis of the model, depicted in diagram “A”, there are three influencers to the evolution of institutionalization. These are: *goals*, *structure*, and, *actors-players*. The preeminent influencer which is thought to dominate the process of institutionalization and its evolution is *goals*. Goals, once articulated, dictate the appropriate *structure* that should be employed to optimally facilitate the achievement of those goals. The quality of impact of *actors-players* will be determined by their socio-cultural identity and how such identity may influence their predisposition to achieving set goals. The entrenched character of socio-cultural imperatives and exclusives define cultural differences and promote a chasm between cultures increasing environmental uncertainty and mistrust. The threat of such discontinuities may be moderated through a set of institutional goals that promote “common” value-propositions, establish a culture of governance, encourage inter-cultural confidence and trust producing inter-institutional convergence that contributes to the proliferation of internationalization. The core value of this study has been to shed light onto how institutionalization catalytically promotes internationalization of national markets and economic liberalization. The argument presented makes evident that stability and efficiency of international institutional frameworks are a composite effect of *regulative* and *cognitive-cultural* elements and that optimum institutional effectiveness results from a concerted effort of institutional actors to achieve functioning congruity. Diagram A would support the argument that institutions in quadrant B would evolve most efficiently and that institutions that reside in the other quadrants should be helped to move toward that cell. Further research might among others focus on how socio-cultural differences, among social actors, may best be alleviated or mitigated; how to moderate or lessen potential conflict arising from antagonistic behavior among groups in the sphere of socio-cultural elements; how to measure the impact of socio-cultural dissension on regulative institutions; how to assess the evolution and the process of socialization of institutions; how supra-institutionalization might more effectively expedite internationalization; how to assess the weight of *regulative* units and that of *cultural-cognitive* ones so that the composition of the 2-dimensional space becomes more relevant and meaningful; and, how to evaluate the impact of socio-cultural institutions on the rate and quality of internationalization.

**DIAGRAM “A”
INSTITUTIONAL EFFECT ON
INTERNATIONALIZATION**



ENDNOTES

1. Cultural distance determines the level of homogeneity between two cultures. That is, the greater the distance between two cultures the more heterogeneous the cultures are.
2. Cultural evolution underscores the dynamism and continuity of societal change which both stimulates and is stimulated becoming increasingly complex.
3. Cultural demythicization describes a system’s approach which accepts cultural differences without allowing them to impede sociopolitical integration.
4. Cultural imperatives are defined as those customs or requirements that must be observed by those operating in that culture.
5. Inter-institutional congruence is achieved by harmonizing institutional values and aligning institutional goals producing an inter-institutional symbiotic relationship.
6. Relative Institutional optimality is defined as the evolutionary integrated growth and symbiosis of the *regulative* and *cognitive-cultural* modes of institutional development.
7. Institutional clustering defines a group of institutions whose values and goals are more homogeneous, and which employ similar strategies for accomplishing their goals.

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ACKNOWLEDGEMENTS

The author wishes to thank the anonymous reviewers for their favorable review and for concluding that the paper offers unique insights for the field's advancement. Moreover, the author is further indebted to the reviewers for their comments and advice on what to include in a future paper.