

Managing institutional voids: strategic configurations achieving high returns on equity

Track: Strategies for Global Competitiveness

Key words: Institutions, strategy, transaction costs, organizational configurations, family business, networks,
emerging markets

Abstract

This study analyzes the antecedents of firm performance in emerging markets. It proposes that variation in institutional voids across emerging markets affects the organizational configurations linked to high performance. The study examines a sample of 200 firms based in 12 economies, focusing on the role of family management, vertical integration, collaboration with other organizations, firm size, and internationalization. This study extends the research agenda on strategy and performance in emerging markets through a novel, non-linear, methodological approach. It uncovers multiple, non-exclusive strategic configurations that allow firms to succeed in various contexts.

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1. Introduction

This study examines organizational configurations linked to high performance in emerging markets, examining how they vary depending on the institutional voids of the country where businesses are based. The weakness of markets' supporting institutions—or institutional voids—affect emerging markets by increasing the costs of doing business by, for example, making it cumbersome to obtain permits or to enforce contracts (Khanna and Palepu, 2000; Aulakh and Kotabe, 2008). Empirical evidence illustrates that firms based in emerging markets adopt governance structures and strategies, such as family management and network collaborations, to manage such institutional voids (Claessens, Djankov, Fan and Lang, 2003; Hoskisson, Eden, Lau and Wright, 2000; Luo, 2003; Miller, Lee, Chang and Le Breton-Miller, 2009; Gammeltoft, Barnard and Madhok, 2010).

Institutional voids are a common feature of emerging markets, but there is a great deal of variation in institutional voids severity from one emerging market to another (Acemoglu, Robinson and Woren, 2012; Luo, Sun and Wang, 2011). Some emerging markets, for example, consistently rank within the worse performers in most indexes measuring institutional voids, whereas others have improved dramatically the quality of their pro-market institutions and now outrank some developed economies. What remains unclear is whether and how the organizational configurations that allow firms to be successful change across countries affected by a more or less severe institutional voids (Peng, Sunny, Brian and Hao, 2009; Cuervo-Cazurra, 2012; Narayanan and Fahey, 2005). This study addresses this gap in the literature by examining the antecedents of high performance of 200 firms operating in 12 emerging markets affected differently by institutional voids. The institutional perspective (IP) and the literature on emerging markets provide empirical evidence of the strategies that firms use to compensate for institutional voids, which generally involve managing transactions through non-market mechanisms, such as internalizing them or using relational governance systems (Chittoor, Ray, Aulakh and Sarkar, 2008; Hoskisson et al., 2000; Khanna and Yafeh, 2007; Luo, 2003; Kumar, Mudambi and Gray, 2013).

Drawing on complexity theory, we argue that firms adopt different combinations of these mechanisms to achieve high performance, depending on the institutional voids of their home market (Fiss, 2011). We use fuzzy set qualitative comparative analysis (fsQCA) to examine the organizational configurations linked to high performance in emerging markets that are affected differently by institutional voids (Woodside, 2013). Our main contributions are threefold. First, we build on the work of Fiss (2011) and Kask, J., & Johansson, T. (2014), and contribute to the body of knowledge on strategy by adopting a research method that allows for equifinality, exploring multi-causal, non-symmetric configurations of antecedents that equally lead to high ROE. Second, we contribute to the institutional perspective to

strategy by examining which strategic configurations lead to high ROE in markets affected differently by institutional voids as opposed to studying institutional voids as a dichotomous variable that either affects or not affects specific economies. Third, we extend the research agenda on emerging market firms by studying the strategic configurations of Latin American firms that achieve high ROE. This study is structured as follows. First, we discuss the literature streams pointing to each of the antecedents of high performance hereby examined. Second, we introduce a theoretical background based on the antecedents of firm performance. Third, we describe the method implemented to analyse what paths lead to high performance. Finally, we analyse the results and explain in conclusions what our paper contributes to and the impact of our research to develop more studies.

2. Theoretical background

2.1. Institutional voids

A growing number of studies discuss the challenging business conditions of emerging economies, explaining them in terms of the weakness of the institutions that regulate and support their markets (Wright, Filatotchev, Hoskisson, and Peng, 2005). Drawing on new institutional economics, Khanna and Palepu (2013) argue that emerging markets suffer from institutional voids—voids in the market-supporting institutions that underlie the functioning of the economies of developed countries. Such institutional voids include, among others things, uncertainty in the regulatory frameworks, inefficient rule-enforcing mechanisms, malfunctioning factor markets, excessive red tape, and a suboptimal protection of property rights (Khanna and Palepu, 2013; Acemoglu et al., 2012). Institutional voids increase transaction costs; for example, frequent changes in market regulations make it difficult for firms to plan their future strategies, whereas cumbersome regulations require firms to spend more of their resources to obtain permits and pay taxes (Hoskisson et al., 2000; North, 1990). Institutional voids also increase the risk of opportunism. Where the institutions designed to monitor and enforce contractual compliance do not work well, the incentives to cheat are higher, and thus the risk of opportunism in transactions is higher (Williamson, 1985). In other words, cumbersome regulatory frameworks, slow and inefficient courts, and corrupt rule enforcement mechanisms – all of which tend to be more common in emerging economies - entail that firms are less protected from fraud, contractual breach, and other forms of opportunism than they would be if these sorts of institutional voids were less severe (Arruñada, 2007; Acemoglu et al., 2012).

The institutional perspective to strategy and international business (IP) emphasize the importance of institutions when studying firm strategy and performance, illustrating that institutional contexts help to explain the differences between firms from emerging markets and their competitors in developed economies (Cuervo-Cazurra, 2012; Wright et al., 2005; Peng, Wang and Jiang, 2008; Chakrabarty, 2009). However, institutional voids vary across emerging markets, as is quickly revealed by looking at measures of institutions' quality, such as the Global Competitiveness Index "Pillar

1: Institutions” (World Economic Forum, 2014). Thus, to extend the IP, it is necessary to go beyond the emerging vs. non-emerging market division and study the effects of institutional quality variation on firm behavior and performance across emerging markets - this is one of the research gaps we address in this study by examining how the severity of institutional voids relates to the strategic configurations linked to high ROE (Cuervo-Cazurra and Genc, 2008; Luo et al., 2011).

The literature on emerging market firms provides different explanations of how firms based in emerging markets achieve high performance in spite of the institutional voids that affect their domestic economies. For example, there is empirical evidence that family businesses are prevalent in emerging markets, which suggests that family governance may be an antecedent of high performance in these specific contexts (Chakrabarty, 2009; Khanna and Yafeh, 2007; Miller et al., 2009).

Emerging-market firms tend to be heavily embedded in relational networks with other firms and organizations, and use such networks to compensate for institutional voids – for example, they use networks instead of arms-length transactions not only to facilitate collaborative relationships, as scholars of the relational perspective predict (Tsai and Ghoshal, 1998), but also to protect themselves from possible contractual breaches by unknown suppliers or buyers in contexts where courts may be slow, corrupt, and inefficient ((Khanna and Palepu, 2013; Luo, 2003; Manolova, Manev and Gyoshev, 2010).

Scholars of emerging market multinationals point out that these firms internationalize more aggressively than do firms based in developed markets, possibly to escape from challenging home market contexts, and enter advanced economies to benefit from the advantages of sophisticated consumers and functioning institutions (Luo and Tung, 2007; and Garcia Canal, 2009; Ramamurti, 2012). These explanations focus on the way in which firms govern their transactions and access resources, highlighting the role of vertical and horizontal diversification, relationships with allied businesses, and family management (Khanna and Yafeh, 2007; Peng and Luo, 2000).

Scholars of strategy and international business have uncovered several features of emerging market firms, testing whether certain organizational configurations, strategies, or governance structures—such as being a family business—can be associated with high performance in emerging markets (Carney, 2007). For example, it is possible that being a vertically integrated family business is a necessary antecedent to success in economies with high institutional voids, whereas in economies affected by less-severe institutional voids, non-integrated family businesses perform better. We extend research on strategy and performance in emerging economies by using fsQCA, a method that allows examining strategy through configurational, multi-causal lenses (Fiss, 2007; Woodside, 2013).

2.2. The antecedents of high performance in markets affected by institutional voids

2.2.1 Vertical Integration

According to transaction cost economics (TCE), firms choose to govern their transactions with mechanisms other than the market, such as hierarchy and networks, for several reasons, including reducing the risk of opportunistic behavior from their counterparts (Williamson, 1985). The likelihood of opportunistic behavior depends on many factors, including the extent to which the legal, regulatory, and judiciary institutions ensure that mutual obligations are met (North, 1990). There is empirical evidence that institutional voids, as increase the cost of ensuring contracts' compliance and, thus, transaction costs increase, pushing firms to search for alternative governance mechanisms, including vertical integration (Meyer, Estrin, Bhaumik and Peng, 2009; Peng et al., 2008). Consistent with TCE, firms based in emerging markets often internalize transactions and govern them hierarchically to reduce the costs associated with monitoring and enforcing contracts and the risk of opportunistic behavior in contexts where the rule of law is weak (Hoskisson et al., 2000; Rugman and Verbeke, 2003; Brenes, Martínez and Pichardo, 2016).

Firms may also internalize transactions when factors markets fail to provide them with the needed inputs, ranging from skilled labor to a reliable electrical grid to the supplier of a specific part or component (Fauver, Houston and Naranjo, 2004; Wright et al., 2005). This fact helps to explain why firms in emerging markets are often vertically integrated and operate along multiple, diversified value chains (Khanna and Palepu, 2013). The Guatemalan fast food chain Pollo Campero, for example, produces the chicken used in its restaurant outlets precisely to ensure that the quality of inputs complies to its standards, which would be difficult to enforce in a context affected by weak regulatory, judiciary, rule enforcement institutions. (Brenes, Chattopadhyay, Ciravegna and Montoya, 2014). In sum, TCE argues that firms tend to integrate vertically in contexts where transaction costs are high or where factors markets fail to offer the inputs demanded, and there is empirical evidence showing that firms in emerging markets often follow such a strategy (Brouthers, 2002; Claessens et al., 2003). Thus, this study includes vertical integration as one of the antecedents of high performance in its analytical model, examining how firms combine it with other organizational features to manage different levels of institutional voids. Whether vertically integrating is a sufficient condition for high performance, and the other antecedents it interacts with to generate such outcome, remain to be clarified. This study examines the configurations in which vertical integration works as an antecedent for high ROE, exploring whether and how firms combine it with other strategies to manage their business successfully in markets affected by institutional voids.

2.2.2 Network collaborations

The literature on emerging- market firms illustrates that the use of inter-firm networks, alliances, and personal contacts is not only prevalent, but also is often associated with positive effects on performance (Luo, 2003; Khanna and

Rivkin, 2001). Emerging market companies can adopt hybrid governance mechanisms based on long-term relations and mutual reciprocity, which reduce the need to rely on overburdened courts, lengthy legal processes, and often inefficient and corrupt law enforcement mechanisms (North, 1990; Peng and Luo, 2000; Park and Luo, 2001). Network collaborations allow businesses to compensate for the inefficiencies in the regulatory and judiciary systems by relying instead on long-term relationships based on reciprocity even for transactions that would be governed by more conventional market relationships, such as pure market transactions, in contexts where institutions function better. A manager of the firms in our sample stated in an interview: “We have to use our contacts. The few times we used unknown suppliers, we had issues. You have to understand that here it is different from the US or Europe. You can try to use the legal system, of course. And sometimes it may even work in a fair way. But you never know how long it will take. It is simpler to simply rely on a contact, someone who has a reciprocal interest in not cheating” [1]. The founder of a juice processing firm provided a different reason for the use of contacts: “It is hard to find a company that offers a high quality service and that always delivers. There is a lot of information, but a lot of it is of not credible. How do you find the good firms in between a sea of bad ones? You ask friends, family, everybody you know. And often enough, something comes up” [2] (Khanna and Palepu, 2000; Hoskisson et al., 2000; Manolova et al., 2010). Empirical evidence about emerging market firms points that network collaboration can be an antecedent of high performance (Peng and Luo, 2000; Park and Luo, 2001). However, whether and how network collaborations combine with other antecedents remains unclear. Thus, we examine whether the firms that achieve high performance in different institutional contexts collaborate within their networks, and whether they do so in combination with other strategies, such as integrating vertically.

2.2.3 Internationalization

Another mechanism that emerging-market firms can use to manage institutional voids is internationalization (Chittoor, Ray Aulakh and Sarkar, 2008; Kumar et al., 2013; Peng, 2002; Puffer and McCarthy, 2001; Peng et al., 2008). By establishing operations in foreign markets, firms can reduce the risk of depending on one highly volatile market and can also gain access to inputs not available at home (Guillén and Garcia Canal, 2009; Luo and Tung, 2007; Lu, Xu and Liu, 2009). Referring to the application of Dunning’s OLI (Ownership advantages, Location Advantages, Internationalization advantages) internationalization model to developing country multinationals (DMNCs), Cuervo-Cazurra (2012: 160) argues:

“DMNCs are more likely to move abroad not only to exploit O advantages developed in the home country, but also to reduce O disadvantages. Acquiring firms are likely to move abroad to improve O advantages at home. Moreover, DMNCs may invest abroad to escape L disadvantages at home in the form of poor institutions or asphyxiating

regulation. They are also likely to enter advanced economies in the input market (rather than the product market) to obtain L advantages—such as advanced finance, technology, or management skills.”

Empirical evidence on the relationship between internationalization and performance is one of the most debated issues in international business (Glaum and Oesterle, 2007). Yet, there is empirical evidence that internationalization contributes positively to the performance of emerging market firms, although some authors argue that such positive effects occur after an initial negative impact (thus pointing to an U or S shaped relationship) (Contractor et al., 2007). The president of one of the firms we interviewed pointed out: “Entering the Colombian market was fundamental for our strategy. We are now less dependent on only our national market. If things go bad at home, we have another large market where to expand” [3]. Another manager illustrated the point with a different angle: “For us it is strategic to be in multiple countries. We can source our products from a broader range of suppliers, some of which we didn’t know before going out of our home market” [4]. The founder of one of the companies stated: “If there are currency devaluations, or changes in regulation, we can simply increase production in one country and reduce it in another. Entering different countries, not only we expanded our market, we actually became a better organization, more efficient, more adaptable” [5]. This study includes internationalization in its model, examining whether and how firms combine it with transaction governance mechanisms (internationalization, collaboration, family management) to succeed in contexts with high and low institutional voids.

2.2.4 Family governance

A large body of empirical evidence illustrates the prevalence of family ownership in emerging markets (Khanna and Yafeh, 2007; Khanna and Palepu, 2000; Miller et al., 2009). Several features of family firms, including their emphasis on parsimony (the preservation of capital and a long-term perspective) and their personalism (the direct involvement of the entrepreneur), make them particularly suitable to operate in markets affected by volatility, factor market failures, and suboptimal protection of propriety rights (Carney, 2005). Parsimony and the emphasis on long-term business development linked to the idea of preserving and enriching the family assets allows family firms to be resilient and adaptable—key strategic qualities in emerging markets (Chrisman, Chua, and Steier, 2011). Family businesses often have long-term relationships with partners, buyers and suppliers, based on interpersonal ties (Uzzi, 1996). These personal relationships compensate for institutional voids, as they allow different parties to incur in transactions on the basis of reciprocity and reputation—instead of relying on formal rule enforcement mechanisms— thus reducing transaction costs (Peng and Luo, 2000; Manolova et al., 2010; Chakrabarty, 2009). Family businesses are best placed to develop the relational capital, or social capital, that underlies links with other organizations, including buyers, suppliers, regulators and policy makers, precisely because they are run by the extended family rather than by professional managers who may, at any time, change jobs (Carney, 2005). In sum, the literature argues that being a family business

can support firm performance in emerging markets. Thus, the study includes the family business in its model and examines whether and how that links with other antecedents of high performance across markets characterized by different levels of institutional weakness.

3. Method

This study examines a sample of 200 small and medium-sized firms from 12 emerging economies. The focus is on 12 countries located in the humid tropics of Latin America (Bolivia, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, and Peru) in order to limit the effects of geography (which affects the nature of crops) on the strategy and performance of the firms examined (Garcia, 2005; FAO, 2007). The investigated firms operate in agribusiness because it is a strategic sector for several emerging economies but suffers from being underrepresented in the international business and strategy literature (Da Silva, Baker, Sheperd, Jenane and Miranda-da-Cruz, 2009; Rosales and Kuwayama, 2012; Reardon and Barrett, 2000). In order to examine the effects of vertical integration, the study examines only firms engaged in multiple activities of the agribusiness value chain, including production, packaging and sales.

To examine the antecedents of high performance, we developed a questionnaire building on Brenes, Mena and Molina (2008) and carried out a pilot study with 13 firms in 2013, based in three of the countries examined. We revised our data collection instrument using feedback provided during the pilot study. The questionnaire requested information on vertical integration, family ownership, network collaboration, presence in foreign markets, and average sales per year (Brenes, Montoya and Ciravegna, 2014).

The final list consisted of 960 firms, approximately 80 per country, based on official lists provided by the 12 countries' Agriculture Ministries, and excluding those whose telephone and email contacts could not be verified. 350 of the companies included in the list complied with the inclusion criteria that could be verified before completing the questionnaire. A consulting firm based in Costa Rica circulated the questionnaire and asked that the CEO or General Manager complete it, as firms based in emerging markets are generally managed in a centralized and hierarchical manner, with the CEO or General Manager as the key decision maker (Wright et al., 2005; Dominguez and Brenes, 1997). Following the questionnaire, if deemed necessary, the firms provided further information through follow-up email and/or telephone conversations. Data collection took place between June 2013 and June 2014, in Spanish, the native language of all of the interviewees and one of the authors.

The final tally was 247 completed questionnaires, a response rate of 70.5%. When firms with missing information on their questionnaires and those that did not fully comply with the inclusion criteria had been excluded, the final sample consisted of 200 firms.

3.1. Antecedents and measure

The study focuses on six antecedents derived from the IP and TCE and on the outcome “high performance.”

1. We define the outcome high performance as firms achieving an average annual return on equity (ROE) higher than 8%, which is consistent with previous studies of the same industry (Katchova and Enlow, 2013; Damodaran, 2014).
2. To measure institutional voids, the study used an indicator produced by The Global Competitiveness Report (World Economic Forum, 2014), which ranks countries according to the quality of their institutions, with a scale starting from n.1 for the best institutional quality. Countries that rank higher on the index have lower institutional quality, which we used as a proxy of having more-severe institutional voids. The sole focus was on the countries included in the study, whose scores measured between 3.05 and 4.2 on a 1-to-7 scale. This scale allows for measuring changes in organizational configurations across economies that, albeit all affected by institutional voids, have different institutional contexts.
3. Vertical Integration: This antecedent was measured by asking the respondents to specify the activities they perform on the value chain, such as washing, selecting, processing and packaging, and then to number them. The higher the number, the more vertically integrated the firm. Their answers were crossed-checked for consistency and included in the data. The average for the 200 firms is 3; the maximum number of activities they perform on the value chain is 8.
4. Year sales: We included this antecedent as a proxy of firm size, as the number of employees may not provide an accurate picture of the resources that the firm can leverage. Firm size was measured as the average annual US\$ sales of the company. Values range between US\$ 100,000 and 30,000,000. The average is \$ 7,848,550, and the mode 3,050,000. This variable works as a size of measure that indicates how big the company is according to the level of sales.
5. Family business: The respondents indicated whether a family owned the majority of the firm and managed it. In all cases, family-owned businesses were also family-managed. The antecedent 1 indicated that the firm was family owned and managed, while 0 indicated non-family.
6. Internationalization: This antecedent was measured as the number of markets in which the company has a physical presence, such as a sales office. Its values range between one and eight markets.

7. Network Collaboration: This antecedent was measured by asking the respondents whether they collaborated with their network of suppliers, buyers and/or others. It was measured as 1 (Network Collaboration) or 0 (no collaboration).

3.2. Fuzzy Set Qualitative Comparative Analysis

We analyzed our data using fuzzy set qualitative comparative analysis fsQCA, a method that allows linking a given outcome—in our case, superior performance measured as high ROE—to different combinations of antecedents (Rihoux and Ragin, 2009). FsQCA is particularly suitable for examining cases in which there many configurational antecedents to the same outcome—in other words, where different causal paths can lead to the same result, such as organizational configurations (Fiss, 2007). Organizational configurations are complex systems, in which different sets of causal factors can simultaneously and non-exclusively lead to the same outcome (Woodside, 2013). They are best studied through methods that allow discovering how high-low variation in a given causal antecedent, such as quality of institutions, affects the configurations that lead to an outcome—in our case, high performance (Fiss, 2011; Ragin, 2008).

The software package that relies on different tools such as Boolean algebra and fuzzy set theory to give different combinations of antecedents might be sufficient or necessary for an outcome to occur (Kent, 2008). Unlike regression analysis, complex causality perspective allows researchers to distinguish empirically and conceptual between conditions, which in this methodology are called necessary and sufficient (Woodside, 2013). It is important to note that this is an exploratory method, and that the term necessary and sufficient should not be taken in a literal way, precisely because other conditions and other causal paths may be linked to the same outcome (Ragin, 2008).

3.3. Calibration

Antecedents were calibrated following the tenets of QCA (Ragin, 2008). The FsQCA software records three values that range between 1 and 0: the first value, one, represents full membership of a set; the second value, zero, means total non-membership of a set; and the third value, which is just as important, is a crossover point that defines the point of maximum ambiguity and that defines a boundary for being in or out of a set. In other words, this third value is in the middle, neither in nor out (Ragin, 2008).

FsQCA starts with a data matrix, and the function of this feature is to tell where cases are either member or non-members of a category (Kent, 2008). The calibration and fuzzy set (See Table 1) score membership for this study is described below:

TABLE 1 HERE

3.4. Truth tables

After the data matrix, antecedents and one outcome may be selected to explain the set of conditions that are necessary or sufficient for the outcome to occur. The truth table treats each case as a configuration of the conditions selected (Elliott, 2013). The truth tables show all logically possible combinations of antecedents and each configuration's empirical outcome (Ragin, 2008). The number of configurations is 2^k (k represents all antecedents considered for the outcome to occur). The membership values range from 0 to 1, and there is a break point of 0.5, indicating a limit between necessary and sufficient conditions for the outcome to occur (Fiss 2011). 0 indicates that the condition is out of the set, and a value of 1 indicates that the condition is in the set. Note that we work only with configurations that make the outcome occur and that have a consistency of 0.88; this value represents the cutoff point.

3.4.1. Analysis of truth table

TABLE 2 HERE

Among the six observations, none of all antecedents is present, but one observation has all antecedents present. Only year sales appear in all cases.

3.5. Coverage and Consistency

Consistency shows the degree to which the cases sharing a given combination of conditions agree in displaying the outcome in question. On the other hand, coverage shows the degree to which a causal combination accounts for instances of an outcome (Woodside and Zhang, 2011). For this study, an outcome is considered valid if consistency is higher than 0.80 and coverage ranges between 0.2 and 0.6 (Ragin, 2006).

3.6. Causal recipes outcome

TABLE 3 HERE

The complex solution is one of the most detailed because it does not make simplifying assumptions. This solution works very well for this study since it assumes that all configurations without cases (number = 0) would fail to produce a result of interest (Peréz, 2009). For this study, there are four paths to see an antecedent and a combination of all antecedents in every configuration that makes an outcome (High ROE) occur: "YES" means that the condition is present, "NO" that the condition is absent, and, finally, "Don't care" that the condition is not relevant (i.e., is neither present nor absent). Note that every configuration is different since all firms selected for this study are different in several ways; in other words, every configuration represents firms with a specific configuration.

4. Findings and Implications

Four configurations of organizational antecedents lead to a high ROE outcome. The first interesting observation is that only one configuration (the fourth model) includes high institutional voids among its antecedents. This observation illustrates that where institutional voids are more severe, there may be less flexibility regarding the organizational settings that lead firms to be profitable. On the contrary, there may exist a broader range of organizational configurations from which firms can choose in order to be successful where institutional voids are less severe.

The second observation is that size matters: being among the firms that rank higher in terms of sales per year—a measure used as a proxy for firm size—appears to be an antecedent in all four configurations across different levels of institutional voids. The other antecedents—being a family business, collaborating in a network, integrating vertically, having international presence, and being based in a context affected by high institutional voids—change across the four configurations.

The first configuration represents firms that achieve high ROE being based in a context affected by low institutional voids. They are not family businesses and do not integrate vertically. However, they are large in terms of sales, and they cooperate within a network. Whether or not they operate in many markets is not a relevant antecedent (i.e., it does not affect the outcome). These are large firms that overcome the low institutional voids of their domestic context by relying on network resources instead of integrating vertically, and they are not family-managed, consistent with the literature on networks and firm strategy (Peng and Luo, 2000).

The second configuration includes as antecedents low institutional voids, together with vertical integration, large size, operating in many foreign markets, and not being a family business. Cooperating in a network is an antecedent that does not influence the outcome. These firms are large, vertically integrated, and highly internationalized. They overcome the low institutional voids of their context and achieve high ROE by combining vertical integration with internationalization; they neither rely on family management systems nor count on network resources for their success. This finding is consistent with the TCE and IP literature (Rugman and Verbeke, 2003; Williamson, 1985; Peng et al., 2009).

The third configuration represents family businesses based in a market affected by low institutional voids. Again, among the antecedents for high ROE are firms' size and the number of markets in which they operate. These firms succeed by combining in-house resources, family management and internationalization, without relying on inter-firm networks, and they may use family-based ties instead of formal network alliances. Their configuration is consistent with the literature on family business and internationalization (Khanna and Yafeh, 2007).

The fourth configuration represents firms that achieve high ROE in markets affected by severe institutional voids. These firms are large family businesses that integrate their operations vertically, collaborate with network partners, and operate across a high number of markets. The configuration is consistent with the IP and TCE literature, as well as with studies of emerging-market business groups (Khanna and Palepu, 2000; Rugman and Verbeke, 2003; Peng et al., 2009). Achieving high ROE is possible in the highly challenging environments of markets in which institutions are weak (Cuervo-Cazurra and Genc, 2008). However, high ROE outcomes may entail combining different organizational features that help compensate for market failures, such as diversifying vertically, internationalizing, and relying on networks.

4.1. Family business

Given that in the study sample, 73% of the firms are family-managed, and given that the literature argues that family businesses are the predominant—and, often, most successful—type of firm in emerging markets, the second set of analyses focuses only on firms that are owned and managed by the same family (Chakrabarty, 2009; Miller et al., 2009). We explored the configurational antecedents that lead family businesses to achieve a high ROE and obtain two configurations.

The first configuration shows firms operating in relatively mild institutional voids, which do not integrate vertically. Being internationalized and large are necessary antecedents to achieve the outcome. These firms may or may not collaborate within their network. Firms adopting the second configuration achieve high ROE in markets affected by high institutional voids. As for the first configuration, firms are large and internationalized and may or may not collaborate with their network. However, they are also vertically integrated.

The results show (see Table 4) that family businesses operating in emerging markets affected by low institutional voids may manage them by internationalizing and being large. Being a large, internationalized family business is not enough in markets affected by severe institutional voids; it is also necessary to internalize some transactions (vertical integration). Combining family governance with size, vertical integration and internationalization allows these firms to manage the market failures and volatility associated with high institutional voids, consistent with TCE and the literature on emerging-market firms (Carney, 2005; Williamson, 1985; Cuervo-Cazurra, 2012)

TABLE 4 HERE

4.1.1. Analysis of truth table

TABLE 5 HERE

Among 3 observations all antecedents are present, in this case only year sales and number of markets are necessary conditions for the outcome to occur. There are not sufficient conditions on that truth table since membership values of the antecedents listed are not lower than the membership of the outcome measured as Return on Equity.

5. Conclusion

This study examines the configurations that lead to high performance in contexts affected by institutional voids of different severity. Drawing on the literature on emerging-market firms, it examines the role of the antecedents that allow firms to reduce their transaction costs and compensate for market failures in spite of institutional voids. These antecedents include being a family business, integrating vertically, internationalizing, and collaborating within a network. The study also explores whether size matters and how such antecedents link with each other and with the institutional context to generate the outcome “high ROE.” Although the evidence presented here is limited to one sector, agribusiness, and one region of the developing world, Latin America, the study shows that different configurations lead to high performance in emerging markets, and those firms combine strategies and organizational structures in different, equally successful configurations, a feature best examined using non-linear methods such as fsQCA (Fiss, 2011). Thus, this study contributes to the institutional perspective of strategy and to the debate on strategy in emerging markets through a novel methodological approach that is in line with the idea that different managerial models and strategies may suit different contexts (Luo et al., 2011; Aulakh and Kotabe, 2008). Our main contribution is to advance research on the strategy of emerging market firms by examining strategies linked to high performance through a novel methodological lenses, which is theoretically consistent with complexity theory, and with the idea that multiple strategic recipes can simultaneously lead to the same outcome (Ragin, 2008). This study responds to calls for the use of methods that explore equifinality and go beyond the assumptions of linear regressions analyses. Among others, Arch Woodside, Editor of the *Journal of Business Research* states: “several tenets support this call to move beyond MRA (multiple regression analyses) to crafting and testing theory using algorithms” (Woodside, 2013).

The results show that in markets most affected by institutional voids, there are fewer configurations leading to high ROE, and the firms achieving such an outcome combine family governance, internationalization, and size with network collaboration and vertical integration. Being a family firm appears to be an important success factor in different contexts, consistent with previous studies of emerging-market businesses (Chakrabarty, 2009; Khanna and Yafeh, 2007).

When family business is the focus, the results are similar: achieving high ROE entails more- complex organizational configurations in markets with higher institutional voids. Consistent with the literature, the results show that large

family businesses are suited to achieving high ROE in emerging markets with low institutional voids if they are also present in several international markets (Yiu, Lu, Bruton and Hoskisson, 2007). However, to manage the same outcome when based in markets with higher institutional voids, large, internationalized family businesses also have to vertically integrate their activities, presumably to compensate for market failures that cannot be tackled just by family management.

In sum, the firms that do achieve high ROE in emerging markets behave consistently with TCE theory and with the view of internationalization as a way to spread the risks of being based in a volatile environment (Chittoor et al., 2008; Kumar et al., 2013). However, they do so in ways that combine the insights of different theories in unique configurations, adapted to the variations in institutional voids found across emerging markets. This shows that in order to improve our understanding of emerging market firms and the role of institutions, it is necessary to refine the level of analysis and go beyond a simple case of emerging market firms vs. developed-economy firms (Cuervo-Cazurra and Genc, 2008; Gammeltoft et al., 2010).

Our study contributes to research on institutional voids and emerging markets firms illustrating how different levels of institutional voids affect the organizational configurations that lead to high performance, as opposed to only discussing institutional voids under a dichotomous perspective whereby they either occur or they do not (Peng et al., 2009). Further research is needed to corroborate the results of this study with information from other countries and other sectors. A limitation of the study is that the sample is divided unequally across the twelve countries examined. This division results from the fact that only some of the economies studied, such as Costa Rica and Guatemala, were very familiar with the consulting firm hired to circulate the survey, while others, such as Colombia or Mexico, were not. A further limitation is that we used an indicator from the global competitiveness report as a proxy for institutional voids (World Economic Forum, 2014). We acknowledge that institutional voids can be measured and captured by a variety of indicators, and we hope that future research will explore their effects using new measures, and identify how different types of institutional voids influence firm strategy and performance.

6. Endnotes

[1] Interview: Marketing Manager, Food Processing Firm, Colombia.

[2] Interview: CEO, Juice Processing Firm, Costa Rica

[3] Interview: CEO, Food Processing Firm, Ecuador

[4] Interview: President, Food Processing Firm, Costa Rica

Tables

Table 1

Calibration and Fuzzy Set Score Membership

<i>Outcome/antecedents</i>	<i>Membership Score</i>	<i>Fuzzy Set Values</i>
Outcome: High ROE	0.25	0.95
	0.08	0.5
	0.03	0.05
Institutional voids	4.2	0.95
	3.4	0.5
	3.05	0.05
Vertical Integration	8	0.98
	4	0.5
	2	0.12
Year Sales	22550000	0.95
	750500	0.5
	100000	0.05
Family Business	1	Dichotomized Variable
	0.5	
	0	
Number of markets	6	0.95
	4	0.5
	2	0.05
Network Collaboration	1	Dichotomized Variable
	0.5	
	0	

Source: Elaborated by the authors.

Table 2

Truth table analysis for outcome 1

<i>Institutional Voids</i>	<i>Vertical Integration</i>	<i>Year Sales</i>	<i>Number of markets</i>	<i>Network Collaboration</i>	<i>Family Business</i>	<i>Number of Markets</i>	<i>ROE</i>	<i>raw consist.</i>
<u>0</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>0,961131</u>
<u>0</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>0,921671</u>
<u>0</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>0,900198</u>
<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>0,887733</u>
<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>0,887059</u>
<u>0</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>2</u>	<u>1</u>	<u>0,884289</u>

Source: Elaborated by the authors.

Table 3
Configurations leading to high performance

Configuration	First	Second	Third	Fourth
<i>Causal Configurations</i>				
Institutional Voids	NO	NO	NO	YES
Vertical Integration	NO	YES	NO	YES
Year Sales	YES	YES	YES	YES
Family Business	NO	NO	YES	YES
Number of Markets	DON'T CARE	YES	YES	YES
Network Collaboration	YES	DON'T CARE	NO	YES
Consistency	0.890052	0.902041	0.921671	0.887059
Raw coverage	0.171277	0.101209	0.032332	0.069060
Unique coverage	0.117787	0.029401	0.025096	0.033889
Overall solution consistency	0.887686			
Overall solution coverage	0.277981			

Source: Elaborated by the authors.

Table 4
Configurations leading to high performance – Family Business only

Configuration	First	Second
<i>Causal Configurations</i>		
Institutional voids	NO	YES
Vertical Integration	NO	YES
Year Sales	YES	YES
Number of Markets	YES	YES
Network Collaboration	DON'T CARE	DON'T CARE
Consistency	0.939481	0.893071
Raw coverage	0.162574	0.130159
Unique coverage	0.076674	0.044259
Overall solution consistency	0.901141	
Overall solution coverage	0.206832	

Source: Elaborated by the authors.

Table 5
Truth table analysis for outcome 2

<i>Institutional voids</i>	<i>Vertical Integration</i>	<i>Year Sales</i>	<i>Number of markets</i>	<i>Network Collaboration</i>	<i>Number</i>	<i>ROE</i>	<i>raw consist.</i>
0	0	1	1	1	3	1	0,945838
1	1	1	1	0	1	1	0,939394
0	0	1	1	0	2	1	0,923274
1	1	1	1	1	3	1	0,877294

Source: Elaborated by the authors.

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