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# Revisiting Institutional Voids: Advancing the International Business Literature by Leveraging Social Sciences<sup>☆</sup>

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## ABSTRACT

Institutions are vital for solving collective action problems and enabling functioning markets. Based on this notion, the institutional voids literature has offered a dynamic research agenda for international business scholarship. In this perspective article, we leverage work from political science, development economics, legal studies, and anthropology to: (a) expose hidden assumptions about institutional voids in the management literature; (b) propose new directions for research based on our revised assumptions; and (c) provide direction-specific theoretical constructs from other social sciences to stimulate theory-building and empirical inquiry into institutional voids. We develop a framework that identifies four revised assumptions about institutional voids research that we derive from current studies and elaborate on eight theoretical constructs from other social sciences that exemplify the revised assumptions and generate future research questions for international business scholars.

## 1. Introduction

Institutions help resolve collective action problems, thereby enabling functioning markets. The International Business (IB) literature has long recognized that institutions impact multinational enterprise (MNE) strategic choices and outcomes (e.g., [Aguilera and Grøgaard, 2019](#), [Cuervo-Cazurra et al., 2019b](#); [Kostova et al., 2020](#); [Wright et al., 2005](#)). One topic of particular interest is *institutional voids* — the idea that institutions can fail to support markets. Coined by [Khanna and Palepu \(1997\)](#), this construct has been increasingly adopted in the field of international business (for an overview, see [Doh et al., 2017](#)), while drawing heavily on economic ideas of formal institutions as behavioural constraints (e.g., [North, 1990](#)) that shape transactions, markets, and organizations ([Williamson, 1991](#)).

In this perspective paper, we argue that the relatively narrow economics-informed focus of the institutional voids construct, within the field of IB, is restricting further theory-building on firm behaviour in the face of market imperfections. To address this, we

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systematically review the prevalent assumptions about institutional voids and suggest that challenging these assumptions can unlock new research directions. In doing so, we build on a dynamic research agenda, in particular the literature which has increasingly criticized the conceptualization of institutional voids as flawed (e.g., Cuervo-Cazurra et al., 2019a; Hotho and Pedersen, 2012; Ault and Spicer, 2019). Some scholars advocate abandoning the concept of institutional voids altogether (Bothello et al., 2019). However, the critiques of institutional voids research have remained haphazard, at times misinterpreting the underlying paradigm or exacerbating the associated issues such as ‘conceptual stretching’.

While we agree that the use of the institutional voids construct has been based on a rather narrow understanding of institutions, we challenge the argumentation that the best course of action is abandoning the institutional voids concept altogether. Indeed, we note that scholars have already made significant advances by challenging original assumptions, for instance by moving beyond an initial focus on (weaknesses in) formal institutions to incorporating informal institutions (e.g., Stephan et al., 2015; Webb et al., 2020). Recent progress has broadened the concept of institutional voids by moving beyond deficiencies associated with nation states to investigate phenomena such as MNE interorganizational relationships (Pinkham and Peng, 2017; White et al., 2018), as well as by viewing institutional voids not only as hazards, but also as strategic opportunities for multinational enterprises (Mair et al., 2012).

While recognizing the fundamental criticisms of institutional voids research, we see promise in accelerating this process through systematic analysis. This, we propose, can be achieved by examining underlying assumptions and challenging them. More importantly, we show how the prevalent IB perspective on institutional voids – as specific and pervasive constraints within countries – can be extended through a focus on institutional functions and processes influencing spaces in a patterned manner. We do this by reviewing relevant theories and constructs from other disciplines that, while directly related to the notion of institutional voids, have been relatively neglected in the IB literature. Thereafter, we provide direction-specific theoretical constructs from other social sciences, such as law, anthropology, political science and development economics, to stimulate theory-building and empirical inquiry into institutional voids.

Specifically, we outline eight promising theoretical constructs that exemplify revised assumptions, namely: institutional evolution, contextual contingencies, governmentality, institutional transplantation, institutional braiding, selective enforcement, state capture and zones of exception. By explaining how these ideas can generate new research questions for institutional voids scholars, we heed calls to advance theory by crossing interdisciplinary lines (e.g., Dunning, 1989; Buckley and Lessard, 2005; Cheng et al., 2009). Furthermore, while IB scholars “have been slow in responding to these calls” (Cheng et al., 2014: 644), with some even calling the field “inward-looking and self-referential” (Buckley et al., 2017: 1046), we revisit this important research agenda through the interdisciplinary cross-fertilization of new perspectives that can advance our inquiry into institutional voids. Our contribution builds on a recent issue in JIBS (see Doh et al., 2017) which issued a powerful call for transcending the “limitations... [of the institutional voids] research domain” (p. 302).

## 2. Institutional voids in international business: challenging implicit assumptions

With economists and legal scholars focusing on formal rules and their enforcement (Folsom et al., 2002; North, 1990; Schwartz and Watson, 2004; Williamson, 1996); political scientists viewing institutions as historically contingent structures shaping power dynamics (Pierson, 1994; Moe, 1984); and anthropologists studying how collectives exercise authority over individuals (e.g., Hansen and Stepputat, 2006), scholars across the social sciences agree that institutions matter. As IB scholars increasingly recognize, this diversity of institutional theorizing generates important implications for the conceptualization and measurement of institutional voids (Cuervo-Cazurra et al., 2019a, b). We adopt a relatively broad definition of institutions as “humanly devised constraints that structure economic political and social interaction” (North, 1991: 97), and define institutional voids as institutions failing to support functioning markets.<sup>1</sup> This paper intellectually anchors the crucial debate on institutions by reviewing the fundamental assumptions about institutional voids in IB scholarship. Subsequently, we advance theory-building by challenging these assumptions and by offering alternatives.

Institutions influence strategic decision-making in MNEs because political, legal and administrative systems are key factors that, directly and indirectly, affect the attractiveness of foreign markets (Henisz and Macher, 2004; Peng, 2003; Wright et al., 2005). The key function of institutions, as argued by IB scholars, is to create a stable market structure, reduce uncertainty, and facilitate transactions (Meyer, 2001). Further, Khanna and Palepu (2010: 21) have argued 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.” Accordingly, IB scholarship has primarily adopted an economic approach that has emphasized norms, rules, and beliefs as constraints (North, 1990), with an initial focus on those formal institutions that should lower a firm's transaction costs. Where such costs were higher than expected (usually in comparison with developed markets), scholars labelled the perceived institutional deficiencies as “voids”.

While this view of institutional voids has been operationalized mainly through an economic lens, several scholars have raised concerns about the narrow scope of the construct (Hotho and Pedersen, 2012; Kostova et al., 2020). IB research has generally classified primary variables of interest employed in institutional voids research into four categories. First, a vast majority of studies has employed general governance indicators such as the level of economic freedom, degree of political risk and stability, and level of corruption and

<sup>1</sup> Our definition of institutional voids is non-derivative and configurational. It is non-derivative in that we do not assume a specific set of institutions as being superior across contexts, and, as a result, we do not automatically designate the lack of such institutions as a “void”. It is configurational in that it recognizes that some institutions always exist, and it is their manifold combinations that can support – or fail to support – markets.

bribery as measures of institutional voids (e.g., Brouthers and Brouthers, 2003). Second, some studies equate institutional quality with intellectual property protection, using intellectual property laws as a primary measure (e.g., Delios and Beamish, 1999). Third, researchers who view protected markets as less efficient employ legal restrictions and government interventions as indicators of voids (e.g., Brouthers, 2002; Morschett et al., 2010; Meyer et al., 2009). Finally, and perhaps more pertinent to developing countries, some studies operationalize institutional voids via resource accessibility (e.g., Meyer and Nguyen, 2005). All four categories of measurement, to a large extent, are informed by the regulatory or economic domains of institutional theory (North, 1990; Scott, 1995), focusing on formal institutions. As Doh et al. (2017: 296) 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.”

### 2.1. Beyond economic assumptions

While IB scholarship has begun to move beyond this narrow understanding of institutional voids, a systematic and theoretically grounded agenda for further research is severely lacking. To generate such an agenda, we leverage other social sciences in order to: (a) expose hidden assumptions about institutional voids in the IB literature; (b) propose new directions for research based on our revised assumptions; and (c) provide direction-specific theoretical constructs from other social sciences to stimulate theory-building and empirical inquiry into institutional voids. Drawing on advances in other social sciences such as development economics, political science, law, and anthropology, we identify and challenge four assumptions commonly used in the IB literature.

First, we argue for a shift in thinking from institutional *form* to *function*. Many accounts in the institutional voids literature focus on the specific institutional forms, such as intellectual property laws or certain legal restrictions, to determine whether a void exists. While the assumption of institutional form primacy emerged for practical reasons, given that the data on institutional forms is (relatively) easy to obtain, it has generated substantial – and often unwarranted – theoretical simplification (see generally Jackson and Deeg, 2008).

A large literature in political science demonstrates that the same institutional function can be achieved by a variety of institutional forms (Bates et al., 1998; Rodrik, 2007). For example, one can maintain that a country's institutions must protect property rights (function) to spur growth, yet be open to a variety of solutions (forms) that do so, including not only independent courts but also business associations, sovereign reputational capital, mixed state-private ownership, stakeholder alliances, etc. (Markus, 2012). To be sure, the variety of institutional forms to fulfil a given function is not infinite, and some forms may be superior to others. This suggests that diagnosing institutional voids whenever a given ‘best-practice’ institutional *form* is absent may be less promising than focusing on key institutional *functions* and the extent to which – as well as how and by whom – these functions are fulfilled. Indeed, this shift would reconnect future institutional voids scholarship with the earlier work by Khanna and Palepu (1997) whose attentiveness to the form vs. function distinction (e.g., in outlining the institutional functionality of business groups in emerging markets) has been eclipsed by the standardized metrics of institutional forms in the IB literature.

Second, the time dimension has not been fully captured in institutional voids research (see generally Cuervo-Cazurra et al., 2019a), providing an opportunity to move from a static *presence* to a dynamic *process*. Although some studies address institutional change (e.g., Albino-Pimentel et al., 2021), the latter is primarily measured on the same single spectrum as described above, with an expected improvement from “weak” to “strong” institutions converging to a single, typically Western, norm. The orthodox focus on the presence of specific institutions is understandable: the literature on institutional voids developed at the end of the 1990s when, following the end of the Cold War, the superiority of Western capitalist institutions and their potential to positively transform the developing world was unquestioned.

As a result, however, little attention is paid to different types of contingencies such as institutional legacies, cycles of institutional change, institutional complementarities, or institutional traps. We posit that these processes can create, exacerbate, or mitigate institutional voids. Thus, incorporating a time dimension could shed more light on the flaws and deficiencies that affect market exchange. As historians have shown, there is no teleological progress from underdeveloped to developed market economies. Indeed, some IB work illustrates the back and forth process of institutional change characterized by relative levels of bargaining power of multinationals and policy makers (Cuervo-Cazurra et al., 2019a; Henisz and Zelner, 2005). Thus, a more theoretically grounded process-oriented paradigm would allow transcending the simplistic cross-sectional or linear view in extant institutional voids studies that emphasize the presence or absence of certain institutions. Harnessing insights from economic history and political science, for example regarding path dependence (Pierson, 2000), it is possible to show how the analysis of institutional voids can integrate distinct types of voids and their interactions, as well as their antecedents and evolution, shaped not just by functional pressures to achieve smooth market exchange, but also by the relative power of various interest groups (Markus, 2008).

Third, we question the implicit assumption that institutions are *pervasive*, and argue that they are more adequately conceived as *patterned* within and across geographical spaces. When firms invest in one country, they are conventionally assumed to experience the same institutions, no matter whether they invest in a remote rural mining area or in the gleaming central business district of a capital city. This assumption is driven both by practical reasons (data availability is typically highest for *national* institutions which are tracked by inter-governmental organizations) and by an implicit Western bias since national regulations *are* indeed pervasive in many advanced democracies in their impact on local behaviour (at least much more so, on average, than in developing markets).

The idea that not all actors experience the same severity of institutional voids was explored in more depth by Kingsley and Graham (2017) in the context of information availability. Work in other social sciences investigates this phenomenon much further and suggests that the exercise of formal authority may be envisioned as coherent, but often reaches the intended subjects in an uneven pattern awash with exceptions and unintended consequences (e.g., Markus, 2015). Indeed, a nascent body of IB research investigates institutional quality at the local (i.e., provincial) level and its impact on multinational operations (Meyer and Nguyen, 2005; White

et al., 2018). Moreover, there is now also new work on institutional voids examining cross-jurisdictional “forum shopping,” and exploring how companies may borrow better legal institutions across national boundaries (Devarakonda et al., 2020; Pinkham and Peng, 2017). While the variation in institutional voids has generally been leveraged at the country level, we argue it may be more fruitful to explore institutional voids by critically examining boundaries and looking at different regions, for instance special economic zones or trading blocks, or even moving beyond geographical spaces and/or investigating institutional voids for specific groups such as illegal migrant entrepreneurs (Reade et al., 2019). While the need for “challenging the sovereignty assumption” (Boddewyn and Brewer, 1994: 126) has been emphasized by seminal work in IB, this challenge is yet to be fully addressed by scholars of institutional voids. An inquiry into this *patterned* nature of institutional effects, we suggest, can enrich our understanding of institutional voids.

Fourth, we argue for a re-orientation of the literature from conceiving institutional voids as *constraints* to recognizing their *enabling* role (Amaeshi et al., 2016). The assumption of institutional voids as constraints on business stems from two theoretical blind spots in the literature. First, given that institutional voids are (by definition) bad for *markets*, some scholars wrongly assume that such voids must be bad for *all market participants*. Yet rich theories of rent-seeking (Buchanan, 1980) and distributive politics (Golden and Min, 2013) show that systematically “bad” institutions can be exceptionally beneficial to select groups. Second, as we explain later, scholars may have shunned from exploring the unsavory side of business that can deliberately perpetuate institutional voids for profit (see also Carpenter and Moss, 2013).

We connect the literature on institutional voids to broader IB scholarship on opportunities associated with institutional uncertainty, while building on the work by scholars seeing ‘voids’ as unique opportunities for agency by firms or NGOs (e.g., Mair et al., 2012). For instance, multinationals that build institutional capabilities can succeed in places characterized by voids outside of their home country (e.g., Carney et al., 2016). This approach echoes studies in which MNEs are accorded greater levels of agency towards institutions (e.g., Cantwell et al., 2010; Regnér and Edman, 2014), which are still relatively rare in the IB literature, but the topic has been explored more extensively by non-IB scholars, such as those focusing on “institutional work” (Lawrence and Suddaby, 2006).

In sum, recent work on institutional voids, while providing a dynamic research agenda, is still quite limited due to its fundamental assumptions including voids as absence of expected institutional forms; the focus on static institutional presence; the idea that all actors in a jurisdiction experience institutional voids in a similar manner; and that institutional voids are constraints to international business activity. Systematically exposing these limiting assumptions, we argue, provides an opportunity to generate new avenues for research. To guide this process, we suggest infusing the IB literature with new ideas from adjacent disciplines. To this end, we reviewed related literature in development economics, political science, law, and anthropology. After a thorough review of these disciplines, we selected eight promising theories or constructs that can help advance our understanding of institutional voids within the four revised assumptions (Fig. 1, black boxes) mentioned above, with the aim of generating new lines of inquiry.

## 2.2. Bringing new theoretical constructs into institutional voids research

We introduce eight theoretical constructs borrowed from other disciplines that illustrate the revised assumptions, while outlining how these can reorient and thereby advance the institutional voids literature. Fig. 1 summarizes these constructs (white boxes) and the ways they challenge the traditional assumptions.

### 2.2.1. Institutional Evolution

Although economists and political scientists (e.g., North, 1991; Glade, 1969) have long applied the evolutionary framework to institutional change (Langlois, 2003), the evolutionary paradigm has rarely been utilized by IB scholars investigating institutions (Doh et al., 2017; Liedong et al., 2020). We draw on Thorstein Veblen (1899) who coined the term evolutionary economics, and on other theorists such as Schumpeter (1943), as well as Nelson and Winter (1982), to argue that the evolutionary mechanisms of variation, selection, and retention can be applied to analyze the origins of formal and informal institutions.

Evolutionary approaches recognize the *process* that shapes institutions, where the latter can change slowly and continuously, or rapidly and irregularly (Thelen, 2004). Furthermore, they study how shocks to the environment in which institutions are embedded may alter institutional *functions* without changing institutional form (Lee, 2016). For example, the assumption of power by a predatory government may transform the function of firm-level corporate governance from protecting minority shareholders to granting majority owners ‘political insurance’ against the state (Markus, 2008). Finally, shocks to firms’ environment may also change the *patterns* of institutional voids in ways that defy nation-level conceptualization (Blake and Moschieri, 2017).

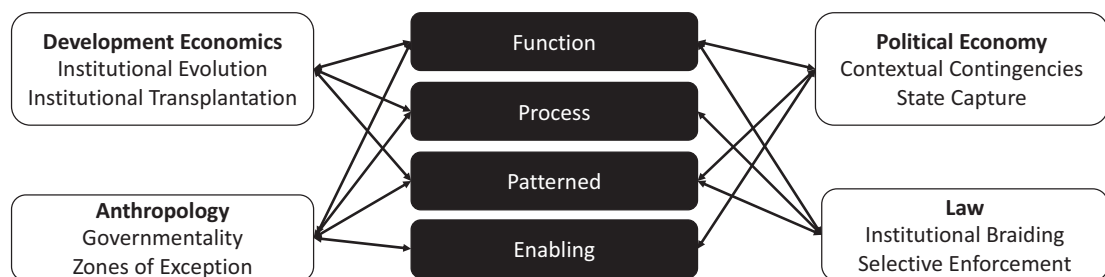


Fig. 1. Interdisciplinary perspectives on institutional voids: assumptions and constructs.

Although some IB scholars have explored the complex relationships between institutional structures, dynamic competition and growth in shaping institutional voids (Khanna and Palepu, 1997), and institutional co-evolution (Cantwell et al., 2010), we argue that IB scholars rarely discuss the evolutionary aspects of institutions and their co-evolutionary processes in a systematic manner, even though doing so would help explain the emergence, transformation, or disappearance of institutional voids.

By advocating for a shift in perspective from the *presence* to the *process* of institutional creation and destruction, while paying attention to the *functionality* and *patterned* impact of institutions, we build on Cantwell et al. (2010) and argue that the evolutionary paradigm opens research avenues that will allow IB scholars to theorize institutional voids in a deeper and more meaningful way. At the same time, the evolutionary view highlights the importance of a dynamic perspective for MNEs that need to develop strategies to capture value while also predicting the evolution of institutional voids that determine the relative efficacy or sustainability of these strategies in the future.

### 2.2.2. Institutional transplantation

As previously mentioned, the role of institutions, often seen as humanly devised ways to structure economic, social, and political interactions, has been explored in economics for decades (North, 1990; Keefer and Knack, 1997), the core assumption being that long-term economic growth is based on effective institutions (North, 1990; Coase, 1998; Rutherford, 2001). Thus, ineffective institutions, or “institutional voids” are perceived to reduce productivity gains.

Development economists generally support the argument that institutions trump other factors such as geography or trade in explaining economic growth (Acemoglu et al., 2001; Rodrik et al., 2004), but they also go further by studying not just the presence of certain institutions but also their historical change, thus adopting a *process perspective* (Greif, 2006). Scholars suggest that borrowing – or what some call “transplantation” in this field – importing or imitating successful institutional forms from somewhere else may reduce economic costs from an institutional voids perspective (Watson, 1993; Dixit, 2004). At the same time, indiscriminate borrowing that neglects the local context may be counterproductive (Rodrik, 2007), potentially altering the *function* of these institutions in the new context. The mixed results for the protections of creditor and shareholder rights in the wake of universal legal transplants, based on the ‘Washington Consensus’ across the post-communist world in the 1990s, show that transplanting institutions is subject to changes in functionality and may in itself not be sufficient (Pistor et al., 2000).

As such, institutional transplantation is still an underexplored construct in IB even though such processes could alter the playing field for MNEs. Building on Doh et al. (2017) and Liedong et al. (2020), we argue more research is needed to explore how the transplantation process can change or alleviate institutional voids, creating positive (or negative) outcomes for economies and individual MNEs. Drawing on prior work by development economists, we suggest how new lines of inquiry could illuminate the promise – and the risks – of transplanting ‘best practice’ institutions from developed to developing countries, as well as the effects of transplantation on MNEs and domestic firms. Moreover, we argue that IB theory would benefit from clarifying different transplanting mechanisms, methods of permeation, and types of transplantation (e.g., compatible or incompatible transplants).

### 2.2.3. Contextual contingencies

Scholars increasingly recognize that identifying institutional voids based on ideal-typical Western markets ignores the presence of other institutions in developing economies that may fulfil similar market-supporting functions (Mair et al., 2012) and underemphasizes the relative variation in institutional weakness (Cuervo-Cazurra et al., 2019b). However, IB scholarship has neglected the key implication of these insights, namely that any given “void” may impact firms differently (and even positively) depending on other contextual factors present. Thus, we draw on work in political science which, by stressing the contextual contingencies of institutional impact, challenges the assumption of pervasiveness while highlighting the *patterned* nature of institutional functions.

The IB literature, conversely, remains focused on firms “overcoming institutional voids” (Pinkham and Peng, 2017) and treats their uniform and negative consequences as given (outside of the well-covered cross-firm variation due to the differential firm resources). The rush to treatment options without a complete diagnosis is understandable, but theoretically problematic, so that a better understanding of the context surrounding institutional voids is warranted (Doh et al., 2017).

We specify three logics of contextual contingency for the impact of institutional voids that are particularly relevant for the IB literature. First, the logic of “double movement” builds on Polanyi's (1944) seminal insight that anti-market socio-political backlash follows waves of marketization (and associated dislocation) through history — the impact of institutional voids on firms, in turn, may depend on the temporal stage in this cycle (market-building vs market-shrinking stage). For example, the weakness of intellectual property protections may be more dangerous for business during the ‘market-shrinking’ stage due to populist pressures on the state to forcibly use corporate assets (e.g., medical R&D) for the “common good.” Second, the logic of institutional complementarities from the varieties of capitalism research stream (Hall and Soskice, 2001) suggests that the payoffs to any given market institution depend critically on the configuration of other economic institutions. For example, consider the institutional voids created by a weak or absent regulator of equity markets (such as the SEC in the U.S.): this ‘void’ would be more detrimental for the liberal market economies than for the coordinated market economies, since the former rely on functioning equity markets to a much greater extent. Third, the logic of institutional legacies from political science (Fukuyama, 2014; Woodruff, 2004) implies that the effect of institutional voids depends on what preceded the void, and, specifically, on whether the “absent” institution has never existed – or, conversely, had existed but subsequently decayed. For instance, the negative impact on business of an authoritarian political system featuring few ‘veto points’ (Henisz, 2000) may depend on whether the veto points had never been institutionalized or, conversely, were recently abolished due to power realignments.

#### 2.2.4. State capture

The 2017 special issue on business responses to institutional voids in JIBS concludes that extant research views business as “simply reacting” to institutional voids via a relatively “passive approach” (Doh et al., 2017: 302). This limited role of business is reflected in the literature on firm strategies compensating for (Boddewyn and Doh, 2011), partly alleviating (Regnér and Edman, 2014), or avoiding (Cuervo-Cazurra et al., 2014) institutional voids. Another stream of research follows Khanna and Palepu (1997) in emphasizing how certain companies (e.g., business groups) play a remedial role in “filling” institutional voids, with (limited) systemic benefits, while remaining focused on institutional voids as constraints.

Conversely, political scientists and economic historians see business as possessing vastly more agency (Greif, 2006; Lindblom, 1977), seeing institutions as *enablers* for firms' actions. Whether through conflict, cooperation, or collusion with the state, business becomes the very architect of institutional orders along with – and at times ahead of – the sovereign (Hacker and Pierson, 2002; Markus and Charnysh, 2017). Firms have sculpted institutions relating to property rights, market regulation, the rule of law, and democracy, yet such dynamics are, by and large, omitted in the IB scholarship related to institutional voids.

Business benevolence likewise warrants reconsideration (e.g., Fogel, 2006). As the literature on “state capture” emphasizes, companies may benefit from (creating) institutional voids, contrary to the conventional assumption of voids as constraints. Large firms often wield their clout to sustain or create institutional voids by deliberately subverting reform efforts, marginalizing stakeholders, or actively dismantling state institutions (Hellman, 1998; Winters, 2011). Scholars have begun to examine how corporations strategically conceal their political activity to evade broader accountability (Jia et al., 2021). This “dark side” of multinational behaviour, however, has not extensively been covered in the IB literature, which generally assumes multinational enterprises to be a force for good (see: Cuervo-Cazurra et al., 2021). Multinationals, in particular, may be in a position to leverage their power towards governments with systemic consequences.

Overall, we postulate that IB scholars have sold their objects of inquiry short: businesses can create, perpetuate, as well as remedy institutional voids. Insights from political science will allow the scholars of institutional voids to remedy this theoretical blind spot through frameworks that recognize the critical role of business in institution-building and institutional decay.

#### 2.2.5. Governmentality

The focus on institutions as external constraints in the literature on institutional voids tends to neglect the *agents being constrained*, the implicit assumption being that rules will be followed. The concept of “governmentality”, as elaborated by anthropologists, challenges the assumptions of institutions as constraints while clarifying why institutional effects are not pervasive but depend on the (re)actions of firms facing them, thus providing new insights into the *patterned* nature of institutional processes.

Michel Foucault's lectures in the 1970s on “governmentality” (Burchell et al., 1991) have become an influential theory on the exercise of official authority over subjects who possess agency and may generate a rich variety of reactions, including the subversion of attempts at domination by altering their meaning or by devising counter-strategies “from below” (e.g., Appadurai, 2002). A more precise taxonomy of such strategies will enrich IB scholarship on institutional voids, but also the broader research in IB attributing greater agency to MNEs via concepts such as institutional entrepreneurship (e.g., Cantwell et al., 2010), institutional work (e.g., Regnér and Edman, 2014), and non-market strategy (e.g., Darendeli and Hill, 2016). By dissecting the ‘anti-institutional’ reactions of the governed agents, governmentality theory can elucidate how corporations escape the institutional constraints of the state — potentially exacerbating institutional voids rather than merely encountering them.

Anthropologists treat not only governments but also corporations as organizations capable of exercising authority over individuals (e.g., Benson and Kirsch, 2010; Partridge, 2011), and some are concerned that neoliberal state ideologies have endowed a wider array of organizations, including corporations (e.g., Gupta and Sharma, 2006), with institutionalized power vis-a-vis the society. (While political scientists, as noted above, also attribute higher agency to companies, they worry more about corporations influencing the state.). The construct of “governmentality” redirects our attention to the *enabling* role of institutional voids for businesses, suggesting that the IB literature should treat the boundary between a multinational and its institutional context(s) as fluid. It recognizes that companies fulfil institutional functions towards stakeholders with important implications for how societies are organized. For example, companies may devise self-regulating – and often symbolic – corporate social responsibility initiatives that do not match or deliberately undermine the substantive stakeholder concerns (e.g., Zhao et al., 2014; Lyon et al., 2018). By analysing how corporations generate new institutional orders, the concept of governmentality examines the full set of institutional relationships between state, society, and corporations, and, as such, offers an integrated framework to study the *process* through which institutional voids emerge and the *functions* they serve.

Finally, the theory of governmentality emphasizes the experts, technologies, classification, and statistics used in governing. By opening an entirely new line of inquiry into the (imperfect) *techniques* of governance, this theory also highlights the *patterned* nature of institutional effects. For example, different regulations targeting the same set of firms may vary widely in their “bite”, depending on the specific techniques used by the state to implement them. By disaggregating the techniques that allow (or not) institutions to constrain behaviour, the theory of governmentality adds a fine-tuned diagnostic tool to identify (and rectify) institutional voids — hence addressing an important critique of this scholarship as being too unidimensional (e.g., Ault and Spicer, 2019).

#### 2.2.6. Zones of exception

The IB literature has largely focused on *jurisdictions* – and nation-states, in particular – as its primary level of analysis and variation. Anthropologists challenge the assumption of pervasive institutions as well as geographic boundaries by re-examining the actual patterned spaces across which institutions and their (often imperfect) implementation vary. Specifically, anthropologists theorize “zones of exclusion” or “zones of exception” in which official state institutions are absent or ambivalent, without exclusively

attributing these zones to an ineffective or opportunistic state (Hansen and Stepputat, 2006). Above all, such zones are *contested spaces* that highlight the multiplicity of actors able to shape institutional voids, and, furthermore, such zones may not coincide with a jurisdiction. For instance, Hoffman (2019) describes violence in the “gray zone” (i.e., ambiguous security operations beyond traditional state actions) of Monrovia’s quarantined West Point neighborhood during the Ebola pandemic. Such institutional ambiguities can be geographically anchored in spaces that are categorically different from nation-states (e.g., slums or borderlands). Anthropologists are particularly interested in such spaces because it is precisely in such zones that new responses and phenomena emerge (e.g., Ong, 2006), including the rise of organizational or institutional forms that are real, symbolic, or even ‘magical’ (e.g., Clarke, 2017).

Multinational activity intrinsically spans institutional and geographical boundaries, suggesting that the “zones” construct can be fruitfully exploited by IB scholars — particularly given new phenomena, such as global wealth management (e.g., Harrington, 2016), that conventional IB theories cannot fully capture. Challenging the existing jurisdiction-based categories (e.g., nation states, provinces), we outline novel ways of classifying and measuring institutional reach and effectiveness, including in zones such as charter cities, the dark web, the Belt and Road Initiative, tax havens, or special economic zones on which the IB literature has remained mostly silent. The identification and examination of zones can complement structuralist and formalist approaches to institutional voids (e.g., Pinkham and Peng, 2017). We demonstrate how prior studies in social sciences, including anthropology, identify and analyze the processes of exclusion, exception, and renewal by using novel categories such as “zones,” and how this scholarship can advance IB theory on institutional voids.

### 2.2.7. Selective enforcement

Doh et al. (2017) have articulated that greater interdisciplinary research needs to be undertaken concerning the underpinnings of institutional voids. Cuervo-Cazurra et al. (2019a, b) have also argued that the underlying logics and “influences” of institutional voids need to be better elucidated in the IB literature. In fact, the institutional voids literature has overwhelmingly focused on effects rather than on root causes (Bothello et al., 2019), often assuming the effects of institutional voids are evenly felt within a country.

We argue that legal and political science scholarship can contribute to a better understanding of the underlying mechanisms driving institutional voids, in particular through the theory of selective enforcement. Selective enforcement theory challenges the assumptions of institutions being pervasive within a jurisdiction and focuses on non-enforcement of rules due to a lack of state capacity or a lack of political will (Hill, 2016). Scholars have delineated specific mechanisms behind selective enforcement, including principal-agent dilemmas in the state apparatus (Markus, 2015), or the deliberate use of non-enforcement by the sovereign to redistribute benefits among interest groups (Holland, 2016). This theory has been applied to, among others, explain uncertainty as a result of wide-ranging deviations in why host governments pick winners and losers by selectively enforcing restrictions on MNE foreign subsidiary establishment mode choice and operations (White, 2003) as well as influencing judicial discretion in awarding legal adjudications associated with MNE intellectual property right protections (Weatherall, 2016). Thus, while much of the IB literature assumes that formal institutions are uniformly applied, legal and political science scholars acknowledge that this is rarely the case, especially in the emerging markets. Selective (non-)enforcement can significantly alter the competitive landscape and offer opportunities to certain players to obtain exceptions, or otherwise unfairly target MNEs. Salient examples are international arbitration (e.g. non-enforcement of awards in a host country jurisdiction) (Mistelis, 2013), trade law including environmental and labour standards embedded in such agreements (Meyer, 2018a, b), and bankruptcy law (e.g. facilitating creditor opportunism) (Casey, 2015).

The theory of selective enforcement – and the varying reasons behind it – can be applied in IB to offer a more nuanced understanding of the underlying causes of institutional voids as well as their *patterned* effects. MNEs are particularly likely to suffer (or benefit) from selective enforcement in comparison with domestic competitors. Furthermore, selective enforcement may change the *functionality* of existing institutions, such as transforming judiciaries as impartial adjudicators of law or business associations from lobbying organizations into platforms for state policy implementation rivaling governmental bureaucracies (Casarin, 2015; Markus, 2007).

Selective enforcement is therefore a promising explanatory factor underlying various institutional voids relevant to IB, such as varying dimensions of corruption (Rodriguez et al., 2005), judicial arbitrariness and failure (White et al., 2015), the lack of well-defined intellectual property rights (Webb et al., 2020), political risk (Delios and Henisz, 2003), and the capricious over- or under-regulation of select industries (Holburn and Vanden Bergh, 2008) in host country operating environments. Selective enforcement theory, we argue, can be fruitfully leveraged to advance IB theory in explaining why institutional voids arise in certain areas, but not in others.

### 2.2.8. Institutional braiding

International business scholars have investigated whether, within the context of institutional voids, codified contractual mechanisms and informal relational mechanisms are complements or substitutes in governing international interorganizational relationships (e.g., Li et al., 2010). This line of IB literature largely considers such contractual provisions as “institutional frameworks”, otherwise offsetting operational uncertainty, and constraints, associated with institutional voids (Luo, 2002). With this notion in mind, proponents of transaction cost economics have long argued that interorganizational relationships should be codified in intricate contractual arrangements to mitigate opportunism and bounded rationality (Williamson, 1975, 1979). Yet, changing institutional environments may require alterations of contractual governance, potentially increasing the relative costs of governing interorganizational relationships (Williamson, 1991, 1996). Some IB scholars therefore argue that transaction cost economics “overstates” the effectiveness of codified contractual arrangements, instead suggesting that such contracts are often “too costly to craft and enforce” and calling for customized governance characterized by complementarity between codified and relational governance mechanisms (Poppo and Zenger, 2002: 707).



We argue that this promising line of theoretical inquiry can benefit from leveraging legal scholarship, which is still relatively rare in the IB literature (cf. Pinkham and Peng, 2017; White et al., 2015). Thus, contract theory has extensively considered the utility of formal and informal governance mechanisms (e.g., Folsom et al., 2002; Klein, 1996). Both formal and informal contract enforcement mechanisms have limitations: codified formal enforcement has verifiability issues and informal relational enforcement has observability difficulties. These problems are substantially amplified in environments with pervasive uncertainty due to institutional voids (Schwartz and Scott, 2003), where contracting may therefore involve “collaborative innovation in a world of heightened uncertainty” (Gilson et al., 2010: 1382).

Legal scholarship clarifies how “institutional braiding” (i.e. weaving together different governance mechanisms) can maximize the operational effectiveness of interorganizational relationships. Through institutional braiding, low-powered enforcement mechanisms (e.g., those associated with institutional voids) allow for formal contractual mechanisms that can complement, rather than crowd-out, informal mechanisms that rely on higher levels of mutual governance (Goetz and Scott, 1981). In so doing, institutional braiding challenges the idea that *form* and *function* of institutions are aligned, providing an explanation for the pervasively *patterned* nature of institutional voids. For instance, MNEs are observed to harness low-powered sanctions that allow for greater governance adaptability (Luo, 2002, 2005) and combine these with binding contractual mechanisms sanctioning alternative dispute resolutions such as arbitration (Devarakonda et al., 2020; Pinkham and Peng, 2017) to overcome institutional voids.

Therefore, institutional braiding helps MNEs to proactively pre-determine the *process* of how operations are influenced by the *functionality* of institutions that are *patterned* within and across local, provincial, regional, and national space. Hence, inter-woven governance mechanisms invite a process-view of governance that can re-shape *function* across *patterned* space. This *process* will effectively exploit institutional voids by developing interorganizational contracts that weave formal and informal mechanisms in a way that allows for the pre-emptive evaluation of the character and aptitude of their partners in order to cooperate more efficiently during times of uncertainty (Gilson et al., 2010). With the IB literature hitherto largely silent on proactive “braided” contracting strategies, we see great promise in using “institutional braiding” theory, particularly within the context of institutional voids.

### 3. Future research avenues for institutional voids research

IB scholars commonly examine institutions as determinants of country-level political risk and associated cross-national investment flows. Several studies have shown that political, legal and administrative systems are viewed as key factors, which, directly and indirectly, affect the attractiveness of foreign markets for multinational enterprises (Henisz and Macher, 2004; Peng, 2003; Wright et al., 2005). It is therefore no surprise that the concept of institutional voids has been rapidly adopted as well as challenged within the field of IB (e.g., Doh et al., 2017).

In this context, we argue, that the institutional voids concept's relatively narrow focus has limited the usefulness of the construct and prevented scholars from answering pertinent questions about the role of institutions for IB. Further, we note that early economists provided fairly broad definitions of institutions, but the interpretation in the IB literature as applied to institutional voids has been significantly more focused. This coincides with a one-dimensional approach to measuring institutions, thus leading to a relatively narrow path of theoretical progress. Consequently, our approach to bring in new theoretical constructs from other disciplines (i.e. institutional evolution, contextual contingencies, governmentality, institutional transplantation, selective enforcement, institutional braiding, state capture and zones of exception) allows IB scholars to redirect their attention and address several promising “big-picture” questions. We outline four questions that this new research agenda could address:

First, when formal market-supporting institutions are inadequate, what other informal or formal institutions or actors can fill this void and how do such complementary or interconnected institutional constellations affect IB? This question is especially relevant for IB, as multinational enterprises can transcend the boundaries of jurisdictions. For instance, *The Economist* noted that some firms with business agreements with Indian companies have opted for other jurisdictions, such as the UK or Singapore, as arbiters of such contracts, thereby allowing firms to circumvent institutional voids (*The Economist*, 2020). We find that that institutional braiding and institutional transplants may be useful constructs to answer these questions. Drawing on those constructs, future research may adopt these terms to explore how MNEs manage these formal and informal institutions across different jurisdictions. For example, there are MNEs who utilize international financial institutions (IFIs) (e.g. the International Monetary Fund or the World Bank) in transferring new institutional systems into emerging economies with non-Western political and social values. Thus, future studies may examine the ways in which multinational enterprises leverage these institutions across home and host markets to fill in voids.

Second, how do non-market risks and opportunities vary over time and in different contexts due to evolving institutional constellations shaping institutional voids? How are institutions themselves transformed after they are introduced or transplanted into unsupportive environments? These are important questions as institutions interact with agents they are meant to constrain, with the latter able to subvert or circumvent them, generating new pressures leading to new institutional transformations. We propose that future research may leverage the concept of institutional evolution to explore the inventive mechanisms and how the system of enforcement evolves depending on types of political ideologies. The concept of governmentality is also relevant here to study the processes of institutional change, while institutional transplantation and evolution can lead to more accurate predictions of institutional variation over time.

Third, how do institutional voids vary within countries, for instance based on intra-national differences or even at the level of individual firms? Will some multinationals face greater non-market risks due to institutional voids than others, and what mechanisms explain this variation? This question is important to redirect scholarly attention to new and more granular measures of institutional effects, rather than their formal roles, as not all formal rules and institutions impact all MNEs in a similar manner. The adoption of institutional voids as situated in spaces or zones of exception, as well as the legal theories that explain selective enforcement can

advance this line of thinking.

Finally, how can multinational enterprises become or act as market-supporting (or market-distorting) entities and what are the consequences for firms and for countries? What is the ethical implication of a blurred boundary between multinationals and institutions? Theories of state capture from political science can powerfully inform IB scholarship, in particular by elucidating how multinational enterprises can co-opt or subvert certain institutions, especially those meant to support markets. Furthermore, the idea of governmentality as a two-way process of action and reaction could be helpful for IB scholars in understanding the (limits of) constraint mechanisms. Overall, we suggest that conceptualizing the role that firms play in exacerbating or mitigating institutional voids is a fruitful phenomenon for future IB research to consider.

### 3.1. Contributions and limitations

This perspective article makes three important contributions to the institutional voids literature. First, a cross-disciplinary perspective allows us to theoretically anchor and arbitrate the unfolding debate on the merits of the institutional voids research program — and to reinvigorate this research agenda by proposing specific new constructs and research questions. In doing so, we help close the gap between management and other social sciences in terms of institutional research. Insights from other social sciences allow us to identify problematic assumptions in institutional voids research and to formulate revised assumptions that are empirically more plausible and theoretically more promising. Specific constructs from other social sciences further allow us to demonstrate how the revised assumptions can generate new research questions for institutional voids scholars.

Second, we use the cross-disciplinary dialogue to crystallize the divergent (and sometimes implicit) definitions of ‘institutions’ both across the social sciences concerned, and between the proponents and critics of institutional voids research within management. Throughout the article, we flag such divergences and streamline our framework in Fig. 1 definitionally, in order to prevent “conceptual stretching” (Sartori, 1970). For example, while economists and legal scholars focus primarily on formal rules and their enforcement (e.g. North, 1990), political scientists view institutions as historically contingent mechanisms structuring power dynamics (e.g. Pierson, 1994); and anthropologists study how collectives exercise authority over individuals (e.g. Hansen and Stepputat, 2006). Although most IB scholars recognize that the diversity of “institutional” theorizing generates important implications for the conceptualization and measurement of institutional voids (Cuervo-Cazurra et al., 2019a, b), there has not yet been a systematic attempt to advance the literature on institutional voids by reviewing adjacent social sciences that have grappled with similar questions.

Thirdly, the conceptualization and measurement of institutional weaknesses has serious policy implications. Economically and geopolitically, the ‘neoliberal’ institutional model – with its emphasis on free markets, laissez-faire policies, and institutions restraining the state – has come under strain in the face of economic crises, inequality, and corporate scandals in the West, as well as the apparent success of state capitalism in China and other emerging markets. Our understanding of what constitutes “good” institutions – and, by extension, institutional “voids” – fundamentally drives the policies of nation-states, IGOs, and NGOs. To cite one example, the conditionality around foreign aid typically references institutional quality in the recipient countries. Of more immediate importance to IB, our understanding of institutional weakness directly impacts organizational investment decisions and planning, as, for example, shown by research on FDI. Overall, how institutional voids are conceptualized, measured, and studied has vast practical importance.

Finally, we believe various factors stand in the way of a more fruitful interdisciplinary cross-fertilization as we advocate here. Moreover, the boxing of IB scholars in relatively narrow fields of expertise progresses as the field matures. Yet, this may make scholars less comfortable to venture out into adjacent disciplines. While there is considerable knowledge exchange between business and economics, this is not the case with fields such as law or anthropology. Similarly, the empirical toolbox that scholars are familiar with may not be adequate or sufficient to capture phenomena such as long-term evolutionary process studies or granular analyses of the techniques of governing and its patterned impact on individual firms. More importantly, academic journals may be less inclined to publish IB studies that transcend conventional approaches and theories, thereby discouraging scholars from taking a risk. Thus, young scholars may prefer marginal contributions over high impact work that has a low probability to be published. All these challenges, we believe, can be overcome if the IB field further increases its acceptability of non-traditional scholarly work and when scholars from different disciplinary backgrounds are encouraged to collaborate. In short, we fully agree with Peter Buckley’s call to prevent the IB field from becoming more “inward-looking and self-referential” (Buckley et al., 2017: 1046) and believe a healthy dose of curiosity, collaboration and risk-taking will advance our understanding of institutional voids.

## 4. Conclusion

In conclusion, challenging and reframing the original construct of institutional voids, we initiate a conversation with related research agendas across social sciences. Further, we outlined eight promising theoretical insights from anthropology, development economics, law and political science that can benefit scholars of institutional voids. By doing so, we aim to contribute directly to the interdisciplinary cross-fertilization. The goal is to direct scholars to promising new research questions that can advance our understanding of the variation in the extent to which institutions constrain behaviour, resolve collective action problems, and make productive economies possible. As such, we hope this study becomes a catalyst for more interesting institutional voids research, which is already gaining momentum in the field of IB.

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