The Influence of Institutional Voids on Business Process and Practice in Emerging Economies: The Implications for MNCs

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Abstract

The business process in general, and MNC operation in particular, in emerging economies are bound to be different to the process observed in developed countries with different social, cultural, economic and political environments. This article examines how the institutional framework has the ability to shape the business process and practice within the context of an emerging economy. Using China and India as case studies, we argue that institutionalizing institutional voids in these societies benefits the existing power structure and the associated business. Even so, this set-up is moderated by the socio-cultural context and normative rules; these are themselves greatly influenced by the power structure. In such a context, business practice in general, and MNC operation in particular, reflect the tension between disembodied and corporeal practices.

Keywords: business process and practice; China; emerging economies; India; institutional voids; MNC operation.

1. Introduction

Business process and practice in general, and MNC business operation in particular, make a considerable contribution to rapid economic growth while generating other benefits, such as an increase in employment and tax revenue, and the introduction of new technologies and products through innovations (Blomström & Kokko, 1998; O'Donnell & Blumentritt, 1999). In return, incentives offered by government policies, such as tax breaks, specific support to businesses which create new ventures in high tech industries, motivate business to invest in designated industries or economic sectors. Government policies are thus a critical means for business development and contribution to performance by MNCs (Luo, 2001). It is thus imperative to understand the impact on businesses of rules and institutions, which vary across contexts (Jackson & Deeg, 2008). It is not surprising that the relationship between government policies and business practice has become attractive to scholars (Brouthers, 2002; David, 2010; Kostova & Roth, 2002; Nasra & Dacin, 2010; Schneiberg & Bartley, 2001; Sheng, Zhou & Li, 2011). Understanding the implications of these aspects for MNCs operating in the emerging economies is particularly important because of heterogeneity in the socio-political context and idiosyncratic institutions, necessitating international business scholars to use different theoretical tools and perspectives (Ghauri, Hadjikhani & Elg, 2015).

An important characteristic of MNCs operating in emerging economies is that they manage their legitimacy among different actors, namely business, political and social stakeholders (Elg, Ghauri & Schaumann, 2015); however, building and managing relationships with the political actors takes precedence as these ties are "imperative for the firms" survival (Ghauri et al., 2015). According to institutional theory, government policies offer legitimacy to business, representing a specific kind of resource provided by regulatory systems. This regulatory legitimacy is important to businesses since it creates basic conditions for them to obtain other strategic resources, particularly factor resources, such as capital, technology, human resources and land (Khanna & Palepu, 1997, 2000).

Since market mechanisms in emerging economies are either absent or imperfect, our attention is specifically drawn to the complexity of legitimacy established in an institutional environment's regulatory system within the context of an emerging economy (Cavusgil, Ghauri & Akcal, 2012). A process that requires businesses to operate in such a challenging environment, with deficient regulatory institutions, is bound to be different to the one observed in the context of developed countries (Jackson & Deeg, 2008). Puffer, McCarthy and Boisot (2009) demonstrated this notably in their study of business in China and Russia. We contribute to the discussion on the behaviour and the process of business in general, and MNC operation in particular, in emerging economies by evaluating the MNCs in the context of China and India, using the lenses of institutional theory.

While the idea that institutional context impacts a firm's strategy, process and performance is not new and has already been highlighted in traditional theories, such as resource-based view (RBV), institutional theory and contingency theory (Nguyen, Le & Bryant, 2013), not much debate and research has been undertaken to specifically understand the influence of institutional voids on the business process. Therefore, in this article, we focus on the institutional voids existing in the regulatory system in China and India, and how these voids influence business process and MNC operation. We are most interested in the management of institutional voids by business in order to not only survive, but also find opportunities therein and be successful. One cannot ignore the role played by regulatory authorities in helping some businesses to even gain social-cultural acceptance. Our argument is not necessarily antithetical to the widely accepted view that institutional voids impede development and functioning of markets (Khanna & Palepu, 1997). We extend the argument in the context of emerging economies to state that institutional voids, while impeding the function of free, unbiased, open and morally legitimate markets, also provide opportunities to pragmatic business to flourish. The enactment of pragmatic business in emerging economies conflicts with ethical business principles espoused in developed economies and hence brings forth the tension between disembodied and corporeal business practices. Based on these considerations, we present a research model demonstrating that managing regulatory legitimacy is imperative for the survival and growth of business in emerging economies like China and India, and that organizational resistance to deeply embedded deviant institutional practices can be overwhelming. The implications are not only relevant to their indigenous businesses, but are also useful to MNCs operating in such different business environments.

2. Institutional voids and business practices

While scholars across different fields have always been interested in understanding the impact of institutions on human activity and society at large (and vice versa), there has been a recent growth of interest in institutional and business practices (Bruton, Ahlstrom & Obloj, 2008; Kostova, Roth & Dacin, 2008; Luo, 2001). Recent literature, particularly studies focused on emerging economies, has begun to draw attention to the interactions of regulatory institutions and business practices (Tsui, 2004, 2007). For example, a favourable institutional environment for business would reduce transaction costs for setting up a new business and would motivate business to start new ventures, as well as provide key resources to support growth activities (Bruton et al., 2008; Peng & Luo, 2000).

Regulatory institutions are required for markets to exist and function. This involves establishing regulations for governance, property rights, rules of exchange and disclosure; it also requires the development of a mechanism to enforce laws and regulations. These regulatory institutions and mechanisms are primarily built and enforced by the power structure that is responsible for the governance of the state (De Soto, 1989; Fligstein & Mara-Drita, 1996; McDermott, 2002; North, 1990). They not only define the characteristics of regulatory institutions but also their function. Nonetheless, regulatory institutions do not act in isolation of beliefs and values held in the public consciousness and normative norms within the society (Sardana & Zhu, 2017; Scott, 2001). The regulatory institutions and their formulation and functioning, are thus bound to be influenced by (and in turn influence) the informal structure of the society.

Most developed countries have taken an active interest in developing robust regulatory institutions and filling the gaps in the formation of rules and their enforcement. In contrast, developing countries have less advanced regulatory institutions for law-making and enforcement. In many cases, vested interests have also prevented the development of robust regulatory institutions in emerging economies (Chandra, 2009).

We argue that there are multiple, dynamic relationships between institutions and business practice, particularly in emerging economies. Multiple institutions play different, sometimes overlapping and even conflicting roles, in entrepreneurial activities. Take the example of state hierarchy: there are national and regional/local governments, each making various policies for economic development, education and development of institutional infrastructures, such as market conditions. This state hierarchical mechanism is more vital to business in emerging economies than in advanced economies, the reason being that not only are emerging economies characterized by strong government intervention in support to new ventures and enterprises, but also national and local governments have different autonomy in resource allocation. For instance, in India, the central government may pass a legislation (e.g. FDI retail policy), but the choice to implement it rests with the government in individual states

(ZeeNews, 2012). Hence, both local firms and foreign MNCs operate under multiple forces, in particular government regulatory influences.

In emerging economies, the regulatory institutions are also quite unpredictable as they are vulnerable to frequent changes that add to their dynamicity (Khanna & Palepu, 1997). For instance, the government may quickly shift its policy focus if it decides to encourage a specific type of venture or industry. By contrast, social/cultural factors or ethnic behaviour change slowly, generation by generation. Therefore, a business might initially follow a government policy in starting up a new opportunity, but the operation of this venture is more likely to be shaped by social/cultural factors. The latter may be due to a business adjusting to socio-cultural norms and/or the society also adjusting to the new business idea. McDonald's fast food chain first opened its outlet in 1996 in India, but it took several years to establish itself because Indian society at the time was not used to the Western concept, and success came only after many targeted changes in menu, marketing and pricing (Relph, 2012).

Even if emerging economies have a strong regulatory framework and institutions, the enforcement of these structures is often neglected. Institutional voids are thus created because of the weakness of regulatory institutions in fulfilling their expected roles in enforcing the rules, as well as the failure of the power structure to meet demand for new laws that are in keeping with the fast paced evolution of the social and economic context. In the former case, the institution established to support markets may formally exist, but the institutional arrangement to legally implement laws may be weak or dysfunctional (Chandra, 2009); players in this case may choose alternative means of enforcement. These alternative methods may or may not have wider social sanction, but are accepted normative behaviours within the current regulatory institution. For example, in India, the majority of citizens may be against paying bribes to get work done, but they have little choice since paying bribes is an accepted norm and practice in most government offices and departments. A similar situation also exists in China. This scenario of emergence of institutional voids is very different in the case of developed countries, where innovations and technological advancement is often seen to create institutional voids (Rao & Singh, 2001). An example would be the advancement in bio-technology leading to the development of genetically modified organisms, creating an institutional void. The institutional void due to progress on a technological scale has also been created and precipitated by associated change in the moral standards of a society. The wide-ranging policy discourse worldwide on carbon emissions and climate change, and its subsequent institutionalization (after a period of institutional void) is due to advancement in the clean technologies sector and growing social awareness of these issues among more advanced societies.

Institutional voids, regardless of the reasons for which they may exist, have thus been considered an impediment to the development and functioning of markets; they can also obstruct market participation. In short, institutional voids are considered to have a negative effect on the market as they increase transaction costs for the players (Leff, 1978; Khanna & Palepu, 2000; Woodruff, 1999). While this view may be accurate from the perspective of scholars from developed economies and the general public, there is an alternative view of this situation from the perspective of pragmatic managers and business people in the developing world.

Businesses in emerging economies driven by their primary objective to create and capture economic value for themselves, adapt their strategies and seek to take opportunistic advantage of these institutional voids only if doing so is profitable (Hoskisson, Eden, Lau & Wright, 2000; Khanna & Rivkin, 2001). Since most of the policymaking often takes place in an institutional void (Hajer, 2003), businesses try to manipulate ill-defined laws to 'legitimatize' their actions and organizations while profiting in the process (Barley & Tolbert, 1997; Suchman, 1995). This tendency is distinct to that normally seen in a developed country where businesses assess the stability of the environment while discovering an opportunity and exploiting it.

The above situation may look prohibitive and complex to MNCs seeking to enter the market, but local businesses and some MNCs long established in the domestic markets have, over a period of time, not only learnt to accept and adjust to it, but also work to preserve the *status quo* for their own advantage. Their understanding of the "weakly enforced" and "capriciously interpreted" rules (Puffer et al., 2009) not only provides them protection from new competitors, but also bestows them a competitive advantage in a market economic environment that is more liberal and seeking to attract other MNCs from across the globe (as is the case in both China and India).

3. Different methods used by business to benefit from institutional voids

This section provides a brief account of methods by which business in emerging economies seeks to benefit from institutional voids. These methods or approaches then become part of the business processes that raise concerns on the corporeal nature of ethical business practices and sustenance in the given context. The following methods often used by businesses in China and India are not necessarily disjointed; each type can be seen to either influence or combine with another in a given context. These methods not only pose challenge to scrupulous MNCs operating in China and India, but also those seeking to enter these markets. We also highlight opportunities that other MNCs seem to exploit pragmatically (not necessarily ethically, though).

3.1. Managing deviant institutional norms

A manager is always constrained by time and resources, and tries to optimize these to achieve the desired outcome. This requires understanding of the context and taking an approach that is best suited to give optimal results. It also involves creating organizational structures and processes that are consistent with the norms and culture of prevailing dominant regulatory institutions, thereby increasing the chances of regulatory legitimacy for their organization (Puffer et al., 2009). In addition, the prevalence of less formalized rules and poor regulatory execution gives business the opportunity to benefit from these institutional voids. This may involve using bribery as a means of obtaining the necessary approvals in less time, proving to be more cost effective compared to the strict compliance route.

While bribery and corruption are direct results of institutional voids, they are also the causes that have provided an opportunity to many 'street smart' pragmatic businesses, MNCs or large domestic firms, to take advantage of such a situation and generate high rents for themselves, albeit often compromising business ethics (Kundu, 2017). For example, the tax structure in India is internationally competitive, yet individuals and companies benefit considerably from a system which allows them to save on tax payments. Institutional voids, either due to incomplete laws or due to poor enforcement, have helped many to benefit and prosper by avoiding paying tax. Many companies (e.g. Jet Airways, India's largest domestic airline) are reportedly diverting their investments via Mauritius on the basis of the double tax avoidance treaty that India has with Mauritius. In 2012 the Junior Finance Minister informed Parliament that about 39.5% of India's total foreign direct investment (FDI) between April 2000 and February 2012 came via Mauritius (BBC News, 2012). The situation in China is no different. Geng (2004) reported that a large part of FDI inflows into China was 'not very foreign' and the percentage of round-tripping by Chinese state-owned enterprises (SOEs) in FDI inflows comprised between 26% and 54% in the early 2000s. Other indicators also show that half of the FDI into China in 2004-05 originated from round trips by domestic firms through Hong Kong and the Caribbean off-shore centres to benefit from tax breaks (Chandra, 2009).

While there is a general perception that corruption in China and India relates only to government officials, often less spoken and talked about is the burgeoning and rampant corruption in the private business dealings. For example, it is not uncommon to hear that officials in a large MNC ask for kickbacks and favours *in lieu* of granting a contract offer to another private business entity. At the same time several scrupulous MNCs in India are at a disadvantage for their strict policy of behavioural conduct that is expected of their business development representatives. For instance, most pharmaceutical MNCs in India now prohibit the sponsoring of air travel or accommodation for attending conferences by doctors or giving them any kind of direct and indirect inducements (such as gifts), restricting their growth potential substantially (Sardana & Zhu, 2017). The MNCs control their employees by including clauses from the Foreign Corrupt Practices Act (USA) or the Bribery Act (UK) in their contracts with employees, and also conduct regular audits of their local units. Despite these measures, deviant practices do come to light with severe repercussions for the MNCs worldwide. Aside from regulatory persecution and penalties, such scrutiny significantly impacts the corporate reputation of the company. For instance, in 2013 the Ministry of Public Security of China alleged that since 2007 GlaxoSmithKline (GSK) had been involved in bribery amounting to roughly $490 million in illegal deals, which has led to scrutiny of other pharmaceutical MNCs such as Sanofi and Eli Lilly & Co (Simpson, 2014). Likewise, in India there have been several cases where MNCs have encountered problems either due to their direct complicity or their lack of prudence in striking a deal with a domestic company with a chequered history. A prime example is the unwise transaction entered into by Deutsche Telekom when it bought equity in a new venture established by the ex-secretary of the Department of Space, which had acquired its telecommunication spectrum by dubious means (Thakur, 2011).

Despite the above mentioned cases, the reality is that several MNCs must to a certain extent comply with local informal norms governing regulatory institutions and yet be discreet about it. A quote by the owner of a Taiwanese IT manufacturer operating in China sums it up:

> It was impossible for an outsider getting into China to be successful unless you had a good *guanxi* with all levels of officials. When we came to mainland China, as a Taiwanese investor, we had local authority's assistance from the city government 'Taiwan Affairs Office'. They showed us around and also introduced the key officials in charge of business registration, land, infrastructure facilities (i.e. road, water and electricity supplies), taxation and labour. In order to get to know these different officials well, we invited them for wonderful dinners from time to time separately (they wanted to be treated in a special way and did not want to be mixed up with others). New Year's Day and their children's birthdays and weddings were good times to provide expensive gifts. I mean very expensive gifts, including gold or a lot of cash. These were seen as normal things to do in the earlier years. (Sardana and Zhu, 2017, p. 221)

3.2. Exploiting market imperfections

When a market is not perfect, the so-called structural holes exist between supply and demand, causing enterprising managers and businesses to attempt to fill that gap. Such structural holes occur naturally or can be artificially created and maintained by state actors to favour a few businesses. The power structure benefits through affiliation and generosity shown by the business in a *quid pro quo* manner. Business and business people that are able to quickly transform such structural holes into business opportunities by using their connection to the power structure are able to seek supra-natural profits. For example, Vedanta Plc, a MNC headquartered in London but owned by an Indian tycoon, defiantly continued with its operations in Orissa despite being nationally and internationally condemned for its extreme disregard to ethical operations and human rights violations against people of the land. The company's subsidiary operating in Lanjigarh (a district in Orissa) was accused of: 1) illegal operations in forest areas; 2) desecrating holy tribal land; 3) intimidation and forceful eviction of the tribal people without seeking to rehabilitate them; and 4) destroying the livelihood of local people while creating severe health problems (Chakravarti, 2014). The company was brazen in its approach to continuing their operations despite being castigated by the Supreme Court of India, but had to finally stop due to public and media censure and adverse ruling by the Supreme Court (Rahman, 2010).

Several other MNCs (such as Lafarge of France, POSCO of South Korea and Rio Tinto headquartered in London) have also conspired with the state machinery to divest people of their land and gain control of valuable land and rich natural resources in India (Chakravarti, 2014). In most of these cases the companies were given licenses as the polity wanted to project itself as progressing economic liberalization and attracting FDI. Yet the permission to extract mineral resources in ecologically sensitive and tribal areas was granted by exploiting loopholes in environmental laws (Singh, 2017). There are also cases of deliberate misallocation of land rights and resources, where MNCs have sought to carry favour by directly or indirectly benefitting a top politician or a bureaucrat. Roy (2013) mentions the association between Vedanta (the mining company discussed above) and P. Chidambaram (ex-Federal Home Minister) and how the former benefited from this alliance. It was found that during his tenure as a senior minister in various capacities (Home Minister and Finance Minister), he tried to favour the company as a member of Vedanta's legal team before becoming a minister, and is believed to have made a fortune (Bamzai, 2012). Although the judiciary challenges such illegal land acquisitions, civil cases can easily take up to 20 to 30 years for justice to be done (Sardana

& Zhu, 2017). The institutions meant to help people seek justice are severely compromised due to the State's support for such activities.

In China, the development project at the east end of Chang'an Avenue in central Beijing represents a similar example of business linking with politics and obtaining favourable treatment (Yu, 2012). The Oriental Plaza project was initiated in 1992 by one of Hong Kong's famous billionaires with an initial simple plan, but expanded gradually in terms of occupied land area and exceeded the height limits imposed by the government in the inner old city wall area. In order to secure approval for this expanded project, the Hong Kong-based investor made deals with top leadership at central party and Beijing city level. By paying a small compensation, he was able to quickly remove an entire neighbourhood as well as existing businesses and the project was completed with the blessing of political leaders, although with server public criticism (Yu, 2012).

While the above adverse cases demonstrate the challenges for an MNC to operate in China and India, they also point to their succumbing to measures that exploit market imperfections created by institutional voids. Several of the above cases could have been averted if the companies had the desire to manage the market imperfections existing in procuring tribal land areas. Ghauri et al. (2015) specifically talk of MNCs managing their social legitimacy by aligning themselves to various NGOs and developing their credibility.

3.3. Exploiting pragmatic institutional measures

Pragmatic institutional measures are used by the power structure to promote and support a particular type of activity that is considered to be valuable to those in power, and smart businesses try to take maximum advantage of this. For example, several of the above examples relating to the exploitation of tribal people in India mentioned in the previous sub-section, are often justified by the government in the name of attracting FDI to create employment and local wealth, as well as facilitating ease of doing business in India. Despite these adverse cases, there are some very positive examples where MNCs have prospered by gainfully contributing to the government programs and directly benefitting the public.

The two very different outcomes for Google and other social media companies (such as Twitter and Facebook) in China and India are linked to the issue of how they acted to align themselves with the objectives of current political dispense. There have been several speculations about the reason for Google quitting China; Western media seems to believe that censorship was due to Google discovering a cyber-attack from within the country targeting it and dozens of other companies. While investigating the attack, Google also found that the Gmail accounts of several Chinese human-rights activists had been hacked (Waddell, 2016). Contrary to the experience that Google had in China, its firm grip in the Indian market perplexes everyone. A 2013 Forbes article describes how Google has established a firm grip on the internet space in India (Dharmakumar, 2013). According to the CEO of Google, much of the work related to the Google Maps took place in India (Singh and Arora, 2016). Google is an important player in actively contributing to the 'Digital India' initiatives by the Prime Minister of India by providing free internet connections in several public locations, such as railway stations in India (FE Online, 2017). These initiatives are aligned with the government's policy of showcasing India as a progressive IT nation and in return Google is seen to have a very harmonious relationship with polity and bureaucracy at the very top (HT Correspondent, 2015).

A further instance is Dassault's success in winning a defence deal from the Government of India to supply Rafale jet-fighters (Sinha, 2016). India is one of the largest importers of defence technology and products in the world. With Prime Minister Modi's recent 'Make in India' campaign, several MNCs are taking a pragmatic approach to partner with large and established domestic companies (most of which have never been even remotely associated with defence production) to leverage their political clout and networking in order to secure the deals (Sanjai, 2016). For example, companies such as Sikorsky Aircraft Corporation and Lockheed Martin have established partnerships with the Tata Group, and Israel's Dassault Aviation has tied up with Reliance Aerostructure.

In order to promote the environment, in June 2017 the government in China relaxed rules regarding joint ventures between foreign automakers and local companies, as the government aims to grow the market for environmentally friendly vehicles (Nakamura, 2017). Under the new policy, foreign car companies are allowed to produce and sell automobiles with three Chinese partners as long as the third venture involves green vehicles. In the past, the limit had been two partners. One typical example of the benefits gained by the new rule is a joint venture agreement between Volkswagen and the state-owned Chinese car company Anhui Jianghuai Automobile Group, known as JAC. Though the partnership is limited to electric vehicles, the new rule provides foreign automakers more options for tie-ups with financial support locally, and for expanding their market share through new partners in China (Nakamura, 2017).

The above mentioned examples indicate that government rules change from time to time in order to address issues considered important for the national development. At the same time, MNCs are vigilant in seeking opportunities to maximize business gains through such engagement and cooperation with the government. In fact, this approach could generate win-win outcomes for both government and MNCs through these engagements.

3.4. *Lobbying to influence and gain favour*

Last but not least, when institutional voids (underdeveloped laws or institutional control) exist, a lobbyist might act as a 'go-between' between government controlled resource supplies and corporate buyers of the resources. This is particularly the case when some sectors (or markets) are highly subject to institutional approval or control, such as defence manufacturing, land, real estate and infrastructure development, capital, or information and communication technologies. Businesses with strong links to polity can develop strong lobby groups to influence government regulations and benefit themselves, thereby becoming institutional businesses. Sardana and Zhu (2017) give an instance of a senior MNC executive in India talking about the implications of using lobby groups for the business:

> We have three to five people who are only looking for contracts and getting contracts. They have good contacts in the government in Delhi and other parts of India… [They are] local people. If I go as a foreigner, they will respect me. But in the end, they will not give me the contract. Some local people have to go there, speak the same language and say the things that politicians want to hear. (2017, p. 185)

In China, the concept of building *guanxi* networks is similar to the concept of lobby groups in India. Sardana and Zhu (2017) provide a quote of an employee of a Taiwanese IT company in China to elaborate this point:

> These behaviours are the traditional norms rooted in the Chinese society and it could hardly be phased out. *Guanxi* is important in China, but not just for Chinese companies… Western MNCs are also trying to build *guanxi* by different means. (2017, p. 224)

Businesses in China and India have also lobbied strongly to introduce pragmatic measures, which then have been exploited for their personal benefit. For example, in China, most of the companies that are using Hong Kong and the Caribbean Islands to direct FDI into China are able to enjoy massive incentives that are provided to them by the government (Chandra, 2009). These foreign registered Chinese companies are able to take advantage of the government policy of preferential treatment towards foreign investment and benefit not only from tax breaks, but also other concessions such as obtaining cheap land, importing duty free goods and remittance of profit to overseas bank accounts – benefits which are not accessible by domestic companies. This phenomenon once again proves our point regarding the methods of utilizing institutional holes, namely lobbying by businesses and pragmatic institutional measures applied by the power structure, to promote and support a particular type of activity that is considered to be valuable to those in power, with smart business taking maximum advantage.

4. **Discussion**

The challenging issues related to conducting business in emerging economies are multiple, but rooted in institutional voids as they directly influence the conduct of business practices and ethical (or unethical) behaviour. The contextual factors have significant impact on the conduct of business processes, and it is necessary for us to elaborate these further as part of the debate regarding the impact of institutional voids.

First, we could identify some different characteristics regarding the institutional voids between China and India. The emergence of China from a socialist planning economy to a market-oriented economy has generated a period of extended institutional vacuum. This situation is a result of the old institutional system being phased out and insufficient effort put into establishing a new structure quickly and comprehensively. There has also been laxity in devising processes for effective enforcement of new regulations. At the same time, under the influence of globalization and increasing Westernization, systemic socio-economic changes have taken place in the society, resulting in traditional moral principles and social norms becoming less relevant in managing business engagement in the market-oriented economy. Therefore, the emerging context has provided opportunities for business and members of polity to take advantage of the environment to benefit themselves and their associates (Peng, 2001).

While many party officials and administrative cadres have gained personal benefits by using their power, influence and networks. Opportunist businesses, both domestic firms and MNCs, have made their ‘first bowl of gold’ in China through unethical and morally incorrect business activities; in other words, by conducting business in the grey economic areas (Peng, 2001).

In contrast, India’s emerging economy has had a stronger base in the so-called ‘rule of law’ society in which private property is respected and the laws and judicial systems are established based on the ‘Common Law’ systems as inherited from the British. However, the recent wave of liberalization of economic policies has abruptly led to a free market economic environment. Existing institutional voids have been maintained and possible new institutional loopholes created to protect and promote business conducts which would benefit powerful officials, businesses and their associates (Bhandari, 2013).

Therefore, the current situation in China and India reflects the historical impact as well as current political and social norms. A mirror effect is the comparison with the situation that once prevailed in Western society during the early days of modern capitalism in the nineteenth century. Corrupt business practices were deemed at the time to be one of the usual factors of production, despite their huge social costs (Banerjee, 2008; Perrow, 2002). This systemic and endemic nature of unethical business practices has thus been embedded in individuals and organizations (Granovetter, 1985) in the emerging economies of China and India. The formal and informal pressure rooted in the deviant institutional environment (DiMaggio & Powell, 1983) even affects well-intentioned people who can find themselves embroiled in corrupt practices while performing their organizational roles (Misangyi, Weaver & Elms, 2008).

Second, one of the important organizational roles for a business head is managing legitimacy of the venture (Bansal & Clelland, 2004; Suchman, 1995). Achieving this legitimacy means adopting practices that are in keeping with normative behaviour required in the wider institutional practices. These practices may not be in keeping with ethical business practices that are typically advocated in theory by Western thinkers, but are in keeping with the fact that the embeddedness of the organization in the system intrinsically affects organizational behaviour and management practices (Misangyi et al., 2008). Likewise, widespread institutional voids in the regulatory system of emerging economies influence managerial behaviour and the process of business. We agree with Puffer et al. (2009) that in emerging economies, reliance on formal regulatory institutions can be developed by taking necessary measures to fill institutional voids and creating an effective judicial system. This also calls for "radical restructuring of the political economy and fundamental thinking about the role of corporation in society" (Banerjee, 2008). These suggestions, however well-intentioned they may be, require much time to implement, as they involve systemic and radical changes in a regulatory institutional set-up, which may not be easy.

Additionally, this process is dependent on the motivation of the power structure to make amendments; changing this *status quo* becomes difficult because stakeholders are accruing too many benefits from the power structure. In such a scenario, businesses must not only learn to adapt to the context, but also gain abilities to survive and grow in the system. Their managerial capabilities then should involve skills relating to managing institutional voids. This may not be the best approach from the perspective of moral standards, but it is perhaps driven by survival instinct as it involves choosing to operate according to the prevailing regulatory norms and culture (Puffer et al., 2009).

Third, there are some highly pragmatic and opportunistic businesses in India and China as well as in other emerging economies that have the extraordinary ability to see mega opportunities in institutional voids and act to deliberately benefit from them. Through their entrepreneurial actions, using their strong networking skills within the power structure, they seek to strategically manipulate institutional voids to create a window of opportunity. If their efforts are successful, they are able to enjoy extraordinary benefits. Unlike most Western businesses, they then seem to rely on institutional voids for their growth rather than the support and existence of impervious and impersonal formal institutions (Puffer et al., 2009). MNCs are then faced with a troubling choice to either align with these domestic players or compete with them.

Figure 1 about here

Based on these outcomes, a framework of the business process in the context of regulatory institutional voids and the influence on MNCs in emerging economies can be developed (see Figure 1). It is important to emphasize the necessity of managerial skills in managing institutional voids. The process is driven by behaviour that reflects a defence mechanism in order to manage institutional voids (Puffer et al., 2009) or is directed to take advantage of the situation and gain benefits. While social and cultural legitimacy is necessary, and businesses should not be seen as indulging in activities that are perceived to be strongly against the moral standards of society, the process can be managed if they receive approval of regulatory institutions. As mentioned in our earlier discussion, regulatory institutions and the informal norms therein arising from institutional voids will have more direct impact on the behaviour and processes of businesses, including the opportunities they decide to pursue.

The proposed logic reflects recently growing scepticism relating to theoretical discourse on the subject of business ethics and another related topic – corporate social responsibility (CSR)

– and the reality relating to them (e.g. Banerjee, 2008; Devinney, 2009; Fleming, Roberts & Garsten, 2013). Even the optimists think that CSR is essentially “aspirational” and a difference between ethical/CSR talk and action is to be expected (Christensen, Morsing & Thyssen, 2013), or at best it is subject to voluntary pro-social aspects of human behaviour (van Aaken, Splitter & Seidl, 2013). It is further suggested that private corporations are not expected to be responsible to society as profit maximization to increase shareholder value is their primary objective (Friedman, 1970). Thus, the incentive measures are tied to profit maximization, even if it means behaving in a socially irresponsible manner, as long as they can get away with it (Campbell, 2007). In addition, CSR is often simply seen as a pragmatic measure either to gain reputational legitimacy for better financial performance or to satisfy legislation for compliance purposes (McWilliams, Siegel & Wright, 2006; Palazzo & Scherer, 2006).

Despite the above scepticism, the West takes pride in having established rule-based governance mechanisms with proper checks and balances, an independent and swift judicial system, and a proper public information structure (Lange & Washburn, 2012). It is because of the strength of institutional structures and a tendency to fill any institutional voids that most businesses adhering to regulatory compliances will be deemed to be following ethical business practices and being socially responsible in a relatively “idealist” environment (Pava & Krausz, 1996). Contrary to the above, the regulatory legitimacy of an organization in the emerging economies cannot guarantee adherence to ethical business practices in the course of usual business practices. Therefore, even though the trendy slogan of “corporate social responsibility” has been introduced into these emerging economies (Peng, 2001), its adoption can have very different meaning and connotation. For example, many firms having accumulated wealth by following unethical business practices may pragmatically follow much-advertised CSR practices to legitimize their businesses and gain support of the wider public. This approach is quite contrary to making honest efforts in “developing goodwill” and reputation in society by managing the ethics of doing business and the objective of making commercial gains (MacMillan, 2004; Preston, 2004; Wheeler & Davies, 2004).

5. Conclusion

Emerging economies have certain unique characteristics in terms of their social, cultural, economic and political contexts that are very different from those in developed capitalist societies. Based on institutional theory and examples from China and India, we argue that power structures in these economies have used existing institutional voids or created new ones to the benefit of polity, administrative officials and businesses, including MNCs, under the influence of their social and culture contexts and normative rules. It is impossible to predict how successful these emerging economies will be in their future development, but one can foresee that the continued use of institutional voids for self-serving political and economic gains will not lead to a sustainable future; the situation needs to be rectified for the sake of the common good. People in these economies are likely to face two choices for future development: one is to be more proactive in changing the society by eliminating institutional voids gradually and creating a more transparent and legitimate social and economic environment for sustainable development, and another choice is to continue reacting passively to the current negative socio-economic cycle driven by the survival instinct but without long-term sustainability. Empirical investigation along the lines of the research framework laid out in this article will not only provide rich insights into the phenomenon *per se*, but will also unravel its root cause in greater detail. This may further lead to a potentially practical solution for how such complex problems can be approached for the benefit of the society.

Additionally, this proposed line of research supports the viewpoint that the institution-based view can be considered as an important "third leg" in international business research (Nguyen et al., 2013). It implores researchers to not take for granted and undermine the influence of institutional context on business practices in general and MNCs' operation, in particular. Institutions play an important and a determining role in shaping strategy and processes in businesses. As highlighted in this article, it is also important to acknowledge the co-evolution of institutions and human agency arising from the two-way interaction between them. Institutional context influences the business process and in turn is shaped by the purposeful actions of relevant participants.

Last but not least, the pragmatic behaviour of businesses driven by their growth and survival instincts in emerging economies calls into question the applicability of disembodied ethical business principles advocated and theorized in developed countries. The tension experienced by businesses in choosing between survival and ethical resistance to widely prevalent deviant institutional norms is also widely evident in the context of emerging economies which demonstrate institutional voids. Further in-depth case studies of both local and international business people in such contexts may also potentially lead to insights into any change in the behaviour of businesses as they seek to act ethically while resisting deviant institutional norms. In short, a dedicated line of empirical work based on this framework has the potential to ignite debate on MNCs' business practices and ethical norms that are suited to the institutional context in emerging economies.

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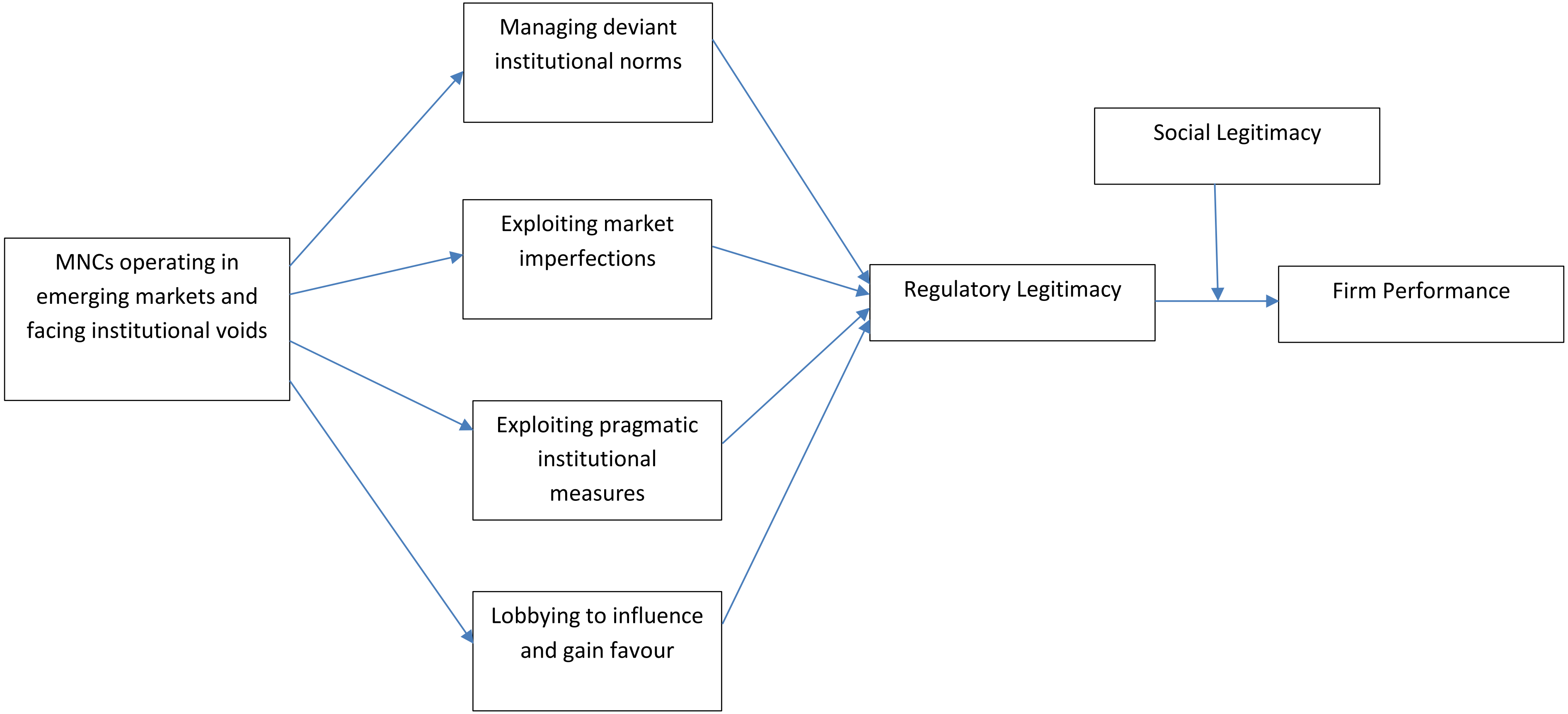

Figure 1. Business process in the context of regulatory institutional voids and the influence on MNCs