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RETROSPECTIVE

Theoretical foundations of emerging economy business research

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Abstract

In "Probing Theoretically into Central and Eastern Europe: Transactions, Resources, and Institutions," we outlined the contributions of research in Central and Eastern Europe (CEE) to theoretical debates in business research. In this retrospective, we reflect upon the evolution of the field over the past decade. With the fading impact of CEE's distinct shared history, we suggest that CEE best be analyzed as emerging economies, rather than as a distinct geographic entity. Emerging economy business research is converging on common themes and shared theoretical ideas, while identifying critical variations that constrain generalizations among and beyond emerging economies. This research thus highlights the need to develop a better understanding of the boundary conditions of scholarly theories of business knowledge. Over the past decade, the institution-based view has emerged from distinct intellectual traditions in institutional economics, organizational theory, and the analysis of business–government bargaining. Research in these converging lines of theorizing places contextual variations at the center of explanations of business phenomena around the world. We suggest that the institution-based view is evolving toward a paradigm, and offer suggestions on how to advance this research agenda further, in particular by exploring how firms engage with different sets of potentially conflicting institutions at multiple levels and locations.

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INTRODUCTION

After the fall of the Iron Curtain in 1989, Central and Eastern Europe (CEE) emerged as a novel field of interest for business scholars. Geographically, CEE includes countries in Central Europe and the former Soviet Union that until 1989 had been part of the Eastern bloc. Politically, across the region authoritarian regimes had been displaced between 1989 and 1991, which triggered a series of massive institutional transitions from central planning toward more market competition. These transitions in CEE were so profound that they gave rise to the term "transition economies" in the early 1990s (Fischer, Sahay, & Vegh, 1996). Distinguished by a shared history and a common interest in market reforms, the transition economies of CEE thus became a subset among the flourishing group of countries that we now call "emerging economies."

The first wave of CEE studies aimed to understand the unique features of the transition context. Especially in economics such

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research endeavored to explain the nature of the existing system and to explore pathways of reform that would create a viable new economic system (Lavigne, 1996). At the same time, some business scholars saw the CEE region as an opportunity to test and refine their theories in unconventional contexts (Allmendinger & Hackman, 1996; Brouthers & Bamossy, 1997; Child & Markóczy, 1993; Frese, Kring, Soose, & Zempel, 1996; Lyles & Salk, 1996; Peng & Heath, 1996).

When this research gained a critical mass, our Meyer and Peng (2005) paper aimed to integrate dispersed contributions and to identify broader trends in theory development. Therefore we titled our paper "Probing theoretically into Central and Eastern Europe: Transactions, resources, and institutions." In our view, the main contributions of our paper – and why it was embraced and carried forward by many colleagues – were in demonstrating the importance of integrating context with theory development, and in outlining theories that are particularly suitable for explaining phenomena that are sensitive to contexts. In doing so, scholars were encouraged to work on this region or other idiosyncratic contexts to develop theoretical ideas. In other words, the paper was seen as giving legitimacy not only to business research in CEE, but to emerging economy business research more generally.

As the field has evolved, the geographic entity "CEE" in 2015 is not as theoretically meaningful as it was in 2005 (or in 1995). This is because of both divergence of countries within the region and convergence of some countries with other countries outside this region (i.e., a number of CEE countries are now full-fledged EU members). Therefore we propose that the broader notion of emerging economies provides a more appropriate framing for such research.

This retrospective starts by briefly reflecting how we came to be involved in this field. Our substantive reflections address three questions: (1) What is emerging economy business research, and how has the field evolved over the past decade? (2) Why did the institution-based view become the leading theoretical perspective in this field? (3) What are the challenges in the field in the next decade?

Our reflections focus on the contributions of the institution-based view to explaining emerging economy business phenomena. In our view, emerging economies have a far greater variation and frequency of change in institutions, which makes institutions far more pertinent in emerging economies than in developed economies. In developed economies, theorizing that abstracts from contextual variations can still often lead to meaningful (albeit incomplete) theoretical explanations of business phenomena. In contrast, in emerging economies, a lack of attention on institutions can easily lead to misinterpretations of data obtained from different locations.

Contemporary research applying an institution-based view draws on multiple distinct yet complementary intellectual traditions. Yet many aspects of institutions remain underexplored, notably how business engage with potentially conflicting institutions at different levels (such as national vs local) and in different geographies (such as headquarters country vs subsidiary countries). Moreover, globalization is shifting the ways institutions in different geographies and levels interact in creating rules and norms for business. We conclude by suggesting that the institution-based view may be evolving toward an integrative paradigm for international business (IB) research that helps explain how and why context is important for businesses.

THE ORIGINS OF MEYER AND PENG (2005)

Prior to the 1990s, few business scholars took an interest in CEE as this field of study was largely the domain of comparative economics or area studies (Grossman, 1977; Kornai, 1992). By the time we obtained our PhD degrees (Peng in 1996 from the University of Washington and Meyer in 1997 from London Business School), what we today call emerging economy business research was just beginning to take off.

As young scholars (or Young Turks), we were excited about doing research on (or in) emerging economies. However, there was considerable risk involved. Legitimacy for such research was low. By the mid-1990s, the field had not even agreed on the vocabulary. While the term "CEE" soon gained acceptance and the term "transition economy" was adopted widely in economics research and policy circles (Lavigne, 1996; Svejnar, 2002), "transition economy" had barely made it into business research (Peng, 2000).[1] By the mid-1990s, role models (senior scholars) in academia who succeeded by undertaking such "exotic" research were few. We could count them with fingers on both hands: Max Boisot, John Child, Saul Estrin (Meyer's advisor), Marjorie Lyles, Victor Nee, Sheila Puffer, Oded Shenkar, and Mike Wright.

In general, "the most talented scholars gravitate to the conventional and the paradigmatic where their talents lead to reliable success," according to March (2005: 10), who continues: "Talented individual scholars who, either by choice or by necessity, identify with a regional fragment become unwitting altruists, sacrificing their clearest chances for recognition in order to participate in unlikely exploratory gambles that serve the field rather than themselves." As junior scholars embarking on our research career focusing on transition economies (Meyer on CEE and Peng on China) and struggling with gaining the first acceptances of our articles, we had not thought much about the wider ramifications so eloquently put forward by March (2005). Now looking back, we beg to differ from March (2005) on an important point: If our efforts that led to Meyer and Peng (2005) helped the field by enhancing the legitimacy of CEE research, our career also blossomed and we were also richly rewarded – as evidenced by the *JIBS* Decade Award. In other words, by following what we felt was important, we might have forgone some quick gratifications (such as early tenure), but laid the foundations for sustained and ultimately recognized streams of scholarly work.

We first met in October 1998 in an AIB meeting in Vienna – a traditional meeting place for people interested in CEE. At that time, Meyer was a faculty member at Copenhagen Business School, and Peng was at the Chinese University of Hong Kong on his way to join the Ohio State University. Since then, we have enjoyed a productive collaborative relationship and rewarding friendship, which not only led to journal publications (Meyer, Estrin, Bhaumik, & Peng, 2009; Meyer & Peng, 2005), but also textbook writing (Peng & Meyer, 2016) and consulting (Peng & Meyer, 2013).

Approaching the theme from the perspective of different sets of emerging economies, we realized the need to pay close attention to both the differences and the communalities among these countries. By the early 2000s, CEE research reached a critical mass (Filatotchev, Buck, & Zhukov, 2000; Newman, 2000; Spicer, McDermott, & Kogut, 2000; Steensma & Lyles, 2000; Uhlenbruck & De Castro, 2000). We believed time was ripe to review the CEE literature from a theoretical standpoint. Our motivation stemmed from an interest in further propelling CEE research to theoretically contribute to the field. After many drafts and presentations (including a productive discussion at AIB Puerto Rico in 2002), Meyer and Peng (2005) came to fruition.

A decade later, we continue to debate the merits of different perspectives on emerging economy business. They are shaped not only by a variety of research projects in different contexts, but by our hands-on experience around the world. In fact, at the time of writing one of us (Meyer) is based in Shanghai, the birthplace of the other (Peng).

EMERGING ECONOMY BUSINESS AS A FIELD FOR RESEARCH

Defining Emerging Economy Business

CEE in the 1990s represented a very specific geographic and temporal (!) context, even among emerging economies. At that time, CEE was shedding the legacies of central planning and firms were taking the first steps in a market economy. Yet at the outset many of the formal rules of the game were not clearly defined, resulting in tremendous uncertainty. But informal institutions were substituting for the lack of formal institutions (Lavigne, 1996; Peng, 2000, 2003; World Bank, 1996). Societies in CEE entered this process by replacing old elites and embracing an unusually strong willingness to change, such that organizational inertia was relatively weak (Ireland, Tihanyi, & Webb, 2008; Spicer et al., 2000). Most large incumbent firms were in state ownership and going through a process of privatization (Filatotchev et al., 2000; Megginson & Netter, 2001; Meyer, 2002), while structures of corporate governance were often ill defined and in flux (Djankov & Murrell, 2002; Estrin, 2002). Private start-ups often benefited from the resourcefulness of their entrepreneurs, but initially remained small and lacked scale to compete (Estrin, Meyer, & Bytchkova, 2006; Peng, 2001; Puffer, McCarthy, & Boisot, 2010).

This rapidly changing environment enabled some important contributions to business research. Four previous *JIBS* Decade Awards went to CEE-related papers: Lyles and Salk (1996), Ralston, Holt, Terpstra, and Yu (1997), Brouthers (2002), and Minbaeva, Pedersen, Björkman, Fey, and Park (2003) – quite a collective accomplishment (!) for scholars interested in CEE.

The radical nature of the change – replacing central plan coordination by market coordination – made CEE unique even among low- and middle-income economies at the time. After a decade of reform, CEE economies have joined the group of emerging economies, defined as mid- or low-income economies with growth potential that makes them attractive for IB (Meyer, 2004). Compared with developed economies, emerging economies have less sophisticated institutional frameworks – for example, with poorly conceived or ineffectively enforced property rights and weakly developed capital markets (Estrin, Hanousek, Kočenda, & Svejnar, 2009b), along with deficiencies in areas such as human capital and transportation infrastructure (Hoskisson, Eden, Lau, & Wright, 2000; Narula & Dunning, 2000).

These conditions impact business practices. In particular, where rules governing markets are vaguely defined, firms have to rely more intensively on relationships and business networks (Peng & Heath, 1996). Thus relationship- and network-building are important in CEE countries such as Russia (Batjargal, 2007; Ledeneva, 1998) and Hungary (Danis, Chiaburu, & Lyles, 2010; Steensma, Tihanyi, Lyles, & Dhanaraj, 2005), as well as China (Chen, Chen, & Huang, 2013; Peng & Luo, 2000), India (Chacar & Vissa, 2005), and Africa (Acquaah, 2007). As another example, consider the continued prevalence of state ownership. In the 1990s, the prevalent view was that state ownership was transitory and inferior to private ownership (Megginson & Netter, 2001; Djankov & Murrell, 2002; Estrin et al., 2009b). Yet by the 2010s, acknowledgement grows that some state-owned enterprises (SOEs) have been very successful not only in their home countries, but also on the international stage (Bruton, Peng, Ahlstrom, Stan, & Xu, 2015; Meyer, Ding, Li, & Zhang, 2014).

Despite such commonalities, emerging economies exhibit tremendous diversity. For example, although managerial networking remains an important phenomenon across emerging economies, substantial differences exist in the practices of building, maintaining, and utilizing network relationships (Batjargal, 2007; Michailova & Worm, 2003). Also the relative importance of different types of networking partners varies: whereas in Russia and China ties between managers and officials appear most important (Okhmatovskiy, 2010; Peng & Luo, 2000; Peng, Sun, & Markóczy, 2015; Puffer, McCarthy, Jaeger, & Dunlap, 2013), in Africa ties with ruling party incumbents or with tribal leaders are more valuable (Acquaah, 2007).

With respect to state ownership, differences in political systems translate into substantive differences in the objectives, governance structures, and top management team composition in SOEs. In EU member countries such as Poland, EU rules on state aid limit governments' ability to shape and support SOEs. In Russia, the political leadership via ties to key oligarchs exerts strong influence on large firms, including those in which the state only holds minority equity stakes (Bruton et al., 2015: 103). In China, while the political elites continue to be closely involved with SOEs (Chizema, Liu, Lu, & Gao, 2015; Shi, Markóczy, & Stan, 2014), the creation of state asset management companies has substantively clarified formal governance structures and helped to improve financial performance (Wang, Guthrie, & Xiao, 2012b). Yet career paths that move high-potential individuals regularly between party, government, and SOE roles create incentives for leaders in SOEs to align themselves to broader policy agendas (Brødsgaard, 2012).

The business environments of emerging economies are thus characterized by diversity and instability. Therefore we define the field of emerging economy business research as academic studies of business phenomena in one or more emerging economies that consider the role of the context in shaping the phenomenon under investigation. Scholars working across different emerging economies are acutely aware of the importance of contexts. While this guards against the fallacy of over-generalization that is prevalent in some other social sciences (Henrich, Heine, & Norenzayan, 2010), the tension between the generalizable and the context-specific is a defining feature of emerging economy business research.

How have emerging economy business phenomena evolved since 2005?

Reviews of emerging economy business research (Table 1) focus on geographies (such as Africa, Asia, Latin America, and the Middle East), business functions (such as strategy and marketing), and organizational forms (such as entrepreneurial firms, business groups, SOEs, and emerging economy multinationals). These reviews indicate shifts in the framing and focusing of scholarly research on emerging economies. In particular, (1) CEE research has merged into the broader agenda of emerging economy research, while (2) phenomena of interest have shifted as business in emerging economies has become a new normal.

The first trend is that with the progress of economic transition, CEE lost some of its distinctiveness. Therefore the geographic entity "CEE" in 2015 is not as theoretically meaningful as it was in 2005 (or in 1995). On the one hand, some countries have been converging with countries outside this region. Specifically, Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, and Slovakia are now EU members, thus reducing the uniqueness of CEE. After all, few scholars position themselves as *Western* Europe experts.

On the other hand, the presumed homogeneity across CEE is undermined by divergence of countries within the region, notably between Russia and the new EU member countries. As the R in BRIC, Russia had enjoyed a period of increasing attention by corporate executives (and IB scholars) until the early 2010s. Since then, the state control of the economy in Russia has re-intensified, while geopolitical tensions have been rising between Russia and both the USA and the EU (which now includes a number of CEE countries). The divergence in the political and economic trajectories has reduced the commonalities between Russia and the rest of CEE. Research on Russia remains important, because it provides many opportunities to better understand challenges under conditions where not only is convergence slowed, but key parameters are also increasingly divergent from the "Western" model of a market economy (Puffer & McCarthy, 2011). However, it is now difficult to position Russia research as part of CEE research.

Table 1 Reviews of emerging economy business research

Regional focus	*Key review pieces*
Africa	Zoogah, Peng and, Woldu (2015)
Asia	Bruton and Lau (2008); Carney (2013); Peng (2007)
Central and Eastern Europe	Meyer and Peng (2005)
Latin America	Martinez and Kalliny (2012); Vassolo, De Castro, and Gomez-Mejia (2011)
Middle East	Zahra (2011)
Functional focus	
Strategy	Hoskisson, Eden, Lau, and Wright (2000); Wright, Filatotchev, Hoskisson, and Peng (2005); Xu and Meyer (2013)
Marketing	Burgess and Steenkamp (2006)
Organizational form focus	
Entrepreneurial firms	Peng (2001); Bruton, Ahlstrom, and Obloj (2008)
Business groups	Khanna and Yafeh (2007)
State-owned enterprises (SOEs)	Bruton et al. (2015)
Multinationals from emerging economies	Deng (2013); Luo and Tung (2007); Lebedev, Peng, Xie, and Stevens (2015)

The second trend concerns shifts in the research phenomena. The typology of organizations that we used in Meyer and Peng (2005) – foreign entrants, local incumbents, and entrepreneurial firms – continues to have validity (see the first three columns in Table 2). However, events in the last decade suggest that we need to add a fourth type: multinationals from emerging economies (Hoskisson, Wright, Filatotchev, & Peng, 2013; Luo & Tung, 2007; Meyer & Thaijongrak, 2013; Peng, 2012; Ramamurti, 2012).

However, as emerging economy business research has become a new normal, research questions have shifted from explaining unfamiliar phenomena and contexts to analyzing ongoing managerial challenges such as the management of resources and capabilities under institutional idiosyncrasies (Kafouros & Aliyev, 2016; Meyer et al., 2009). Three examples illustrate these shifts: (1) from adaptation to new or unfamiliar contexts to developing capabilities for frequently changing environments, (2) from the choice of entry strategy to the design and implementation of subsidiary-level strategies, and (3) from top-down knowledge transfers to knowledge sharing in diverse intra- and inter-organizational settings.

First, repeated adaptation to changing environments has become a new normal in emerging economies. Early studies investigated how foreign investors adapt to local environments, notably through the

Table 2 Exemplar research questions in the four major organizational forms

	Foreign entrants	Local incumbents	Entrepreneurial firms	Multinationals from emerging economies
Environmental volatility	*How do MNE subsidiaries adapt to frequently changing local markets?*	*How do organizational forms such as SOEs and business groups evolve in a volatile environment?*	*How can entrepreneurs create sustainable competitive advantage in rapidly changing markets?*	*How important is the escape motive for outward investment by emerging economy firms?*
Headquarters – subsidiary relationships	*How can subsidiaries convince headquarters to support suggested local strategies?*	*How can local firms manage their JVs with foreign MNEs for mutual benefit?*	*How can entrepreneurs partner with multinationals without losing control over their business?*	*How can emerging economy MNEs manage their acquired subsidiaries abroad?*
Knowledge management	*How can subsidiaries share knowledge among each other while protecting the intellectual property of the MNE?*	*How can incumbent organizations absorb knowledge from abroad?*	*How can entrepreneurs attract know-ledge resources from abroad (such as returnees)?*	*How can emerging economy MNEs transfer knowledge from acquired units in developed economies when their headquarters' absorptive capacity is weak?*

design of their entry strategies (Brouthers & Brouthers, 2001; Luo & Peng, 1999; Meyer, 2001). In CEE, local firms at the time had to adapt to rules of the game that were new to them too, especially market coordination and systems of corporate governance (Newman, 2000; Uhlenbruck & De Castro, 2000; Xia, Boal, & Delios, 2009). However, in the background of many studies was an implicit assumption that at least the regulatory institutions would converge toward those of contemporary Western economies. By 2015, comprehensive conversion appears illusive, except in specific cases such as countries that joined the EU. Rather, diversity of economic and institutional conditions remains high (Berry, Guillén, & Hendi, 2014; Ronen & Shenkar, 2013). Since the financial crisis of 2008–2009, such diversity has arguably increased worldwide (Bruton et al., 2015).

Scholarly discourse thus has shifted from the adaption to (presumably temporary) local idiosyncrasies to the development of capabilities and organizational forms for the relevant context. Faced with persistent uncertainty and institutional idiosyncrasies, firms develop structures that enable strategic and operational flexibility (Dixon, Meyer, & Day, 2010; Uhlenbruck, Meyer, & Hitt, 2003) and buffering of risks (Dielemann & Boddewyn, 2012). Faced with actively involved government agencies, firms simultaneously develop political and market capabilities (Holburn & Zelner, 2010; Li, Peng, & Macaulay, 2013c; Sun, Mellahi, & Wright, 2012). Correspondingly, they adapt organizational forms that enable the development and exploitation of such capabilities. For example, domestic business groups can share resources and opportunity recognition (Chang & Hong, 2000; Manikandan & Ramachandran, 2015), while foreign and local partners pool resources in joint ventures (JVs) that evolve with the partners' changing resource needs (Steensma et al., 2005). Emerging economy MNEs in part expand by exploiting such capabilities in other countries where they face similar challenges (del Sol & Kogan, 2007).

Second, subsidiary strategy and operations have replaced entry strategies as a primary concern for MNEs. Traditionally, IB researchers focused on the initial entry mode choice in terms of ownership or acquisition vs greenfield decisions (Brouthers, 2002; Meyer, 2001; Meyer et al., 2009) – perhaps disproportionately so (Shaver, 2013). Some studies explored the adaptation of entry strategies by creating new strategies such as brownfield acquisitions and staged acquisitions (Meyer & Estrin, 2001; Meyer & Tran, 2006).

However, by 2015 many MNEs have mature subsidiaries in a range of emerging economies, and their key concern is operations and growth of these subsidiaries. Research focus thus has moved to the development, coordination, and exploitation of resources in different units of the MNE (Chang, Gong, & Peng, 2012). This includes topics such as increases of resource commitments over time (Johanson & Johanson, 2006; Santangelo & Meyer, 2011), competitive dynamics (Chang & Park, 2012; Narayanan & Fahey, 2005), headquarters–subsidiary relationships (de Jong, van Dut, Jindra, & Marek, 2015; Jindra, Giroud, & Scott-Kennel, 2009), and subsidiary exports (Estrin, Meyer, Wright, & Foliano, 2008; Filatotchev, Liu, Buck, & Wright, 2009; Filatotchev, Stephan, & Jindra, 2008). Other scholars investigate internal processes in MNE subsidiaries, such as human resource management practices (Björkman, Fey, & Park, 2007) and organizational culture (Caprar, 2011; Taylor, Levy, Boyacigiller, & Beechler, 2008; Welch & Welch, 2006). For emerging economy MNEs, the main challenge is to manage overseas subsidiaries when they are still at early stages of internationalization, and when international management competences at headquarters are still weak (Meyer & Thaijongrak, 2013; Mutlu, Wu, Peng, & Lin, 2015; Peng, 2012).

Third, knowledge sharing within and between organizations has become a central theme in emerging economy business research. In the 1990s, organizations in CEE lacked modern management knowledge and hence the primary concern was the transfer of knowledge from West to East, in particular from MNEs to their JVs and subsidiaries (Child & Markóczy, 1993; Lyles & Salk, 1996; Minbaeva et al., 2003). However, parent organizations also had to learn – in particular to understand local market conditions and sourcing opportunities (Michailova & Hutchings, 2006). This led to the concept of reverse knowledge transfer (Ambos, Ambos, & Schlegelmilch, 2006; Yang, Mudambi, & Meyer, 2008). Relatedly, local parents aim to learn from JVs with foreign firms, while the foreign firms want to help the JVs but limit knowledge diffusion (Mihailova, 2015).

The patterns of knowledge transfer and diffusion have become increasingly complex. The 2000s witnessed the rise of reverse innovation – namely, the idea that some innovations are first developed in emerging economies and then are transferred to other emerging economies and even to developed economies (Govindarajan & Ramamurti, 2011). Finally, emerging economy multinationals face challenges of transferring knowledge from their strategic asset-seeking acquisitions in developed economies back to headquarters, as the parent organization often lacks organizational capabilities (Meyer, 2015; Mutlu et al., 2015).

While the organizational contexts have seen major changes, a few common theoretical ideas run through this literature. First, the absorptive capacity of the recipient entity is critical – be it a JV, a subsidiary, or corporate headquarters (Chang et al., 2012; Minbaeva, Pedersen, Björkman, Fey, & Park, 2014). This absorptive capacity depends not only on the prior knowledge base of the recipient unit, but also on its organizational structure and culture. Second, knowledge transfer depends on the effectiveness of the sender–receiver communication, which in turn is bound by, for example, the incentives individuals face. Third, both absorptive capacity and communication processes are critically moderated by the institutional context, including for example cultural differences and legal protection of intellectual property (IP).

FOUNDATIONS OF THE INSTITUTION-BASED VIEW

The business literature on emerging economies has simultaneously seen an increased theoretical pluralism and a continued dominance of institution-based work. Following an influential earlier review (Hoskisson et al., 2000), Meyer and Peng (2005) emphasize organizational economics, the resource-based view (RBV), and institutional theories. More recent reviews by Wright, Filatotchev, Hoskisson, and Peng (2005) and Hoskisson et al. (2013) also highlight these theories. In addition, Xu and Meyer (2013) argue that with the shift of focus to operational phenomena and processes, other theoretical perspectives, notably learning and relational perspectives, have become popular.

Overall, the institution-based view has emerged as the most frequently referenced theoretical basis. The institution-based view brings together several distinct lines of research with shared interest in the interaction between economic actors and institutional environments at different levels of analysis (Meyer & Peng, 2005; Peng, Sun, Pinkham, & Chen, 2009; Peng, Wang, & Jiang, 2008). We first review these intellectual foundations that have influenced the contemporary institution-based view as applied in emerging economy business research, and then outline levels of analysis.

Contributing Streams of Theorizing

Shown in Table 3, the institution-based view draws upon at least three distinct intellectual roots: (1) institutional economics, (2) institutional theory in sociology and organizational theory, and (3) bargaining theory applied to MNEs and governments.[2] These lines of theorizing often lead to similar predictions (Peng et al., 2008, 2009), but their underlying logic and their assumptions about human behavior are quite different (Gelbuda, Meyer, & Delios, 2008; Hotho & Pedersen, 2012; Kostova, Roth, & Dacin, 2008).

Institutions as incentive structures

In economics, institutions have been conceptualized as "rules of the game" that are outside the control of decision-makers, who act to maximize their utility within these rules (North, 1990). Hence the leading question is how rational economic agents act under the constraints imposed by the institutional framework (Peng, 2003; Peng et al., 2008). Perhaps the most important contribution of CEE research to management scholarship was the fundamental insight that institutions are essential for the effective functioning of a market economy, and in consequence for the strategies and operations of firms (Meyer & Peng, 2005; Peng et al., 2008). Previously, management scholars had often taken for granted the existence of clearly defined rules of the game. In CEE, the absence of such rules of the game became conspicuous. Rules shape the incentives faced by economic actors in at least four different ways: uncertainty, agency relationships, business transactions, and market structures:

- Institutions affect the uncertainty faced by economic actors (Williamson, 2000). While institutions may be designed to reduce uncertainty, any instability of regulatory institutions (e.g., after a change of government) can itself be a source of uncertainty (Banalieva, 2014; Henisz, 2003). In many emerging economies the rules of the game are changing often and unpredictably. Firms thus have to develop organizational structures and capabilities to flexibly respond to such changes (Bruton, Lau & Obloj, 2014; Dixon et al., 2010; Li, Newenham-Kahindi, Shapiro, & Chen, 2013b; Uhlenbruck et al., 2003).
- Institutions shape the incentives faced by agents and hence the effectiveness of alternative governance structures (Aguilera, Desender, Bednar, & Lee, 2015; Wiseman, Cuervas-Rodríguez, & Gomez-Mejia, 2012). Wherever conflicting interests arise in principal–agent or principal–principal relationships, institutions shape behaviors and outcomes of such conflicts (Filatotchev et al., 2000; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). Applications of agency theory in emerging economy business

Table 3 Literatures contributing to the institution-based view in international business

Intellectual tradition	Concept of institutions	Exemplar applications in IB and EE research	Mechanisms of institutional impact	Exemplar studies
New institutional economics	Institutions as incentive structures for utility maximizing agents	Adaptation of governance modes and organizational forms to formal and informal institution in a given context	(1) Transaction costs and market efficiency	Khanna and Palepu (1999); Meyer (2001); Brouthers and Brouthers (2001); Meyer et al. (2009)
			(2) Agency relationships	Filatotchev et al. (2000); Estrin (2002); Aguilera et al. (2015)
			(3) Uncertainty	Delios and Henisz (2003); Henisz (2003); Banalieva (2014)
			(4) Competition	Narayanan and Fahey (2005)
Neoinstitutional theory in sociology	Institutions as pressures for legitimacy on organization and individuals	Adoption of organizational practices and forms by and within units of the MNE to pressures emanating from multiple national contexts	(1) Institutional change	Newman (2000); Peng (2003); Zoogah et al. (2015)
			(2) Interaction of regulatory, normative, and cognitive pressures	Clark and Geppert (2006); Mair et al. (2012); Shinkle and Kriauciunas (2012); Meyer and Thein (2014)
			(3) Institutional dualism	Kostova and Zaheer (1999); Kostova and Roth (2002); Zhao et al. (2014); Stevens et al. (2015)
Bargaining & resource dependence theories	Institutions as MNE-government bargaining outcomes	MNEs influencing the regulation of infrastructure industries by host government authorities	(1) Obsolescing bargain	Fagre and Wells (1982); Lecraw (1984); Ramamurti (2000); Eden et al. (2005)
			(2) Privatization negotiations	Antal-Mokos (1998); Uhlenbruck and De Castro (2000); Meyer (2002); Jiang et al. (2015)
			(3) Political/nonmarket strategies	Stopford and Strange (1991); Doh et al. (2012); Li et al. (2013c)
			(4) Political capabilities	Holburn and Zelner (2010); Wang et al. (2012a); Li et al. (2013b)
			(5) NGO activism	Doh et al. (2004); Nebus and Rufin (2010)

research thus have to consider how (national) institutions affect the systems of governance, and hence the incentives that board members and executives face – for example in JVs (Beamish & Lupton, 2009) or in SOEs (Bruton et al., 2015).

- Institutions affect the efficiency of markets, and hence the transaction costs that economic actors face in these markets due to information asymmetries, search costs, or contract enforcement costs (Williamson, 2000). When such institutions are ineffective or absent, firms face institutional voids (Khanna & Palepu, 1999) and have to redesign their organizational forms to overcome the voids. Thus entrepreneurs may use informal practices (Puffer et al., 2010), mature businesses may form business groups (Estrin, Poukliakova, & Shapiro, 2009c; Khanna & Yafeh, 2007), and foreign investors may partner with local firms (Brouthers, 2002; Brouthers & Brouthers, 2001; Meyer et al., 2009; Steensma & Lyles, 2000).
- Institutions affect the rules of competition in emerging economies (Narayanan & Fahey, 2005). Market structures in an industry are important – some would argue the most important (Porter, 1980) – determinant of firms' behaviors. Institutions affect market structures, especially in industries with less than perfect competition (as analyzed by the 2014 Nobel Prize winner Jean Tirole, 1988). Most countries have laws and regulations restricting competitive practices ranging from cartels to mergers and acquisitions (Peng & Meyer, 2016, Chapters 13 & 14). However, competition law in many emerging economies is often vague or inconsistently enforced, allowing incumbent enterprises or business groups to yield high market power.

Research on CEE and other emerging economies has highlighted two important facets of these institutions. In particular, formal and informal institutions interact on multifaceted ways. Hence changes in formal institutions such as laws and regulations do not necessarily trigger behavioral changes because norms and values tend to be more persistent. In the absence of formal institutions, informal institutions may fill the gap (Peng, 2003). Yet in other contexts, such as Russia in the 2000s, informal institutions can in fact undermine the effectiveness of formal institutions (Estrin & Prevezer, 2011).

Institutions as pressures for legitimacy

Organization theorists analyze institutions as shared rules, beliefs, and norms that affect legitimacy of behaviors in terms of their acceptance by the environment (DiMaggio & Powell, 1991). Individuals and firms thus adapt their practices and strategies to patterns deemed legitimate in an organizational field (Lu & Xu, 2006). Such adaptation may occur through rational action or through unconscious alignment with taken-for-granted assumptions regarding legitimacy. Scholars in this tradition often operationalize these pressures on legitimacy by using Scott's (2003) three pillars of institutions: regulatory, normative, and cultural-cognitive. These concepts correspond to the distinction between formal (= regulatory) and informal (= normative and cognitive) institutions (Peng, 2003; Peng et al., 2008). While economists tend to emphasize clearly defined rules, especially formal ones, organization theorists (and even more so anthropologists, see Peterson, 2016) focus on implicit and not clearly articulated normative and cognitive forces.

In stable institutional environments, pressures for legitimacy lead to isomorphism, namely the convergence of behaviors within an organizational field (DiMaggio & Powell, 1991; Kostova et al., 2008). However, in emerging economies, institutional pressures are often inconsistent and unstable. This has several consequences for firms. First, within an emerging economy, firms may be subject to inconsistent institutional pressures, thus causing institutional voids that undermine the effectiveness of market coordination (Mair, Martí, & Ventresca, 2012). In particular, when formal institutions change, gaps in managerial cognition and norms may prevent effective responses (Newman, 2000). Moreover, different players in the same field – business groups, SOEs, foreign investors – may be subject to different pressures because they are exposed to different stakeholders, which reduces the tendency of isomorphism.

Second, the institutional frameworks of emerging economies are less stable due to frequent institutional transitions, defined as "fundamental and comprehensive changes introduced to the formal and informal rules of the game" (Peng, 2003: 275). Such institutional transitions were most clearly observed in CEE in the 1990s, but they are common throughout emerging economies (Zoogah, Peng, & Woldu, 2015). This leads to variations between leaders and laggards in the adaptation to institutional change, and hence reduced isomorphism.

Third, businesses operating across borders face even more diverse institutional pressures because of the multiplicity of the institutional fields in which they operate (Kostova & Zaheer, 1999; Kostova et al., 2008; Meyer, Mudambi, & Narula, 2011). Especially in recent years, pressures to act environmentally and socially responsibly have increased. Yet societies vary in what they consider as socially responsible practices, and to what extent the norms of one country should be imposed on firms and supply chains extending into other countries (Chapple & Moon, 2005; Williams & Aguilera, 2008). Thus home country institutions may challenge MNEs' labor and environmental practices in emerging economies (Hartman, Shaw, & Stevenson, 2003; Spar & Yoffie, 1999), or even demand withdrawal from certain countries. Strong pressures may arise from home country legal requirements, but normative pressures induce some firms to react ahead of the formalization of new requirements (Meyer & Thein, 2014).

At the same time, host societies in emerging economies are becoming more articulate in expressing their norms, for example regarding perceived inferior treatment of local stakeholders (Gifford & Kestler, 2008). Foreign investors have to be alert to changes in such norms (Zhao, Park, & Zhou, 2014). Some of these pressures discriminate between firms from different countries of origins or in particular organizational forms deemed to lack legitimacy in the host society. For example, SOEs face particular pressures to demonstrate their legitimacy in countries that have few SOEs of their own (Meyer et al., 2014). A lack of legitimacy in the eyes of key stakeholders in the host society thus increases the possibility of government intervention, and hence political risk (Stevens, Xie, & Peng, 2015). A common thread running through this new line of literature is the increasing complexity of pressures on internationally operating businesses due to diverse sets of stakeholders that apply varying criteria to assert what is legitimate practice. How firms cope with such divergent institutional pressures remains an important research question for both theory and practice.

Institutions as business–government bargaining

Traditionally, IB scholars studying emerging economies have often treated the "rules of the game" for foreign investors not as exogenous, but as the outcome of bargaining between MNEs and governments (Fagre & Wells, 1982; Lecraw, 1984). The relevant institutions thus evolve in a process of negotiation between MNEs and local actors. Early studies focused on the phenomenon of obsolescing bargain, which describes a loss of MNE bargaining power after the investors incurred initial sunk costs, a phenomenon that remains highly relevant to investors in capital-intensive and infrastructure sectors (Eden, Lenway, & Schuler, 2005).

Scholars have identified a widening range of actors aiming to influence these bargaining and rule-setting processes. Early studies focused on the bilateral bargaining between MNEs and host governments, others incorporated home country governments (Stopford & Strange, 1991), multilateral organizations (Ramamurti, 2000), and NGOs in the bargaining setting (Doh, Teegen, & Vachani, 2004; Nebus & Rufin 2010). In CEE in the 1990s, bargaining within processes of privatization were a major concern: privatization agencies negotiated on behalf of governments as owners with MNEs as potential investors, yet numerous insiders of the firm aimed to influence the outcomes (Antal-Mokos, 1998; Spicer et al., 2000). Because of the complex negotiation setting, privatization deals often contain non-financial elements such as investors' employment guarantees and government commitments' to certain regulatory conditions (Jiang, Peng, Yang, & Mutlu, 2015; Meyer, 2002; Uhlenbruck & De Castro, 2000).

Recent studies examine a wider range of political or nonmarket strategies that firms use to influence decision-makers in governments and parliaments (Akbar & Kisilowski, 2015; Doh, Lawton, & Rajwani, 2012; Hillman & Wan, 2005; Li et al., 2013c). Such strategies are particularly important in emerging economies where governments frequently intervene in business affairs, or are responsive to lobbying by influential groups. Businesses thus invest in political capabilities to bargain with the authorities not only to advance their interests with host countries (Holburn & Zelner, 2010), but also to reap home government support for their outward investments (Li et al., 2013b; Wang, Hong, Kafouros, & Wright, 2012a).

Unit of Analysis of Institutions

The institution-based view not only brings together scholars from a variety of intellectual traditions, but also research on a wide array of institutional phenomena. Table 4 introduces some of the operationalizations of institutions in the emerging economy business literature.

Home, host, and distance

MNEs doing business across borders engage in (at least) two distinct institutional settings – namely, the home and the host country institutions. The differences between these two sets of institutions have frequently been analyzed with the notion of "distance" that aims to capture the degree to which the institutional frameworks are different (Estrin, Baghdasaryan, & Meyer, 2009a; Kostova, 1999; Shenkar, 2001). The underlying assumption is that

Table 4 Perspectives on institutions: level?

Level of analysis	Type of institutions	MNEs entering emerging economies	MNEs from emerging economies
Home nation	Formal	Holburn and Zelner (2010)	Chittoor, Sarkar, Ray, and Aulakh (2009); Luo, Xue, and Han (2010)
	Informal	Meyer and Thein (2014)	Witt and Lewin (2007); Morck et al. (2008)
Host nation	Formal	Meyer (2001); Brouthers (2002); Yiu and Makino (2002); Delios and Henisz (2003); Globerman and Shapiro (2003); Steensma et al. (2005); Meyer et al. (2009); Xia et al. (2009)	Zhang et al. (2011); Ramasamy, Yeung, and Laforet (2012)
	Informal	Zhao et al. (2014); Stevens et al. (2015)	Meyer et al. (2014)
National distance	Formal	Estrin et al. (2009a)	—
	Cultural, psychic	Tihanyi et al. (2005); Slangen and Beugelsdijk (2010)	Quer, Claver, and Rienda (2012)
Supra-national	Inter-governmental treaties	Ramamurti (2000)	Li et al. (2013a)
Subnational	Formal	Shi et al. (2012)	Zhang et al. (2011)
	Informal	Meyer and Nguyen (2005); Li et al. (2013a)	Nguyen et al. (2013)[a]
Organizational field	Ownership peer groups	Filatotchev et al. (2008)	Cui and Jiang (2012); Wang et al. (2012a); Li et al. (2014)
	Networks	Meyer and Skak (2002)	Prashantham and Dhanaraj (2010); Musteen et al. (2014)

[a]Exporting rather than investing overseas.

the costs of doing business abroad are increasing with such distance, though the opportunities for arbitrage also rise with distance. Similarly, distance has a theoretically ambiguous effect on the choice of organizational forms because it not only increases the costs of market transactions, but also the coordination with JV partners or within an MNE (Brouthers & Brouthers, 2001; Meyer & Wang, 2015). Methodologically, this approach is difficult to test because the effects of the levels of both home and host country institutions are often highly correlated to distance *per se*. Few datasets have sufficient ariation across countries to separate these effects, especially when controlling for basic economic conditions.

National, subnational, and supra-national

IB research has traditionally focused on nation states as the relevant unit of analysis, and thus conceptualized institutions at a national level. While nation states are important and many formal institutions are in fact defined by national parliaments and governments, other institutions are defined at higher or lower levels of aggregation (Peterson & Søndergaard, 2014). In IB, scholars increasingly find ways to operationalize subnational institutional differences – namely, institutional variations within nations such as China (Peng et al., 2015; Shi, Sun, & Peng, 2012), India (Dheer, Lenartowicz, & Peterson, 2015), and Vietnam (Meyer & Nguyen, 2005; Nguyen, Le, & Bryant, 2013), or conflict zones across a range of emerging economies (Li, Eden, & Beamish, 2013a).

Recent empirical studies show the importance of subnational regions for economic growth (Gennaioli, La Porta, Lopez-de-Silanes, & Shleifer, 2014) and for the performance of MNE subsidiaries (Ma, Tong, & Fitza, 2013). Such variations can arise from formal institutions where regulatory responsibilities or law enforcement have been delegated to lower-level political entities such as provinces (Meyer & Nguyen, 2005). More persistent intra-country cultural variations tend to be associated with shared histories that may or may not follow political boundaries between and within countries (Dheer et al., 2015; Kaasa, Vadi, & Verblane, 2014). At the other end of the spectrum, some institutions are shared by multiple countries based on contractual agreements or shared history (such as EU institutions with which new CEE member countries have to be in compliance). Yet such institutions have so far received less interest by emerging economy business researchers – thus presenting a future research opportunity.

Institutions in organizational fields

Some institutions vary not by geographic entities, but across organizational fields. These types of institutions have so far rarely been integrated in IB research.[3] The boundaries of the relevant organizational fields may be defined in many different ways. In emerging economies, such organizational fields may pertain to peer groups of firms in similar types of ownership, such as SOEs (Bruton et al., 2015, Filatotchev et al., 2000), business groups (Estrin et al., 2009c; Khanna & Yafeh, 2007), and entrepreneurial start-ups (Aidis, Estrin, & Mickiewicz, 2008; Obloj, Obloj, & Pratt, 2010; Peng, 2001; Puffer et al., 2010). Other scholars have focused on network relationships as the critical linkages between organizations (Batjargal, 2007; Musteen, Datta, & Francis, 2014; Prashantham & Dhanaraj, 2010; Sun et al., 2012), which suggest that a firm's network may represent its relevant organizational field. In IB, the relevant organizational fields often extend across national borders, for instance when participants in a global industry create formal or informal rules for their engagements.

Reaching for a Paradigm

Multiple lines of theorizing have contributed to the institution-based view in IB and emerging economy business research. They share a focus on institutions as rules under which economic and social actions take place. These institutions can principally be influenced by actors in the long run – for example when MNEs negotiate with host governments. Yet in the short run, they represent constraints on actions. Since institutions vary across contexts, the institution-based view in particular helps explain variations in phenomena across countries and markets (Peng et al., 2008, 2009). For emerging economy business researchers, the institution-based view thus has become an integrative paradigm bringing together a wide body of research. The significance of this paradigm lies in its challenge to context-free approaches to building theory in management research (Meyer, 2007). If institutions are central to explaining management phenomena around the world (and in emerging economies in particular), then the process of theory building needs to be conscientious of the contextual boundaries of the theory (Whetten, 1989).

In the social sciences (and organization theory in particular), several paradigms are competing for attention and acceptance (Donaldson, 1995; Pfeffer, 1993; Schultz & Hatch, 1996). The acceptance and spread of new paradigms or schools of thought depends on their balance between continuity and novelty, as well as their scope (McKinley, Mone, & Moon, 1999). We argue that the institution-based view has these attributes, thus propelling its rise to become a paradigm.

First, the institution-based view integrates several lines of theorizing that originate from different disciplines. Some of these – notably new institutional economics, neoinstitutional theory in sociology, and MNE–government bargaining in IB – have distinguished intellectual histories of their own. Thus the institution-based view exemplifies a great deal of continuity from the larger social sciences literature (Ingram & Silverman, 2002; Peng et al., 2009).

Second, the novelty of the institutional-based view lies in its integration of distinct literatures, thus facilitating cross-fertilization of ideas across scholarly communities that share core theoretical ideas. Moreover, the institution-based view is pushing institutions up front for scholars, policymakers, and managers (instead of fading in the background as control variables). The afore review of the literature offers several illustrations of how diving deeper into the institution-based drivers of firm behaviors adds considerable insights above and beyond the insights gained from firm-focused or actor-focused theories such as the RBV and agency theory.

Finally, the institution-based view excels in its scope (Peng et al., 2009). Institutions encompass a wide variety of factors that potentially moderate many aspects of individuals and firms economic behaviors, thus inviting application to numerous research phenomena. It thus allows for numerous ways of theorizing, operationalizing, and testing, resulting in an expanding and cumulative body of knowledge.

In summary, the broad consensus within the emerging economy business field – and within the broader IB community – is that institutions matter, underpinning the emergence of the institution-based view as an integrative paradigm. While scholars disagree on *how* institutions matter, such disagreements can be viewed as disagreements within a paradigm. To make further progress, the next generation of institution-based research needs to overcome some critical shortcomings while making sense of new developments around the world – as discussed next.

RESEARCH CHALLENGES FOR THE NEXT DECADE

The institutional environment in and out of emerging economies is evolving not only at the national level, but also at higher, transnational levels. These high-level changes create institutional interdependencies, and thus new challenges for firms as well as IB researchers. Informed by case studies prepared for the second edition of our textbook (Peng & Meyer, 2016), we would like to highlight four major themes.

First, bilateral and multilateral trade and investment treaties are establishing institutional frameworks that are supposed to govern global business. The World Trade Organization (WTO) now covers all major economies of the world since Russia joined in 2012. Within this framework, processes of government-to-government relations can be mediated, though rarely fully resolved – as exemplified by the WTO mediation in the Airbus–Boeing dispute over subsidies. Moreover, the WTO is limited in its power to prevent trade wars, such as the one unfolding between Russia and the EU since 2014.

Newer agreements tend to be bilateral and more comprehensive with respect to the alignment of regulatory regimes and investment protection. Treaties such as the recently signed EU–Canada CETA not only change the relationships between firms and host governments, but also change key parameters of business risk. For example, the incorporation in supra-national arbitrage tribunals for investor–state dispute cases changes the balance of power in business–government bargaining. How these dynamics unfold remains a fascinating research gap.

Second, informal norms can also become internationalized. Specifically, informal norms are transferred between countries by firms imposing on their subsidiaries and supply chain partners practices mandated by home country governments (e.g., on taxation or corruption) or requested by powerful stakeholders (e.g., on labor and environmental standards). Western firms representing premium brands, such as Starbucks and Marks & Spencer, make extensive social and environmental responsibility demands on their entire supply chain around the world. Therefore norms of stakeholders in Western societies are transmitted to businesses in emerging economies with limited involvement of local stakeholders in the development of such standards.

Elsewhere, potential legal liabilities are motivating headquarters-led efforts to enhance compliance worldwide. For example, following the bribery scandal that landed one country-CEO of GSK in a Chinese jail, many pharmaceutical MNEs tightened their compliance procedures not only in China, but also around the world. Scandals such as this can thus lead to changes in global and local norms, such as how to engage with physicians and hospitals. Yet extensive compliance procedures potentially can increase bureaucracy costs and dampen entrepreneurial spirits in subsidiaries. The role of compliance processes in shaping practices in emerging economies raises interesting but underexplored questions for future IB research.

Third, the increasing complexity of global value chains and market environments intensifies pressures for firms to flexibly react to local environments, yet integrate operations internationally. These pressures thus intensify the need to cope with dual (or multiple) institutional pressures, and create a need for new coordination mechanisms and new organizational forms. For example, upstream suppliers to global value chains have to engage with multiple players in multiple countries to participate in open innovation projects in order to eventually sell their products. This requires global integration of operations and marketing, often involving emerging economies. For example, Bayer MaterialScience (renamed "Covestro" in 2015) moved one of its divisional headquarters from Leverkusen, Germany, to Shanghai, China, because the hubs of innovation and procurement in its customer industries such as computer hardware and mobile phones had moved to Asia.

At the same time, the need for responsiveness in rapidly changing environments requires MNEs to entrust their local subsidiaries to develop initiatives for local markets. For example, Schenck Shanghai Maschinetools, a subsidiary of the Germany-based Dürr Group, is leading the development of product and process innovations aimed at the price competitive but fast growing "good enough" markets in China. In this segment the informal norms governing customer relationships differ from those of the premium segment, creating pressures for varying sales and service practices in different segments.

Moreover, subsidiaries are discovering their own corporate social responsibility agenda. For example, the German Chamber of Commerce in China is promoting sustainability initiatives by its member firms to engage with local stakeholders. Different from top-down initiatives from headquarters, such local initiatives often focus on education – supporting schools for migrants' children, developing vocational training curricula, and collaborating with local universities. These changing relationships between headquarters and subsidiaries have yet to be explored by IB scholars.

Fourth, the global geography of knowledge creation and dissemination is shifting, with emerging economies taking on more prominent roles. Established institutional norms that R&D should be conducted near corporate headquarters are thus challenged. MNEs such as software giant SAP organize innovation within globally dispersed but interconnected R&D units. They often involve external partners in open innovation programs that involve local firms in emerging economies. This globalization of knowledge creation taps into new pools of talent, yet also raises questions regarding the management of IP, especially if host institutions are weak in IP protection.

At the same time, some MNEs from emerging economies are trying to leapfrog their technology development through strategic acquisitions with the aim to use technologies and brands acquired abroad to upgrade facilities back home. Yet early investors such as the Chinese carmaker Geely and textile machine manufacturer SG Group as well as Indian business groups such as Tata experienced major challenges managing the extensive technological and cultural gaps between themselves and acquired firms in Europe. They need new competences – especially those on softer, people issues – to be able to realize the potential value of acquired brands and technologies. To a large degree, people issues stem from a lack of understanding of informal institutions such as norms and values in host countries. This remains a clear gap that future institution-based research needs to endeavor to fill.

Internet-focused businesses from emerging economies find it easier to reach customers abroad, and face small technology gaps. For example, Kaspersky from Russia and ESET from Slovakia have become leading providers of anti-virus software *worldwide*. Chinese mobile phone maker Xiaomi is trying to take its innovative business model international. After surging to number one in China, Xiaomi aggressively entered India and Brazil. These examples illustrate the changing global geography of knowledge creation and diffusion. However, how these firms can overcome barriers such as generally negative country-of-origin perception (another form of informal institutions) associated with firms, products, and brands from emerging economies remains a fascinating new ground for future institution-based research.

Overall, the four contemporary trends challenge scholars to refine their theoretical toolbox. For the institution-based view, they raise challenging questions regarding the interaction between different sets of potentially conflicting institutions, and the impact of such conflicts on business. Beyond the long-recognized tensions between formal and informal institutions in transition contexts (Estrin & Prevezer, 2011; Peng, 2003), these trends point to intensified tensions between national and subnational institutions, between national and supranational institutions, and between headquarters and subsidiary norms – especially in a world where Western norms are no longer automatically accepted as baseline in case of conflicts.

CONCLUSIONS

The key word for “transition economies” is transition, and the key word for “emerging economies” is emerging. The emerging economies of CEE – especially during the initial stages of institutional transitions – offered a unique window through which to study how businesses act at times of radical environmental change. Looking back, Meyer and Peng’s (2005) value proposition was in its promotion of the emergence of emerging economy business research from a regional perspective to a more global perspective, covering diverse emerging economies.

Business environments of emerging economies are characterized by diversity and instability. Therefore scholars working across different emerging economies are acutely aware of the importance of contexts in explaining business phenomena. This not only guards against the fallacy of over-generalization, but also makes the tension between the generalizable and the context-specific as a defining feature of emerging economy business research. Reflecting over the ten years of research since 2005, we observe that from its origin in distinct lines of theorizing, the institution-based view is moving toward an integrative paradigm aiming to explain how and why such contextual variations matter. Looking ahead, we propose that the institution-based view provides a useful foundation for substantive contributions to explain not only global meta trends, but also micro-behavioral differences across emerging economies and around the world.

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NOTES

[1]In the absence of an agreed-upon label, Peng and Heath (1996) ended up using a very cumbersome term "planned economies in transition." Meyer (1997) used "economies in transition." To the best of our knowledge, the first time "transition economy" appeared as a title in a *JIBS* article was Luo and Peng (1999).

[2]For ease of argument, we selected these three lines of theorizing that have been most influential in emerging economy business research. Other traditions focusing on institutions include the varieties of capitalism (Carney, Gedajlovic, & Yang, 2009; Judge, Fainshmidt, & Brown, 2014; Hall & Soskice, 2001), business systems approach (Redding, 2005) and the co-evolution perspective that provides powerful insights in longitudinal studies of organizational development in emerging economies (Child & Rodrigues, 2009; Dielemann & Sachs, 2008; Suhomlinova, 2006). Separately, another stream of work deals with institutional entrepreneurship – how entrepreneurs take deliberate action to change the rules of the game within their organizational fields (Greenwood & Suddaby, 2006; Maguire, Hardy, & Lawrence, 2004). Also culture theorizing by anthropologists overlaps with the institutional literature (see Mark Peterson's (2016) commentary on Meyer and Peng (2005) in this issue).

[3]We thank Dick Scott for raising this question during Meyer and Peng's (2005) award session at the AIB in Bangalore, 30 June 2015.

[4]Papers with at least one-quarter (1/4) of the coverage on CEE are highlighted with *.

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