NEW RESEARCH DIRECTIONS IN THE INSTITUTION-BASED VIEW

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ABSTRACT

This paper points out new directions for the deepening and broadening of the institution-based view, by drawing on three streams of research with which I have been involved recently: (1) outward foreign direct investment from emerging economies, (2) bankruptcy laws and entrepreneurship development, and (3) institution-based research focusing on Africa. Such deepening has been accomplished by enhancing our institution-based understanding of foreign direct investment with a focus on emerging multinationals, while broadening has been done both substantively by probing into the impact of bankruptcy laws on entrepreneurship development around the world and geographically by calling for enhanced research attention on Africa via an institution-based lens.

Keywords: Institution-based view; outward foreign direct investment; emerging economies; emerging multinationals; bankruptcy laws; Africa

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There can be little doubt that institution-related issues have become more important (p. 19) … I would hope that the fraternity of IB scholars will place these issues at the top of their research agenda over the next decade or so. If we do not do so, I believe that we will be failing both our students and the international community that we seek to serve (p. 24).

John Dunning (2004)

The institution-based view is a theoretical perspective in international business (IB) that suggests that the success and failure of firms around the world are enabled and constrained – at least in part – by institutions (Peng, 2014, p. 35). The "institution-based view of strategy" label was first advocated by me in the *Asia Pacific Journal of Management* in 2002. While I can claim credit for coining this expression, institution-based research in strategy, organization and IB is a broad scholarly movement with numerous participants (Ahn & York, 2011; Ahuja & Yayavaram, 2011; Carney, Gedajlovic, & Yang, 2009; Chari & David, 2012; Dau, 2012; Hoskisson, Wright, Filatotchev, & Peng, 2013; Khoury & Peng, 2011; Kim, Kim, & Hoskisson, 2010; Liu, Yang, & Zhang, 2012; Lu, Tsang, & Peng, 2008; Mahlich, 2010; Meyer, Estrin, Bhaumik, & Peng, 2009; Meyer & Peng, 2005; Peng, 2003, 2012, 2013; Pinkse & Kolk, 2012; Ritchie & Melnyk, 2011; Shinkle & Kriauciunas, 2012).

While institutionally oriented scholars are naturally interested in advancing this view, it is interesting to note that a leading IB scholar John Dunning, who was *not* known to be an "institutionalist" and whose career spanned five decades, strongly promoted the institution-based view toward the end of his career (Dunning, 2004; Dunning & Lundan, 2008). If the institution-based research was a relatively peripheral research stream two decades ago, it has gained tremendous legitimacy and experienced enormous growth lately as a result of collective efforts undertaken by like-minded scholars.[1]

The origins and emergence of the institution-based view have been discussed in a series of earlier review papers by Peng (2005), Peng, Wang, and Jiang (2008), Peng and Khoury (2009), and Peng, Sun, Pinkham, and Chen (2009). Peng (2005) was more personal, outlining my own journey as an emerging scholar whose research interest grew from an initial focus on China strategy to a more global strategy. Peng et al. (2008) dealt with an institution-based view of IB strategy, with a particular emphasis on emerging economies. Peng and Khoury (2009) articulated the two propositions underpinning the institution-based view. Finally, Peng et al. (2009)

proposed that the institution-based view had emerged as a third leg for a strategy tripod – the other two legs being the industry-based and resource-based views.[2]

While these earlier review papers described the origins and emergence of the institution-based view up to the mid-2000s, what are the *new* developments of this view in the last decade – especially since these review papers were written? This paper highlights new directions in the deepening and broadening of the institution-based view, drawing on three streams of research with which I have been *personally* involved in the last 10 years or so. They are: (1) outward foreign direct investment (OFDI) from emerging economies, (2) bankruptcy laws and entrepreneurship development, and (3) institution-based research focusing on Africa. Deepening has been accomplished by enhancing our institution-based understanding of OFDI with a focus on emerging multinationals while broadening has been done both substantively by probing into the impact of bankruptcy laws on entrepreneurship development around the world and geographically by calling for enhanced research attention on Africa via an institution-based lens.

Why are these topics important to IB researchers? In short, they help advanced the institution-based view beyond the widely accepted claim that "institutions matter," by demonstrating *how* institutions matter in a variety of contexts. Specifically, research on OFDI from emerging economies has become one of the leading topics in IB research. Until recently, existing research on OFDI had focused on established multinationals and not on emerging multinationals so that the new thrust on emerging multinationals thus deepens our knowledge of FDI. Research on Africa is gaining importance because of the dearth of such research and the inclusion of South Africa as one of the BRICS countries. Research on bankruptcy laws and entrepreneurship development is not as popular as the other two streams, but it presents a great opportunity to broaden institution-based research.

OFDI FROM EMERGING ECONOMIES AU:1

A casual scan of the recent tables of contents in IB journals leads to the observation that OFDI from emerging economies has become a major research topic because of its novelty in the global economy since the last decade (Hoskisson et al., 2013). However, *none* of the papers in the two influential special issues on strategy in emerging economies in the *Academy of Management Journal* (edited by Hoskisson, Eden, Lau, & Wright, 2000) and in the *Journal of Management Studies* (edited by Wright, Filatotchev, Hoskisson, & Peng, 2005) dealt with this topic. Yet, as multinational enterprises (MNEs) from emerging economies now generate approximately 20 percent of OFDI globally (Peng, 2014, p. 6), IB scholars have naturally endeavored to shed light on this new phenomenon.

Two fundamental research questions have emerged: (1) can existing theories on MNEs and FDI account for this new breed of multinationals and (2) do we need to develop new theories to better capture this new phenomenon (Cuervo-Cazurra, 2012; Dunning, 2006; Hoskisson et al., 2013; Luo & Tung, 2007; Mathews, 2006; Peng, 2012; Ramamurti, 2012)? While sizable components of the strategy and behavior of multinationals from emerging economies are consistent with what we observe of MNEs from developed economies, the arrival of emerging multinationals on the global scene has revealed a series of relatively unique aspects (Peng, 2012). Chief among these relatively unique aspects are institution-based differences in OFDI motivation and behavior.

Given the liability of foreignness,[3] why do firms go through the trouble of undertaking FDI and then become MNEs? Guided by Dunning's ownership–location–internalization (OLI) paradigm, existing IB textbooks typically categorize firms' motivations as: (1) natural resource seeking, (2) market seeking, (3) efficiency seeking, and/or (4) innovation seeking (Peng, 2014, p. 315). Can these categories help us make sense of the following empirical anomalies? The number one destination countries of OFDI from Brazil, Russia, and India (the BRI from BRIC) are neither the United States nor the leading countries in Western Europe. Yet, these countries are typically nominated by my own students in different IB classes ranging from undergraduate to EMBA levels when I asked them in class. These students have evidently been strongly influenced by traditional theories such as OLI, thinking that emerging multinationals must be seeking natural resources, markets, efficiency, and/or innovation in their OFDI destination countries. Of course, to some extent such motivations do exist among some emerging MNEs (Yamakawa, Khavul, Peng, & Deeds, 2013).

However, the *largest* recipient countries of OFDI from emerging economies are not my students' "usual suspects." Instead, the number one recipient countries of OFDI from Brazil, Russia, and India are the British Virgin Islands (BVI), Cyprus, and Mauritius, respectively. The number one and two recipient economies of OFDI from China are Hong Kong and the BVI. If we consider Hong Kong to be "Chinese," then the number one real foreign country receiving China's OFDI is the BVI (Peng, Sun, & Blevins, 2011). Likewise, for inward FDI (IFDI) into BRI, the number one originating countries are the BVI, Cyprus, and Mauritius, respectively. For IFDI into China, the top two sources are Hong Kong and the BVI – the number one real foreign source being the BVI (Peng et al., 2011).

Is such OFDI natural resource seeking, market seeking, efficiency seeking, or innovation seeking? The answer is most likely *no*. Since these OFDI recipient countries and IFDI originating countries are widely known as tax havens, a plausible hypothesis is that a significant amount of *capital round-tripping* comes out of – and then goes back into – emerging economies (Peng, 2012, p. 98).[4] Why do firms from emerging economies engage in such arduous capital round-tripping? In my view, this must be due to the institution-based *weaknesses* of their domestic economies that do not offer sufficient protection and incentive for indigenous firms (Peng & Parente, 2012).

Interestingly (or oddly), the home country governments of emerging multinationals often offer strong protection and more preferential treatments for foreign firms (Huang, 2003).[5] Given such somewhat distorted or "weird" rules of the game, numerous domestic firms in emerging economies have converted themselves to "foreign-owned MNEs" (often registered in the BVI, Cyprus, Hong Kong, and Mauritius) and then managed to come back via capital round-tripping (Fung, Yau, & Zhang, 2011). In other words, after investing and registering in places such as the BVI, Cyprus, Hong Kong, and Mauritius, a lot of firms that have originated from BRIC now transform their operations in BRIC (their original home countries) as subsidiaries of foreign-owned firms that are registered and headquartered elsewhere.

By definition, tax havens help reduce taxes. Of course, the label "tax havens" had been coined a long time ago before emerging multinationals became a force to be reckoned with globally. Since numerous multinationals from *developed* economies have used tax havens, a fair question is: If governments in emerging economies are creating distortion that leads to capital flight to tax havens such as the BVI, how different is it from the loopholes in the U.S. tax laws that lead to so many special-purpose entities created by U.S. multinationals?[6] The answer "boils down to the magnitude of degree" (Peng, 2012, p. 103). Despite the numerous U.S. special-purpose entities in the BVI (presumably for tax purposes), the BVI appears neither among the top five recipient countries of OFDI from the United States nor among the top five countries making IFDI in the United States.[7] In contrast, the BVI is routinely among the top three for both OFDI from China and IFDI into China (Peng, 2012, p. 103). Likewise, the BVI is routinely the number one country for both OFDI from Brazil and IFDI into Brazil (Peng & Parente, 2012, p. 362). Clearly, something not captured by traditional FDI theories is going on.

Despite the differences in the use of tax havens between developed-economy and emerging-economy multinationals, I argue that, beyond simple tax administration, emerging multinationals also engage in *institutional arbitrage* when undertaking OFDI in tax havens (Hoskisson et al., 2013; Peng & Su, 2014). These firms may use these offshore locations' corporate laws, which are generally influenced by higher quality English common law, to improve their own corporate governance and initiate restructuring at home (Vlcek, 2013, p. 13). Specifically, such BRIC-originated firms may introduce Western corporate governance mechanisms, appoint Western talent to the board and top management team, and initiate sometimes tough restructuring at home, citing the necessity to follow "international" norms. Their room for such maneuvers would probably have been limited had they stayed purely domestic within the BRIC group and other emerging economies.

Commenting on how to make theoretical progress dealing with OFDI from emerging economies, I have suggested that "at this point, it is neither clear whether existing theories can adequately account for this new phenomenon, nor evident that we need entirely new theories" (Peng, 2012, p. 105). However, to supplement OLI-based existing FDI theories, I do believe that, in the future, there is scope to develop an *institution-based* theory of FDI that can go above and beyond the insights provided by traditional theories. Since FDI is one of the most enduring topics in IB, the new research on OFDI from emerging economies serves to *deepen* the long-established stream in IB research. Now that we have shown how the institution-based view can deepen IB research, we turn to the separate issues of how this view can *broaden* IB research by venturing to previously underexplored areas.

BANKRUPTCY LAWS AND ENTREPRENEURSHIP DEVELOPMENT

Tracing its roots to Schumpeter (1942), an institution-based view of entrepreneurship seeks to understand how institutions matter for it (Bruton, Ahlstrom, & Li, 2010; Zhu, Wittmann, & Peng, 2012). My recent research has focused on three cumulative articles progressing from theory building

(Lee, Peng, & Barney, 2007) to qualitative investigation (Peng, Yamakawa, & Lee, 2010), and finally to quantitative hypothesis testing (Lee, Yamakawa, Peng, & Barney, 2011). Inspired by the challenge to demonstrate *how* institutions matter, these efforts have been dedicated to answering a specific question: if bankruptcy laws can be viewed as a case of formal institutions governing entrepreneurship, how do bankruptcy laws affect entrepreneurship development around the world?

My motivation stemmed from my dissatisfaction with the "anti-failure" bias in much of the scholarly literature and popular press about entrepreneurship (Lee et al., 2007). This bias can be found by the overwhelming interest in entrepreneurial success and the very limited interest in entrepreneurial failure (Yamakawa, Peng, & Deeds, 2014). Although a majority of entrepreneurs fail, the scholarly and popular literature tends to lionize the few shining examples of success and essentially urge a new generation to learn from the successful entrepreneurs' highly idiosyncratic and lucky! experiences. Given that most self-respecting governments encourage more individuals to launch entrepreneurial start-ups and that most such start-ups fail, how can government policies as "rules of the game" facilitate more entrepreneurship development?

From an institution-based view, we argue that societies that are friendlier and more forgiving to failed entrepreneurs are likely to attract more individuals to start up new ventures and to benefit from the strong economic development that comes with vibrant entrepreneurial activities (Lee et al., 2007, 2011). Conversely, "societies that are harsher to failed entrepreneurs whose start-ups end up in bankruptcy will discourage entrepreneurship development" (Peng et al., 2010, p. 518). For example, in Germany, until the recent bankruptcy law reforms, the debtor would remain liable for unpaid debt for up to *30 years* (Peng et al., 2010, p. 523). In South Korea, bankrupt entrepreneurs and managers are almost always fired and replaced (Peng et al., 2010, pp. 524–525). In part, due to such harsh treatment of bankrupt individuals, entrepreneurship development in Germany and South Korea (as measured by new firm entries) is often less than ideal.

Historically, entrepreneur friendliness and bankruptcy laws seem to be an "oxymoron" because bankruptcy laws are usually harsh and even cruel. The very term "bankruptcy" is derived from a harsh practice in medieval Italy where, if bankrupt entrepreneurs did not pay their debt, debtors would destroy the trading booth of the bankrupt person. The Italian word for broken booth, "banca rotta," did evolve to become the English word "bankruptcy." The pound of flesh demanded by the creditor in Shakespeare's *The Merchant of Venice* is only a slight exaggeration. The world's first bankruptcy law, passed in England in 1542, considered a bankrupt individual a criminal, and punishments ranged from incarceration in prison to the death sentence (Peng et al., 2010, p. 518).

Around the world, being entrepreneur friendly is a relatively new concept in radical contrast with traditional bankruptcy laws that generally favored the creditor and were harsh toward the bankrupt debtor (Halliday & Carruthers, 2007). Recently, many governments around the world have increasingly realized that entrepreneur-friendly bankruptcy laws can not only lower exit barriers but also lower entry barriers for entrepreneurs (Peng et al., 2010, p. 522).

Bankruptcy laws traditionally focus on liquidation by dismembering the firm and selling its assets to repay creditors—in the same spirit of breaking bankrupt merchants' trading booth in medieval Italy. More entrepreneur-friendly bankruptcy laws in some countries allow for a second option: namely, reorganization that gives a firm certain legal protection while it sheds some debt and reorganizes in order to compete more effectively. Known as Chapter 11 in the United States, such reorganization enables some firms, which are in temporary financial distress, to eventually become successful. However, not all countries have reorganization as a bankruptcy option. For instance, bankruptcy laws in Finland do not include this option, and bankrupt Finnish entrepreneurial firms are thus forced to liquidate immediately. Clearly, providing an opportunity for bankrupt firms to reorganize is more entrepreneur friendly than forcing them to liquidate.

In the United States, the Bankruptcy Act of 1898 was the first to give firms in distress some protection from creditors. The widely used Chapter 11 reorganization was enacted by the Bankruptcy Reform Act of 1978 that took effect in 1979. The post-1979 entrepreneurship development in the United States has been enviable. That is why there is a recent global trend to add the U.S. Chapter 11-type reorganization bankruptcy as one of the choices for bankrupt firms in countries such as Argentina, Australia, Britain, China, Indonesia, South Korea, and Thailand (Halliday & Carruthers, 2007).

Beyond such qualitative evidence, our detailed quantitative work with a cross-country database from 29 countries spanning 19 years (1990–2008) endeavored to link the specific provisions of bankruptcy laws with the rates of new firm formation – the ratio of the number of new firms to the total number of firms in a country (Lee et al., 2011, p. 511). For example, the time spent on bankruptcy procedures can make a difference because, in a liquidation bankruptcy, a fast procedure allows the quick reallocation of assets of failed firms to better uses. At the same time, a fast procedure can provide entrepreneurs some opportunities to start up new businesses. Lee et al. (2011, p. 515) showed that 0.03 years (approximately 10 days) spent on bankruptcy procedures compared to 2.36 years is associated with a 10 percent increase in the likelihood of a new firm entry. The difference between 1.04 and 12.93 percent of an estate spent on closing costs translates into more than an 11 percent higher likelihood of new firm entry.

Overall, making bankruptcy laws more friendly, helpful, and forgiving to entrepreneurs whose firms are bankrupt will positively affect entrepreneurship development by lowering both exit barriers and entry barriers.[8] Similar to the saying "No pain, no gain," an economy unwilling to shoulder the costs of certain entrepreneurial failures is not likely to reap the benefits of a strong entrepreneurial sector and the economic growth it may bring (Yamakawa et al., 2013). From an institution-based view, we advocate more entrepreneur-friendly bankruptcy laws designed to make the "pain" less painful for failed entrepreneurs and their firms, and to "gain" from more vibrant entrepreneurship development.

INSTITUTION-BASED RESEARCH FOCUSING ON AFRICA

Given the paucity of research interest and output, Africa remains the "final frontier" in our research (Zoogah, Peng, & Woldu, 2013).[9] One of the core propositions of the institution-based view is that managers and firms rationally pursue their interests and make choices within a given institutional framework (Peng & Khoury, 2009, p. 260; Peng et al., 2009, p. 67).[10] Developed primarily in Western economies, most theories model firms and markets independently of institutional contexts. Such theories typically assume the existence of a market-based framework while such important institutional factors as the existence of formal legal and regulatory frameworks have often been taken for granted and assumed away as "background." In contrast, researchers working on emerging economies in Asia and Central and Eastern Europe have noted the importance of institutions in shaping management behavior and the hazard of failing to appreciate institutional forces (Boddewyn & Doh, 2011; Khanna & Yafeh, 2007; Meyer & Peng, 2005; Peng et al., 2008). Given the more radical contrast between the institutional frameworks in Africa and those in developed economies (Fafchamps, 2004; Kamoche & Harvey, 2006), I believe that the institution-based view will be especially insightful for Africa research and will also gain significant new theoretical mileage there. Chief among the institution-based differences between African and the rest of the world are: (1) manufacturing versus agricultural rules of the game, (2) formal versus informal land rights, and (3) formal versus informal contract enforcement.

Most modern (Western) theories of management and organization emerged out of a manufacturing setting with its own "rules of the game." These "taken-for-granted" rules include individuals' interest in wage work, familiarity with formal organizational rules, and propensity to use formal contracts. However, manufacturing is a relatively young sector in Africa where it is "largely a creation of the past 50 years" (Collier & Gunning, 1999, p. 76). Much of the African workforce (approximately 80 percent) is in agriculture (World Bank, 2007). How formal institutions and informal norms govern agriculture has significant ramifications not only for agriculture but also for the manufacturing and service industries that typically absorb labor forces which have had experience in agriculture.

In many African countries, a traditional system of land rights (which emphasizes informal, customary, and communal ownership rights that do not grant exclusive use) is being transformed into a more modern system that focuses on formal and individual rights (which often grant exclusive use). Only approximately one percent of land in Africa is formally registered with governments (Easterly, 2008, p. 97). Thus, the institutional transitions are essentially a movement from informal property rights to formal property rights that are supported by government authorities with third-party enforcement powers (Decker, 2010; Peng, 2003). While research on Asia has often noted that the Asian propensity to use informal interpersonal relationships to get things done is largely due to a lack of an effective formal property rights system (Peng & Luo, 2000; Puffer, McCarthy, & Peng, 2013), it is plausible to suggest that, relative to Asians, Africans may have a *higher* propensity to rely on informal interpersonal relationships because of their agricultural environment featuring informal land titles and property rights, in which most of them have some experience (Acquaah, 2007).

What types of informal interpersonal relationships are more helpful to managers? Acquaah (2007) found that social capital possessed and nurtured by managers in their dealings with (1) managers in other firms, (2) government officials, and (3) community leaders (such as chiefs and elders) directly contribute to firm performance. Conducted in Ghana, Acquaah's (2007) study replicated and extended Peng and Luo's (2000) research in China – the first study in an emerging economy replicating an earlier work in another emerging economy whereas most replications in Africa and other emerging economies have benchmarked themselves against the West. While Acquaah (2007) largely supported the Chinese findings, he reported an important finding different from that of Peng and Luo (2000) – namely, that ties with government officials in Ghana (although statistically significant) were *not* as important as those ties in China. In an interesting extension, Acquaah (2007) reported that ties with community leaders such as chiefs and elders – a unique African institution – have a more significant impact on firm performance.[11] Overall, Acquaah's (2007) findings represent a major contribution to the institution-based view by leveraging the African context.

Institution-based research on institutional transitions in Asia and Central and Eastern Europe has largely focused on the transitions toward more formal institutions in governing market exchange and in facilitating economic growth (Ismail, Ford, Wu, & Peng, 2013; Meyer & Peng, 2005; Peng, 2003; Zhou & Peng, 2010). However, theoretically, formal institutions are not necessarily better or more efficient in governing market exchange because, in many situations, the demand for formal institutions may not be evident (Ostrom, 1990, p. 216). In other words, formal institutions may not necessarily be better or more efficient in governing market exchange in some cases, due to their inconsistency with ingrained informal institutions and to the inability of governments to make credible commitments (Ostrom, 1990).

The struggles associated with formal property rights in Africa represent an ideal context in which to test this institution-based claim. Although there is some evidence that formal land titles promote more investment by farmers, other evidence indicates that formal land titling, which often overrides traditional rights, is *ineffective* in facilitating more investment and growth in agriculture (Collier & Gunning, 1999, p. 79). This is because formal land titling "can increase, rather than decrease, uncertainty about who has what rights to the land" (Easterly, 2008, p. 97). For example, communal land ownership often results in "swapping plots between kin and seasonal exchanges of land for labor and livestock" (Easterly, 2008, p. 97). Each household often has "use rights" but not necessarily "ownership rights" to many plots, and disputes are often resolved informally – for example, through community leaders such as chiefs and elders (Acquaah, 2007; Khavul, Bruton, & Wood, 2009).[12] Not surprisingly, formally assigning one plot to a single household, thereby excluding the "use rights" of other households, creates uncertainty, tension, and conflicts.

A primary role of institutions – both formal and informal, modern and traditional – is to reduce uncertainty (North, 1990; Peng et al., 2009). In the absence of formal institutions such as effective legal frameworks for land titles, the enforcement of commercial contracts becomes very informal – a tendency that applies to both rural and urban settings in Africa (Fafchamps, 1996). Hence, cultivating good interpersonal relationships with those representing authorities (such as chiefs and elders in rural settings and government officials in urban settings) becomes a coping strategy to combat uncertainty. For creditors without such informal but highly useful connections, "harassment is the main form of debt collection" (Fafchamps, 1996, p. 427). My point is not that African countries do not have formal courts and other legal mechanisms because, in fact, they have such formal institutions. However, these formal institutions are seldom used because the cost involved often outweigh the value of using them (Peng, 2003). Hence, informal arbitration often becomes a default option in alleviating uncertainty and resolving disputes.[13]

The strategic implications of such an institutional framework for African firms are twofold. First, managers and firms need to invest time and money to cultivate important relationships (Khavul et al., 2009). Second, firms are forced to informally do business with a small number of known entities, with whom some level of trust can be built. Given the institutional conditions, this is a perfectly rational strategy (Peng et al., 2009) and return on capital in the informal sector can be "quite high" (Udry & Anagol, 2006, p. 392).[14] The upshot is that most transactions in Africa are informal and local in nature, and they follow a "flea market" mode of "cash and carry." Approximately 72 percent of Africa's workforce (Godfrey, 2011, p. 234) and more than 40 percent of Africa's economy (*The Economist*, 2005, p. 61) are reportedly "informal," with the highest proportions in the world.

Finally, the implications for multinationals interested in doing business in Africa are also clear. Integrating the institution-based and resource-based views (Ahn & York, 2011; Meyer et al., 2009), I would argue that foreign firms with the best capabilities to navigate the institutional conditions in Africa will end up being the best-performing ones in such an environment. Consistent with this argument, Cuervo-Cazurra and Genc (2008), using data from 36 least-developed countries (LLDCs) in Africa, reported that the worse the institutions of a particular LLDC host country, the greater the prevalence of MNEs from emerging economies. While MNEs from these economies rarely appear among the largest ones in the world, they are more likely to be among the largest foreign firms active in African less-developed countries.

These African LLDCs represent a very challenging environment with low gross domestic product and high corruption. Yet, some MNEs from emerging economies are more familiar with such more challenging institutional conditions and have more appropriate and thus more formidable organizational capabilities for succeeding in such environments (Cuervo-Cazurra & Genc, 2008). In other words, the firm-specific advantages of certain MNEs from emerging economies may enable them to better leverage their home country-specific advantages in the new institutional environment of African LLDCs (Rugman, 2005).

In summary, while institution-based research with a focus on Africa is still in its infancy, it has already made important contributions and holds great promise to further deepening our understanding of the drivers of firm performance in various challenging institutional environments. Instead of being deterred by the more radical contrast between the institutional environment in Africa and that in other parts of the world, I argue that such contrast represents a golden opportunity to broaden the institution-based view (Zoogah et al., 2013).

CONCLUSION

There is hardly any controversy on the claim that "institutions matter." A new generation of institution-based research needs to uncover *how* institutions matter. This paper contributes to the literature by using three research streams with which I have been personally involved recently to demonstrate how institutions matter in a variety of contexts. Looking forward, I believe that further research on OFDI from emerging economies has potential to develop a theory of institution-based *weaknesses* behind such OFDI (Hoskisson et al., 2013; Peng, 2012; Peng & Parente, 2012). Additional research on bankruptcy laws can have major public policy implications in terms of making bankruptcy laws more entrepreneur friendly in order to facilitate more entrepreneurship development around the world (Lee et al., 2007, 2011; Peng et al., 2010).[15] Finally, Africa holds a key to unlocking the potential insights of the institution-based view in a highly dynamic but largely underexplored context (Zoogah et al., 2013). While institutions matter, emerging institution-based research focusing on Africa suggests that "developed institutions" are not necessarily always a plus. There can be weaknesses associated with certain "developed institutions" such as formal land titles. Overall, while the selection of these three areas is driven by my own idiosyncratic personal research interests, I hope that they can help readers appreciate the increasing depth and expanding breadth of recent research based on the institution-based view.

Of course, new developments in the institution-based view can be found along many other dimensions not covered in this paper. As a *family* of theories, the institution-based view has now given birth to an institution-based view of corporate governance (Globerman, Peng, & Shapiro, 2011; Jiang & Peng, 2011; Lu, Au, Peng, & Xu, 2013; Peng & Jiang, 2010; Sauerwald & Peng, 2013; Van Essen, Huegens, Otten, & van Oosterhout, 2012; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008), an institution-based view of corporate diversification (Kim et al., 2010; Lee, Peng, & Lee, 2008; Peng, Lee, & Wang, 2005), an institution-based view of mergers and acquisitions (Lin, Peng, Yang, & Sun, 2009; Yang, Sun, Lin, & Peng, 2011), and an institution-based view of knowledge management and intellectual property rights (Khoury & Peng, 2011; Lu et al., 2008; Mahlich, 2010; Peng, 2013). Clearly, the institution-based view has been significantly deepened and broadened recently.

While it has long been known that the rules of the game that specify the relative pay-offs play a key role in determining individual and organizational behaviors, we have just set out on the long road to achieving a solid understanding of how institutions matter along a variety of dimensions in which IB scholars are interested. In addition to conducting research to inform the scholarly community, institution-based scholars need to aspire to disseminate our learning via textbook writing (Peng, 2014; Stambaugh & Trank, 2010) and public policy engagements (Peng & Meyer, 2013; Peng et al., 2011). In conclusion, if this paper can contain one message, I would like it to be a sense of the excitement associated with the future development of the institution-based view around the world.

NOTES

1. According to Alan Rugman (2013, p. 3), Chair of the first Buckley and Casson AIB Best Dissertation Award Committee, of the 22 dissertations submitted for the competition in 2013, 15 used the institution-based view.

2. Examples of recent research that has leveraged and extended the strategy tripod include Gao, Murray, Kotabe, and Lu (2010), Krull, Smith, and Ge (2012), Lu, Liu, and Wang (2011), Xie, Zhao, Xie, and Arnold (2011), and Yamakawa, Peng, and Deeds (2008).

3. While IB scholars are generally familiar with the notion of the liability of foreignness, there is some research that shows that foreignness can be an asset

(Brannen, 2004). This is because sometimes being foreign enhances the prestige and thus the marketability of certain products and services in some overseas markets.

4. Capital round-tripping refers to the phenomenon of firms from country A invest in country B, and then reinvest back in country A (Fung et al., 2011).

5. This is not to say that foreign firms always enjoy the upper hand in emerging economies. They sometimes complain about "unfair" treatment as well (Peng, 2014).

6. A special-purpose entity is a legal entity (usually a limited company of some type or, sometimes, a limited partnership) created to fulfill narrow, specific, or temporary objectives.

7. The United States and other industrialized countries have been clamping down on some of these tax-evasion strategies of multinationals.

8. Of course, bankruptcy laws are not the only factor that affects entrepreneurship development. Other institution-based factors as well as numerous noninstitution-based factors play a role in entrepreneurship development. However, our institution-based perspective centered on the entrepreneur friendliness of bankruptcy laws is often overlooked in discussions on how to promote entrepreneurship development, thus necessitating our attention.

9. Zoogah et al. (2013) investigated all Africa-focused studies in 26 leading management journals (including all leading IB journals) during the last five decades (1960–2011). They found a total of 152 articles – an embarrassing 2.92 articles per year for the entire field. In IB's leading outlet the *Journal of International Business Studies*, only two Africa-focused articles were published during such a long time.

10. In theoretical terms, "the rationality discussed here is bounded (but not perfect) rationality" (Peng et al., 2009, p. 67). Specifically, managers and firms are assumed to be "*intendedly* rational, but only *limitedly* so" (Simon, 1961, p. xxiv).

11. While the role of elders and chiefs in Africa is important, there is insufficient research – in IB and management at least – to assess how the role of elders and chiefs in tribal societies differs from that of nontribal leaders in other societies. This remains an interesting direction for future research.

12. Such informal and communal use rights are different from public ownership under communism, which is more formal with a higher degree of bureaucratization.

13. It is true that in some industrialized countries such as Japan, formal courts are not used as often either. Therefore, it is questionable whether the African tendency to bypass formal courts is unique. I thank a reviewer for raising this thought-provoking point. While I can speculate about the institution-based rationale behind the Japanese hesitation to use formal courts, I think it is more honest to confess my ignorance, in the absence of any literature comparing African and Japanese conflict-resolution styles.

14. Using data from Ghana, Udry and Anagol (2006, p. 389) found that return on investment in pineapple cultivation in the informal sector is "extremely high," in the 250–300 percent range.

15. In 2008, a conference version of Lee et al. (2011) received a U.S. Small Business Administration Award for the Best Babson Conference Paper "exploring the importance of small businesses to the U.S. economy or a public policy issue of importance to the entrepreneurial community" (award citation), with a press release posted at www.sba.gov/advo/press/08-14.html.

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