

**Institutional logics as inhibitors or levers?  
The Case of Mobile Payments in Finland**

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## **Abstract**

**Purpose:** This paper aims to explore what kind of institutional barriers companies must overcome in order to innovate a new mobile payment service.

**Design/methodology/approach:** A qualitative case study of mobile payment development in Finnish financial sector is applied to explore institutional factors affecting innovation in payment services.

**Findings:** Institutional factors (cultural-cognitive, normative, and regulative) affect innovation of mobile payment services in highly institutionalized setting. In addition to defining those barriers, in this study we find that startups can use institutional barriers of traditional incumbents as levers for their own innovations.

**Research limitations/implications:** The study deepens our current understanding of the cultural-cognitive, normative and regulative factors affecting of new practices and service innovations in the highly institutionalized setting.

**Practical implications:** Results of this research will help startups to find their levers as well as incumbents to identify the barriers for change. The change also means a transition from goods-oriented business model to service- and customer-dominant thinking.

**Originality/value:** This research contributes to the discussion about FinTech as a phenomenon and broadens the general understanding of related change processes.

**Keywords:** *Digitization, Innovation, Mobile service, Institutionalization, Change, Case study*

**Paper type:** Book chapter

# 1. Introduction

Across the world, digital communication technologies are changing how people communicate. This disruptive technology-driven change has been shown to affect the business environment, where interaction increasingly involves computer-mediated networks: machine to machine, human to machine, and human to human (Oviatt and Cohen, 2015). Along with this ongoing change in communication practices, digitalization is revolutionizing how value is created in customer interactions. While much human-to-human interaction already occurs through digitalized channels, new and emerging technologies (e.g., 5G, Internet of things, blockchain) further radically amplify the information intensity of products and processes and increase the connectivity of actors and processes in customer interactions with service providers.

Westerlund et al. (2014) argued that, if utilized proficiently, these new tools would facilitate new approaches to value creation and service interaction in all knowledge-intensive industries. Indeed, enhancing interaction and value creation with customers is claimed to be among the keys to success in the digital age (Haas et al., 2012; Vargo et al., 2014). The digital revolution demands greater attention to customers' idiosyncratic needs, along with the reorganization and reinvention of operations to improve customer-perceived value in unique and customer-specific interaction situations (e.g., Matthyssens and Vandenbempt, 2008). As information is increasingly gathered by technological means, customer interaction must focus on making sense of what is of value to the beneficiaries of service users (Vargo et al., 2014). In addressing these changes, companies have yet to understand how and when digital tools and channels can effectively be used for customer interaction while remaining focused on value creation.

Digital interaction is no longer just one of a business's activities; it is the central means by which companies systematically relate and combine their activities, knowledge, and resources with other actors (Håkansson et al., 2009; Ulaga and Eggert, 2006; Blocker et al., 2012; Haas et al., 2012). However, the institutional environment in service-intensive industries means that technology utilization poses certain challenges. *While organizations must continue to perform well in their technical domain, managers must also ensure that their organization adapts to provide services*

*in a viable and sustainable manner, maintaining value creation and intensive interaction with customers.*

The challenge is formidable; in many traditional industries, companies must undergo radical change to incorporate increasingly connected, customer-centered, and service-based modes of operation (Gebauer and Kowalkowski, 2012). This transformation means redirecting attention from the firm's resources and production processes to support customer value creation (cf. Grönroos and Ravald, 2011; Ballantyne and Varey, 2006; Grönroos, 2006). In other words, both sales and service production activities must be adapted to support a customer-centric approach (see for example Heinonen et al., 2015), and service providers must learn new ways of enhancing value creation. Organizations need to be increasingly sensitive and responsive to emergent opportunities and must be able to react flexibly to emergent situations (Borg and Johnston, 2013).

The digitalization of customer interaction is a matter of strategic concern at organizational level, requiring change in the broader, taken-for-granted assumptions, values, beliefs, and culture shared by the organization's actors (Scott, 2014). In this context, it is important to comprehend how value creation is guided and constrained by institutions embodied in the customer and in organizations involved, and how organizational practices and established management models are deployed (Spohrer and Maglio, 2010; Lusch and Vargo, 2014; see also DiMaggio and Powell, 1983).

As noted above, many factors within and between companies and their customers can impede development toward the new business logic of digital services. In addition, industry-specific cultural, cognitive, and regulative issues can hamper comprehension or implementation of this new logic. These issues are not yet well understood, not least because of the novelty of this phenomenon in many businesses. To shed light on this strategic challenge, the present study addresses the following question:

*How do institutional factors affect the innovations of new payment services?*

Empirically, the study examines the kinds of institutional barrier that a newly established enterprise, for example, must overcome in developing digitalized customer interaction. In so doing,

the present study deepens current understanding of new digital service innovation adoption in the financial sector, encompassing consumers, participating companies, and retail banks.

Because there is still scarce understanding of this phenomenon, a qualitative case study of mobile payment development in Finnish financial sector was conducted (e.g., Kovács & Spens 2005). This kind of an explorative approach provides an extremely informative starting point for the study.

Payment services is a context in which institutional logics play out, but the theoretical mechanism must be understood at the higher industry level. Our approach is further informed by the fact that practices and beliefs concerning payments have been strongly institutionalized within the Finnish banking sector and among consumers. To find out these barriers to innovation in payment services, we interviewed business experts and start-up representatives. They all have the experience of payment service development, some of them from several decades. In addition, multiple sources of secondary data were used.

In terms of both theory development and empirical analysis, we focus here on institutional logic, which has been defined as the socially constructed sets of material practices, assumptions, values, and beliefs that shape cognition and behavior (Thornton et al., 2012). To understand institutional development in the present case, we address the adoption of digital communication technologies and practices in the interaction between firms and consumers in terms of three aspects: 1) *cultural-cognitive*, 2) *normative*, and 3) *regulative*. Analysis of these three aspects helps in understanding institutional logic and change.

The paper is organized as follows. First, the core analytical framework is described, addressing institutional factors and their logic in service provider-customer interactions. The aim of this theoretical section is to identify relevant concepts for the analysis of institutional factors that create barriers to payment digitalization. After outlining the research design and methodology, the study findings are presented. The final section discusses theoretical and managerial implications, limitations of the study, and directions for future research.

## 2. Theoretical foundation; Institutional logic

Institutional logic has been defined as the socially constructed set of material practices, assumptions, values, and beliefs that shape cognition and behavior (Thornton et al., 2012). At the individual level, this includes norms and values; at the organizational level, institutional logic includes culture, politics, regulation, and industry-side norms (Oliver, 1996). A shared understanding of acceptable norms of activity creates institutions (Suddaby et al., 2010) organized by a dominant logic, and institutional change is understood as a transition from one dominant logic to another (Helfat et al., 2009). Institutional logic can be observed in many domains (Friedland and Alford, 1991), including markets, industries, organizations, and networks of organizations.

Organizations are tightly embedded in their social and political environment, and their actions and constructions reflect the rules, values, beliefs, and practices determined by that environment (e.g., Powell, 2007). Actors are not isolated but interact constantly, which is why actors' institutional behavior is not explained by solely rational or market economy factors (e.g., Marsh and Stoker, 2002). In the broader sense, institutions can be defined not only as visible organizations and constructions but in terms of routines, manners, and established models of action (including rules, laws, and agreements). For this reason, the concept of *established* is central to understanding and defining institutions (e.g., Hodgson, 2006). Because institutions reflect and describe their surrounding society, they must be established and stable, and they affect the behavior of actors either by restraining or changing it (Peters, 1999).

In the present study of institutional barriers to innovation in payment services, the institutions that influence the development are not only formal, organizational, and visible but may be also informal, non-organizational, and invisible. For example, co-operation among established Finnish banks is an informal and even invisible institution that is highly influential in the development of local payment services in Finland. Customer behaviors and their established assumptions about how to pay (or about accepted payment methods) can also form an institution that affect payment procedure development.

To understand the institutional barriers that can hamper change (and also, in this case, the potential accelerators of change when tackled), the adoption of new digital service and practices between

firms and consumers is examined in terms of the following aspects: 1) cultural-cognitive, 2) normative, and 3) regulative.

*Cultural-cognitive aspects* refer to the shared conceptions that constitute the given social reality and the frames used to construct meaning (Thornton et al., 2012). From an institutionalist perspective (Scott, 2008), institutions embody common and self-evident beliefs and meanings that are both subjective and objective (that is, external to the actor). Cultural-cognitive meanings vary among different actors, depending on the level of embeddedness in routines and patterns, which can make them difficult to understand (Scott, 2008). It is often the case that rules are obeyed because they are based on a “taken-for-granted” mental model, and contradictory behavior is not seen as an option. In the present context, how consumers habitually pay, or believe they must pay, may be determined by cultural-cognitive factors, for example.

*Normative aspects* refer to rules prescribing rights and privileges, as well as responsibilities and duties, grounded in the institution’s experience (Jackall, 1988; Ocasio, 1999). Norms are based on rules describing how things should be done in order to achieve goals. Normative institutions are values that internalize desirable behavior (Meyer & Rowan, 1977; Zucker, 1983). A normative system specifies both the *goals* of each action and the *ways* of reaching them (Scott, 2008). Norms depend on the actor’s role in the institution; only some values and norms are common to all actors (Scott, 2008). In the context of payments, while established players may share common norms for goals and execution, new players may have different values and norms challenging status quo.

*Regulative aspects* refer to institutions’ ability to constrain and regularize behavior, encompassing legal systems (laws) and policies and rules within the organization or industry (e.g. Barnett & Carroll, 1993). These are often formal rules such as laws, but they may also be informal, as in the case of general norms of behavior (Meyer & Scott, 1983). In banking and payment services, government supervision has traditionally been strong, and for this reason, regulative aspects and related influences are of particular interest here.

Organizations tend to legitimize their operations in their extended social environment, leading typically to *institutional isomorphism*—that is, they become more homogenous in their cultural-

cognitive, normative, and regulative aspects (Meyer & Rowan, 1977). While competition and open markets should lead to differentiation of organizations in the same market, strong institutionalism may serve as a counterforce. If regulation plays a strong role in a given business area, business legitimation and continuity may be even stronger drivers than economic outcomes (DiMaggio and Powell, 1983; Hall and Taylor, 1996), and consolidating the company's existence becomes more important than profits (see Meyer and Rowan, 1977). This is seen in the current offering of financial products by the Finnish banks, which is limited, especially within the areas of payments, lending and wealth services.

Despite the many sources of friction mentioned above, institutions are, in one way or another, in continuous flux. Change is determined both by rule makers and by rule takers—that is, by those who form institutions and those for whom institutions are made. Institutions may change by chance or for no discernible reason. Change may also be a natural process of evolution, arising from competition or social development. When change is goal-oriented, it may also be driven by a few powerful actors (Goodin, 1996). Formal institutions are more easily influenced than informal ones (North, 1990), and regulative changes seem to influence institutions more rapidly than cultural customs. Certainly, legal obligation can be forceful; in the payments area, for example, the second Payment Services Directive (PSD2) seems likely to change business models and services at a more rapid pace than any other current institutional driver.<sup>1</sup>

While informal institutions may change without the conscious action of actors, formal institutions need to commit resources to implement change, and earlier decisions may lock development on a certain path. In other words, path dependency is caused by historical actions, and by an attitude of “this is the way we have always done it.” Because many institutionalized habits and traditions are

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<sup>1</sup> PSD2 is intended to create a more integrated and efficient European payments market, encouraging innovation and protecting consumers by making payments safer and more secure. It seeks to open payment markets to new entrants, leading to more competition, greater choice, and better prices for consumers. The directive was approved by the European Parliament and the European Council in late 2015 and came into force on 13 January, 2016. Market participants will have to comply with most of the requirements set out in the legislation from 13 January, 2018.

strongly embedded, they steer decision making (Thoenig, 2003), and even irrational behavior or business decisions may be explained by this institutional path dependency. Conversely, institutional entrepreneurs modify old institutions and create new ones, as do new entrants, creating a competing institutional logic. Institutional entrepreneurs have the resources to change existing institutions or to exploit the status quo of institutional position (Lawrence and Phillips, 2004). Shi et al. (2008) have used institutional theory to analyze the adoption of internet banking. According to them, both normative and coercive forces have significant influence on attitude and intention to use new digital banking services

### **3. Methodological aspects**

The single case study method facilitates the collection of rich data in respect of a target phenomenon that is not yet well understood (Eisenhardt and Graebner, 2007; Yin, 2009). In adopting this approach, we employed abductive logic (e.g., Dubois and Gadde, 2002), which is appropriate given the nature of the target phenomenon and the objective of developing theory based on the case study (Locke, 2010). The single case setting of mobile payment development in Finland enabled us to develop an in-depth understanding of a complex phenomenon in question (Gummesson, 2000; Yin, 2003; Patton, 1989).

Since it was clear from early on that our study will be qualitative, interviews were an obvious choice of method. Data collection included interviews, relevant documents, and participant observations. The interviewing process started in March 2015 with the start-up company interviews and ended in January 2016 with the industry experts.

The aim for the start-up firm interviews was to collect data of it's founders' entrepreneurial activity through which they strive to alter how value is created in this context. Furthermore, we wanted to understand how new entrant form competitive edge against an established bank. In particular, we focused on their introduction of a novel practice for mobile payments. This was extremely informative part of the data, for institutional barriers really become explicit during the launch process.

The chosen industry expert interviews were conducted with banking industry representatives from three different organizations that represents large established banks in the Finnish market. These interviewees were selected on the basis of their first-hand experience of institutional barriers when digitalizing payments and of related institutional factors that affect the adoption of new practices for customer interaction with service providers. Interviews with industry experts indeed augmented the view of payments development in Finland over a long period of time and clarified why payment services have encountered certain institutional barriers that newly established firms have been able to overcome. The saturation point of data collection was reached in quite early stage of data collection, and it seemed that informants hold quite homogenous understanding of the phenomenon under scrutiny.

All the interviews were recorded and transcribed. Thematic analysis were conducted to categorize the data according to chosen theoretical perspectives and preunderstanding of institutional logic. The interviews were conducted using a narrative method where the interviewee was given the context of *mobile payments* and then asked to reflect from their perspective. This lead to a discussion which mostly started from the background of the interviewee and continued further to the fundamentals of payments. After the first round of interviews we analysed the collected data and found out that there are few key themes that repeat over and over again in all the interviews and therefore the saturation of data collection was reached.

Date	Interviewee	Company	Role	Duration
04.04.2015	Miki Kuusi	Wolt	CEO	55 min
04.04.2015	Oskari Petas	Wolt	Payment technology	50 min
01.05.2015	Elias Pietilä	Wolt	CTO	40 min
21.10.2015	Miki Kuusi	Wolt	CEO	45 min
17.01.2016	Erkki Poutiainen	Nordea	Head of transaction banking	60 min
18.01.2016	Hannu Kuokka	Danske Bank	Head of cards	55 min
19.01.2016	Päivi Heikkinen	Bank of Finland	Head of cash department	60 min

Table 1: List of interviewees, interview times, interviewee roles and duration of interview.

Although the interviewees have given the permission to publish their names, we have decided to use their quotes anonymously. This is due to the means of research and putting the stress on the content.

We also collected *secondary data* to support the interviews. In these 30 events in Finland and in Germany, themed around FinTech and payments, we spoke with dozens of FinTech entrepreneurs, bankers, and other industry experts. Although these talks were not recorded, we assembled the key findings and presentations to gain a fuller understanding of the relevant institutional barriers.

Furthermore, these discussions supported our preliminary findings of the key themes detected in the interviews.

27.01.2015	Berlin	FinTech Meetup
12.02.2015	Berlin	Berlin Tech meetup
27.02.2015	Berlin	Startup Weekend Future of shopping
10.03.2015	Helsinki	Kasvu Open
25.03.2015	Berlin	Startup Night - Pitches, Traction & Funding
26.03.2015	Berlin	Valley in Berlin - You Is Now
07.04.2015	Berlin	Startup Confessions by BSC Accelerators Edition
15.04.2015	Berlin	Fundraising workshop
05.05.2015	Berlin	Startup Next Berlin
11.05.2015	Berlin	Seedcamp Berlin
12.05.2015	Berlin	<a href="http://interact.io">interact.io</a> & myContacts launch
20.05.2015	Berlin	FinTech & Payment Stammtisch
10.06.2015	Berlin	2nd hu:braum Portfolio Days
11.06.2015	Berlin	Axel Springer Plug n play pitching
17.06.2015	Berlin	FinTech Berlin Meetup
06.08.2015	Berlin	Inbot Sales Conversion Workshop & Penthouse Party
02.09.2015	Helsinki	Exit Only event by Frontier
03.09.2015	Helsinki	AVP Talk - "Get Ideas Out of Your Head and Into the World"
08.09.2015	Helsinki	Nordea Startup Accelerator info session
06.10.2015	Berlin	Silicon Allee Breakfast Meet Up
06.10.2015	Berlin	Itembeer Happy Hour @ "Making Customers Happy MeetUp"
22.10.2015	Berlin	Explore the latest FInTech trends on Top of Berlin
11.11.2015	Helsinki	Slush 11.11-12.11.
11.11.2015	Helsinki	Startup Sauna Fall '15 Demo Day
17.11.2015	Berlin	FinTech Stammtisch
19.11.2015	Frankfurt	FinTech Forum
25.11.2015	Helsinki	OP Hoksamo - day
01.12.2015	Helsinki	Fintech Finland Community Launch
03.12.2015	Berlin	Rockstart Answers Berlin #2
08.12.2015	Berlin	FinTech Berlin December Meetup

Table 2. Secondary data

Thus, in the following empirical section, we consider the barriers from the differing perspectives of the industry experts and the institutional entrepreneurs. Analysis of these two complementary views provides a fuller understanding of the actual institutional barriers encountered to the existing payments space. In analyzing these barriers, we also aim to illuminate the associated change of institutional logic and how cognitive, normative, and regulative logics may both constrain and support the process of change (Scott, 1995). Before that, a short description of payment service development as an empirical setting of the study and how our company example Wolt (from which start-up interviews are collected) relates to this entity.

### **Empirical setting; Mobile payment service development in Finland**

The radical changes in technology have created opportunities for Financial technology (FinTech) start-ups to enter the market with alternative payment offerings. While the estimated proportion varies according to the source, payment startups are generally considered to be the largest FinTech sector. CB Insights is an online database for venture capital and based on their company data, they suggest dividing payment startups into eight sub-categories.

Category	Purpose	Examples
Online payment services	To help businesses to move their payment processing online, making it more accessible, secure, and inexpensive	Stripe, WePay
Billing automation and streamlining	To streamline invoicing and automate financial processes and billing	Zuora, Paymentus
Point-of-sale payments	To offer point-of-sale products and services, including card readers, stands, and digital storefronts	iZettle, Revel Systems
Personal payment services	To provide consumers with more convenient payment platforms	MobiKwik, Affirm
Bitcoin payments	To use digital currency to make payments faster and more secure	Coinbase, BitPay
E-commerce payments	To provide payment solutions for the e-commerce market that are geared to the challenges facing online merchants	Klarna
Connected card payments	To offer all-in-one connected credit cards as a key link in the payments value chain	Coin, Stratos
Money transfer services	To provide digital solutions for sending money quickly and cheaply across borders	Transferwise, Remitly

Table 3: Categories of payment startups (Adapted from CB Insight 2015)

Although the categories in Table 1 are not confirmed through academic researchers, it illustrates the complexity of payments as a whole. The largest category is online payments, which has grown rapidly since offering payment processing. Because of the high costs of sending and following up on invoices, some of the new market entrants have concentrated on using technology to automate invoicing. Point-of-sale systems (POS) were formerly provided by large hardware suppliers, but the latest developments in hardware technology has made it possible to offer cheaper integrated solutions e.g. to attach to a smartphone or pad. Personal payment services make transactions stress-free while also reducing the time spent on banking platforms. Using Bitcoin for payments has become more common, and numerous startups are building supporting services for that market. Furthermore, there are several e-commerce payment providers concentrate on making payments easy for merchants. As the number of plastic cards in our wallets increases, a number of startups have created “all-in-one” cards that combine these. Finally, money transfer services offer international payment transactions at a fraction of the service fee charged by traditional providers.

In order to understand the phenomenon in Finland, we reviewed payment related companies in the Finnish market. Most of the companies are working solutions that are not in direct customer contact but instead work around areas such as webshop payments and offer it as a solution. However, there was one exception: Wolt, which is a Helsinki-based high tech startup founded in October 2014. Wolt has developed a “simple to use” mobile application that allows consumers to order and prepay for products from nearby restaurants, cafeterias and bars. The major value-add of this application is that it enables customers to pick up orders quickly and avoid queueing. During data collection for this study (in summer 2015), Wolt expanded their service offering to home delivery. At that time, the company was less than a year old but had expanded the number of restaurants covered by their service to more than 200, including well-known Finnish brands such as Kotipizza.

In Wolt’s case, simplicity is the key for both consumer and merchant; the process needs to be logical for both parties, and payment should not be the main focus. Ownership of the purchased good is transferred while the process is ongoing, and all documentation (such as receipts) is delivered automatically in digital format. The service comprises two separate apps: one for the

consumer and one for the merchant. The consumer app enables complicated orders to be placed in a matter of seconds. Being a Wolt user is free of charge, and their loyalty as well new user acquisition for Wolt is rewarded in the form of credits. On the merchant side, one major enabler of Wolt's early success was the ability to integrate into any existing point-of-sale system without additional technology. As Wolt's revenue is generated by a small transaction fee, there is no signup cost for new merchants. Wolt's business model is facilitated by direct contracts with banks and card issuers, which makes it possible to offer the service with a competitive price.

Looking at the categories of payment services in Table 3 above, it is challenging to locate Wolt within this framework. This is because, rather than being just a standalone payment option, Wolt has built its business model around the core consumer process of ordering food or beverages. The salient category, then, is "Personal payment services," as customers provide their payment card information when signing up with Wolt and subsequently use their Wolt account when paying for orders. From data collection point of view, Wolt representative interviews were valuable, for institutional barriers really become explicit during the launch process of this new kind of payment service.

## 4. Institutional logic as a barrier to digitalizing payments

### **Cultural-cognitive aspects**

Cultural-cognitive aspects refer to the shared conceptions that constitute a given social reality and the frames through which meaning is created (Thornton et al., 2012). In a payments context, for example, how consumers usually pay, or how they believe they must pay, is closely linked to their cultural-cognitive background. In the present case, this influence could be seen among both service providers and consumers. One typical explanation for the stagnation of payment service development or consumer expectations was “this is how we are used to paying.” Our research identified two central cultural-cognitive barriers to digitalization of payments in Finland: Consumer behavior and bank dominance.

### ***Consumer behavior***

Consumers are used to concrete payments; when you pay, you use some established means or device. For centuries, cash has been the standard means. More recently, credit and debit cards preceded mobile phone payments, using the same chip as in cards. Payment integration and embedding in the primary consumer action lies beyond traditional payment institutions. In the case of Wolt, for instance, the consumer makes a contract with the service provider for future payments by giving permission to complete the payment automatically at the moment of purchase. Based on that permission, the service provider then takes care of the payment process.

*Old local infrastructure and (consumer) habits have blocked out new players like PayPal and Klarna. (Payments Expert A)*

*Consumers are so deeply into card schemes. Since the 1970s, they have been used to withdrawing money from ATMs to pay for everything they buy, and now to make person-to-person payments as well. ---- There was the old infrastructure, and the old habits. (Payments Expert C)*

### ***Bank dominance***

Traditionally in Finland banks have dominated the relationship with consumers, who seem to have accepted that position. Banks have had authority over their customers because what they brought to the market determined the standard for payment services. In general, the institutional position

of banking and banks c.f. customers is the historic reason why banks have dominated the relationship. Banks have not been service firms as such, but legitimated institutions under strict regulation without real competitive threat until new entrants and FinTech firms entrance since 1990's. In Finland, payments development and the use of digital means have been modern compared to many other markets. Customers have been pleased to digital services e.g. for the removal of checks already in the 1980's. However, it does not diminish the influence of bank dominance, which might be due to cultural drivers.

*Customers have been steered toward using payment methods favored by the bank.  
(Payments Expert A)*

*Card payment services have been dominated by US schemas; Visa, MasterCard, Amex. (Wolt founder C)*

*Banks have huge sales organisations; they can always sell more their own products.  
(Wolt foinder A)*

*Banks directed customers to withdraw money from ATMs rather than at a branch.  
(Payments Expert C)*

## **Normative aspects**

Normative aspects refer to the rules prescribing rights and privileges, as well as responsibilities and duties, based on the institution's experience (Jackall, 1988; Ocasio, 1999). In the payments area, for example, established players may share common norms for goals and their execution while new players may have different values and norms (Scott, 2008). In the present study, we identified the following normative barriers to payments development: Security lack of co-operation inside the banking industry, lack of competencies, technological lock-in and path-dependency of payment-action-related choices.

## ***Security***

All market parties, including regulators, banks, and consumers, emphasize the importance of security as a feature of payments. This implicitly suggests that new payment methods are not necessarily perceived as secure. Banks are considered to be reliable and therefore customers are confident to use payments offered by incumbent banks. In Finland, the share of digital payments is already vast, and therefore services like PayPal or Apple Pay offered outside of the traditional sector have not reached notable market share. However, to an average consumer, it is challenging to evaluate the risk level of services, regardless if they are offered by an incumbent or a new market entrant, for example a FinTech startup.

*Customers see online payments insecure. They do let their cards to be taken at the back-office in kebab-pizzeria out of their sight but are not willing to give their card information when shopping on-line. (Wolt founder D)*

*It is not possible for consumers to estimate the risks of payment security. --- Security is perhaps the most significant barrier to payments development. (Payments Expert A)*

*If the service provider is known for reliability, that refers also to the trustworthiness of the service. (Payments Expert C)*

## ***Co-operation inside the banking industry***

Until 1994, the Finnish banking system was very closed, with no real competition outside the local market. The 1994 EEA agreement opened the market, but entry by foreign banks remained slow (Lähteenmäki, 2006). Local banks have been used to close cooperation through the banking association. Our data indicates that this has led to normative, mutually reinforcing thinking among industry experts.

*You need a kind of consortium or value chain to offer [a payment service]; you can't operate alone. (Payments Expert B).*

*The payment system was highly structured and defined by the cooperation between banks in the banking association ---- The bank card scheme was a cooperative effort to reduce the amount of cash in the payment system. (Payments Expert A)*

Clearly, earlier payment service development was based on the needs of the banking sector rather than the needs of consumers. The choices made created a strong path dependency for development in a relatively stagnant environment. Innovations in payments were rather incremental than disruptive for the banking industry. Cost efficiency was more important driver than for example competition and service differentiation. An interesting question is how financial technology can change the current status quo of consortium or value chain need (the need of scale) rather than service differentiation (scope)? Furthermore, the role of Finnish Banking Association as a vocal union is unclear since FinTech firms are questioning the traditional role of cooperative effort.

### ***Lack of competencies***

From a normative perspective, one of the issues was the lack of business development competencies in established banks. Our qualitative analysis shows that this formerly regulated and protected business area did not need the same level of competencies before as it does in the current more open and competitive environment. Because of the protected position, established banks did not need to concentrate on differentiating service offering. Partly this might have been due to the lack of suitable competences. Markets opening, changes in regulation, new market entrants, and FinTech phenomenon in general have changed the competitive environment. Therefore, new employee competencies needed, such as innovativeness, flexibility, customer centricity and open-mindedness have caught the attention of incumbents.

*Banks have not been very flexible because of the lack of competition --- It was not critical to consider other development options. (Payments Expert B)*

### ***Technological lock-in***

Banks have often been early adopters of new technology. However, early innovations have led too easily to lock-in to a certain technology, restricting further development in this regard. In

particular, early investment in mobile technology at the end of 1990s in Finland was seen as a strong barrier to benefiting from next-generation technologies now.

*Strong investment in electronic purses, mobile payments, and WAP (wireless application protocol) at the beginning of the Millennium may have locked us into that legacy of first-wave electronic payments. (Payments Expert B)*

*It's as if things are concreted in—you can't touch them, and our world goes no further. (Payments Expert C)*

### ***Path-dependency of payment action -related choices***

In a long history, the digitalization of first payments transactions began in the 1960s, and transactions have since been automated by established banks in many ways. However, the actual payment action has been locked into cash or cards, and the consumer always uses some means or device.

*Consumers got used to cards—first with ATMs, then to pay for their groceries shopping, and later for online purchases. (Payments Expert A)*

*NFC [near field communication] technology for paying without a PIN code for both in cards and smartphone payments, was seen as a great innovation. However, you still need to use some kind of device to pay. (Payments Expert C)*

### **Regulative aspects**

*Payment regulation causes huge amount of costs in the form of compliance. (Wolt founder A)*

The first meaningful regulative event in this payments context was the Single European Payments Area (SEPA) initiative to improve cross-border payments efficiency for the Euro. The aim was to increase competition between banks inside the Eurozone. However, our data indicate that the effect

of SEPA for consumers was more negative than positive. Earlier (pre-SEPA) Finland, along with several other European countries, had their proprietary, internal payment systems offering fast and cheap money transfers inside their respected country. SEPA harmonized payments in euros under the same basic conditions, rights, and obligations, but also steered payment transfers to circle outside of the home country. Our experts did not see this being only beneficial for consumers.

*SEPA did not improve the user experience. On the contrary, consumers who make payments mostly within their own home country have more to do when making a wire transfer. (Payments Expert B)*

PSD2 is expected to impact on the payments industry, as banks will be required to open APIs to third party providers. This means that startups can exploit institutional barriers to offer their services to consumers using the same bank payment API.

*PSD2 will open access to customer bank accounts [data] for third party players. (Payments Expert B)*

The issues outlined above serve to clarify the formation and difficulty of renewing institutional logic in the payments context, offering distinct reasons for the legitimation of institutions. According to Powell (2007), it is important to understand which factors are most important in strengthening or weakening the current social order. Our research confirms that Finnish banks, authorities, banking associations, banking employees, and customers have together formed an institutionalized community with common and shared values and meanings, increasing the sense of security and trust for actors inside that community as compared to those outside (cf. Wooten and Hoffman, 2008). This institutionalization may lower transaction costs by virtue of higher reliability and internal communication between actors (North, 1990). On the other hand, institutions may also increase transaction costs (Goodin, 1996); For example, payment services card schemes and technologies originally designed for ATM withdrawal became the status quo for all kinds of payment, preventing the emergence of more cost-effective methods.

### **3.3. New entrants versus institutionalized beliefs**

The above analysis describes the barriers limiting or preventing new forms of payment service emerging. However, the payments experts (representing the established banking industry) also mentioned several respects how new entrants could compete against the traditional banks, using existing barriers as levers for their own capabilities and new approaches. Based on our analysis of the interviews with established bank experts, we were able to identify four perspectives that help to understand the advantages for new entrants: *consumer, payment, bank, and technology*.

From consumer perspective, the experts referred repeatedly to millennials and to younger consumers' using smartphones for everyday purposes. Being a digital native has given them greater control but also higher expectations towards the service providers.

*This generation of mobile phone users always carry their mobile phones; the user experience is already in place. (Payments Expert C)*

*Consumers have noticed that they can tender payments services (Payments Expert B).*

*I believe that payments will be abstracted in long term. (Wolt founder C)*

From payment perspective, the role of the payment practice itself is diminishing, which means that location and time are no longer relevant. It has also become easier for consumers to compare different services and to find the most convenient solution without thinking about the payment per se.

*Payment is never the primary origin [of the process]; modern technology allows payment integration into the basic thing: what you want to do. (Payments Expert B)*

*To some extent, these new services make location and time of day irrelevant. At the same time, consumers have realized that they can compare different services. (Payments Expert C)*

*Convenience [of the payment process] is more important for consumers. It can even be a little more expensive if it is easier to use. (Payments Expert A)*

From a bank perspective, the barriers are obvious. Banks used to lead technological development, however lost that position because of their existing technical and cultural set up. Banks are not familiar with rapid changes in the market. This means that their responses take time and this creates window of opportunity to the new market entrants.

*Banks were early adopters of technology and the Internet. However, the situation has been stagnant for the last fifteen years --- Banks are not used to competition. Traditional banks are not flexible environments [for new innovation]. --- Banks are tied to massive payment systems [Swift, card schemes]. (Payments Expert B)*

*Banking business is so shielded by regulation. (Wolt founder C)*

*We have that “can’t touch that one” attitude; we are cemented in, and this world goes no further. (Payments Expert C)*

*Visa has announced that when regulation (referring to PSD2) forces into competition, it weakens innovation, makes things more expensive, and complicates customer service. (Wolt founder B)*

From technology perspective, the experts saw increasing possibilities, and FinTech startups were not seen as a negative factor. Instead, moving toward more flexible platforms and structures is seen as an opportunity also for banks to innovate. PSD2 will enhance this development, and FinTech may be the long-awaited catalyst for financial industry.

*PSD2 opens up access to customers’ account information and payment processes --  
- In a way, you can open a bank without being a bank ---- When we start to use  
account transfers for our purchases, and for person-to-person payments as well, it  
introduces new possibilities and maybe also brings banks back to better payments*

*innovation --- There is increasing “Intel Inside” kind of thinking (Payments Expert B).*

*Electronic wallets, mobile payments, WAP... locked us into that legacy --- FinTech is a great opportunity to break the old legacy infrastructure (Payments Expert C).*

Overall, although the established banks have enabled the opportunity for new entrants and FinTech firms, several institutional factors were identified as barriers to development for all payment service providers. These include *consumer behavior, lack of competencies within established banks, technological lock-in, path dependency, and issues of regulation*. The findings indicate that all three institutional aspects (cultural-cognitive, normative, and regulative) contribute to the success of new payment methods offered by new entrants. In addition, our analysis identified entry factors related solely to the competencies of new entrants and FinTech firms.

### **3.4. New entrant’s competitive edge**

What can be new entrants’ competitive edge against the incumbents in this new situation? Our analysis highlights especially four differentiating competencies, which are *customer centricity, simplicity, innovativeness, and technological edge*.

*Banks prefer to focus all their efforts on satisfying institutional investors or shareholders, and no bank seems to specialize in user experience design (Wolt founder A).*

*User interfaces do not seem to be specialty of any bank (Wolt founder C).*

This view concurs with banking industry experts that originally development of payment services was driven by internal needs of banks rather than consumer needs.

*Simplicity* combined with customer centricity was also brought up. This further highlights the focus to customer experience.

*We have everything as little as possible. Customer does not use any payments mean, and the shop-keeper does not handle money or money transfer. Shop-keeper uses his/her old point-of-sales devices. Customer gets electronic receipt and no paper is needed. (Wolt founder C)*

*Our focus is on user experience. There are two user experiences in our case: the customer and the sales-person in the restaurant. (Wolt founder A)*

Simplicity is important for merchant as well as customer's processes. Hence, payment is understood being in a supportive role not as core service per se. Furthermore, payment is not the primary process for either of the parties, and the less they have to manage it, the better is the user experience.

Finally, *innovativeness* seems to be a significant feature.

*Banks have concentrated on payments processes for decades. However, we noticed that there is nothing wrong with existing processes, but the main challenge is payment transactions as such (the actual payment execution at the point-of-sale). (Wolt founder D)*

*On-boarding is very complicated process of traditional banking service. We used Facebook application programming interfaces (APIs) to on-board the customer with SMS message confirmation.*

Wolt's founders suggested that a bank with an API-based strategy could prove to be very successful, since many startups seek for a partner to build in-app payments. In addition, Wolt's founders envisage that the institution of payment will increasingly be integrated in the core service process, and actually many recent services have moved in this direction. As an example the Wolt's founders mentioned Uber, where the consumer does not even notice the payment, as it is integrated in the process. Wolt's founders also believe that the future of grocery stores will involve home

delivery rather than going to the supermarket. They anticipate that smaller merchants will join the service first, with larger corporations following once the critical mass of users is reached. Branded apps such as Starbucks they do not consider as a threat because:

*“--In the long term, consumers would prefer to use one app for several shops and restaurants (Wolt founder A)*

## 4. Discussion and conclusions

This study sought to identify the main institutional barriers in developing digitalized customer interaction and through one case example understand what kind of challenges a newly established enterprise has to overcome when launching a mobile payments service. In particular, our empirical data clearly show that institutional factors (cultural-cognitive, normative, and regulative) affect adoption of new digital service innovations in the highly institutionalized payments setting. Our study confirms that while status quo institutions create many barriers that can block innovation, those barriers can also serve as catalysts for the creation of new services by institutional entrepreneurs. Hence, services that are relevant for the consumers can be created by the new market entrant although the institutional barriers have been keeping the incumbents from doing them. In other words, incumbents and also consumers have been locked-in the old institutional way of thinking, while new entrants are free of the same barriers. In line with Greenwood and Hinings (1996), our research supports the view that institutional logic offers an appropriate framework for understanding the factors that influence adoption of such innovations in highly institutionalized settings.

The current study identifies *consumer behavior* and *bank dominance* as cultural-cognitive factors influencing payment service innovation, likewise *security*, *cooperation within the banking industry*, *lack of competencies*, *technological lock-in*, and *path dependency of payment-related choices* as being influential normative factors. Regulative aspects are characteristically EU-level rules as strong regulative factors that hinder development of the new business logic of digital services. However, while institutional logic limits the need for established actors to change within their traditional context, it also creates opportunities for new players. Our study reinforces the view of Battilana (2006) and DiMaggio (1988) that institutional entrepreneurs can create entirely new procedures without the burden of the past, enabling them to challenge the institutions.

According to DiMaggio (1988), institutional entrepreneurs modify old institutions and create new ones by accessing resources that support their own interests. To understand how startup firms have been able to break the institutional barriers, we have to understand how those resources enable

innovation. As all those resources were also within the reach of established banks, startups' main resource was their ability to think outside the box, which we characterize here as the startup mental model. For example, Wolt's founders believe that the user experience of paying will change and the payment element of the process will disappear; when smoothly integrated into the process, the consumer does not even notice the payment. The following figure encapsulates our key findings regarding the differences between an incumbent and a startup in terms of institutional barriers.

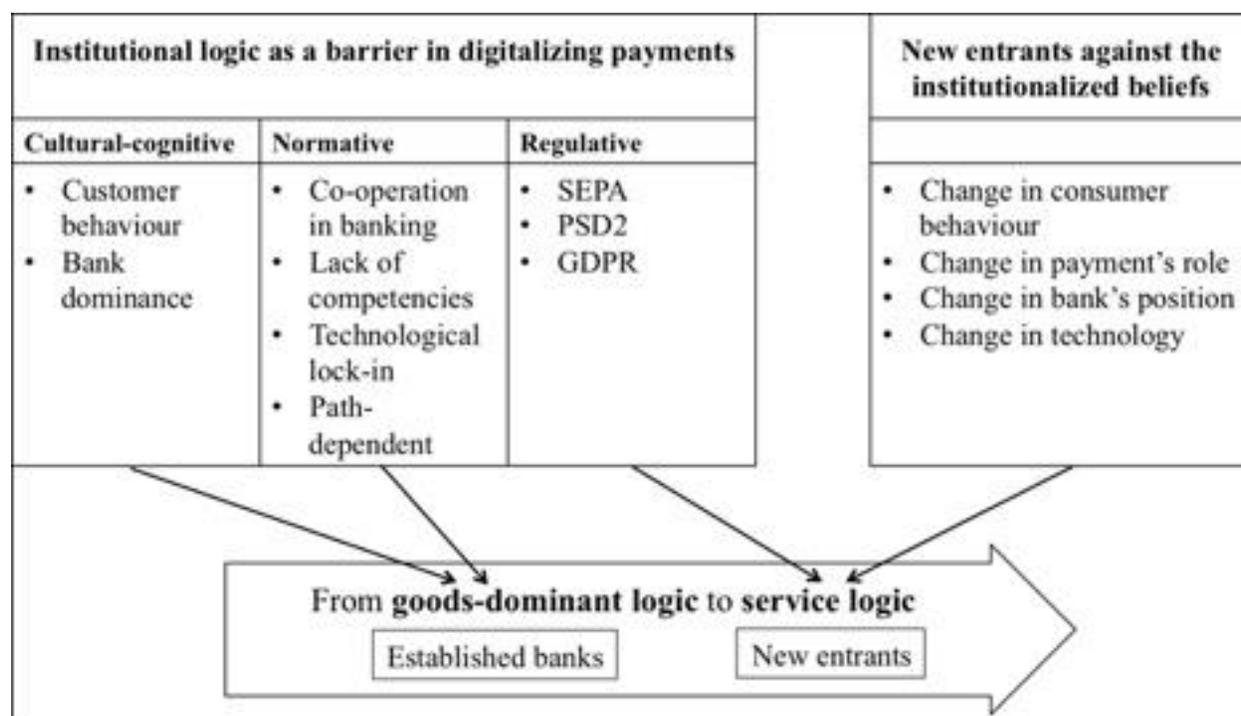


Figure 1. Institutional logic as barrier and enabler of new innovation

Figure 1. shows how *cultural-cognitive* and *normative* reasons have hindered the innovation of customer-centric new services in payments area, which explains also why established banks can be described as goods-dominant by their business logic. Furthermore, regulation has been protecting the traditional banking sector, thus strengthening the goods-dominant logic. During our research, we observed how recent changes in regulation have enhanced the move from *goods-dominant* to *service logic* by opening the competition for new entrants.

The present study demonstrates strong managerial implication that innovation can be created with relatively few resources and within a limited timeframe. Corporate executives should explore different ways of cooperating with promising startups and should fully assess the cost of creating new services in-house. Examples that our Wolt example has demonstrated to create better customer experience in payments area are such as easier and faster on-boarding process of the service, integration and abstraction of secondary service (i.e. payment) into primary service (food ordering), real-time follow-up of the service process, reverse use of customer data, automatic registration of transaction (no use of concrete payment device or receipt), integration of new service into existing legacy (no need for new point-of-sale device), and the use of social media (group “Wolt&Friends” was created before the launch operating as a platform for early adopters). Wolt ‘s core team of just six people was able to turn their concept into a functioning and scalable business model in less than six months. This confirms that, with the right thinking and allocation of resources, big companies could in principle develop several Wolt-like ideas for serving existing customers or acquiring new ones. However, big organizations need to find some effective means of generating new ideas, as many are invented outside the organizational context. In general, Wolt’s idea is not groundbreaking, and it can be assumed that some bigger corporation has already had a similar idea; what matters is that the capability to execute ideas.

Furthermore, this research paves the way for future research. While this paper looked at one market and one informative company, it is important to acknowledge that this is only one case study within a particular market (Finland), with its own special characteristics. The study could usefully be repeated in other markets to compare results and develop a better understanding of this phenomenon. As there are several other companies building their service around a similar kind of “hiding-the-payment” approach, a multi-case study could be done within the same industry. Additionally, a cross-industry study would provide a broader view of these issues.

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