Organizational Response to Institutional Pressures
Example from Latin America and the Caribbean

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Mohammed
Abstract

The primary aim of this thesis is to understand and explain the organizational responses to the institutional pressures in LAC. By responding to these forces under this environment, organizations look for legitimacy.

The thesis depends on a qualitative research way by using secondary data. The findings were sent to eight experts to support the findings. The main result is that the networks are constituted depending on cultural and norms practices imposed over organizations for the purpose of making equilibrium with fluctuated institutional regulations. Coercive forces cannot be the source for legitimacy to organizations. By long experience between organizations within the network, normative characteristics appear in form of trust which emerges legitimacy.
Contents

1 Introduction .............................................................................................................. 6
  1.1 Problem Definition .................................................................................... 6
  1.2 Purpose .................................................................................................... 7

2 Theoretical System .............................................................................................. 8
  2.1 Organizational Fields .............................................................................. 8
  2.2 Institutional Theory ................................................................................. 9
    2.2.1 Institutional Theory Pillars .............................................................. 10
    2.2.2 Isomorphism and Institutional Pressures ........................................ 11
    2.2.3 Legitimacy ...................................................................................... 13
  2.3 The Environment and the Firm ............................................................... 13
    2.3.1 Resource Dependence Theory ........................................................ 14
    2.3.2 The Notion of Uncertainty ................................................................. 15
  2.4 Stakeholder Theory .................................................................................... 16
    2.4.1 Forms of Stakeholder Theory ........................................................... 17
  2.5 Organization Response to Institutional Pressures .................................. 18

3 Method .................................................................................................................. 23
  3.1 Proper Research Methods ........................................................................ 23
  3.2 Qualitative Research Paradigm ............................................................... 24
  3.3 The Use of Deductive Procedure in Qualitative Research .................... 24
  3.4 Search Criteria .......................................................................................... 25
  3.5 Data Discussion ......................................................................................... 26
  3.6 Data Sources ............................................................................................. 27
    3.6.1 Source 1: 2007 Latin American Business Environmental Report ..... 27
    3.6.2 Source 2: Institutional Obstacles for Doing Business -
      Data Description and Methodology of a World Private Sector Survey .......... 28
    3.6.3 Source 3: Human Security, Conflict Prevention and
      Peace for Latin America and the Caribbean .................................. 29
    3.6.4 Source 4: Building Competitive Firms: technology
      policy initiatives in Latin America .................................................... 30
    3.6.5 The Learning Needs of High-Potential Entrepreneurs
      in Latin America ................................................................................... 30
    3.6.6 Corporate Responsibility in Latin America and the
      Caribbean: Public Policies, Private Initiatives, and
      Intersectoral Cooperation ................................................................. 31
    3.6.7 How Profitable Are Infrastructure Concessions
3.7 General Trends ................................................................. 31

4 Analysis, Discussion and Empirical Findings .................... 34
  4.1 Mimetic Pressures ............................................................ 34
  4.2 Coercive Pressures .......................................................... 35
  4.3 Normative Pressures ......................................................... 38
  4.4 Experts Comments ........................................................... 40

5 Conclusion ............................................................................ 41

References ................................................................. 42

Appendix 1 ................................................................. 47

Appendix 2 ................................................................. 50
1- Introduction

Milton Friedman, in 1970, had written that “the social responsibility of business is to increase its profits”. The rules have changed and the interests of investors redefined (Hoffman, 2001). The regulations for succeeding in business and marketing alter over space and time (Whitey, 1999), that is, society’s cultural and institutional change (Hoffman, 2001). The organizations have to understand the changes in the market and respond to it (Crane & Matten, 2007).

There were different and controversial views between researchers about organization. The classic views like Friedman have seen organization from a closed aspect where an organization’s goal was to make profits through efficiency. However, the modern school was introduced organization by finding the general systems theory. The main point of this theory is the interconnection between all parts, or the transparency between all parts within the organization. As Hatch explained, in 1997, that the organization can be seen as a part of open system.

Organizations can be seen as a “mosaic of groups structured by functional tasks” (Green Wood and Hinings, 1996:1033). It includes hierarchies developed as means for bunching components together. As per Scott (2003) the interaction and interdependencies exist between the organization and the environment. In order to analyze the external environment Hoffman (1999) proposed institutional theory. However, Whitley, (1999), introduced the framework of business systems. His proposal based on the idea that the changes in societies shall leads to change in business system.

Whether Latin America or the individual countries in the region develop or participate into a recessionary cycle is the result of an overlapped interplay of factors that operate at both external and internal levels (McCoy and Fensom, 2007).

Part 2 of the thesis covers the theoretical framework. The institutional and stakeholders theories are used. Part 2 includes the methodology and the resources. Part 4 covers the analysis and the results.

1.1 Problem Definition

The enormous prevalence of corruption, lack of infrastructure, the spread of crime and theft, heavy administrative bureaucracy and inadequate human capital evolvement correlate to the
brittle environment of Latin America and the Caribbean\(^1\) (Brunetti, Kisunoko, and Weder, 1997). Whitley (1999) had mentioned about such broken environment, described by mistrust in formal institutions, often in aspects of a large perceived distance between the state and the companies. The typical company in a fragmented environment is manufacturing or marketing products that have a value as goods. Adding more advanced value activities or little customization are pursued, coordination, co-operation, and integration between organizations is limited (Whitley, 1999).

Institutions are important determinants of economic functioning and are of primary important for growth (North, 1990). Institution can be described as components of coercive, normative, and cultural-cognitive mechanisms working upon an organization with the goal of influencing it, its situation and direction in relation to its environment (Scott, 2003). Thus, organizations depend on institutions to overcome their cognitive extents. These structures provide organizations with solutions accrued over time where organizations do not have to focus on the clear but rather on their main activities. From organizations point of view this leads to stability (Loasby, 1999).

Understanding the marketing situation from institutional perspective shall explain the organization response. I would like to introduce the following questions:

*What are the interpretations that control the contributions, dynamics and relationships of business environments in LAC? What are the external forces that affect the organizational behavior?*

### 1.2 Purpose

The purpose of this thesis is to explain the institutional environment pressure in Latin America and the Caribbean countries, and the organizational response to these forces.

\(^1\) A list of Latin American and Caribbean countries is provided in appendix 2.
2- Theoretical System

In this chapter the organizational fields were discussed as well as the institutional theory and the pillars. The stakeholder’s theory is considered. It is concluded with types of organizational responses.

2.1 Organizational Fields

Organizational field is a set of organizations which may have similarities as well as differences but working or operating in the same field (Scott, 2004). Government departments, critical exchange partners, trade establishments are examples of the organizations fields who will exert coercive, normative and mimetic pressures and influence the organization (Scott, 1995).

Organizational fields become arenas of power relations (Brint & Karabel, 1991) where multiple fields constituents compete over the definition of issues and form of institutions which will guide organizational behavior (Hoffman, 1999). The notion of organizational fields was addressed by DiMaggio (1986) to understand and analyze the course of an organization. It can be seen to like the context of an industry but with some changes.

A field, not as industry, does encompass closely contributed customers, suppliers or other significant inter-organizational connections which are worth determinants of achievement. According to Scott (2001) the field is confined by cultural-cognitive and normative elements. Some types of field situations could give support and protection and other positions might hurt the organization since the influence of environmental forces is based on the situation of a specific organization through the organizational field (DiMaggio, 1986).
Organizational field boundaries are formed both within a bottom-up approach and a top-down approach (Scott, 2001). A bottom-up approach considers the normative and cultural perceptions starting at an organizational subsystem, for instance, perceptions of an actor or a special group of players within an organization. However, the top-down approach confirms the significant, for example, regulative and cultural institutions at national level forming the limitations or boundaries of organizational fields. The field should have a logic; that is it must have some kind of general rules or principles of organizing (Scott, 2001). This should be as a purport in the shape of expectations, norms or other incentives explaining the grasp logic of the field.

Organizational fields are existed to be evolved not “around common technologies or common industries but around issues that bring together various field constituents with disparate purposes” (Hoffman, 1999, p.352). It is clear now that the field cannot be considered as a homogenous numbers of companies but rather a network of overlapping companies. Thus we should not look at the field as tangible shape of organizational consolidations (Hoffmann, 1999). DiMaggio (1986) argues to be considered as shapes of interactions. According to Hoffmann (1999) again the field should be considered by concerted issues rather than markets, products, services or industries and the membership of a field should be recognized as a life-cycle and not as dual position where one is out or in.

The governance structure of the field; which is based on rules, values and systems of cultural meaning, composes of the power relationships that are made within the field. We can group these contributions in many divergent aspects. In some markets the sharp contractual preparations are evolved whereas in others an internal market is preponderant. The extent of preparations is organized through cognitive and normative forces within the field, which can also be changed by regulative pressures from the exterior (Scott, 2001).

I conclude that the company is a constituent of a broader institutional environment pressuring it towards harmony with the controlled structures and techniques of organizing

2.2 Institutional theory

Institutional theory has drawn attention of a great number of scholars “across the social science”, and is used to test systems ranging from “micro interpersonal interactions to macro
global frameworks” (Scott, 2004, p.2). It is a sort of analysis of the social alternatives and choices that are embedded together and attends to the profound and more flexible aspects of the social structure (Scott, 2004). Institutional theory is, in short, asks questions about how social choices are shaped, mediated and channeled by the institutional environment (Hoffman, 1999).

According to Hoffman (1999, p.351) institution from organization aspect are “rules, norms, and beliefs that describe reality for the organization, explaining what is and what is not, what can be acted upon and what cannot”. Institutions act as kinds of forces upon organizations by creating pressures and limitations, they form boundaries for what is accepted and not accepted.

Organizations are buried in environment fixed up as networks (Pfeffer & Salanick, 2003). The connections of these networks are seen as interdependent to other connections. This requests an understanding of the environment in order to understand the corporation itself. According to Hoffman (1999), institutional theory deals with how organizations are affected by external and internal forces which locate beyond its own control. Instead of considering rationality, institutional theory connects to a wider perspective of homo economics. It helps one to look beyond market pressures to analyze behavior and addresses institutional pressures as a dimension of behavioral analysis (Greenwood & Hinnings, 1996). Scott (2001) argued that institutions, informal or formal, provide stability, decrease ambiguity and foster empowerment.

2.2.1 Institutional theory pillars.

As per Scott (1995), institutions fall into three nominal categories, called pillars. The pillars are coercive, normative and mimetic. The coercive or regulative pillar is the legal shape or form of institutions and often appears as a kind or form of regulations. It deals with the legal environment within the organizational field where the organizations located in, and there is no choice to the organizations; they have to act conforming to all regulations to avoid penalty of non-compliance (Hoffman, 1999). Its legitimacy is explained through imposing regulations that control and limit behavior (Scott, 2001). Behavior is enforced as an outcome of the costs associated with violating the regulations, that is, regulatory institutions name the rules by which organizations and people operate (North, 1990).
The state is the main actor in imposing the law and it has to play a neutral role to balance the relation between all actors of the environment (North, 1990). The state can use power by two ways, either by inducing or forcing agents towards compliance. Inducements are depends on motivations while forcing is practiced by the use of fear (Scott, 2001). Other researchers define coercive as: “Pressures to make organizational procedures and/or structure conform to best practices, arising from the demands of actors on whom the organization is dependent for resources or even with the outright regulation and mandates” (NCSU, 2008).

Normative is an aspect of institution which may be as rule of constraint or standard operating procedures (Hoffman, 1999). It deals with social patterns and is analyzed from social perspective. “Are pressures arising from personalization, which socializes personnel within the organization to view certain types of structures and process as legitimate? Socialization occurs not only through formal education but also through professional associations, trade associations, and professional media” (NCSU, 2008). Values and norms as examples of this pillar are making expectations which work as pressure forces on the organizations to behave in a certain way. Norms can influence parts of the institutional environment by many ways; some values and norms are applicable to a broad sector of actors whereas others only apply to some people in appointed roles (Scott, 2001).

According to Scott (2001), the norms give specific responsibilities which may enables actors to behave without waiting for direct mandate or decision from other organizational actors; but the mandate is built in their social position. Normative believers and theorists think that common values, norms and believes make the basis for social “order” (Scott, 2001).

The last pillar is mimetic or the cultural-cognitive. Hoffman (1999, p.6) defined it as “cultural aspects of institutions embody symbols – words, signs, and gesture- as well as cultural rules and frameworks that guide our understanding of the nature of reality and the frames through which the meaning is developed”. Cognitive influences how people think and the drive here are reducing uncertainty. “Under uncertainty, imitating successful peers is seen as a safe strategy” (NCSU, 2008). In other words it focuses on subjective thoughts and on “symbolic” systems and confirms the nature of social reality which results in a system of common beliefs that create meaning to action. These meanings are created to cope with “sense making of reality”, and actions are introduced as functions of perceived environment (Scott, 2001).
However, sense-making is a social building of meaning through ordering of events into a common framework (Scott, 2001).

**2.2.2 Isomorphism and Institutional Pressures**

Organizations in any field tend to become homogenous in both structure and process over time (NCSU, 2008). Though institutional innovations may prevail at first for performance reasons and organizational wish to be seen as being in the vanguard, later in the diffusion process innovations are apt to be adopted for legitimacy purpose and reducing uncertainty rather than reasons of promoting actual performance (NCSU, 2008). Meyer and Rowan (1977:340) defined isomorphism as “organizations are driven to incorporate the practices and procedures defined by prevailing rationalized concepts of organizational work and institutionalized society. Organizations that do so increase their legitimacy and their survival prospects, independent of the immediate efficacy of the acquired practices and procedures”. The inclination toward homogeneity is called “isomorphism” (DiMaggio, 1983; Powell, 1991).

DiMaggio and Powell paid attention on institutional isomorphism, identifying its three main mechanisms. Institutions exert pressure on organizations in the shape of mimetic, normative and coercive (Davidsson, Hunter and Klofsten, 2006). According to Scott (2001), institutional pressures form the elements of which institutions are built. The pressures introduce the mechanism by which the pillars pursue their impact (Scott, 2001).

Mimetic represents the pressures arising from the perspective to reduce uncertainty (NCSU, 2008) and (Davidsson et al., 2006). These pressures show the mechanism by which the cultural pillar influences its power (Mignerat & Rivard, 2005). The pressures exerted on the organization cause an isomorphic behavior towards convergence with the institutional environment. Thus, the peerless of an organization is thought to vanish in favor of isomorphism with the encompassing institutional environment. As a result, the radical change possibility shall be reduced because of the pressures being present by organizational practice (Greenwood & Hinnings, 1996) together with reducing uncertainty (DiMaggio & Powell, 1991). According to Haunschild and Miner (1997), uncertainty increases mimesis.
Normative represents pressures appearing from professionalization, which socializes personnel within the organization to view certain kinds of structure and process as legitimate (DiMaggio & Powell, 1991).

Coercive pressures are at most represents the formal or official institutions of laws and regulations. Coercive pressures can be also informal demands or expectations on organizations. Certain dimensions and technical standards influencing by someone power over another, are examples of informal coercive pressures (DiMaggio & Powell, 1991).

The drivers for the above behaviors are political power and institutional legitimacy rather than competition as people think (DiMaggio & Powell, 1991).

2.2.3 Legitimacy

Legitimacy is not only a reference from which an organization uses but rather a state where the organization located and welcomed by different institutional pillars, this from and institutional aspect (Scott, 2001). Thus, legitimacy interpenetrates the organization permanently (Suchman, 1995). One cannot consider it as an output or input which acquisitioned and converted by the organization (Scott, 2001). Legitimacy is of immaterial nature understood subjectively by externals while held by the organization as an objective resource (Suchman, 1995). According to Scott (2001), legitimacy supplies validity to the value of the institutional order.

The state by making and building institutions and by authority through regulative process shall provide legitimacy to other organizations. From regulative aspect, the power to legitimacy has to be considered from cognitive and normative aspects to win legitimacy from community (Scott, 2001). Then the regulative aspect of legitimacy does not find alone. From a normative point of view legitimacy is recognized to be depended on ethical morale reasons and other norm or value depended dimensions.

Acquisition of legitimacy is the reaction and response to the different pressures exerted on the organization by its institutional environment. This response explains how important the social fitness is by being a part of legitimate structure in the same environment. As Scott (2001) argues imitations has a major turn in the pressure towards isomorphism.
It is necessary to highlight that the institutional elements of the three pillars are overlapped and transmitted in different ways.

2.3 The Environment and the Firm

Coase (1937) addressed the firm as an outcome of disadvantages of the market. This means that firms is created when contractual preparations exchanged at a market replace an insignificant method of organizing. The main merit is the capacity to emerge long duration agreeable preparations and thereby less transaction costs while coordinating resources outside the market (Coase, 1937). Scott (2003) argues that the organization found not in a state of isolation from everything but within a kind of system and thus, it is possible to look at it from different aspects to different situations within the same system.

According to Barney (1991) the internal aspect considers the firm as an aggregate of resources of dissimilar types. This aspect attempts to recognize and solve the internal issues while supposing the context where firm works as given (Pfeffer & Salanick, 2003). However, the external aspects consider the significance of the outsider forces upon the organization. In 1980, Porter addressed a bandwidth for analyzing industries by considering five forces which drive competition and by understanding these forces we can recognize the weaknesses as well as the strengths which are significant for firm existence.

According to Porter (1998) there are four reasons of nation’s competitiveness: firm strategy, demand conditions, factor conditions and contributed and supporting industries. The competition should be understood as a dynamic and by the reasons mentioned before; we can use them as a framework to evaluate the competitiveness of a nation or a region (Porter, 1998). The bandwidth or framework aims to view the success of specific industries from a national or regional-level aspect. These two frameworks give the possibility to understand and analyze the external environment from an industry aspect with the goal of hunting opportunities or risks in the market; and, analyze the reasons of some industries succeed and other do not in a specific setting (Porter, 1980, 1998). By this one can know that it includes a hierarchical seen of dissimilar layers in the environment. Melin (1989) addresses “the field-of-force” which contradicts the aspect of hierarchical standards and recognizes that the environment is better seen as dissimilar measurements making the same fact. Those three dimensions to view the fact of a firm: external, internal and strategic forces.
2.3.1 Resource Dependence Theory

According to both resource dependence and institutional perspectives, organizational choice is controlled by a variety of external pressures (Oliver, 1991). To understand the dissimilarities in the positions of organizations in the environment guides to a contributed concept which it is resource dependence. Since the resources are defined as scarce and therefore, a dependence on the outsider environment exists. It is significant for resource dependence theory to consider the organizational interdependence and networks (Pfeffer and Salanick, 2003). This produces a dynamic seen of the environment where co-develops with the organizations it makes of. According to Pfeffer and Salanick (2003) the significance of the resource dependence theory is its consideration of the relationship and power contributed with them rather than efficiency as was recognized by Coase (1937) before. Resource dependence theorists focus on the organizational necessity of adapting to environmental uncertainty, coping with issues interdependencies, and actively managing resource flows (Oliver, 1991).

The resource dependence theory assumes that organizations exercise some degree of influence over the resource environment or the organization’s exchange partners for aims of achieving stability (Oliver, 1991). This explains why the resource dependence theory concentrated to a large extent on the formal relationship between organizations constituting a network and little attention to cognitive and cultural perspectives which are the core of institutional theory (Pfeffer & Salanick, 2003). According to Oliver (1991) by controlling scarce resources you can exert power over others. Institutional considers the impacts of institutional beliefs to achieve power instead of controlling the scarce resources to achieve the power (Oliver, 1991).

2.3.2 The Notion of Uncertainty

According to Duncan (1971) the external environment in which firm woks can be described by two aspects. The first aspect being static dynamic and the second being simple-complex. By consolidation of the two aspects one will be able to describe environmental uncertainty and choose the right strategies accordingly. One cannot consider uncertainty and the degree
of the complexity and dynamics of the environment as constant features (Duncan, 1971). The external environment is recognized from within the organization. The kind and quantity of available information have influence on the notion or perception of uncertainty (Huber, O’Connel & Cummings, 1975). Because the structure has been known as a determinant of notion uncertainty, it is to a certain limit manageable (Huber, et al., 1975) and by this, it should not be impossible to have a structure that minimizes notion uncertainty of the external environment.

Milliken (1987) considers that Duncan’s two dimensions describe many features of uncertainty, and introduce three kinds of uncertainty that one needs to differentiate between them. The first is response uncertainty that argues with inability to completely comprehend the available response choices and their respective value when coping with uncertainty. Secondly, effect uncertainty, in expressions of unknowing what influences environmental change has on organization. Thirdly, state uncertainty, which is known when the environment is to be not expectable.

Before Milliken and in 1984, Beard and Dess increased the two dimensions introduced by Duncan (1971) by adding another one, “munificence”. It is recognized as an environment where there are resources abundant for growth and buffering which also motivates innovation (Beard & Dess, 1984). Severe competition characterizes the environment of scarce resources and as a result the uncertainty will be high due to emulation between firms (Kreiser & Marino, 2002).

Makhilja and Stewart (2002) work on the influence that the national context put on the notion of risk. They mention that the total notion of riskiness is a consolidation of the features of present information and the perceived output of uncertainty response. Their results show that how output of decisions and information are perceived and influenced by national context, which is considered as uncertainty in one context is not necessarily uncertainty in another context. Elenkov (1997) approved the evidence represented by Makhilja and Stewart (2002) and draws the same conclusions on how context impacts perception of uncertainty both in terms of the environment and how to react or respond to uncertainty.

2.4 Stakeholder theory
The use of the term ‘stakeholder’ in business and trade was first noted in the 1960s (Crane and Matten, 2007). In 1970, Milton Friedman published an article in which he argued the social responsibility of business is to increase its profits. The managers’ responsibility is to behave solely in the benefit of shareholders, and social problems are the main area of the state rather than companies managers. In this traditional form of stakeholder theory the shareholders and the consumers were the main actors (Friedman, 1970).

Most of the researchers consider Freeman’s book ‘Strategic Management: A stakeholder approach’ as a core issue in the stakeholder’s literature (Elias et al, 2000). Stakeholders were defined as ‘any group or individual who can affect or is affected by the achievement of the firm’s objectives’. Freeman made a framework, which matches three levels of stakeholder analysis. The three levels are rational, process, and transactional. At the first level, recognizing of ‘who are the stakeholders of the organization’ and ‘what are their perceived stakes’; is important. While at the process level, it is important to know how the organization either implicitly or explicitly manages its relationships with its stakeholders, and if these processes fit with the rational stakeholder’s map of the organization (Elias et al, 2000).

Lastly at the transactional level, we have to know and understand the set of transactions within the organization and its stakeholders and know whether these debates fit with stakeholders map and the organizational processes for stakeholders. Freeman explained that successful transactions with stakeholders are built on understanding the legitimacy of the stakeholder and having processes to routinely come to their concerns and interests.

2.4.1 Forms of stakeholder theory

Thomas Donaldson and Lee Preston (1995) argue that there are three forms of stakeholder theory. These three forms are, descriptive/empirical, instrumental and normative.

Descriptive approach, stakeholder theory is used to describe specific corporate features and behaviors. Wang and Dewhirst (1992) used it to explain how board members think about the interests of corporate components. This is theory which tries to ascertain whether and how corporations actually do take into consideration stakeholder interests (Crane and Matten, 2007).

Instrumental approach, stakeholder theory is used to create a framework for examining the connections between the practice of stakeholder’s management and the achievement of
corporate performance. The instrumental researchers noticed that highly successful firms although very diverse in other ways shared a stakeholder perspective. This is theory which tries to answer the question of whether it is beneficial for the firm to take into account stakeholders interests (Carne and Matten, 2007).

Normative stakeholder theory is used to interpret the function of the corporation, including the identification of moral and ethical guidelines for the operation and management of companies (Cavana et al., 2000). This is theory which tries to give a reason why corporation should take into consideration stakeholder’s interests (Carne and Matten, 2007). Works of Carroll, (1989), Kuhn and Shriver, 1991; Friedman, 1970 and Marcus, 1993 introduces into this area (Cavana et al, 2000).

According to Donaldson and Preston (1995) these three features of the stakeholder’s theory are overlapped within each other. The external part of the theory is its descriptive aspect; the theory explains relationships that are noticed in the external world. The theory’s descriptive accuracy is supported, by its predictive and instrumental value; if certain behaviors carried out, then outcomes will be obtained. The main core of the theory is normative. The descriptive accuracy of the theory presumes the truth of the core normative conception, in so far as the managers and other agents act as if all stakeholders’ interests have great value (Cavana et al, 2000).

Carne and Matten (2007, p 58) have defined stakeholder as a stakeholder of a corporation is an individual or a group which either: is harmed by, or benefits from, the corporation; or whose rights can be violated, or have to be respected, by corporation.

2.5 Organizational Response to Institutional Pressures

Facing all kinds of outside pressures from institutional environment, what alternative response strategies can organization choose? Five types of strategic responses are proposed here from passivity to increasing active resistance: Acquiescence, Compromise, Avoidance Defiance, and Manipulation. (Oliver 1991, p.151)

**Acquiescence**: this takes some kinds that include habit, imitation, and compliance. Habit is the agglutinate to ‘taken-for-granted’ rules or values and by this the organization exerts the actions for institutional environment that have been experienced before. Imitation which is similar to mimetic isomorphism “study of mimetic processes, whereby organizational
decision makers, under conditions of uncertainty, imitated the behavior of other actors in their environmental, particularly those actors whom they knew and trusted” (Oliver 1991, p. 152). **Compliance**: by comparison this is a discretionary obedience to or incorporations of values, norms, or institutional requirements.

**Compromise**: here organization tries to balance, pacify, or bargain with external elements. **Balancing** tactics relates to adaptation of multiple elements required in response to institutional pressure expectations like making equilibrium between different stakeholders. **Pacifying** refers to partial conformity with the expectations of one or more constituents and here the organization takes a small or not major level of resistance to institutional pressure. Like the pressure to stop producing one product for a potentially harmful product. The firm may continue produce the product but takes another steps to redesign it in order to comply or fit to institutional expectations (Oliver 1991, p. 154). **Bargaining** include the effort of the organization to exact some concessions from an external component in its demands or expectations. All of the three are used in the spirit of conforming to and accommodating institutional rules, norms, or values.

**Avoidance**: it includes concealment, buffering and escape. **Concealment** tactics includes hiding nonconformity behind the wall of ‘acquiescence’. Here the organization may prepare rational plans but without will for implementation. **Buffering** “refers to an organization’s attempt to reduce the extent to which it is externally inspected, scrutinized, or evaluated by partially detaching or decoupling its technical activities from external contact” (Oliver 1991, p. 155). **Escape** which refers to the organization may exit from the domain within which pressure is exerted to respond to institutional pressure. An example when the organization tries to avoid the government regulation to decrease pollution by changing activities or choose another alternative (Oliver 1991, p. 155).

**Defiance**: it includes three types of resistance which are: dismissal, challenge, and attack. **Dismissing** here refers to organization ignorance of low external pressure or the conflict within internal goals of the organization. **Challenge** here refers to an offensive position of the organization. **Attack is** aggressive response to institutional pressure. “An attacking strategic posture is most likely to occur when institutional values and expectations are organization-specific rather than general or defocalized, when these values and expectations are
particularly negative and discrediting, or when organization believes that its right, privilege, or autonomy are in serious jeopardy” (Oliver 1991, p. 157).

**Manipulation:** it includes co-opt, influence, and controlling tactics. *Co-opt* is a choice that may organization use to face external pressure. Organization may convince institutional component to join board of directors and by this tactic it neutralizes the institutional opposition and supports legitimacy. *Influence* “tactics may be more generally directed toward institutionalized values and beliefs or definitions and criteria of acceptable practices or performance” (Oliver 1991, p.158). *Controlling* tactics are explicit endeavors to make power and hegemony over the external components that are exerting pressure on the organization.

**Predictive Factors of Strategic Responses** Now, organizations have several response strategies to deal with the institutional pressures, but how the organizations choose their way to respond, acquiescence or manipulation? Oliver suggests that organizational responses to institutional pressures should depend on five institutional antecedents, namely, predictive factors including cause, constituents, content, control, and context. (Oliver, 1991, p.159).

**Cause:** at institutional pressure, cause relates to the rationale, a group of conjectures, or prepared goals that underlie external pressures for conformity. “Zucker (1987a 451) noted that the factors leading external actors, including the state, to exert pressure are underspecified in institutional theory. In general, the reasons for institutional pressures fall into two categories: social and economic fitness (Oliver 1991, p.161).

**Constituents:** it includes the state, professions, interest groups, and public; enforce a collection of law, regulations, and expectations on the organization. “When multiplicity is high, compromise, avoidance, defiance, and manipulation are likely responses to institutional pressures (Oliver 1991, p. 163)”. The most probable resistance to institutional pressures is expected from an organization’s reliance on the constituents who impose pressure.

**Content:** organizations are more willing to adopt the external pressures if these pressures are suitable to their aims and interests.

**Control:** the organization resistance will be weak when it confronts institutional pressure related to legal issues. The pressure can be exerted by legal coercion or voluntary diffusion (Oliver 1991, p. 168).
Context: in context of uncertainty, organizations prefer to imitate other organizations. The environment context with which institutional pressures are exerted on organizations is also likely to be a determinant of organizations´ responses to institutional influence (Oliver 1991, p. 170).

![Institutional Pressures Diagram]

Figure 1: Organization response strategies to institutional pressure (own model).

At the end of this part the theoretical framework by representing my interpretation. The model serving the analytical framework for analysis is presented in figure 1. It considers three institutional pressures impacting the organization towards specific behavior. Organization responds to these pressures aiming at acquiring legitimacy.

The main mission of the organization is to acquire legitimacy as it secures the integration of the organization to its environment (Suchman, 1995). The goal of complying with institutional pressures by one of the five strategies in figure 1 is to obtain legitimacy. As explained before, institutional pressures are the mechanisms of impact by institutional pillars. The expression institutional pressure is more practical than institutional pillars.
We can notice from organization’s aspect, regardless where it locates in terms of environment, the three origins of pressures will impose over the organization. The dissimilarities that accompany the environmental positioning influence the contents of the pressures. For more details I like also to explain constituents of each source. The regulative or coercive sources of pressure have been recognized as governments of federation or state that can impose pressure on organizations by terms of laws, policies and regulations. The companies must comply to them in order to get legitimacy and the society wants the organization to comply with those pressures. Normative resources encompass expectations, social obligations, standards and other norms and beliefs among actors; and those expected by society. The mimetic sources of pressures are contributed to where it is significant for the organizations to consider associations and cultures in order to acquire legitimacy and it is not guaranteed to be accepted by community.

The organization shall gain more legitimacy by considering the legal requirements and public perceptions. Shareholders expectations, customer’s requirements, industry norms, employee suggestions, and supplier’s actions are all important to give legitimacy to the organization in order to perform in significant way.

By investigating the stakeholders and institutional pressures put on organizations in Latin America and Caribbean countries (LAC), I will try to discuss and explain how these form organizational response and behavior.
3- Method

This part explains and describes the methodological considerations on which the design of the thesis was established. The important characteristics of qualitative and quantitative approaches are delineated. The phenomenological and positivism research paradigms are highlighted, followed by the research criteria and deductive processes. The notion of triangulating data by combining different approaches and processes is introduced. After the description of the sources, this chapter concludes with the discussion of the generalization and reliability.

3.1 Proper Research Methods

I would like to point out why I have chosen this topic. The first time I read about the institutional theory was on February 2008 from environment perspective. The first time also, I read about stakeholders theory was on December 2007. The plan was to use them to write the thesis as a case study for one company in Örnsköldsvik working with ethanol. The company apologized since two of my colleagues were doing there master projects with the company. Then I decided to change the direction of the topic but using the same theories but from different angel. I have chosen LAC in order to gain more knowledge about this region. The choice was not simple since I have to finish this thesis in order to continue for the master thesis and, the to apply institutional theory for any study is a big risk also.

Scientists and psychologists use a variety of research methods resulted from social and natural science (Hussey and Hussey, 1997). According to Bryman and Bell (2007), the methodological approaches differ on three characteristics: context, design, and epistemological assumptions. The lateral is the most important to the thesis since it highlights distinctions claimed between quantitative and qualitative researches.
“Qualitative methodologies, however, seek to explain the particular. Rather than seeking to reach a general profile regarding the study population, the qualitative study must provide conclusions which account for the particulars for every case. Qualitative methods allow the researcher to study issues in depth; data collection is not limited to predetermined categories. Qualitative methods produce a wealth of detailed data on small number of individuals (Hyde, 1991, p. 84)”. 

Quantitative approach includes collecting and analyzing numerical data and applying statistical tests (Hussey and Hussey, 1997).

3.2 Qualitative Research Paradigm

The two main research paradigms are positivistic and phenomenological paradigms (Hussey and Hussey, 1997; Bryman and Bell, 2007). There are three qualitative research paradigms: cybernetic, naturalist-ethnographic, and phenomenological (Hoshmand, 1989).

According to Bryman and Bell (2007, p. 16) “positivism is an epistemological position that advocates the application of the methods of natural science to the study of social reality and beyond. “Phenomenology, a philosophy that is concerned with the question of how individuals make sense of the world around them and how, in particular, the philosopher should bracket out preconceptions in his or her grasp of the world (Breyman and Bell, 2007. P.18)”. 

The approach in the thesis is clearly positivism and to a certain limit phenomenological. Positivism has to take a phenomenalism as one of its principles (Bryman and Bell, 2007, p. 16). The thesis is exploratory and there is an assurance on the description of experts’ knowledge and experience. The author has to carefully examine his own beliefs, predictions and the sources of data and information.

3.3 The Use of Deductive Procedure in Qualitative Research

According to Bryman and Bell (2007) the deductive process is used when theory guides research. In this thesis the institutional and stakeholders theories are used to test and examine the environment of business in the LAC. The traditional view is that qualitative enquiry;
which is used in the thesis, generally adopts an inductive process, but in practice researchers use deductive and inductive processes in the practice of their research (Hyde, 2000).

The primary aim of the thesis is to discuss the pressures of the institutional environment and the organization response by using institutional and stakeholder’s theories. To accomplish the task, I think a profound cognitive of the Latin American and the Caribbean countries business environment is required. This depends on the interpretations that control the contributions, dynamics and relationships of the business environments’ features.

In connection to the aim of the thesis and as a hierarchy of the method chosen, the author considered the deductive process convenient. A deductive approach included testing theory against empirical findings and therefore suggest changes if necessary (Hyde, 2000; Saunders et al., 2003). Since a deductive process works within a framework of a given theory (Hussey and Hussey, 1997) and by being deductive, the author can start from analytical framework and employ it the empirical findings and thereby reach a conclusion.

It is important to be mentioned here that different approaches had been applied in the thesis. This matches with Bryman and Bell (2007, p. 412) “triangulation entails using more than one method or source of data in the study of social phenomena”.

Dealing with the external forces that are external to the organization itself is an organization response from an institutional aspect. Thus, in this thesis and in order to understand the organization behavior, the external forces are used for analysis to fulfill this. I decided to use a qualitative method, which actually is in line with Sarshar, Amaratunga, and Baldry (2002) opinion for reaching a credible understanding of a phenomenon; since also institutional theory in an analytical theory where the forces cannot often be empirically differentiated (DiMaggio and Powell, 1991).

3.4 Search Criteria and Data Discussion

Since I decided to use the secondary data to be used as sources of empirical data, then I have to find reliable and authentic sources. I decided to use different sources from different organizations and researchers around the world.

The search criteria I used are the criteria by the search engines in order to look for relevant reports, articles or books; and, they should be considered as publications. This actually is the
first part of the process. The second part is the assessment of the sources. The enormous and huge number of reports that have been written about the Latin American and the Caribbean make the task very hard because I have to look for the credible material. The reports also should not deal with the subject from the institutional and stakeholders theories perspectives. Specifying search criteria is the primary action in the process of collecting the required data and information to build the thesis on relevant and credible basis.

The well known research engine Google Scholar and Umeå university library base were the main sources for the research process. I have chosen also that the reports should not be before the year 1995 since there are enormous changes happened in the last fifteen years in the whole world including Latin America and Caribbean. The subjects were business environment, finance, economies and social challenges. This was done to minimize the impact of diversity of the population that I confronted with during the research process.

In the research process I used the following words and was mixed in many ways: Latin America and Caribbean, business, small business, networks, organization, environment, pressure and infrastructure.

From Umeå university library database I was able to find some books covering the environment of business in the LAC countries. I think also give more credibility to the secondary data.

3.5 Data Discussion

The geographical are under research in this thesis is very huge and very large distance and to get primary data can be very costly for me. This is the first reason I decided to use the secondary data. Hussey & Hussey (1997) confirmed that the collection of the information can be by using both primary and secondary data. The secondary data I am using here will cover the subject with less cost and less time also (Saunders et al., 2003). I think it is normal to choose the secondary data since it gives the reader also to evaluate the findings (Saunders et al., 2003).

The shortcoming of using secondary data is the loss of steering or control according to Cowton (1998). This brings the issue of the relationship between research and theory development, which has worried a number of reviewers of empirical business ethics research
using primary data too (Randall and Gibson, 1990). “In particular, there is a risk that theory development is stunted or misdirected” (Cowton, 1998, p.430).

The secondary data do not normally allow access to the deeper factors which should form an important element of business ethics research (Brigley, 1995; Philips, 1991, 1992), they might not be any worse than the research methods traditionally used, and may actually provide better access in some circumstances (Cowton, 1998).

3.6 Data Sources

The data that I mentioned before was collected from the following readings which are discussed in more as follows:

3.6.1 Source 1: 2007 Latin American Business Environment Report

The report, 2007 Latin American Business Environment Report (LABER), was written by Terry L. McCoy with Meredith Fensom (2007). This paper covers the period of 2006 and the first nine months of 2007. The paper is empirically based on the research results from Latin American Business Environment Program, Center of Latin American Studies- University of Florida. The survey is covering eighteen countries in Latin America. The countries are: Mexico, Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Bolivia, Colombia, Ecuador, Peru, Venezuela, Brazil, Argentina, Chile, Paraguay, and Uruguay. According to Agle and Caldwell (1999) studies like LABER where firms are adopted overtime is powerful.

The paper is divided into three parts. Part I summarizes primary regional developments that happened in the last quarter of 2006 and through the first nine months of 2007. Part II presents brief about the largest eighteen markets. Part III re-organizes the countries as per the evaluation of their business situations overall and according to the outlook for the next 15 months. The data is analyzed in tables that contain country-level data, “along with regional averages of key economic, social, political and legal variables” (McCoy & Fensom, 2007, p.6).
I would like to draw attention that one of the authors, Terry L. McCoy, is the director of Latin American Business Environment Program, University of Florida, USA. The goal of the program is to prepare students for careers and professions related to Latin American business through degree programs, training courses and study abroad opportunities. It also arranges topical conferences, motivates the publication of scholarly research and provides professional consulting services for the business community and public (McCoy & Fensom, 2007).

The study is a contemporary one, it covers the main countries and it is an outcome of a specialized center with the cooperation of other educational centers like Center for International Business Education and Research (CIBER) in the Warrington College of Business Administration. I think it is a reliable and important source for the giving this thesis credibility and reliability.

### 3.6.2 Source 2: Institutional Obstacles for Doing Business – Data Description and Methodology of a Worldwide Private Sector Survey

The study paper *Institutional Obstacles for Doing Business – Data Description and Methodology of a Worldwide Sector Survey*, was written by Brunetti, Kisunko and Weder (1997). The study was sponsored by the World Bank. The researchers send 8,658 questionnaires in 1996-1997 to different firms around the world. The researchers received back 3600 answered questionnaires and around 15% from them were from LAC countries. The study included: Commonwealth of Independent States, Central and Eastern Europe, Developed Countries, Middle East and North Africa, Latin American and Caribbean, and, South and South-East Asia. The countries included in the survey were: Bolivia, Colombia, Costa Rica, Ecuador, Jamaica, Mexico, Paraguay, Peru, and, Venezuela.

The survey´s goal is to create a comparable quantitative data set on different aspects of the degree of institutional uncertainty as perceived by private entrepreneurs and to achieve a rich span among responding firms. In LAC, 27% of the respondent companies had less than 50 employees, 29% more than 50 but less than 200, and, 42% more than 200 employees. The study explains also that 41% of LAC respondents were located in the manufacturing industry, 47% were located in the service industry and 9% located in agriculture. The presence of management in LAC was 59% in capital city, 25% in large city and 13 % in a small city or the countryside. The researchers used foreign capital and the access to export markets in
order to measure the foreign participation. 30% of LAC respondents did have foreign capital and 67% did not. The figures for export market access were 56% no and 44% yes.

The paper consists of five different perspectives of making business, political instability and security of property; predictability of laws and policies; government-business interface; law enforcement and bureaucratic red tape and uncertainty created by state action and the efficiency of government in providing services. However, the goal of the study was to survey private businesses and obtain cognitive on perceives obstacles for making business in order to give consultant to governments on policy issues. I would like to draw the attention that the responses are receive in the shape of region by region analysis and results, that is, the nine LAC countries that have been surveyed have been put together as a group under the title LAC. The different sources I am using in the thesis shall compensate the exclusion of other LAC countries in this paper. I did not look here for a special country but I depend on the conclusion of the authors of the paper.

I would like to bring attention that the findings I got from the paper were not analyzed by the authors of the paper. The paper also is built empirically and it argues with the relationship between private corporations and their governments and thus, I consider it as an important source on the formal perspectives of the business environment in LAC.

3.6.3 Source 3: Human Security, Conflict Prevention and Peace for Latin America and the Caribbean

The paper Human Security, Conflict Prevention and Peace for Latin America and the Caribbean, was written by 12 researchers. The paper was conducted on command of UNESCO. Eight of the authors are from LAC, two from Canada, one from Netherland and one director from UNESCO. The paper is about an interdisciplinary project that covers the following topics in LAC: ecology, economy, society, politics and cultural issues. The experts work on the project was on November 2001 and the paper was published on 2003 and it is about 385 pages report. It compasses all LAC countries.

The project explains the globalization impact on the LAC countries and how the instability increased, and it has a significant effect on most of the population. The paper in the business and economic issues explains how the uncertainty is very high because of the instability and because of internal political and regulations issues. The report shows also how the economic
policies are far from increasing job security, improving living standards, reducing poverty and creating conditions for sustainable development, and the net result has been a significant increase of insecurity and uncertainty. However, the structure of the report is analytical and the analysis is based on contemporary theories.

3.6.4 Source 4: Building competitive firms: technology policy initiatives in Latin America

The fourth publication used in this thesis is *Building competitive firms: technology policy initiatives in Latin America* by Vonortas (2002). The paper is an outcome of research conducted by the Center for International Science and Technology policy at The George Washington University. The paper discusses a number of technology and innovation policy initiatives in LAC that target small and medium sized enterprises (SMEs).

The paper of Vonortas (2002) presents the importance of involving primary stakeholders, long-term dedication, and policy consistency in order to assist the small firms. Vonortas (2002) highlights the networks issues and the importance of helping SMEs not by technology but with more general business oriented such as locating and approaching the customer, developing relationships of trust. Vonortas (2002) tells the reader that the clusters, industrial districts, and networks can work, but to what extent, this needs debate. Vonortas (2002) paper is a qualitative based with extensive referring to other researches being done.

3.6.5 The Learning Needs of High-Potential Entrepreneurs in Latin America

The fifth data source is *The Learning Needs of High-potential Entrepreneurs in Latin America*, written by Smilor and Pegram (2003) and it was represented in 2nd International Conference on Entrepreneurship in Latin America which held in Viña del Mar, Chile between October 26-28, 2003.

The paper is analytical based and depends on a survey analysis and empirical findings about entrepreneurship in LAC countries. The Global Entrepreneurship Monitor (GEM) had participated in the conference and in evaluating the survey also. The paper explains how entrepreneurship training is trying to resolve the issue of uncertainty in order to create advantage of opportunity in LAC countries. Smilor and Pegram (2003) explain the larger role of the family in owning and establishing enterprises and the entrepreneur’s reliance on family members for financing the growth of their firms. The paper highlights the issue of trust in
business firms which is high between the families, followed by friends and employees. Trust declined significantly after that. The lowest level of trust is in government sectors, whether it is local, national or foreign.

3.6.6 Corporate Responsibility in Latin America and the Caribbean: Public Policies, Private Initiatives, and Intersectoral Cooperation

The sixth paper is Corporate Responsibility in Latin America and the Caribbean: Public Policies, Private Initiatives, and Intersectoral Cooperation, is written by Agatiello (2003). The paper is conducted by the Inter-American Development Bank. The paper covers the corporate responsibility in 25 countries of LAC.

Agatiello (2003) paper explains that corporate responsibility is not a priority in LAC countries. The paper put responsibility on governments and international governments to take the leadership role in the pursuit of corporate responsibility agenda in the LAC countries.

I would like bring to attention that the author of paper Osvaldo R. Agatiello is an international legal and economic consultant (Ph.D., the Fletcher School Law and Diplomacy; S.J.D., National University of Córdoba, Argentina). The paper addresses various aspects of corporate social responsibility in LAC countries.

3.6.7 How Profitable Are Infrastructure Concessions in Latin America?

The last source is: How Profitable Are Infrastructure Concessions in Latin America?, and was written by Sirtaine, Pinglo, Guasch, and Foster (2005). The paper was conducted by The International Bank for Reconstruction and Development. The report estimates the returns that private businesses in infrastructure projects in Latin America really made on their investments.

The report includes firms from nine countries with wide scale privatization programs: Argentina, Bolivia, Brazil, Chile, Colombia, El Salvador, Mexico, Peru, and Venezuela. The paper focuses on the change of regulation in the region and the impact of the quality of regulations on the returns of the investments. The paper concluded that the regulations in LAC are major issue.

3.7 General Trends
I would like to admit that the credibility, reliability and validity of the thesis are under risk because of depending on secondary data. The main reason for this is the missing of control. To substitute this missing of control over the secondary data I contacted experts in order to get their opinions to certify and validate the empirical findings.

According to Hussey & Hussey (1997) the study has to fulfill the intention in order to be reliable and valid. The validity and credibility of qualitative study and research is related to the qualification of and ability of the researcher (Golafshani, 2003). To build and prepare a valid reliable study should be sought after. All scholars, academic researchers like to accomplish information and data integrity as well as the accuracy and that a trade-off between all is required (Bonoma, 1985). My goal is not to go in deep with discussion and argument with quality dimensions. However, the dimensions and measures of quality are always required; or the outcomes could be false.

I consider the value of the thesis is depending on the discussion of the credibility and value of the sources and their goals and the body after it. I think expert opinion shall give support and increase the trust in the meaning of empirical findings to be evaluated by them. I kept skeptical look through the whole process. Regarding generalization some sources have put general conclusions and others were specific but the differences were little. The differences do not affect the final results or outcomes. Therefore the outcomes have been generalized for the whole LAC countries.

In order to substitute the lack of primary data, I contacted many experts who have different kind of contribution to LAC countries. I have sent to them the findings for evaluation and comments. For this thesis the experts is recognized as an expert who has firsthand experience and contributions to LAC countries. Some of them are specialized in different contributions to LAC countries, for instance director of Business Studies about LAC in American University or business men in Sweden.

I have sent the questionnaire to ten experts and I received reply from eight of them. According to Saunders et al. (2003) the questionnaire should be self administered. I have sent them by email to the concerned experts. I have used the Google Scholar engine to look for experts. I mixed the following words: consultants, expert, Latin American and Caribbean, business, and students. The questionnaire starts with three questions about the expert. First one is about getting his approval for mentioning his name in the thesis. Second question is
about the name and the nature of the expert’s job. The third one is about the nature of expert’s contribution to LAC countries. The last question is about the findings which are 15 (See appendix).

Expert: *Erik Olsson* is an Internet Entrepreneur and CEO of Redtienda Company in Orebrö – Sweden. He worked in Ecuador, Venezuela and Argentina. He worked as a project manager in *Swedish American Center in Miami, Swedish American Chamber of Commerce* and other important positions in Sweden and around the world. Now he is leading Commerce Software in Spanish language which started in 2000. He is dealing with small and medium businesses in 60 Spanish speaking countries and mainly in LAC region (reply received on 2008-05-22).

Expert: *Terry L. McCoy;* director, Latin American Business Environment Program, University of Florida, USA (reply received on 2008-06-06).

Expert 1: Swedish Businessman working with export and import with LAC countries. He apologized for giving comments (reply received on 2008-05-16).

Expert 2: Swedish professor from Stockholm University. He gave some comments but apologized to give complete answer because as he mentioned that his contribution to LAC not in economics or business but other contributions (reply received on 2008-05-22).

Expert 3: is a business and economic affairs editor in a newspaper in Chile (reply received on 2008-06-09).

Expert 4: is working as business consultant in a business consultant agency in Argentina (reply received on 2008-06-09).

Expert 5: is a student at Business School in Buenos Aires in Argentina (reply received on 2008-06-10).

Expert 6: is a student from Peru in Lund University in Sweden (reply received on 2008-06-10).
4- Analysis, Discussion and Empirical Findings

I would like to point out that those findings were categorized according to the three types of pressure, mimetic, normative, and coercive.

4.1 Mimetic Pressures

Findings: Business networks activities failed to react in an efficient way because capacity and the difficulty of establishing relationship based on trust (Vonortas, 2002). The structures of networks in LAC have been found to be determined by family members and relationship (Smilor & Pegram, 2003). There is a well known misunderstanding that the business and trading is primarily happens only within family boarders (Vonortas, 2002). Contacts and business transactions are not within the family itself but with relations and connections that happen as an outcomes from families business activities (Smilor & Pegram, 2003). The relationship has not evolved into the adopting interactive processes among all the actors and agents (Vonortas, 2002). The uncertainty in the region is high to some extent also (Brunetti et al., 1997).

Analysis and discussion: From the findings we understand that organizations and firms in LAC situation it interacts with each other in networks to resolve the shortcomings of the market. The networks they are interact with in sometimes family and ethnically formulated by a meaning that firms with common cultural similarities and common background have readiness for socialization. The organizations which lack similarities with the networks members, are confront with some difficulties in their attempts to inter into these networks because of trust issues and cultural differences in many cases also. Isomorphic organizational behavior can be illustrated as an outcome of the reality that a network´s base of socialization is built on cultural similarities between firms. Networks update and evolve themselves by forwarding mimetic pressures, where new members will be forced or pressured to copy the present ones. This explains why are the networks are one of the sources of mimetic pressures on all parties the old members and the new that is fighting to be part of the network.

From the findings we can observe that the different networks control various activities. The lack of high degree of interaction between these networks finds or exists, which leads to
networks that closely resemble organizational field. Since the logic of the field is built on cultural and uncertainty issues, it is difficult to change the logic, and so the updating or renewal of the field is obstructed. In relation and contribution to this, the probability of obtaining legitimacy within a field is controlled by deeply rooted cultural and family factors. This explains why the structure of the field is hard and concrete over time and assures stability to which firms are able to match. Therefore, mimetic pressures oblige organization culturally select their networks in order to obtain legitimacy.

I have to summarize also that organizations cannot continuously respond to mimetic pressures and obtain legitimacy. Cultural and family issues can be shown as obstacles for membership and legitimacy that is not easy to avoid. However, organizations they select sometimes not to respond to mimetic pressures but only to normative or coercive pressure when looking for legitimacy. When attempting to build a response to mimetic pressures when it is hopeless to obtain any legitimacy because of background differences, an organization could even be expected to have more costs than when responding to the mimetic pressures completely.

4.2 Coercive Pressures

Findings: According to the survey conducted by Brunetti, Kisunko and Weder (1997), many LAC entrepreneurs and businesses feel more uncertainty because of the constitutional changes of government, as a result of elections, which is about 65%. It is the third among nine regions as conducted and divided by the study. More than 75% of businesses in LAC are of the opinion that unreliable judiciaries are perceived as a major issue and increased to worse in the last five years (Brunetti et al., 1997).

Another problem that had been pointed out by businesses in LAC is that state authority’s policy paradigm. In LAC countries are more than 80% of businesses do not have confidence on government’s policies to protect their property rights (Brunetti et al., 1997). When governments decide new policies or systems, businesses are not informed prior to the adoption of these policies (Brunetti et al., 1997). More than 80% of businesses consider corruption and unpredictability are major issues (Brunetti et al., 1997).

However, I have to point out there is some improvements in the last two years, while the risks come from the growing volatility in global and international financial markets and
“populist governments in the region” (McCoy & Fensom, 2007, p. 46). Here the level of uncertainty varies between the countries, but in general uncertainty is risk or one of the main shortcomings in the region (McCoy & Fensom, 2007; Goucha et al., 2003; Sirtaine et al., 2005).

Organizations in LAC region have to deal and comply with fluctuated and unstable tax systems, which affect the business operations (Brunetti et al., 1997). Despite the minor difference between the LAC countries, it has been noticed that taxes, in general, are not easy to collect which results in insufficient funds and the problem of corruption in this sector affects the whole situation (Goucha et al., 2003). Consequently this affects the most of the government’s ability in the region to provide or develop suitable infrastructure that facilitate business operations in the local markets as well as on the global (Sirtaine et al., 2005). The taxes are high in the whole region, for instance Argentina 35%, Bolivia 37.5%, Chile 35%, Colombia 35%, Panama 30%, Peru 30%, Venezuela 34% and it is moderate in Brazil 20% in Mexico 25% (Sirtaine et al., 2005).

Unsuitable ways or procedures for business identification registration in LAC further increase the risk of weak quality in the meaning that the risk of involving in bad relationships where a business might be deceived and end up with useless products increases (Sirtaine et al., 2005).

**Analysis and discussion:** from the findings, it is clear that exemplary organization in LAC does not recognize the official authority or government as one of the trustworthy players in the field. Because of this, the origin of legal or coercive pressures and forces considered as ambiguous by organization. This leads to a mysterious position for organizations in the meaning that the price or expense of not responding to coercive pressures is, to enormous space, unpredictable. In this situation, obtaining legitimacy by the organization cannot be achieved by their dependence on their response to the origin of coercive pressures.

At the a time when the benefits or losses are ambiguous for organizations in responding to coercive pressures, the costs of businesses transactions increase and consider to including them on shortcoming relative to businesses were expenses or costs are smaller. Businesses in LAC involved in long term relationships as a response to ambiguous sources of coercive pressures. These relationships shape the networks structures created by organizations in both upward and downward activities. This can be explained as an organization field in which prevailing logic emerges (Hoffman, 1999). The prevailing logic shall help the parties or
members in the field to overtake barriers that are confronted by them, in other words they have a common issue. The problem that united organizations in LAC is, inherently, impotent sources of coercive pressures. By shaping and constituting the network, organizations have been able to overtake the uncertainty that the origins of coercive pressures have been exerting on them.

When the sources of coercive pressures are ambiguous, for instance the legal and judiciary systems, confidence and trust on the organizational, internal and external levels, have been suffered. Networks work as compensate for the more official or formal sources of pressures in these cases where mechanisms within the network can take position against those that destruct network regulations.

Uncertainty and unpredictability of how the origin of coercive pressures may change or exert new pressures on an organization are considered as primary obstacles for making business. When major alterations happen in the constituent of coercive pressures, the structure should alter also. In this situation the networks, in their relations with different stakeholder, are affected in either positive or negative way by government alterations in legal systems, policies and laws. Sometimes network might discontinue if the notion currently used within the network cannot be easily changed in order to reflect the recent context. It follows that what was once a clear response to the vague of coercive pressure might convert to a barrier for doing business itself.

Hence, a network can be pointed to suffer both from alterations in both directions of the prevailing logic and it must be ready for such alterations. When the context of the network alters, it is impossible to continue on the same proposed principles, but require updating or renewing itself in terms of members in the field. In other words, to simply accept members that comply with the current logic would not be enough (see Scott, 2004; Hoffmann, 1999).

When a government is unable to use its power and force organizations to implement the policies, laws or regulations, organizations will search for legitimacy from other places or resources or stakeholders (Crane & Matten, 2007). Organizations shall compensate the legitimacy that would have been obtained by reacting to the origin of coercive pressures, and obtain it from other stakeholders in the network. The new stakeholders within the network are now the main sources of legitimacy for the organizations, and this can elucidate the reason
why organizations outside the networks work inefficient than the ones inside the network. Legitimacy is essential for the organization to be included in the space of flourishing.

4.3 Normative Pressures

**Findings:** commercial and trading relationships that build on long term principles, have been found to grow and thrive in LAC context since they represent a behavior that compensate for failing formal institutions and thereby force companies from violating contracts (Sirtaine et al., 2005; McCoy & Fensom 2007).

The absence of production measurements and standards is known in most of the LAC countries and it is a common characteristic for the manufacturing, service, and agricultural industries (Goucha et al., 2003). Significantly, lacking standards on the market activities negatively influence production in the meaning that a coherent quality both outputs and inputs is hard to confirm or insure (Vonortas, 2002). Moreover, purchasing overheads, expenses and costs increased in a way that purchasers have to test a product carefully in order to get proper quality (Smilor & Pegram, 2003; Goucha et al., 2003) and of course exports have to suffer.

Because market-backing-institutions are not participate in the shape of production standards, corruption, suitable infrastructure or active legal systems; both sellers and purchasers in LAC find it difficult to reach or achieve an adequate level of trust in each other in order to involve in more intricate kinds of contracting such as supplier credit, invoice, cash against documents, letter of credit differed, invoicing and advance payment. Therefore, intricate projects are often kept for big businesses (Smilor & Pegram, 2003; Goucha et al., 2003). Despite growth of small businesses in some countries within the region, the growth of smaller businesses in general is obstructed by the local situations because businesses, or credit institutions like banks, do not supply the required forms of contracting to businesses that are expected or perceived to shoulder a big risk as an outcome of bad debt for the creditor institution (Sirtaine, 2005).

By experience between businesses in LAC has been succeeded to overtake the problems in the market by concentrating on long goals relationships, stakeholders and networks that enhancing confidence and trust (Vonortas, 2002; Agatiello, 2003).
In the LAC setting, checking and screening costs for businesses and individuals are, to a certain extent, high because of the shortage reliable systems and transportation infrastructure that can support entrepreneurs and businesses selecting or even finding trustworthy partners (Sirtaine et al., 2005). The second obstacle, after corruption, is the lack of adequate infrastructure in LAC (Brunetti et al., 1997). More than 80% of the businesses see governments are inefficient in delivering the services and it is the worst among all surveyed businesses around the world (Brunetti et al., 1997). More than 60% see that mail delivery system is inefficient and less than 10% of the surveyed can be connected to public telephone line within or less than 30 days (Brunetti et al., 1997).

The issue of high screening costs is substituted for by network formation because of the spread of options made for collective benefits increases (Vonortas, 2002). Because of the nature of networks that not include those found to be unsuitable for cooperation, networks in LAC raise performance of businesses within the networks by increasing growth and productivity at the same time as exclusions are influenced negatively (Smilor and Pegram, 2003; Vonortas, 2002; Agatiello, 2003).

**Analysis and discussion:** from the findings we see that production standards are lacking in the LAC businesses environment and important costs associated with purchasing available or exist. The missing of standards can be characterized as competing normative standards between the seller and the purchaser. Conflicting norms may deceive business. To avoid the limitations that the market impose on the firm when it comes to trading services and goods, firms in LAC have been found to form networks. In this position, networks confirm that there are entry obstacles in the meaning that a network form normative standards to be implemented for firms to be included in the network. The standards are imposed by the motivation of the gain by being included. By this strategy of work the network shall create expectations and norms on their members and as a result, the network will create normative pressures that members must comply to, and this will convert organization uncertainty to trust and confidence.

From the analysis I highlighted the role of networks substituting for competing norms in business, obtaining network membership keeping network membership. It is important to mention that the legitimacy the organizations obtain is recognized within the same network since the norms differ as long as the networks are varied.
4.4 Experts Comments

The opinions of the experts that I have contacted to give their comments of the findings are varied. Some of them agree on most of the findings and other apologized that some of the findings were not clear enough for them. Below I shall explain their opinions.

Erik Olsson, the Swedish businessman, agrees on most of the findings and confirms that there are differences among LAC region. For example, the issue of infrastructure Olsson assures that not all the LAC has the same level and there are some countries that are well developed in this regard. Some points like statement 5 (appendix 1) regarding privatization, Olsson did not agree or disagree with.

Terry L. McCoy, director of Latin American Business Environment Program at University of Florida- USA, was positive to most of the findings. Some statements were not clear enough as he said about statement 1, 2 and 10. For the issue of risk premiums, McCoy explained that issue has declined considerably over the last five years for different local and global reasons. The family group’s networks continue to play an important role in LAC and the role of private equity financing has grown in recent years. For the drug-trafficking McCoy confirmed that it is a negative feature of the business environment.

For the problem of infrastructure; McCoy confirmed that the LAC’s infrastructure is not adequate for the demands placed by accelerating growth, especially for the export sector, but recently many governments are increasing investment in infrastructure and in some cases through public-private partnership. He assured that businesses would like to see more transparent government’s policies, rules and regulations. Corruption is one of the major problems but productions standards is not a serious issue.

For experts 2, 3,4,5 and 6, they were agree with most of the findings and they all focus on the idea that the problems differs from country to another within the region, but the problems are their but with different levels. For all experts, the common point is not to generalize the findings over the whole region especially for Chile. Only for Chile the secondary data may be not representative completely but for most of the countries they are representative.
5- Conclusion

Studying and analyzing the mimetic, coercive and normative pressures in order to understand the business environment in LAC make it possible for me to elucidate the active dynamics of the three pressures.

Society as an important stakeholder, where coercive pressures do not have impact on behavior, mimetic and normative pressures are more likely to impact the subject of organization’s processes or actions. As a result of this situation, normative impacts on coercive pressures give legitimacy to present and future coercive sources.

Firms, organizations or whatever in LAC cannot depend completely on responses to the origins of coercive pressures to obtain legitimacy, and as result, they look for the alternative which is the networks in the local and global levels in order to obtain legitimacy. These networks and organizations outside networks also, lean to frighten alterations in government regulations, laws and policies. These changes are predicted to make or convert the course of networks to neglectful. In such position, the organizations, in their relation with different stakeholders, will bear enormous costs because they have formerly undertaken various stakeholders and resources to their networks. Therefore, alterations in coercive pressures cause new kinds of responses to mimetic, normative and coercive forces when legitimacy has to be gained.
References


NCSU (2008), *Institutional Theory*, (Available at: [http://www2.chass.ncsu.edu/garson/pa765/institutionalism.htm](http://www2.chass.ncsu.edu/garson/pa765/institutionalism.htm) last visit 2008-03-04).


Appendix 1

The questionnaire which send to eight experts

Örnsköldsvik May 14th, 2008

Dear Sir/Madam:

I am a student writing a bachelors´ thesis in business administration at Umeå School of Business, Sweden. It deals with the general features of Latin America Countries & Caribbean business environment.

My thesis depends on secondary information in analyzing the business environment in Latin America and Caribbean. Thus for the credibility of the thesis I need to evaluate how well the information matches what people experience. I would like to ask you please for getting your opinion on thesis ´findings. The questions may take about 20 minutes to complete.

Please accept my appreciation by helping me to answer the questions.

Yours sincerely,

Mohammed Samairat
Continued appendix 1

Question number 1:
Am I permitted to mention your name on the thesis? (If no, fictional name shall be used).

Question number 2:
Please provide information about yourself:
   a- Your name
   b- Your title and occupation

Question number 3:
What are your contributions to Latin America and the Caribbean?

Question number 4:
Please give comments about the attached findings in contrast to your information and knowledge about Latin American and the Caribbean. Please argue why do you agree or disagree and provide information or comments you like to add.

Key findings summary on Latin America and the Caribbean countries

1. Business networks activities failed to react in an efficient way to demand and supply of subcontracting services because of the information failure and the failure of establishing relations based on trust.

2. The relationships and networking between multiple actors have not evolved into the adopting interactive processes among all the agents.

3. The country risk premium is very high since it is influenced by many factors and exposed to frequent shocks and variations, including political risk, exchange rate risk, and regulation risk.

4. The level of uncertainty is high despite the economic growth in most of the LAC.

5. The complexity of privatization transactions, as well as their major ramifications for the economy’s general stability, makes it difficult to generalize as to how the cost and benefits of privatization will play out across the different stakeholder groups in any particular case.
Continued appendix 1

6. Networks are of more similarities and the new members are mainly from culturally closed groups. The larger role of the family for financing, the scarce environment for private equity funding which related to the low level of trust.

7. Drug-trafficking and crime are persistent problems and have increasingly violent in the whole region. Business and citizens security is the basic condition to accelerate growth.

8. Inadequate supply of infrastructure and the lack of sufficient funds by most of the governments. A large number of small transactions are most of the time required for logistic purposes.

9. Business in Latin America and the Caribbean countries fear alters in policies, rules or regulations since these changes will have a great influence on the continuity of the operations.

10. Business in LAC fears unconstitutional government and political alters. Regulations, laws, policies do have significant change when unconstitutional changes happen.

11. In the Latin America and the Caribbean countries, the legal systems experience corruption and missing of confidence and trust in the system also.

12. Business and personal identification registration in LAC is suffering from weak procedures and as a result the risk of involvement in malpractice where a business might be cheated and the output will be more useless products.

13. The difficulty of finding reliable business partners and insignificant public institutions are well known in the LAC region. Thus, big known businesses have more chance to win big projects.

14. Lack of production standards is one of the shortcomings in industry. This affects the quality control of the products. The overheads costs may increase because the buyers want to check the products carefully to get a consistent quality.

15. Buyers and sellers cannot achieve enough level of trust because of corruption in the market supporting institutions, the lack of suitable infrastructure, significant legal system or productions standards. Thus small businesses do not have the chances to have more or big contracts since the creditors do not give them financial supporting and credit documents because of the high risk of bad debts for the creditor.
Appendix 2:

Table 1: List of Latin American and the Caribbean Countries (World Bank, 2008).

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