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# **Institutional Voids and Firms' Resource Commitment in Emerging Markets: A Review and Future Research Agenda**

## **Abstract**

The impact of institutional environments on firms' strategic decisions has been examined in strategy and international business literature. Yet, the current state of knowledge about how institutional voids affect firms' resource commitment in emerging markets is equivocal. This paper reviews and develops an integrative framework that maps the key conceptualizations, theoretical frames, mechanisms, contingencies and outcomes in the institutional voids – resource commitment literature. Altogether, this paper structures institutional voids and resource commitment research into salient themes to help scholars scope the field and explore value-adding avenues to further our understanding of internationalization and resource commitment decisions in emerging markets.

**Keywords:** institutional voids, institutional environment, resource commitment, entry modes; emerging markets

## 1. Introduction

A critical issue multinational enterprises (MNEs) face when making resource commitment decisions in foreign markets relates to ‘how to respond to the institutional environment’ (Doh et al., 2017). The institutional environment significantly impacts firms’ strategic decisions and actions (Peng, 2003; Wright et al., 2005). Well-established market supporting institutions serve as the foundation on which firms thrive, while underdeveloped market supporting institutions create ‘*institutional voids*’ (Khanna and Palepu, 1997) that undermine firms’ success. Khanna and Palepu (1997, 2010) describe institutional voids as absent or inefficient market-supporting institutions required to consummate transactions in an economy<sup>1</sup>. These underdeveloped market-supporting institutions hamper market interactions, increase transaction costs, cause economic inefficiency (Khanna and Palepu, 1997) and subsequently shape firms’ resource commitments in foreign markets. Institutional voids can characterize any type of economy, but they are particularly persistent in emerging markets

The literature on firms’ resource commitment in foreign countries has grown substantially over the past two decades. Within this literature, there is a burgeoning stream of works about how institutional conditions affect investments in foreign markets. While we acknowledge the unquestionable merits of these works in aiding our understanding of how institutions shape firms’ investments, we also note that the research is highly fragmented across various disciplines including strategy, international business (IB hereafter), entrepreneurship and marketing (e.g. Li et al., 2010; Li and Rugman 2007; Meyer et al. 2009a; Meyer et al., 2009b; Nakos and Brouthers 2002). Consequently, scholars have examined and contributed to the topic from different lenses,

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<sup>1</sup> Institutional voids emanate from the absent or unreliable sources of market information, uncertain regulatory environment, and inefficient judicial system and strict bureaucratic process to establish and enhance business transaction. Examples of market institutions are banks, who allow firms to access financial resources and loans; market research firms, who offer firms information on competitors, suppliers and customers; courts and arbitrators, who allow firms to resolve disputes regarding law and private contracts.

particularly drawing on various theoretical viewpoints and using diverse conceptualizations (Cuypers and Martin 2010; Zhao, Luo, and Suh 2004).

Moreover, though previous reviews have attempted to scope the corpus, they have mainly focused on reviewing the literature on “silo” or individual concepts such as institutional voids (see Doh et al., 2017) and singular resource commitment indicators such as entry modes (see Brouthers and Hennart 2007; Datta et al., 2002; Zhao et al. 2004; Tihanyi et al., 2005) and foreign direct investment (e.g. Assuncao et al., 2011; Blonigen, 2005). Therefore, these reviews do not adequately render an integrative analysis and discussion of the diverse and disparate literature on institutional voids and resource commitment, resulting in a partial picture of the state of research on the topic. Importantly, these reviews do not specifically address the intersection of institutional voids and resource commitment. For instance, Doh et al. (2017) discuss how firms respond to institutional voids using internalization, substitution, borrowing and signalling, but these strategies do not necessarily indicate resource commitment. Similarly, Beugelsdijk et al. (2018) examine cultural distance and firm internationalization, but cultural distance does not necessarily equate institutional voids (e.g. two advanced countries could have cultural distance). Through our focus on voids, we extricate institutional weaknesses from other wider institutional conditions (e.g. cultural distance). Similarly, through our focus on resource commitment, we transcend the narrower treatise of internationalization (e.g. entry modes and ownership) covered in previous reviews (e.g. Morschett et al., 2010; Surdu et al., 2018; Beugelsdijk et al, 2018). This moves us towards a more comprehensive understanding of the relationship between institutional voids and resource commitment in emerging markets.

This review is particularly important because the institutional void-resource commitment relationship is theoretically and practically important for IB in emerging markets, and thus deserves devoted attention. There has been a significant increase in the amount of resources committed to developing and emerging economies in Asia, Eastern and Central Europe, and South America. For

example, about half of the top 10 host countries for FDI flows in the world are emerging economies. FDI flows to these economies reached a new high of \$765 billion in 2015 (9 percent higher than in 2014). Among emerging economies, those in Asia remain the largest recipients of FDI, valued at half a trillion dollars (UNCTAD, 2016). However, firms entering emerging markets encounter high levels of institutional voids such as absent or unreliable sources of market information, uncertain regulatory environment, inefficient judicial systems and strict bureaucratic processes (Khanna and Palepu, 1997, 2010). Thus, there is a growing need to better understand how firms deal with institutional voids and how these voids reflect in their resource commitment decisions.

To this end, we adopt a multi-theoretical integration approach to critically review and comprehensively synthesize the extant literature. We focus on how institutional voids and resource commitment have been conceptualized and operationalized; the theoretical lenses used to examine the topic and how those lenses have evolved over time; and the general direction of the findings. We must caution that this is not a meta-analytic review. We are not interested in pooling previous studies to investigate whether there is strong statistical evidence for a negative or positive impact of institutional voids on resource investments. Rather, we synthesize the literature, with the overarching aim to foster a better understanding of the current state of research on the topic and to map out a future research agenda. In this sense, our review covers more facets of the institutional voids-resource commitment nexus than a meta-analysis would address.

This paper makes an important contribution to the IB literature. We respond to the fundamental question of how variations in formal and informal institutions influence economic activities in foreign markets and by doing so, delineate an outlook for future research. Our critical review takes stock of the current knowledge, gaps and problems regarding the institutional voids – resource commitment relationship. We found that authors do not agree on how institutional voids shape firms' resource commitment. We also found standalone applications of the theoretical frameworks used to examine the institutional voids-resource commitment nexus. Further, we note

varying and “distant” conceptualization and operationalization of *institutional voids* and *resource commitment* constructs. These findings provide impetus for a new research agenda that will generate deeper insights and stronger understanding of the relationship between voids and resource decisions.

The remainder of this paper is structured as follows. First, we provide a brief background of the main literature and then proceed to describe our methodology. We then discuss the findings and note the limitations in the literature. We conclude by discussing the implications of the review and outlining future research directions.

## **2. Background: Institutional Voids & Resource Commitment**

The role of “institutions” in firm behaviour and firm success is one of the core issues in IB research (Doh et al., 2017; Peng, 2003; Wright et al., 2005). While the term “institutions” has been defined differently, it simply refers to a basic framework constituting a set of norms, rules, and beliefs (North, 1990). Institutions influence strategic decision making in MNEs, mainly as political, legal and administrative procedures and systems are key factors which, directly and indirectly, affect the attractiveness of foreign markets (Henisz and Macher, 2004; Hoskisson et al., 2013; Peng, 2003; Wright et al., 2005). Institutions create a stable market structure, reduce uncertainty, and facilitate transactions (Meyer, 2001). In support, Khanna and Palepu (2010: 21) argue that: ‘to reduce the transaction costs that arise from the differential information between buyers and sellers and to limit potential conflict of interest, markets need institutions to intermediate between buyers and sellers of goods, services, and capital’.

While the importance of institutions cannot be overemphasized, it is worth noting that institutional strength varies across countries and regions. In places where institutions are underdeveloped, there is often the absence of intermediary mechanisms to effectively connect buyers and sellers and support market formation, leading to institutional voids, high transaction costs and market inefficiency. Voids may be present in a broad spectrum of markets, but they tend to

particularly characterize emerging markets (Khanna and Palepu, 1997). Consequently, most IB studies in emerging and developing countries seem to explicitly or implicitly address voids.

In recent years, the IB literature has increasingly focused on emerging markets (Doh et al., 2017; Hoskisson et al., 2000; Kim and Song, 2017; Peng et al., 2008; Wright et al., 2005). These markets have high potential due to their large market size and hence serve as investment destinations for many firms from developed economies (Khanna et al., 2005). However, institutional voids pose constraints in these attractive markets, affecting firms' decisions (especially those from developed countries) to commit resources (Landau et al., 2016). Deficiencies in market-supporting institutions such as regulatory systems and contract-enforcing mechanisms in emerging markets can obstruct internationalization. This implies that a firm's decision to commit resources into foreign operations is somewhat contingent on the quality of market-supporting institutions in the host country.

The amount of resources to commit in foreign markets is a vital strategic decision that has implications for success. Resource commitment is defined as the set of dedicated assets (physical or human) that cannot be reallocated to different uses without incurring a cost (Hill et al., 1990; Randoey, 1997; Vernon, 1979). It entails the assignment of "tangible and intangible entities available to the firm that enable it to produce efficiently and/or effectively a market offering that has value for some market segment(s)" (Hunt 2000: 85). Resource commitment is not a static or one-off decision. Rather, it evolves depending on prevailing institutional conditions. For instance, a firm may gradually scale up its commitment in a foreign market from using outside agents (e.g. local sales agencies, franchisees, or licensees) to internalizing and directly owning foreign operations (Forsgren, 1989).

According to Harrigan (1981), resource commitment represents an exit barrier that has the capability to limit the strategic flexibility of the firm. When the level of resources invested is extensive, firms cannot exit foreign markets without incurring significant sunk costs. IB scholars suggest that sunk costs form a very real *perceptual* exit barrier that challenges and restrains firms'

capability to respond to environmental change (Staw, 1982). Therefore, resource commitment is a crucial decision to make, especially in emerging markets that are typically fraught with institutional voids. Despite this obvious relationship between voids and investment in foreign markets, there is a paucity of studies dedicated to synthesizing extant research to further our understanding of the topic. Our focused and comprehensive review is therefore timely and important, mainly as it structures the fragmented and disparate literature body to generate meaningful insights and carve out a future research agenda.

### **3. Method**

We adopted a systematic literature review approach similar to that proposed by Cooper (1989) and Fink (2009). We explored online databases to identify relevant articles focused on the influence of institutional environments on firms' resource commitment in emerging markets. We searched Business Source Complete (EBSCO), ABI/INFORM, Scopus, and Web of Science databases. We chose these databases for their comprehensive coverage and indexing of important business, management and economics journals. Because firms' resource commitment and institutional voids have been conceptualized differently, we scoped article titles and iteratively combined various keywords to search the databases (see the appendix). To ensure complete coverage and to avoid the possibility of overlooking relevant studies, we also carried out snowball search (Greenhalgh and Peacock, 2005) by checking the reference lists of all identified articles for other relevant studies. We did not limit ourselves to specific journals or journal lists/ranks as previous reviews did (e.g. Surdu et al., 2018), mainly as we wanted a representative coverage of corpus on the topic. Nevertheless, we targeted indexed journals hosted by major publishers (e.g. Elsevier, Springer, Emerald).

Our search procedures resulted in over 1,600 articles across the databases. We selected the sample in two stages. In the first stage, we read the abstracts and identified articles that were exclusively focused on voids and resource commitment. The studies eligible for inclusion in the sample had to meet the following criteria. First, they must directly examine the influence of institutional voids on firms' resource commitment, for instance, how legal restrictions in host



markets affect the amount of resources deployed into that market or how institutional requirements or configurations in foreign markets influence FDI inflows. In this sense, papers that focus on foreign entry modes, FDI inflows, and technology without direct links with the institutional environment were excluded. Second, the study must be published in English. Third, it must be published in a peer-reviewed journal. Therefore, our review excludes books, book chapters and other non-refereed publications. Finally, all or some of the host countries must be developing/emerging. Applying these criteria resulted in the initial selection of 196 articles.

In the second stage, we read the introduction and methodology sections of the 196 articles to ensure that they were relevant. We eliminated 114 articles that did not meet the inclusion criteria or whose focus was unclear, leaving a final sample of 82. These 82 articles were published in 35 peer review journals between 1996 and 2017. 76 of the articles were empirical, 3 were theoretical, and 3 were meta-analyses. Table 1 shows the top 15 journals included in the review, and Table 2 shows the distribution of papers per year. Following literature (see Brouters and Hennart, 2007; Canabal and White, 2008; Coviello and Jones, 2004), we content-analysed each study for key findings, theoretical framework, key variables (i.e. operationalization of dependent and independent variables) and contextual dimensions (i.e. geographic focus in terms of home or host markets, developed versus developing markets, industry, etc.) and coded the findings accordingly. To increase reliability and accuracy, we (the authors) cross-checked one another's coding, discussed and used any discrepancies to further fine-tune the codes.

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## **4. Results**

### *4.1 Theoretical frameworks and Mechanisms (Mediators)*

In the reviewed articles, three theoretical frameworks dominate: Institutional Theory (North, 1990; Scott, 1995), Transaction Cost Economics (Williamson, 1985, 1991, 1998), and the OLI

framework (Dunning, 1988, 1993). Other theories such as agency (Jensen and Meckling, 1976) and RBV (Barney, 1991) have also been used, albeit sporadically. The mechanisms underlying the institutional voids-resource commitment relationship are often dependent on the theories used. Hence, in this section, we discuss the theoretical lenses and their related mediating arguments (see Table 3 for a summary).

#### *4.1.1 Institutional theory*

Institutional theory is the most widely used theoretical perspective for exploring how the institutional environment influences firms' resource commitment decisions. The basic logic of institutional theory is that the institutional environment in a country affects a firm's scope of action and strategy, because it reflects the "rules of the game" (Brouthers and Hennart, 2007; North, 1990). Hence, firms' strategic decisions such as the amount of resources to invest are shaped by the level of institutional development of the host country.

Institutions are classified into formal and informal (North, 1990). Both have different implications on the set of actions and strategies firms must take. While informal institutions primarily represent the patterns of individual behavior and actions in a certain socio-cultural domain, formal institutions represent the rules or regulations necessary for establishing a balanced society (Peng, 2003). Scott (1995) classifies a country's institutional environment into three dimensions: regulatory, cognitive and normative. The regulatory dimension signifies the rules and laws accountable for the stability of society. The cognitive dimension contains the cognitive structures and mechanisms in society which are always taken for granted and lastly, the normative dimension covers the social and cultural values and norms in a society (Yiu and Makino, 2002). These dimensions have led to various conceptualizations of institutional voids in extant literature.

The regulatory dimension of institutional theory has been applied by majority of the researchers in several ways. First, the level of government intervention in host countries may cause firms to reduce their exposure through the use of cooperative arrangements such as joint ventures

(Luo, 2001), mainly as local partners could be used to favorably influence host governments and ease restrictions (Gomes-Casseres, 1990). Second, in emerging countries where regulatory environments are likely to be more restrictive (Arslan, 2012; Ang and Michailova, 2008), informal relationships with government officials and other actors are crucial for influencing and facilitating economic exchange (Xin and Pearce, 1996). This encourages the use of joint ventures (Huang and Sternquist, 2007; Morschett et al., 2010; Yiu and Makino, 2002), which allow MNEs to exploit local partners' indigenous networks or even gain valuable market knowledge (Delios and Beamish, 1999; Luo, 2001; Meyer et al., 2009a). Additionally, MNEs' quest to alleviate adaptation problems in institutionally voided contexts results in lower commitment entry modes (Hernandez and Nieto, 2015) which make it relatively easier for them to quickly and cheaply exit emerging markets in which they the encounter legitimacy challenges (Luo, 2001).

Over the years, the use of institutional theory to examine institutional voids and resource commitment has evolved in three main ways. First, between the late 1990s and early 2000s, scholars mainly focused on using the theory to investigate how protectionism, government stability and governance quality (e.g. corruption) affect resource commitment (Brouthers and Brouthers, 2003; Luo, 2001; Yiu and Makino, 2002). However, starting in the late 2000s, the theory has been applied to explore a wider range of institutional issues, including political freedom, economic freedom and information transparency (e.g. Chen et al., 2017; Kingsley and Graham, 2017). Recent scholarship has even gone further to explore how normative and cognitive pressures within institutional environments affect resource decisions (e.g. Arslan, 2012; Meyer et al., 2009). Second, the number of studies using institutional theory has significantly increased from the early 2000s. This time coincides with the age when: 1) emerging markets started to experience astronomical growth; 2) MNEs vigorously expanded into emerging markets; and 3) emerging market MNEs began to rapidly expand abroad. In essence, emerging markets gradually gained prominence in IB research, which in turn spurred the use of institutional theory to understand how the weak institutional conditions (including voids) prevailing in these markets affect MNEs. Third, scholars have begun to

conceptualize and perceive weak institutions and institutional voids as opportunities, especially for local and foreign firms that have the capabilities to fill or exploit them (Doh et al., 2017; Khanna & Palepu, 2010; Luiz & Ruplal, 2013). This shift, which is gaining momentum, challenges the core conception of voids as undesirable constraints that undermine market efficiency and business activity (Khanna and Palepu, 1997).

#### *4.1.2 Transaction Cost Economics*

Transaction cost economics (TCE) is the second most widely used theoretical perspective in the reviewed studies. The fundamental logic behind the application of TCE is that companies invest resources to create and establish governance structures (which represent various degrees of resources) that minimize costs and inefficiencies related to entering and running foreign operations (e.g. Anderson and Gatignon, 1988; Hennart, 1989; Williamson, 1985).

Transaction costs are made up of the costs of finding, negotiating and monitoring partner firms (Erramilli and Rao, 1993; Makino and Neupert, 2000; Williamson, 1985). Scholars using TCE maintain the argument that the costs of doing business influence entry mode (Taylor et al., 1998; Williamson, 1985). The underdeveloped market supporting institutions in a foreign market may increase the costs of finding and/or negotiating a contractual agreement either (1) because of the inability to estimate and include all contingencies and requirements in the agreement, or (2) because of the difficulties to negotiate a fair price as a result of information asymmetry (Taylor et al., 1998; Williamson, 1985).

The dominant TCE mechanisms influencing the relationship between institutional voids and resource commitments include transparency, predictability (risk), and contract enforcement (Meyer et al. 2009a; Ela et al., 2014). There seems to be a general agreement that weak institutions reduce transparency, increase information asymmetry and breed uncertainty (Arslan, 2012), which culminate in higher transaction costs (Khanna and Rivkin, 2001; Meyer, 2001; North, 1990; Tong et al., 2008) and reduce MNEs' resource commitment in host countries (Alvarez and Marin, 2010). In

fact, information asymmetry could cause firms to reverse their earlier commitments or pledges in foreign markets (Kim and Song, 2017). However, some scholars argue that opportunism and weak enforcement raise the cost of collaborations (Chang, 2012), causing MNEs to commit more resources via wholly-owned subsidiaries in order to retain control and avoid market failures (Brouthers and Brouthers, 2001; Luo, 2001).

#### *4.1.3 OLI framework*

Our review shows that some authors (see Agarwal and Ramaswami, 1992; Kumar, 1996, 2001; Sanyal 2004) used the OLI framework (Dunning, 1988, 1993) to examine how the institutional environment conditions a firm's decision to commit resources in foreign markets. The OLI framework is premised on the idea that firms' internationalization decisions are conditioned by three sets of factors: ownership (e.g. including firm size, firm's international experience, and the firm's technological capabilities), location (e.g. materials availability, market potential, legal restrictions, investment risk and uncertainties), and internalization (e.g. internalization cost stemming from the lack of control over the firm's operations in foreign markets, and/or the costs of finding and negotiating with a partner).

The central argument of authors employing the OLI framework is that resource commitment is dependent upon an MNEs ownership, location and internalization advantages (Agarwal and Ramaswami, 1992). For instance, the regime of intellectual property, market potential and risk, firm size and contractual risk are imperative factors in MNEs' investment decisions (Luo, 2001; Kumar, 1996, 2001). Parts of the OLI framework overlap with institutional and transaction cost theories. For example, the location element takes institutional considerations into account, and thus overlaps with institutional theory. Similarly, the internalization and ownership elements closely match transaction-cost logics.

In emerging market contexts, complexity of the institutional environments suggests that the encompassing OLI framework offers the best theoretical lens for understanding foreign investments.

It may have stronger explanatory power, but some scholars have questioned the framework's relevance for emerging market MNEs, arguing that it is best suited for developed market MNEs (Li, 2007; Mathews and Zander, 2007). To account for the unique issues driving the international expansion of emerging market firms, Mathews (2006) developed the Linkage-Leverage-Learning (LLL) framework. One of the key issues on which the OLI and LLL frameworks diverge is "ownership advantages". Unlike the former which proposes that MNEs internationalize by owning and utilizing superior resources, the latter advances that emerging market MNEs grow rapidly by developing external linkages to compensate for their resource deficiencies. Various applications of the LLL framework suggest that while institutional voids may cause firms to reduce resource investments by creating linkages such as partnerships, they also show that emerging market firms' quest to learn may overshadow their consideration of institutional voids in investment decisions (see Lu et al., 2017; Thite et al., 2016). It is worth noting, however, that later extensions of OLI have tried to incorporate institutions into the paradigm to address the challenge of ownership advantages in newer organizational forms, including emerging market firms (Dunning and Lundan, 2008).

#### *4.1.4 Resource-Based View (RBV) and Agency Theory*

RBV argues that competitive advantage is leveraged on the value, rarity, inimitability and non-substitutability of a firm's resources (Barney, 1991). This theory advances that competitive heterogeneity is determined by differences in firms' resource endowment, which can be caused by market imperfections or managerial discretions (Amit and Schoemaker, 1993; Wernerfelt, 1984). Agency theory focuses on principal-agent relationships, and explains how managerial intentions and discretions and corporate governance affect firm behaviour and shareholder value (Eisenhardt, 1989; Jensen and Ruback, 1983; Shleifer and Vishny, 1997). To a large extent, it is used to examine agency costs, information asymmetry, moral hazard and other agency problems arising from imperfect relations between shareholders and managers (Ang et al., 2000; Oviatt, 1988). Agency theory is also popular in management research, particularly in finance studies.

Our review reveals that some scholars have used RBV and agency theory to examine the institutional voids-resource commitment relationship. However, the application of these theories is sporadic compared to OLI, TCE and institutional theories. They are also often combined with other theories to explain resource commitment and are mostly used for advancing the boundary conditions of firms' investments in emerging markets. Scholars that apply RBV argue that the extent of a firm's commitment in a weak institutional context is shaped by its dependency on local resources and the type of resource (Meyer et al., 2008). In this sense, firms invest less when they rely on local assets, especially when those assets are intangible. Others argue that the quest for complementary resources or capabilities motivate collaborative investments that reduce commitment while others assert that international experience and the need to protect knowledge assets cause firms to escalate their investments in emerging markets (e.g. Luo, 2001; Quer et al., 2007).

Scholars using agency theory advance the argument that ownership structure is a significant element in resource commitment decisions (Filatotchev & Wright 2010; Ilhan-Nas et al., 2018). When market-supporting institutions in emerging markets are too weak to regulate corporate governance and there is a high institutional distance between the host and home countries, MNEs may cope and survive by using flexible entry modes such as joint ventures (JV) or lower equity ownership (Ilhan-Nas et al., 2018; Ramamurti, 2004). In this regard, not only will these decisions reduce the risks of investment in the host country, but they also help the MNEs to combat liability of foreignness (Zaheer, 1995), gain institutional legitimacy (Baum & Oliver, 1991) and secure access to important resources and capabilities needed for their operations.

Overall, all the aforementioned theories are mainly used in isolation, except for a few exceptions. Less than one-third of the reviewed papers combined theoretical lenses to examine voids and resource commitment (e.g. Brouthers, 2002, 2013; Morschett et al., 2010). Table 4 shows the trends of application of single and multiple theoretical frameworks. We observe that the number of papers using multi-theoretical frameworks increased since 2001, albeit at a marginal rate. This trend

resonates the increasing call for researchers to use integrated theories for examining IB phenomena, but the slow pace also resonates the difficulties of publishing multi-theory research in business and management journals. As the editors of *JIBS* note “a major mistake observed in *JIBS* submissions is related to the use of multiple theories for the study of a given phenomenon” (Bello and Kostova, 2012: 541). Challenges related to conceptual clarity, rigor and coherence make it difficult to conduct multidisciplinary or multi-theory IB research. It is perhaps fair to argue that unless editors and reviewers encourage and support theory integration, especially in this era of increased pressure and competition to publish, the trend of decreasing multidisciplinary research will continue. Among the papers using multiple theories, the most common pairings are institutional-transaction cost theories and institutional-OLI theories. Though two-theory combinations are more common in the literature, there are few papers that combine three theories (e.g. Demirbag et al., 2009).

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#### *4.2 Construct Conceptualization and Operationalization*

In this section, we focus on how extant literature has conceptualized and operationalized the institutional voids and resource commitment constructs. See Table 5 for a summary.

##### *4.2.1 Institutional Voids*

The review revealed that institutional voids have been operationalized using various variables. We classify these variables into four categories. First, a vast majority of studies use governance indicators such as the level of economic freedom, degree of political risk and stability, level of regulatory quality, and level of corruption and bribery as measures of institutional voids (e.g. Álvarez and Marín, 2010; Ang and Michailova, 2008; Brouthers and Brouthers, 2003; Chang et al., 2012 ; Demirbag et al., 2010; Elia et al., 2014; Hernández and Nieto, 2015). Second, some studies equate institutional quality with intellectual property protection. These studies use the state of intellectual property laws to measure voids (e.g. Delios and Beamish, 1999; Heyman and



Tingvall, 2015; Kumar 1996, 2001; Lou, 2001; Sanyal, 2004). Third, researchers who hold the view that protected markets are less efficient have used legal restrictions and government interventions as indicators of voids (e.g. Brouthers, 2002; Morschett et al., 2010; Arslan, 2012; Meyer et al., 2009; Yiu and Makino, 2002). Finally, and perhaps more pertinent to developing countries, some studies have operationalized institutional voids using resource accessibility (e.g. Meyer and Nguyen, 2005).

Besides the above conceptualization and operationalization of institutional voids, we also note a large volume of studies investigating the impact of *institutional distance* on resource commitment in foreign markets (e.g. Estrin et al., 2009; Schwens et al., 2011). It may be tempting to interpret *institutional distance* as an absolute measure of institutional voids, but the construct mainly refers to regulatory, cultural and ideological differences between a firm's home and host countries (Kostova and Zaheer, 1999; Schwens et al., 2011). As such, it does not necessarily suggest the presence of institutional voids. For instance, while there is institutional distance between the U.S and U.K, this distance does not indicate the presence of voids in either country. Other representations of distance, such as cultural distance (Kogut and Singh, 1988; Tsang, 2005; Pan, 1996), informal distance (Schwens et al., 2011) or normative distance (Ang et al., 2015) also focus on differences rather than voids. However, some studies, recognizing that voids are a function of between-country differences, have examined how institutional distance (with explicit reference to the presence of institutional voids in emerging countries) affect MNE foreign investments (e.g. Luiz & Ruplal, 2013).

In sum, most papers measured institutional voids by using governance indicators. These indicators, to a large extent, are linked to the regulatory domain of institutional theory (Scott, 1995). This reflects a common trajectory of identifying voids in only formal institutions, and suggests that MNEs may be mainly concerned about formal issues in emerging markets. As Doh et al (2017: 296) also note “only a handful of studies have considered institutional voids associated with more informal institutions or the absence or underdevelopment of normative and cognitive institutions.”

With the increasing prominence of local content regulations requiring local participation, voids in the other institutional domains of emerging markets are worth considering. For instance, voids in educational systems may create skill shortages or capacity insufficiencies for MNEs.

#### *4.2.2 Firms' resource commitment*

Resource commitment has been operationalized using the following: 1) entry mode (e.g. Brouther, 2013; Elia et al., 2014; Chang et al., 2012; Meyer et al., 2009); 2) level of technology or R&D transfer (Kumar, 1996, 2001 ; Lou, 2001; Sanyal, 2004; Cui et al., 2006); 3) equity ownership (Delios and Beamish, 1999; Pan et al., 2014) and 4) level of FDI (Hernández and Nieto (2015) (see Table 5 for details of these measures). Within each of these indicators, there are different degrees of resource commitment. Majority of the studies captured the amount of resource commitment in foreign markets by simply using the type of entry mode (usually a dummy variable) but not the actual 'value' of resources invested in the host country. The only exceptions are the few studies (e.g. Kumar 1996; 2001; Sanyal 2004; Delios and Beamish, 1999) that used R&D expenditure and ownership percentages to capture resource commitment. A small number of studies operationalized resource commitment using FDI (inflow and outflows). While FDI is a construct that can be captured at the firm level, the reviewed literature mainly operationalized it at the country-level by examining how institutional conditions affect the amount of aggregated FDI leaving home countries (Kolstad and Wiig, 2012; Stoian and Mohr 2016) or entering host countries (e.g. Pajunen, 2008). Whereas the use of inward FDI to measure resource commitment seems straightforward, that of outward FDI may not. However, it becomes clearer when considering that one country's outward FDI is another country's inward FDI. Essentially, outward and inward FDI are two sides of the same equation. In this sense, institutional conditions in home countries affect how much resources firms commit to foreign markets.

Resource commitment is multi-pronged and multi-faceted, and cannot be captured by single indicators. As we show later in this paper, singular measures are problematic. Entry modes, R&D

transfers, FDI and equity ownership are hardly independent. For instance, high levels of equity ownership and FDI are related to equity-based entry modes (e.g. JVs and wholly-owned subsidiaries). Similarly, equity-based entry modes may be associated with high internalization and a subsequent stronger incentive for R&D transfers. These observations warrant an integrated conceptualization of resource commitment as opposed to the current parallel or fragmented treatment. Further, while it is possible for firms to escalate their investments in foreign markets, resource commitment is often portrayed simplistically and cross-sectionally in the literature as a one-off decision or activity. Though a firm may enter a foreign market through licensing, it may subsequently deepen its commitment in the market through a wholly-owned subsidiary. However, studies barely examine such post-entry commitments, except for a few that found post-entry changes in the ownership structures of international JVs (e.g. Brouthers & Bamossy, 2006). Essentially, more IB research on the incremental nature of MNE investments is needed. Longitudinal designs, though posing data challenges, will be crucial for investigating the dynamism and evolution of resource commitment in emerging markets.

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#### *4.3 Relationship between institutional voids and resource commitment*

We found mixed results regarding the relationship between institutional voids and firms' resource commitment (Table 6). On the one hand, some authors (e.g. Chang et al., 2012; Delios and Beamish, 1999; Heyman and Tingvall, 2015; Meyer and Nguyen, 2005; Tsang, 2005; Contractor et al., 2014) advance arguments for, or found a positive relationship between institutional voids and resource commitment. The relevant causal argument provided is that, as institutional voids in a host country intensify, MNCs tend to increase their resource commitments to overcome institutional voids. For instance, instead of incurring higher transaction costs related to finding, negotiating and monitoring partners in licensing, franchising or JV arrangements, MNCs may opt for wholly-owned subsidiaries. Scholars argue that institutional voids motivate opportunistic behaviors due to the

asymmetry of information between entrant firms and their business partners in host countries (Casson, 1997; Meyer, 2001). As a result, MNEs (particularly those from developed economies that have established their operations on the pillars of good market-supporting institutions) may invest significant amount of resources to gain strong control over their operations and be able to flexibly undertake necessary actions for success (Tong et al., 2008; Ellis et al., 2018).

It is worth noting that while the IB literature suggests that voids may present opportunities for firms to exploit and may thus motivate higher resource commitments (e.g. Doh et al., 2017), the reviewed papers have surprisingly not alluded to this mechanism. Instead, the common rationale for higher commitments is void avoidance or void management, not void exploitation. Indeed, it is possible for MNEs to leverage their capabilities to transform voids into business opportunities, such as the provision of transaction facilitation, credibility enhancement, information analysis, aggregation and distribution services (Khanna and Palepu, 2010). MNEs, as change agents, could also contribute to institutional strengthening. For instance, they can help to combat corruption through demonstration, professionalization and regulatory pressure effects (Kwok and Tadesse, 2006). However, because emerging market MNEs often lack strong ownership advantages relative to developed market MNEs (Erramilli et al., 1997; Mathews, 2006), the latter are more likely to exploit the opportunities presented by voids.

Business and management research has increasingly called on MNEs to contribute to governance and institutional strengthening in developing countries (Arnold, 2013; Scherer et al., 2013; Scherer and Palazzo, 2011). Logically, such corporate citizenship roles will entail substantial commitments. Hence, it is plausible and likely for MNEs to commit more resources in emerging markets in order to buffer or change weak institutions. However, our review of the IB literature shows that this motivation or rationale is inconspicuous in firms' investment decisions. While MNEs operating in foreign markets may take actions to address institutional constraints such as corruption (Doh et al., 2003), we did not find evidence about institutional change playing an explicit role in resource

commitment decisions. This is not surprising, because institutional change is not easy. Some MNE managers have expressed incapability of instigating institutional change (Luiz and Stewart, 2014). Also, MNEs are more likely to instigate institutional change after entering foreign markets, but the literature mainly focuses on resource commitment at the time of entry and thus misses MNEs' later institutional strengthening efforts and investments. Overall, the literature does not recognize opportunity exploitation or change as mechanisms driving resource commitments in institutionally voided environments. This suggests a problem that warrants further research, as we outline later in this paper.

On the other hand, several authors (e.g. Álvarez and Marín, 2010; Brouthers and Brouthers, 2003; Lou, 2001; Morschett et al., 2010; Yiu and Makino, 2002; Bailey, 2018; Bailey and Li, 2015; Xie et al., 2017) have marshaled several opposing arguments suggesting that the institutional voids-resource commitment relationship is negative. The logic of their arguments is three-fold. First, when the institutional environment is weak or underdeveloped or the institutional distance is vast, operations become too risky and costly (Meyer et al., 2009a; Yiu and Makino, 2002). Second, cultural distance may suggest incompatibility with prevailing institutions, communication and cooperation problems, legitimacy threats and lower chances of firm success (Siegel et al., 2013; Liou et al., 2016; Ellis et al., 2018). Third, due to lower chances of survival in voided environments, there is the need for some level of flexibility to be able to easily exit unfavourable markets when necessary (Kim & Hwang, 1992; Quer et al., 2007). Hence, firms invest less or commit fewer resources in contractual modes such as partnerships, which allow them to leverage locally-owned resources to neutralize or escape institutional constraints (Delios and Beamish, 1999; Driscoll and Paliwoda, 1997; Gooris and Peeters, 2014). Even after firms enter emerging countries that have poor institutional quality, they commit fewer resources to FDI, R&D and innovation (Egan, 2013; Godinez et al., 2015).

Some studies note that the need for a lower resource commitment mode (such as joint venture), however, may decrease with the strengthening of the host country institutional framework (Meyer, 2001; Peng, 2003; Steensma et al., 2005). For instance, in a situation where the regulatory environment in an economy is developing, entrant firms may face fewer restrictions and less red-tape. As a result, the need to use an entry mode that provides the opportunity to use a local partner as an interface with local authorities becomes unnecessary (Gomes-Casseres, 1990; Delios and Beamish, 1999; Peng, 2006). In contrast, a weakening institutional environment increases the need for non-equity and transactional modes that allow the use of local partners for dealing with local authorities (Oxley, 1999; Meyer, 2001).

Straddling both negative and positive effects, a sizeable body of literature has questioned the linearity of the institutional voids-resource commitment relationship. According to Michailova & Ang (2008), the likelihood of investing in expensive equity modes decreases as cultural distance increases. However, higher levels of cultural distance (beyond a threshold) trigger higher investments. This represents a curvilinear U-shaped effect whereby firms use low-resourced commitments (e.g. partnerships) to respond to smaller home-host country differences but invest more to avoid or manage the problems arising from increasing differences (Malhotra et al., 2011). In contrast, Estrin et al. (2009) reported an inverted U-shaped effect. They found that investing in expensive equity modes and informal distance increase in tandem. However, higher levels of informal distance invoke risk aversion and cause MNEs to scale down to inexpensive non-equity modes by using local partners and intermediaries. Summarily, what these studies show is that firms make investment decisions that optimize their risk-adjusted returns (Anderson and Gatignon, 1986).

Compounding the equivocality of the literature, some authors (e.g. Ang and Michailova, 2008; Elia et al., 2014; Kumar, 2001; Luo, 2001; Quer et al., 2012; Cui et al., 2006) report insignificant direct relationships between institutional conditions and resource commitment. This is true for institutional distances, and particularly for cultural or normative distance (Ang et al., 2015; Ilhan-

Nas et al., 2018; Tihanyi et al, 2005; Beugelsdijk et al., 2017). Scholars argue that this distance is more relevant to investment decisions when regulatory institutions are weak (Henisz and Zelner, 2005). In this sense, when regulatory institutions are strong, normative distance becomes insignificant. Following this logic of substitution, normative distance should be an important investment criterion in emerging markets where regulatory domains are fraught with inefficiencies, but this is not the case. Some scholars have found that issues in normative environments are reflected in regulatory environments (Holmes et al., 2013), suggesting that normative distance is encapsulated in regulatory distance. Others have reported that regulatory distances may overshadow the importance of cultural and informal distances because formal institutions are usually the first and major concern for MNEs (Tihanyi et al., 2005). This causes insignificance of the former in studies that simultaneously test both formal and informal institutional conditions.

Moreover, the decision to commit resources in emerging markets may solely depend on firms' strategic focus, resources and capabilities. In this sense, firms may invest resources in a host country (irrespective of the level of institutional voids or distances) if it is part of its strategic plan to do so. MNEs may also find that proximate markets are saturated, causing them to explore opportunities in emerging countries that are institutionally distant from their home markets. In such situations, distance becomes insignificant to investment decisions (Tihanyi et al., 2005). Further, we found that the importance of normative distance has waned over the years. Earlier significant effects for cultural distance (e.g. Barkema and Vermeulen, 1997) are not present in later studies. This could be due to learning effects whereby contemporary education and globalization have spurred cultural convergence and increased understanding and skill for managing cross-cultural issues (Tihanyi et al., 2005).

As we noted earlier in this paper, we do not conduct a meta-analysis to ascertain which of the outcomes above is statistically representative of the literature. However, most of the reviewed papers suggest that the presence of institutional voids increases MNCs' resource commitments in

emerging markets. Such resource increments are consistent with logics that the internalization of foreign operations, though associated with higher investments, is useful for addressing market failures (Dunning, 1977; 1988). Nevertheless, we recommend meta-analytic reviews for resolving the controversial findings. Our treatise herein is simply vote-counting, which does not provide compelling statistical evidence for a conclusive stance on how institutional voids affect resource commitment.

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#### *4.4 Moderation Effects*

Generally, the reviewed studies rarely address moderation, indicating the paucity of contingent analysis in institutional void-resource commitment relationship. Only a few studies considered how this relationship is contingent on national, industry and firm-level factors. At the national level, research shows that the impact of institutional conditions on the choice of equity or non-equity entry modes depends on whether the host-country is emerging/developing (Ang and Michailova, 2008). Also, the relationship between formal institutional development and entry mode (greenfield v brownfield) is affected by firms' experiential knowledge and their institutional ties to both home and host governments (Chen et al., 2017). Further, some scholars have investigated how different types of voids reinforce one another. For instance, Uhlenbruck et al. (2006) found that the pervasiveness of corruption increases the likelihood that MNEs will use non-equity modes, which is further strengthened by higher arbitrariness of corruption.

While the institutional moderation above may be true for developed market MNEs entering developing markets, it may not always be so for emerging market MNEs entering other emerging markets. There is a belief that emerging market MNEs can develop coping mechanisms and strategies for dealing with institutional voids in host markets that are similar to their home markets (Cuervo-Cazurra and Genc, 2008). Therefore, their resource commitment decisions are less hinged



on institutional voids (Cuervo-Cazurra, 2012). However, this belief is challenged by Demirbag et al (2009; 2010) who show that emerging market MNEs are likely to reduce their resource commitments by using joint ventures rather than wholly-owned subsidiaries when entering other emerging or transition markets. What this implies is that, as there is heterogeneity in emerging countries (Surdu, 2018), the institutional distance between these countries, no matter how small, could still impact firms' resource commitments.

At the industry level, studies have noted that environmental uncertainty (i.e. political, social and economic instability) has a stronger effect on the use of joint ventures by manufacturing firms than by service firms (Brouthers and Brouthers, 2003). Due to the inseparability of service production and consumption as well as the perishability of services, there is a tendency for service firms to prefer higher resource commitments via wholly-owned subsidiaries so that they can have absolute control to respond to environmental changes (Contractor and Kundu, 1998). Using wholly owned subsidiaries eliminates the need to renegotiate any contractual agreements. Even within the broader services industry, the impact of institutional quality on resource commitment varies from sub-industry to sub-industry. For instance, FDI in the business, transport and telecommunication industries is shown to be more responsive to institutional voids than finance and trade industries (Kolstad and Villanger, 2008). Firms in high technology industries face high risks due to the huge investments they make in R&D and innovation, and are therefore more sensitive to institutional voids and cultural distance (Tihanyi et al., 2005). We categorize institutional and industry moderation as external moderation because they involve factors that are either external or indirectly within the firms' control.

At the firm-level, research has drawn upon Dunning's (2000) internationalization motives to explore how the effect of institutional voids on resource commitment depends on whether MNEs seek markets or resources in host countries (e.g. Brouthers and Hennart, 2007; Pan, 2017). Similarly, studies have documented that the resource commitments of large firms are more sensitive to

institutional voids than those of small firms (e.g. Gomes-Casseres, 1990). Further, corporate governance and social capital have been shown to be crucial in resource commitments. For instance, using data from Chinese MNEs, Pan et al. (2014) argue that government ownership of a firm as well as the firm's political or legislative connections weaken the impact of adverse institutional conditions on the level of foreign subsidiary ownership. We term firm-level moderation as internal moderation because the contingencies are within the firms' control. The richness of the few contingent results attests to deeper insights generated by interactive models (Andersson et al., 2014). Therefore, moderation deserves greater attention in the institutional void-resource commitment relationship.

## **5. Discussion**

### *5.1 Integrative Framework for Institutional Voids-Resource Commitment Research*

Firms' strategic decisions, such as resource commitment in foreign markets, have been at the forefront of IB research for several decades (Hill et al., 1990; Ahsan and Musteen 2011), and the issue of how the institutional environment in foreign markets shapes entrant firms' decisions has been one of the focal questions (Luo et al., 2009; Ang et al., 2015). In this paper, we reviewed and synthesized the literature on institutional voids and resource commitment in emerging markets. Based on our results, we propose an integrative framework (figure 1). We call Figure 1 an integrative framework because it brings the different conceptions of voids and resource commitment as well as the various facets of the institutional voids-resource commitment relationship (e.g. theoretical frame, mechanisms/mediators and moderators) under the same overarching model.

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First, drawing on Scott (1995) institutional dimensions, our framework departs from extant research to distinguish between regulatory voids (i.e. voids in the regulatory dimension), normative voids (i.e. voids in the normative dimension) and cognitive voids (i.e. voids in the cognitive

dimension), thus drawing researchers away from an “aggregated” view of institutional voids to a distilled categorization that promises finer-grained insights. Extant research appears to predominantly focus on conceptualizing and operationalizing institutional voids within the regulatory domain (e.g. Delios and Beamish, 1999; Luo, 2001), particularly using a combination of governance indicators and proxies. Besides these proxies not fundamentally reflecting firms’ own perceptions of their institutional environments, the focus on regulatory voids overlooks cognitive and normative voids and importantly side-steps the intricate relationships among these three categories of voids. Our framework suggests that different voids reinforce one another. For instance, regulatory weaknesses give rise to unethical norms such as corruption. In the same vein, prevalent unethical norms sabotage the effective functioning of regulatory institutions. In effect, our framework furthers understanding and conceptualization of institutional voids and will help researchers to adopt a deeper approach in their works.

Similarly, our integrative framework defines resource commitment as an aggregate of four constituents, namely entry mode, equity ownership, technology & R&D transfer, and FDI. Our definition is novel and encapsulating, in the sense that we have created a “grand” construct using various measures. However, we note that these measures, to a large extent, do not capture the actual values of the investments firms make. For instance, FDI, as applied in the reviewed studies, is an aggregated measure (e.g. Cole et al., 2009; Pajunen, 2008) which cannot be linked to individual firms. In the same vein, entry modes may be indicative of commitment, but they are not exact or true measures of resource expenditures. For instance, a joint venture could be more resource-demanding than a wholly owned subsidiary, contrasting the simplified conceptualization that is typically based on the Upsalla model of internationalization. More crucially, current research mainly captures a cross-sectional view of resource commitment at the time of foreign entry. A consequent question that has remained unaddressed is, what happens to firms’ commitments after entry? We believe our integrative framework captures what constitutes resource commitment, and could potentially spur scholarly effort to refine how the construct is aggregately conceptualized or operationalized.

Further, our integrative framework encompasses the wider theoretical lenses used to investigate the institutional voids-resource commitment nexus. Institutional theory is the most commonly used lens (e.g. Kingsley and Graham, 2017; Stoian and Mohr, 2016; Kolstad and Villanger, 2008). The use of this theory has evolved over the years, mainly as researchers broaden their scope in two ways: 1) from regulatory to normative and cognitive voids (Meyer et al., 2009); and 2) from a constraints-view to an opportunity-view of institutional voids (Khanna & Palepu, 2010; Doh et al., 2017). Our framework particularly highlights an internal-external dichotomy that sheds light on the theoretical complementarities of investment decisions in emerging markets. It suggests that greater insights can be generated by multi-theoretical lenses that account for both internal and external drivers of firms' resource commitments in emerging markets. It also provides insights and directions for exploring such internal-external dynamics.

## *5.2 Directions for Future Research*

Given the growing prospects of emerging markets and the need to understand how institutional voids in these markets affect firms' investment decisions, we identified some promising avenues for future research, which we illustrate in figure 2.

### *5.2.1 New and Multi-theory Perspectives*

The integrative framework shows that authors used three main theories (i.e. institutional theory, transaction cost theory and internationalization theory) to frame their studies. Also, majority of the authors used these theories in isolation; very few combined or integrated them to explicate the relationship between institutional voids and firms' resource commitment (e.g. Delios and Beamish, 1999; Brouthers; 2002; Demirbag et al., 2009). The effect of institutional environments and for that matter, institutional voids on business decisions and choices is a complex phenomenon and may require an integrated theory approach. Hence, future studies which combine theoretical lenses will help to illuminate this topic.

Beyond the three dominant theories uncovered by this review, increased use of other theoretical frameworks, such as agency theory (Jensen and Meckling, 1976) and resource-based view (Barney, 1991), could be useful. A few studies currently use these theories, but there is scope for more application. For instance, due to weak institutions, corporate governance is poor and agency problems such as information asymmetry and moral hazard are prevalent in emerging countries (Liedong and Rajwani, 2018). This could render non-equity entry modes such as exporting, licensing and franchising less viable because of the difficulties an MNE will encounter when trying to control foreign operations. In contrast, economic and non-economic risks in emerging markets could motivate foreign firms to reduce commitment by using joint ventures or shared ownership modes (Cho et al., 2014). Essentially, national corporate governance models may shape MNEs' resource commitments in emerging markets (e.g. Luo et al., 2009; Filatotchev et al., 2008).

In the same vein, resource endowment, especially social capital, could weaken the severity of institutional constraints. Research has shown that firms' assets and political or government connections ease access to difficult markets and reduce the liability of foreignness (Pan et al., 2014; Elvira and Wing, 2017). This suggests that the resources and capabilities of a firm could lessen the severity or impact of institutional voids, which could culminate in high resource commitment. From the foregoing, we suggest the need not only for cross-fertilization of theories but also for a broader scope of theoretical frames used to investigate how institutional voids affect resource commitment in emerging markets.

Agency and resource-based theories could be particularly useful for examining the internal-external dynamic of resource commitment. In this sense, these theories provide useful opportunities for deploying multi-theoretical lenses that capture both internal and external issues shaping investment decisions. The combination of TCE, institutional and RBV theories can be used to examine how organizational resources and capabilities affect the impact of voids on firms'

investments in emerging markets. This may entail exploring the contingent effects of resource endowments, and particularly the role of dynamic capabilities in managing market failure, uncertainty and institutional duality. We would like to especially highlight political capabilities. Research shows that political connections (and capabilities) reduce the liability of foreignness and create value in emerging markets (Liedong and Frynas, 2017; Chen et al., 2018; Luo and Zhao, 2013; Mbalyohere et al., 2017; Sojli and Tham, 2017). These connections buffer uncertainty, avail resources and increase entrepreneurial confidence in weak institutional contexts (Heidenreich et al., 2015; Elsahn and Benson-Rea, 2018). Considering the important role of political embeddedness in global strategy (Cui et al., 2018), it would be interesting for future research to explore the moderating impact of political connections on the institutional voids-resource commitment relationship. Doing this will not only extend the application of RBV in this line of research, but it will also shed light on the influence of nonmarket strategy (see Baron, 1995) on firms' investment decisions in institutionally weak foreign markets.

Similarly, institutional and agency theories can be useful for exploring micro-macro dynamics in the institutional voids-resource commitment relationship. Managerial discretion and hubris may cause managers to escalate investments to create multinational empires for their private benefit without due regard for institutional voids. In such cases, shareholder value is relegated and institutional voids matter less. Firm-level governance and ownership structures may affect the extent to which discretion is checked, and this can affect the size of foreign investments (Filatochev et al., 2007). As a starting point, scholars may borrow insights from upper echelons research to examine how leadership affects investment decisions amid institutional voids. As executives' characteristics, cognitive bases, values and perceptions shape their decisions and ultimately influence corporate strategy (Hambrick and Mason, 1984; Hambrick, 2007), it will be useful to explore how micro-level personal attributes in C-Suites and boardrooms affect firms' resource commitments in institutionally weak markets. This proposed line of research, which is very nascent, may first require a qualitative approach to generate propositions for subsequent quantitative testing.

### *5.2.2 Institutional Voids as Opportunities*

An important promising potential of new theoretical perspectives is that they may help to steer research away from the dominant one-sided trajectory whereby institutional voids are viewed as constraints or hinderances. Institutional voids are not always bad, mainly as they may present ‘opportunity spaces’ for firms (Mair & Marti, 2009; Saka-Helmhout & Geppert, 2011; McKague, Zietsma, & Oliver, 2015; Venkataraman et al., 2016). Rather than through passive countering measures, there is a significant opportunity for IB scholarship to investigate ways in which institutional voids enable market and nonmarket actors to fill or exploit institutions in the pursuit of competitive advantage, and how this affects resource commitment. Unfortunately, the current use of TCE, OLI and institutional theories do not present this alternative view of void-driven opportunities in emerging markets. A combination of RBV, dynamic capabilities and other theoretical lenses may be helpful for exploring and advancing such perspectives.

The literatures on Bottom-of the Pyramid (BoP) and institutional entrepreneurship (Dacin et al., 2002) particularly provide the context and impetus for exploring voids as opportunities. BoP refers to markets for the poorest in the world (Prahalad and Hammond, 2002; Prahalad, 2004). These markets predominantly exist in institutionally-voided emerging countries, providing opportunities for firms to generate profits while contributing to social change and poverty alleviation (Ansari et al., 2012). This leads to the creation of shared value whereby firms deploy policies and operating practices that simultaneously enhance their competitiveness and improve socio-economic conditions (Porter and Kramer, 2011).

Exploiting BoP opportunities requires business models that differ from traditional models (Karamchandani et al., 2011). This is because BoP markets are mainly created by institutional voids and the subsequent informal economies in emerging countries (Dolan and Rajak, 2016; Mair et al., 2012; Webb et al., 2009). Hence, firms need capabilities and approaches not only for manoeuvring in these markets, but also for strengthening the institutions that spur the informality of emerging

countries. This brings to the fore an emphasis on the use of ecosystems-based models whereby firms partner with stakeholders including governments, NGOs and civil society to find common ground, co-create solutions and generate collective impact on standards setting, corporate governance and sustainability among others (Brugmann and Prahalad, 2007; Kramer and Pfitzer, 2016; Pfitzer et al., 2013). Companies such as Nestle and Danone have successfully helped to address malnutrition in developing countries in Africa and Asia through profitable product innovation and consumer education programs. Similarly, Grameen Bank, besides its developmental impact on microcredit, has become a role model for corruption resistance in Bangladesh and beyond (Azim and Kluvers, 2019).

While IB research acknowledges the need for using reinvented strategies such as social embeddedness, non-traditional partnerships, co-inventions, local capacity development and network building (e.g. London and Hart, 2004; Sinkovics et al., 2014) to acquire knowledge (Schuster and Holtbrügge, 2012) and overcome the liabilities of foreignness and outsidership (Johanson and Vahlne, 2009) in emerging countries, the implications of voids and BoP markets (as opportunities) for resource commitment in these countries has received less attention. The above strategies will influence the scale of MNE investments in emerging markets, which makes it important for future research to examine the resource commitment of MNEs targeting BoP markets. The strategies may even entail the deployment of other resources besides money, such as human capital, which makes it necessary to widen the conceptualization of *resources*. It is also common for MNEs to first enter Top of the Pyramid (TOP) markets and gain knowledge overtime before turning to BoP opportunities (Schuster and Holtbrügge, 2012). Therefore, it should prevail on future research to focus on post-entry resource commitments too.

Institutional entrepreneurship (IE) is the other area where voids can be opportunities. IE is defined as the “activities of actors who have an interest in particular institutional arrangements and who leverage resources to create new institutions or transform existing ones” (Maguire et al., 2004: 657). It is a political process that involves mobilizing and negotiating with stakeholders to champion



changes in institutions and social structures. Essentially, IE entails institutions building, institutional strengthening and void filling. IE can happen in three ways. First, it may manifest through social entrepreneurship (Dacin et al., 2011) whereby firms address poverty, social inequities and other institutional voids by providing compensatory structures for market intermediation and operations (Doherty et al., 2014; Mair et al., 2012; Saebi et al., 2019). For instance, there are opportunities for MNEs to provide solar-powered lighting products for communities that use highly polluting kerosene-fuelled lanterns. The marketing of these products could promote consumer education about environmental sustainability, an important sustainable development goal (SDG). It would therefore be insightful for future research to investigate how social enterprises internationalize into emerging markets, and how their perceptions of voids affect their resource commitments.

Second, IE may be achieved through political corporate social responsibility (PCSR) whereby firms, using their technical abilities and economic resources, play political roles such as providing health and education services to communities, adopting voluntary self-regulatory initiatives where governance systems are inefficient (e.g. sustainable supply chains), and pressuring regulatory changes through lobbying and other political strategies (Scherer and Palazzo, 2011; Detomasi, 2007). The advantage of PCSR is that it confers legitimacy on firms, improves the institutional environment, and provides institutional support and protection for market investments (Frynas and Stephens, 2015). For instance, the Private Sector Anti-Corruption Group (PSACG), an initiative of the UK-Ghana Chamber of Commerce (UKGCC), has been advocating for stringent anti-corruption regulations in Ghana in order to safeguard the business operations of its members (MNEs and local firms). The Group also commits to self-regulation of its members through codes of conduct, compliance and ethics. In future scholarship, it would be interesting to understand the effects of PCSR on MNE resource commitment in emerging markets.

Third, there are opportunities for IE in public-private partnerships (PPPs). Governments in emerging markets use PPPs to ensure efficient public service provisioning and also to fill

infrastructural voids in an array of areas including water supply, electricity provision, construction, transportation (freight, road, air), waste management, traffic management, healthcare among many others (Wang et al., 2018). These projects provide opportunities for firms to profitably fill voids and support the achievement of SDGs in developing countries. Moreover, PPPs provide opportunities for firms to develop government connections and gain legitimacy. In this regard, questions worth addressing in future research include: how do PPPs affect MNE resource commitment in emerging markets? Does resource commitment in emerging markets depend on whether the venture is fully private or a PPP?

Overall, the notion of voids as opportunities is expected to lead to higher resource commitments in emerging markets. However, this higher commitment will not result from the need for internalization to overcome market failures as portrayed in extant IB literature. Rather, higher commitments will avail the resources needed to exploit or fill opportunities created by voids. Also, with voids considered to be hinderances, there might be relatively lower competition in emerging markets. Hence, firms that see voids as opportunities may be motivated to commit more resources to entrench themselves as first/early-movers in these markets. Future research should examine these postulations, in addition to investigating whether resource commitment in emerging markets is contingent on entry speed (i.e. first-movers or followers). We illustrate these suggestions in Figure 2 where we capture how opportunities may be recognized at the time of foreign entry or later in the post-entry period through market knowledge and network building. Entry period commitments could affect post-entry period learning and networking, which could subsequently increase or decrease commitments. Alternatively, post-entry period learning and networking could indirectly affect commitments by shaping perceptions of the mediating opportunities created by voids.

### *5.2.3 Operationalization of Institutional Voids and Resource Commitment*

As the integrative framework shows, institutional voids have primarily been measured by various indicators about a country's economic freedom and institutional development usually

collected from secondary sources such as the World Bank and International Monetary Fund (e.g., Chan et al., 2008; Meyer *et al.*, 2009a). Still, these indicators do not necessarily reflect the extent to which an entrant firm *perceives* its business to be affected by voids (Orr and Scott, 2008). Consequently, the call for further studies to use different measures of institutional voids is important. One of the ways to do this is to survey firms to understand the extent to which voids in emerging markets pose constraints to them. This perceptual approach is more proximate to firms' experiences, and was used in a recent study of nonmarket strategy and risk exposure in Ghana (Liedong et al., 2017).

In the case of resource commitment, we found that studies did not use the actual values (amounts) of resources invested. Instead, majority used the type of entry mode (which is usually captured as a dummy variable), based on the logic that these entry modes represent different degrees of resource commitment (Anderson and Gatignon, 1986; Hill et al., 1990). By this logic, wholly owned subsidiaries require the highest level of resource commitment, followed by JVs. However, these entry modes do not necessarily reflect the actual amount or value of invested resources. For example, a JV may require more resources than a wholly-owned subsidiary, depending on factors such as business nature and industry type. Therefore, we encourage future research to measure resource commitment by using the actual value of monetary resources invested by individual firms, not dummy codes or aggregated amounts as in the case of FDI flows.

Importantly, we encourage a comprehensive measure of resource commitment, mainly as the standalone measures have their weaknesses and do not truly reflect investments in emerging markets. Entry modes, equity ownership, R&D transfers and FDI are not independent. Rather, they overlap as we argued earlier. Hence, an integrated measure will be helpful. We also encourage researchers to engage in longitudinal investigations that look at resource commitments beyond the point of foreign entry. For instance, following Brouthers & Bamossy (2006), future research could examine how firms adjust their ownership of international JVs in response to actual or perceived

changes in institutional voids. This will require a dynamic approach to resource commitment, which will also help to capture the post-entry investments made to fill institutional voids. These investments, which include lobbying, stakeholder engagement, corporate social responsibility and constituency building, are rarely made at the time of entry. Rather, firms commit to them after entering and understanding institutional conditions. As such, post-entry resource commitment is a worthy area for future research.

#### *5.2.4 Moderation of the institutional voids-resource commitment relationship*

There are contradictory conclusions and claims about the relationship between institutional voids and firms' resource commitment in foreign markets, which may indicate the complexity of investment decisions. We believe that the inconsistency surrounding whether institutional voids reduce or increase firms' resource commitment in emerging markets (e.g. Delios and Beamish, 1999; Meyer and Nguyen, 2005; Yiu and Makino, 2002; Meyer et al., 2009) could be better resolved through meta-analytic reviews. While some of such reviews already exist, they tend to mainly focus on entry modes (e.g. Zhao et al., 2004, Morschett et al., 2010) – a narrower definition of resource commitment. Future meta-analyses could specifically examine institutional voids (as opposed to other general institutional conditions) and a broader operationalization of resource commitment (as discussed above).

As most studies focus on direct effects, the boundaries of resource investment decisions are not well understood. More insights could be derived through a contingent view of resource commitment. Therefore, we encourage researchers to employ multi-level moderation in future studies. In doing so, they could analyze how voids in emerging markets' cognitive, regulatory and normative environments (Scott, 1995) differently affect resource commitment (e.g. Ang et al., 2015).

It is worth adding that extant studies mainly address the regulatory domain where formal institutions are most prevalent (Brouthers, 2003, 2013; Demirbag et al., 2010). Voids in normative and cognitive domains, which are often informal in nature, have received less attention. Each of three voids we identified may manifest and affect firms' strategies differently. While limitations in formal institutions are more easily observed, informal institutions are also likely to present or create voids beyond what scholars currently conceptualize. We, therefore, suggest that future research gives more attention to informal institutions, including the comparative or complementary dynamics of formal and informal voids on international strategies. In this sense, we recommend scholarship to examine the interactive effects of regulatory, normative and cognitive voids on resource commitment.

Additionally, we found very few studies (e.g. Demirbag et al., 2009) focusing on the resource commitment of emerging market MNEs (EMNEs) entering other emerging markets. We acknowledge the contributions of extant emerging market MNE research (e.g. Luo and Tung, 2007; Bonaglia et al., 2007; Cuervo-Cazurra, 2012), but we advance that more work is needed particularly with respect to the direction of internationalization. It appears a significant part of research on emerging market MNEs investigates how these firms enter advanced markets (e.g. Shaowei et al., 2018), not how they enter other emerging markets. Future research into whether institutional voids affect the resource commitment of EMNEs will help to clarify if, indeed, knowledge or experience of voids enables MNEs from emerging countries to commit more resources in other voided markets (Kinglsey and Graham, 2017; Doh et al., 2017). In this respect, we suggest that the direction of internationalization could moderate the size and scale of foreign investments in emerging markets.

In conclusion, this paper has reviewed fragmented literature about the impact of institutional voids on firms' resource commitment in emerging markets. While it is possible that we may have missed other studies that could alter our findings, we believe our sample is representative of the

corpus and are thus confident that this paper offers deeper insights that will help scholars to scope the topic and pursue enlightening and knowledge-spanning research agenda

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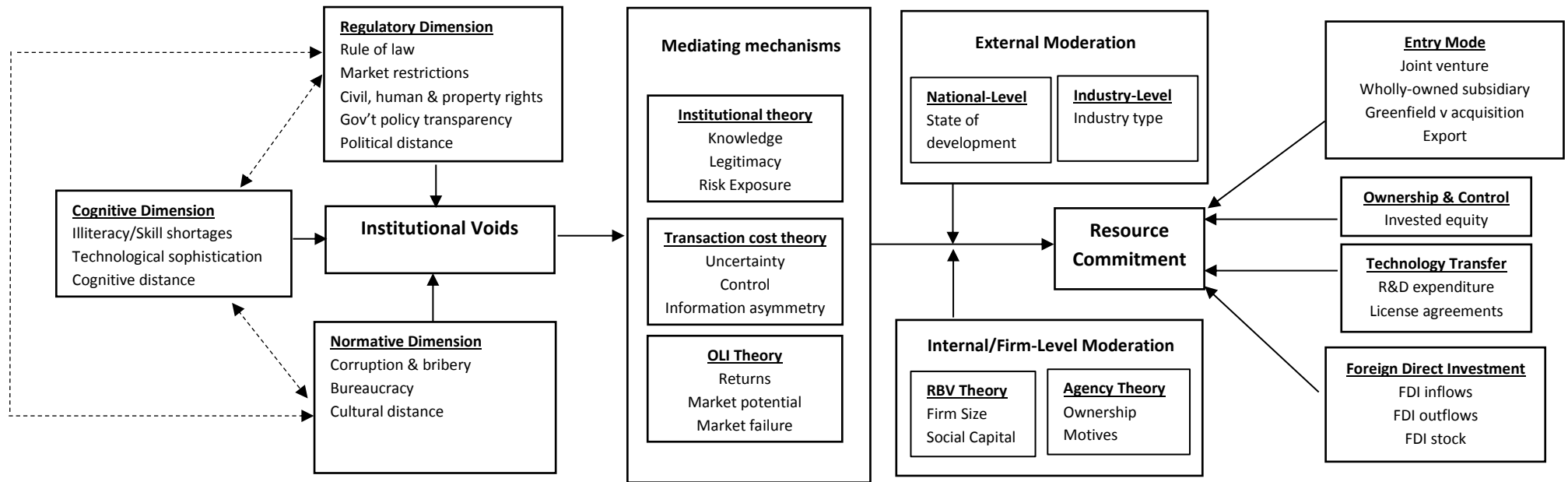
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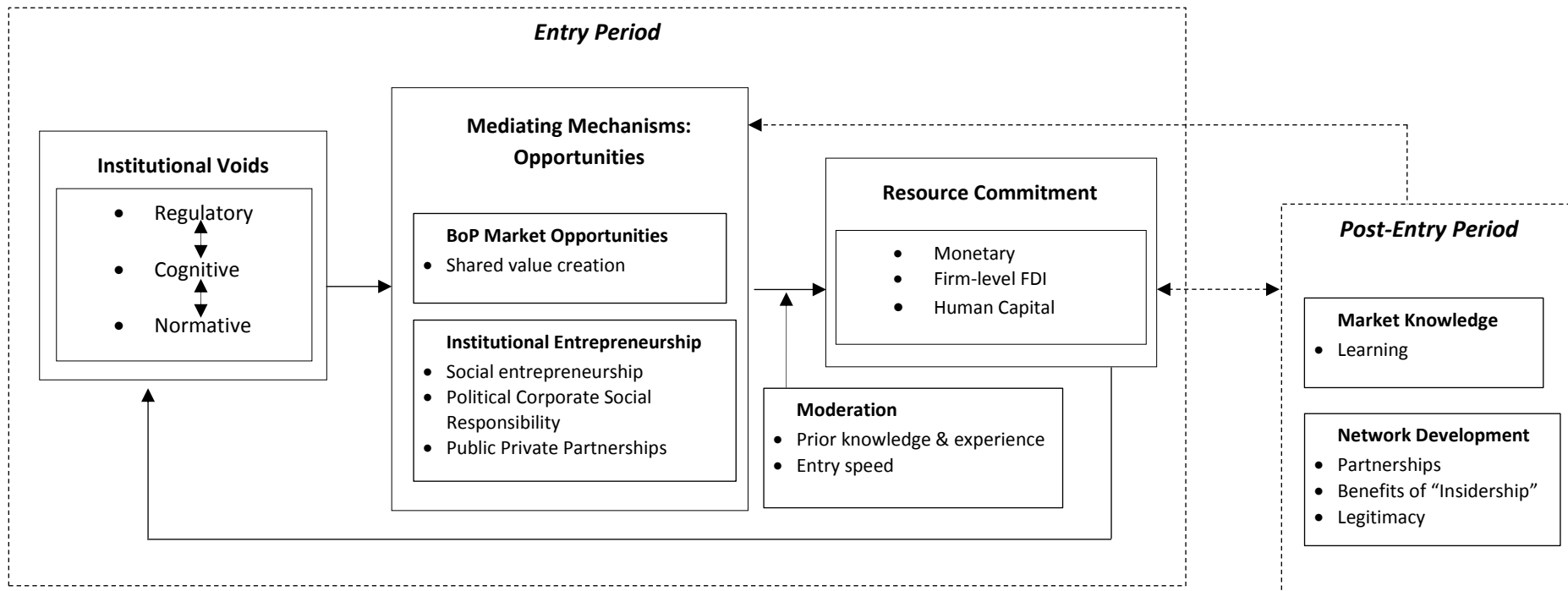
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## **Appendix: Keywords used in Literature Search**

*(e.g. economic freedom OR political risk and stability OR regulatory quality OR corruption OR institutional distance OR cultural distance OR institutional voids OR normative distance OR regulatory distance OR cognitive distance OR informal distance OR formal distance OR market failure OR institutional quality OR administrative quality OR market inefficiency for institutional voids AND entry mode OR resource commitment OR foreign direct investment OR ownership OR technology transfer for resource commitment)*



**Figure 1. Integrative Framework of the Institutional Voids-Resource Commitment Relationship**



**Figure 2. Framework for Future Research: Exploring Institutional Voids as Opportunities**

**Table 3. Theoretical Frameworks**

	<b>Institutional Theory</b>	<b>Transaction Cost Theory</b>	<b>OLI Theory</b>	<b>Resource-Base View</b>	<b>Agency Theory</b>
Core Assumptions	The formal and informal institutional frameworks influence MNE resource commitments in emerging countries	The cost of operating in host countries influences MNE resource commitments	Resource commitment depends on host country attractiveness, MNE proprietary competence and MNE need for integration	Resource commitment is impacted by MNE resources	Resource commitment decisions are affected by MNE internal governance
Main Focus	Response to institutional rules, norms and uncertainty	Evaluation of operational efficiency	Exploiting and controlling internal capabilities in attractive markets	Using resources to overcome institutional voids	Corporate governance and response to weak institutions
Rationale	Exposure mitigation and operational legitimization	Risk reduction	Return maximization and market failure aversion	Exploiting and filling voids	Shareholder interests and resource commitment decisions
Key Propositions	Institutional voids have a negative impact on the level of MNE resource commitment in host countries	Institutional voids and the lack of market-supporting structures cause MNEs to either increase or decrease their resource commitments in host countries	Weak property rights in host countries motivate MNEs to commit more resources to safeguard their proprietary assets	MNEs that have relevant resources and capabilities are more likely to invest more in voided environments	Ownership concentration and ownership type negatively impact resource commitment
Mediating Mechanisms	Lack of market knowledge; exposure to discrimination, expropriation and liabilities of foreignness; lack of influence on host country government; lack of legitimacy	Low transparency; high uncertainty; weak enforcement; information asymmetry	Weak contract enforcement regime; low protection of property rights	Capabilities, social capital, experience, knowledge	Risk aversion; majority shareholder power and preferences



**Table 1. List of Top 15 Contributing Journals in the Review<sup>a</sup>**

<b>Journal</b>	<b>Number of papers</b>
1. Journal of International Business Studies	<b>10</b>
2. International Business Review	<b>10</b>
3. Journal of World Business	<b>7</b>
4. Journal of Management Studies	<b>5</b>
5. Journal of International Management	<b>5</b>
6. Journal of Business Research	<b>5</b>
7. Organizational Science	<b>3</b>
8. Global Strategy Journal	<b>3</b>
9. Strategic Management Journal	<b>2</b>
10. Management International Review	<b>2</b>
11. The World Economy	<b>2</b>
12. European Journal of Political Economy	<b>2</b>
13. Emerging Markets Finance and Trade	<b>2</b>
14. Journal of Management	<b>2</b>
15. Management Decision	<b>2</b>

<sup>a</sup>The remaining 20 journals with only one paper in the review were not included in this table.

**Table 2. Distribution of Papers per Year-Periods**

<b>Period</b>	<b>Number of papers</b>	
	<b>n</b>	<b>%</b>
1996 - 2000	6	7
2001 - 2005	15	18
2006 - 2010	25	30
2011 - 2015	19	23
2016 - 2019	17	21
<b>Total</b>	<b>82</b>	<b>100</b>

**Table 4. Trends of Single and Multiple Application of Theoretical Frameworks**

<b>Period</b>	<b>Single theory</b>		<b>Multiple Theories</b>	
	<b>n</b>	<b>%</b>	<b>n</b>	<b>%</b>
1996 - 2000	6	7	-	-
2001 - 2005	10	12	5	6
2006 - 2010	14	17	6	7
2011 - 2015	16	20	8	10
2016 - 2019	9	11	8	10
<b>Total</b>	<b>55</b>	<b>67</b>	<b>27</b>	<b>33</b>

**Table 5. Operationalization of Institutional Voids and Resource Commitment and Contextual Focus**

<b>Construct operationalization and contextual focus</b>	<b>Number of papers</b>	
	<b>n</b>	<b>%</b>
<b>Institutional Void</b>		
1) Governance indicators	17	21
2) Level of development of IP laws	8	10
3) Level of legal restrictions	5	6
4) Institutional environment	13	16
5) Bribery & corruption	9	11
6) Degree of accessibility of scarce resources	1	1
7) Institutional distance	12	15
8) Cultural distance	17	21
<b>Total</b>	<b>82</b>	<b>100</b>
<b>Firm's Resource Commitment</b>		
1) Entry mode	40	49
2) Level of technology or R&D transfer	6	7
3) Level of FDI	21	26
4) Ownership level (equity ownership)	15	18
<b>Total</b>	<b>82</b>	<b>100</b>
<b>Contextual Focus</b>		
1) Home country	1	1
2) Host country	67	82
3) Home & host country	7	9
4) Not defined	7	9
<b>Total</b>	<b>82</b>	<b>100</b>
<b>Definition of Contextual Focus</b>		
1) Developed country	4	5
2) Emerging/ developing country	43	52
3) Developed & emerging country	35	43
<b>Total</b>	<b>82</b>	<b>100</b>

**Table 6. The relationship between institutional voids and firms' resource commitment**

<b>Theoretical framework</b>	<b>Positive relationship <i>n</i> (%)</b>	<b>Negative relationship <i>n</i> (%)</b>	<b>Insignificant relationship <i>n</i> (%)</b>	<b>Mixed/contingent relationship <i>n</i> (%)</b>	<b>n/a<sup>a</sup></b>	<b>Total</b>
Institutional theory	12(12)	16(20)	2(2)	7(9)	4(5)	<b>41(50)</b>
Transaction cost theory	1(1)	6(7)	2(2)	1(1)		<b>10(12)</b>
OLI framework	1(1)	1(1)	1(1)	2(2)		<b>5(6)</b>
Institutional theory & transaction cost theory	6(7)	7(9)				<b>13(16)</b>
Institutional theory & OLI	7(9)				1(1)	<b>8(10)</b>
Institutional theory & Resource Based View	1(1)					<b>1(1)</b>
Institutional theory & Agency theory			1(1)			<b>1(1)</b>
Transaction cost theory, Institutional theory & OLI	1(1)	1(1)				<b>2(2)</b>
Transaction cost theory, OLI & Resource Based View			1(1)			<b>1(1)</b>
<b>Total</b>	<b>29(35)</b>	<b>31(38)</b>	<b>7(9)</b>	<b>10(12)</b>	<b>5(6)</b>	<b>82(100)</b>

<sup>a</sup> Not applicable: the article is a conceptual paper and either do not test nor specify the relationship