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Expanding the lens of institutions: a holistic approach

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This article critically examines the reliance on the concept of institutional voids in emerging market studies within institutional research, advocating for a more nuanced and configurational understanding of institutional dynamics and complexities, particularly in the MENA region. It reviews various strands of Institutional Theory, assesses the limitations of the institutional voids concept, and underscores the need for a holistic approach to institutional research—one that is both theoretically and methodologically comprehensive. It argues for the importance of disentangling institutional concepts and ensuring that methodological approaches are contextually relevant and appropriate. The article concludes by presenting four key takeaways for developing a more comprehensive and nuanced approach to institutional research.

KEYWORDS

institutional theory, institutional voids, comparative governance, MENA region, emerging markets

1 Introduction

Institutional theory has become a dominant framework in emerging market studies within institutional research, but its widespread use has led to concerns about the term “institutions” becoming a catch-all concept, diluting its meaning (Meyer and Höllerer, 2014). This is especially evident in the concept of institutional voids, which highlights deficiencies in market and institutional structures and examines how firms and governments respond to these gaps (Doh et al., 2017). The concept compares disparities in institutions, often positioning one context as more advanced than the other. While valuable, the concept risks oversimplifying complex, localized realities and may fail to capture the nuances necessary for culturally and contextually grounded analyses, particularly in emerging markets (Durand et al., 2019).

North (1991) defines institutions as formal (codified rules like laws, regulations, and policies) and informal (unwritten norms, customs, and cultural values). Institutions are inherently complex and idiosyncratic, with their influence on individuals, firms, and markets varying significantly across contexts, industries, and firm types. Recognizing this diversity is crucial for advancing institutional research, particularly in emerging markets (Fainshmidt et al., 2018). In the context of the Middle East and North Africa (MENA) region, these insights are particularly relevant, as they cannot be fully understood without considering the diverse and often fragmented institutional landscape shaped by historical legacies, resource dependence, formal governance structures, and socio-cultural norms. The dynamic nature of institutions in the region reflects the complexity outlined above (Abdelnour et al., 2017). The use of oversimplified institutional frameworks, such as the institutional voids concept, is insufficient for capturing the intricate realities of governance in the MENA. These frameworks often fail to account for the historical, socio-cultural, and informal dimensions, as well as the dynamics of path dependence, institutional development, and institutional change, that influence national policies, governance practices, and firm outcomes in the region.

2 The diversity of institutional theory

Institutional Theory spans diverse definitions and analytical levels and scopes, with strands from sociology, economics, political science, and strategy offering distinct insights. While this diversity highlights the multifaceted nature of institutions, it also risks conceptual ambiguity, such as inconsistent terminology or overlapping concepts. Thus, applying Institutional Theory requires analytical clarity and contextual grounding to ensure precision and relevance.

2.1 Sociological perspectives

Sociological approaches to Institutional Theory examine the interaction between organizations and their environments. *Old Institutionalism* emphasizes internal organizational dynamics, focusing on values, power structures, and informal mechanisms that shape behavior (Selznick, 1957). *Neo-Institutional Theory* of *New Institutionalism* underlines institutional distance and shifts to external pressures, analyzing how organizations align with cognitive, normative, and regulative pillars to gain legitimacy (DiMaggio and Powell, 1983; Scott, 2013). Building on these, *Institutional Work* highlights the active role of individuals as agents of change (Lawrence and Suddaby, 2006; Lawrence et al., 2009), while *Institutional Logics* explores the interplay between societal structures and individual actions, emphasizing the complexity of typologies (family, state, market, community, etc.) (Greenwood et al., 2011).

2.2 Economic perspectives

Economic approaches highlight the role of institutions in structuring economic behavior and addressing inefficiencies. *New Institutional Economics* examines transaction costs, agency costs, and governance structures, emphasizing how institutions intensify or mitigate these challenges and manage political risks (North, 1990, 1991). It also considers institutional voids—gaps in institutions that impede market functionality—and institutional quality, which evaluate the effectiveness of institutions in fostering economic activity (Khanna and Palepu, 1997). *Institutional Analysis* underlines the role of local communities and collective action (Ostrom, 1995, 2005) and assumes that institutions vary significantly across countries and so do the organizational responses to these heterogeneous institutions that define the country-level uncertainty, offering a comprehensive view of economic implications (Hotho and Pedersen, 2012).

2.3 Political science perspectives

Political science adds depth by analyzing institutional evolution and governance. *Historical Institutionalism* emphasizes path dependence, power asymmetries, and policy legacies, explaining how institutional conditions are shaped over time (Evans et al., 1985; Evans, 2012). *Comparative Capitalism* focuses on institutional complementarity and coordination across different economic systems (Hall and Soskice, 2001; Streeck and Thelen, 2005), while *Rational Choice* examines micro-foundations, assuming stable preferences and rational behavior to explain institutional dynamics. These perspectives

are vital for understanding the political and structural factors underpinning institutional development (Moe, 1984; Weingast, 1989).

2.4 Strategy perspectives

The *Institution-Based View* provides a strategic lens to understand how firms navigate institutional contexts. It emphasizes the influence of institutions on entrepreneurial and corporate strategies, particularly in international business, where institutional environments vary widely (Peng, 2002; Peng et al., 2008, 2009).

3 Rethinking institutional voids: the concept's limitations

A key issue with the institutional voids concept is its narrow focus, which has traditionally emphasized formal institutions while overlooking the role of informal institutions. Institutional voids refer to the absence or underdevelopment of critical institutions, such as financial markets, regulatory bodies, or contract enforcement mechanisms, which are essential for effective governance and economic functioning (Khanna and Palepu, 1997). These gaps often lead to increased government intervention to promote economic stability, employment, and competitiveness (Cuervo-Cazurra et al., 2014; Estrin et al., 2016). In the MENA region, state-led economic models are seen as responses to market gaps caused by weak private-sector capacity (Barbar and Khodr, 2023). However, critics argue that such government involvement can perpetuate inefficiencies or foster dependency, further entrenching these voids (Rose-Ackerman and Palifka, 2016). This suggests that firms not only react to institutional pressures but also shape and influence their institutional environment, highlighting the dynamic and interconnected relationship between firms and their institutional context.

Colonial legacies and economic conditions have significantly shaped the institutional landscape in the MENA (Acemoglu et al., 2001). Colonial administrations often left weak market and governance structures, promoting state-led economic models that entrench corruption and cronyism. Meanwhile, oil dependence fostered reliance on government spending over private sector development, reinforcing the state's role in economic management in some countries (Cuervo-Cazurra, 2011). These factors have shaped governance practices, underscoring the importance of context. Additionally, socio-cultural traits like high collectivism and power distance may drive greater acceptance of government intervention, as hierarchical structures are more respected in these societies (Estrin and Prevezer, 2011). Comprehensively understanding these dynamics is hence crucial for developing policies suited to local contexts.

While the institutional voids concept is useful for identifying market deficiencies, it has limitations in addressing broader, non-financial issues. The term is often grounded in a Western-centric framework, which may not align with the realities of non-Western or rural contexts that prioritize the preservation of ethnic and cultural identities (Bothello et al., 2019). In multinational markets, adherence to universal standards is essential for consistency; however, this can marginalize localized perspectives, as cultural norms and societal expectations significantly influence outcomes, particularly in the MENA region. This limitation extends beyond non-financial matters.

The concept often portrays national organizations and practices as incomplete or lacking, suggesting that local mechanisms—such as family-based business groups or state involvement, common in the MENA—are merely responses to weak institutions (Doh et al., 2017). In reality, many of these practices are deeply rooted in historical and socio-cultural contexts and continue to thrive today. By using Western contexts as the benchmark for evaluating formal institutions, the concept risks imposing external models that may not align with local needs, undermining policy effectiveness and long-term sustainability.

The institutional voids concept hence primarily frames institutions as market-enabling “rules of the game,” often overlooking the role of informal and non-market institutions in shaping economic activity and governance (Mair et al., 2012). This critique highlights the need for a more holistic approach, especially in peculiar, diverse, and complex contexts like the MENA, one that is designed to be comprehensive both theoretically and methodologically (Jackson and Deeg, 2019). Challenging the narrow view of the institutional voids concept, this article advocates for a broader framework that considers historical, contextual, and nuanced analyses of institutional conditions (Woodhouse and Johnston, 2023). Informal institutions, like tribal networks and community norms, play a pivotal role in shaping outcomes and policies, underscoring the need for frameworks that reflect these realities. Additionally, a nuanced understanding should consider historical legacies, including colonial influences and resource dependence, along with the diverse conditions across MENA countries, including their societal structures, economic frameworks, and stages of development. This variation calls for a tailored approach that recognizes the distinct trajectories and challenges faced by each country. The institutional dynamics and complexity of the MENA cannot be fully captured or understood through a unidirectional perspective that embeds a Western bias rooted in Western market ideals. Instead, a configurational approach is needed—one that examines institutional diversity and divergence (Jackson and Deeg, 2019).

3.1 Conceptual dilution

Although research on institutional voids has been prominent in emerging markets, the term has become overextended in scholarly discourse, leading to conceptual dilution (Bothello et al., 2019). Originally used to describe the absence of essential formal legal, political, and economic structures (Khanna and Palepu, 1997), it is now often misapplied to any factor that increases transaction costs (Khanna and Rivkin, 2001). This broad application diminishes its clarity and explanatory power, particularly in emerging markets, where it is crucial to distinguish among various institutional factors (Doh et al., 2017). The overuse of the term risks obscuring deeper institutional dynamics, highlighting the need to refocus on its original meaning: identifying structural voids that hinder market functioning, rather than generalizing it to any market friction.

3.2 Ethnocentric bias

A major critique of the institutional voids concept is its ethnocentric bias. It implicitly elevates market development and

assumes that formal regulatory institutions are the primary drivers of economic activity, neglecting the role of informal institutions like cultural norms and community networks. This narrow view overlooks how non-market institutions provide stability and meaning to social and economic life (Bundy et al., 2013; Durand et al., 2019). By emphasizing formal legal systems and judicial enforcement, the concept reflects a Western-centric view that equates their absence with a void. This perspective fails to acknowledge the adaptability of local actors who rely on informal mechanisms to address gaps in formal governance, potentially mischaracterizing countries and regions as institutionally underdeveloped.

3.3 Narrow conceptualization

Khanna and Palepu's (1997) conceptualization of institutions as purely regulative and market-enabling structures represents a narrow interpretation rooted in transactional cost economics. This perspective defines institutional voids as the absence of formal, market-supporting institutions, emphasizing costs and inefficiencies in market transactions. It overlooks broader institutional dimensions, such as cultural-cognitive and normative elements (Scott, 2013), community and social structures (Newenham-Kahindi and Stevens, 2018), and historical and policy legacies (Schneider, 2004), which are essential for understanding governance mechanisms across different institutional contexts. Institutions do not solely enforce rules but also shape societal values, beliefs, and practices, offering a more comprehensive understanding of institutional dynamics.

3.4 Overgeneralization and homogeneity assumptions

A further limitation of the institutional voids concept is its assumption that economic and institutional development is uniform across nations. This approach often treats entire countries or regions as institutional voids, overlooking the significant differences in institutional structures and development across sub-regions and countries. Such oversimplification ignores local variations in community governance, informal networks, and regional and national adaptations to institutional gaps. For example, firm-level strategies for navigating institutional voids are often shaped by the costs of transacting in emerging markets (Chang and Hong, 2000; Chittoor et al., 2015). However, these strategies are heavily influenced by localized informal institutions, which the framework tends to neglect. This omission limits the understanding of how firms adapt to their specific environments. As a result, empirical studies often rely on broad indices that fail to capture the local mechanisms and contextual factors directly shaping market functionality.

4 Disentangling institutional concepts

Meyer and Höllerer (2014) critique the overuse of the term “institutional,” cautioning that its excessive application can dilute the core concepts of Institutional Theory, rendering it too broad and less

analytically useful. Therefore, disentangling institutional concepts is crucial to preserving the precision of the theory, which allows for a deeper understanding of the conditions and processes that shape social and organizational behavior. Similarly, Woodhouse (2024) emphasizes the importance of distinguishing between different institutional approaches and selecting the one that best captures and explains the context. The study likewise argues that it is not enough to acknowledge that institutions *matter* but to understand *how* and *why* they do.

Instead of categorizing regions or countries as ones with institutional voids, studies should consider the diversity of institutional conditions, development, and processes within and across countries and regions. A comprehensive examination of institutions—emphasizing institutional complementarities, tensions, and diversities—ensures a more accurate application by capturing the complexities of institutional environments (Jackson and Deeg, 2008, 2019). This is especially important in contexts like the MENA, where formal and informal institutions interact uniquely, demanding robust, contextually grounded analyses that advance institutional research.

In emerging markets, the narrow transactional cost perspective of *New Institutional Economics* often dominates, overlooking critical historical, socio-cultural, and informal dimensions (Bothello et al., 2019; Doh et al., 2017). In the MENA, governance practices are shaped by cultural norms, value systems, historical events, and power dynamics, creating context-specific challenges. Given the limitations of the institutional voids concept and the challenges of combining different theoretical strands, alternative frameworks may offer valuable insights. While research on institutional voids, largely derived from *New Institutional Economics*, is prevalent, there are substantial opportunities to draw on other strands of Institutional Theory. Each strand is grounded in distinct assumptions and objectives, influencing its theoretical focus. Scholars must accordingly anchor their research within the appropriate strand and recognize the challenges that arise when combining them.

New Institutional Economics focuses on formal, market-oriented institutions that reduce transaction costs and shape economic performance (Williamson, 1975). It assumes economic actions are constrained by formal rules, contracts, and property rights, emphasizing efficiency and stability. However, *New Institutional Economics* largely overlooks informal institutions and broader socio-political influences. More concerning is that the institutional voids concept of the *New Institutional Economics* overemphasizes Western market ideals, a limitation addressed by moving from a *thin* (unidirectional) to a *thicker* (configurational), more context-sensitive approach (Jackson and Deeg, 2019).

New Organizational Institutional shifts the focus to organizations, arguing that institutional pressures—coercive, mimetic, and normative—shape structures and practices (DiMaggio and Powell, 1983; Scott, 2013). Unlike *New Institutional Economics*, which prioritizes formal institutions, *New Organizational Institutional* highlights the role of regulative, cognitive, and normative dimensions in shaping organizational behavior and legitimacy. Accordingly, *New Organizational Institutional* views institutionalized forms of organizations as part of the broad shared beliefs systems (Scott, 2013).

Comparative Institutionalism or *Comparative Capitalism* emphasizes institutional diversity and the complementarity of economic systems (Hall and Soskice, 2001; Jackson and Deeg, 2008). It rejects the convergence assumptions of *New Institutional Economics* and *New Organizational Institutional*, arguing that institutional configurations directly shape national environments and comparative advantages. Institutional change is seen as slow and path-dependent, with

interdependent institutional sub-spheres influencing economic outcomes. Unlike *New Institutional Economics*, which focuses on markets, and *New Organizational Institutional*, which examines firms, *Comparative Institutionalism* integrates informal institutions and political economy factors and explores differences and complementarities across various types of institutions (Jackson and Deeg, 2019).

Comparative Institutionalism moves beyond the narrow, unidimensional and unidirectional approach of the *New Institutional Economics*' institutional voids concept, which assumes a convergence perspective, toward a more comprehensive configurational view that emphasizes divergence and institutional diversity. While *Comparative Institutionalism* addresses the limitations of *New Institutional Economics* and, to some extent, *New Organizational Institutional*, the latter remains particularly well-suited for analyzing institutional dynamics in areas such as gender diversity (Barbar et al., 2021, 2023), corporate social responsibility, human resources, and firm structures and outcomes (Woodhouse, 2024). The study of international business, public administration, comparative governance, and political science, particularly in an emerging context such as the MENA, may nonetheless benefit from the more comprehensive and intricate perspective offered by *Comparative Institutionalism* (Woodhouse and Johnston, 2023). This distinction highlights the differences in institutional focus and application, which are contingent on the specific discipline at hand.

5 The appropriateness of methodological approaches

Institutional research has traditionally relied on macro-level, unidimensional variables to capture the influence of institutions on firms. However, Jackson and Deeg (2008, 2019) advocate for a methodological shift to address the complexity and interrelationships among institutions. This shift, often referred to as a “Thick Approach,” emphasizes the need to examine institutions’ complementarities, conflicts, and transitions over time. Such approach is especially valuable for understanding the dynamics in emerging markets, where formal and informal institutions often coexist and interact in distinctive ways. The call for a Thick Approach is particularly relevant for studies in the MENA region, where institutions are influenced by historical legacies, ethnic values, and informal norms. Relying solely on frameworks like the institutional voids concept oversimplifies these complexities. By adopting a Thick Approach, researchers can gain a more nuanced understanding of how governance mechanisms evolve in response to the broader institutional environment.

A Thick Approach goes beyond static and isolated measures, capturing the intricate dynamics of institutions. Methods such as *Qualitative Comparative Analysis* (QCA) enable researchers to explore how institutions complement or substitute each other and the broader impact of these interactions (Judge et al., 2014; Misangyi et al., 2017; Witt and Jackson, 2016). Moreover, by examining how institutions interact through QCA, policymakers can gain deeper insights into the complexities of institutional dynamics and design more effective policies that account for both formal and informal factors. In emerging markets, where informal institutions often play a significant role, policies that integrate formal regulations with socio-cultural norms can lead to more adaptable and sustainable outcomes.

Longitudinal Qualitative Case Studies offer another valuable approach for thick institutional analysis by providing rich, detailed

descriptions of institutional dynamics over time (Redding and Witt, 2009). This approach is particularly relevant for the MENA region, where historical and colonial legacies have profoundly influenced governance practices, such as the prevalence of state-led economic models, and where rapid development is currently unfolding. These case studies highlight the importance of examining the evolution of institutions and understanding their broader implications in shaping contemporary governance and economic structures.

Additionally, *Grounded Theory* is well-suited for a Thick Approach, as it allows for the development of theory directly from data, rather than relying on predefined frameworks (Lawrence et al., 2013). Through systematic data collection and analysis, *Grounded Theory* enables the exploration of how institutional factors emerge, interact, and evolve. For example, it can reveal how colonial legacies, socio-cultural norms, and formal institutional structures in the MENA collectively shape governance.

A Thick Approach underscores the importance of aligning theoretical frameworks with empirical methods (Jackson and Deeg, 2008). When studying the impact of informal institutions like socio-cultural norms on governance mechanisms, qualitative methods are necessary to capture these subtleties, rather than relying solely on macro-level indices. Misalignment between theory and methodology can oversimplify the issue and weaken conclusions. Researchers must hence carefully evaluate institutional measures, as formal indices may overlook the role of informal norms and historical legacies. Developing tailored measures that account for both formal and informal dimensions is crucial for a comprehensive analysis of governance in emerging markets (Holmes et al., 2013), highlighting the importance of *Context-Sensitive Measures*. Institutional indices assume an optimal model, overlooking variety, equifinality, and interdependence. Research must adopt context-sensitive measures while also recognizing institutional complementarities, tensions, and varieties. A *Configurational Approach* emphasizes systemic interdependence, theoretical focus on interactions, and methodological pluralism, moving beyond broad generalizations to account for country-specific institutional dynamics and strategic implications. The work of Witt and Jackson (2016) and Woodhouse and Johnston (2023) empirically advanced this debate, refining institutional configurations, and paving the way for further theoretical and methodological development.

Machine learning can likewise enhance the analysis of institutional configurations by identifying complex, non-linear relationships within large datasets, allowing for a more nuanced exploration of institutional diversity and its economic and social impact. It enables the discovery of hidden patterns, offering deeper insights into institutional complementarity and conflict, which can refine theories, guide policy recommendations, and generate hypotheses for future research.

6 Conclusion

The main argument of this article is that the institutional voids concept offers a limited perspective for emerging market studies, and that the *Comparative Institutional* framework proposed by Jackson and Deeg (2008) is more appropriate. While Woodhouse (2024) emphasizes the importance of reflecting on different institutional views, Jackson and Deeg (2019) develop thicker conceptions of institutions, and Woodhouse and Johnston (2023) underline the importance of embedding *Comparative Institutionalism* to examine

how and why institutional configurations matter rather than simply asserting that institutions matter. Building on the discussed critiques of the institutional voids concept, this article advances the case for a more divergent and context-sensitive institutional perspective by examining the unique institutional dynamics of the MENA region. It not only highlights the limitations of prevailing frameworks such as the institutional voids concept, but also engages with Jackson and Deeg's (2008, 2019) call for a deeper institutional perspective by proposing methodological approaches that better capture institutional diversity and complexity within this context.

Based on the discussion of the MENA's institutional conditions and the limitations of the institutional voids concept, this article hence argues that the shift toward the Thick Approach proposed by Jackson and Deeg (2008, 2019) effectively addresses these limitations. The article analytically identifies four main limitations of the institutional voids concept and contributes to the call for Thick Approach by suggesting several methodological alternatives.

Institutional research in the MENA region, and beyond, requires a broader perspective. While the institutional voids concept provides valuable insights into institutional deficiencies, their relevance diminishes when addressing governance issues shaped by informal, socio-cultural, and historical factors. Adopting a divergent and diverse perspective that incorporates historical contexts, socio-cultural norms, and informal institutional configurations enables policymakers and scholars to design more effective and contextually grounded policies. This approach challenges the dominance of Western-centric paradigms and offers a path for inclusive, equitable governance reforms that reflect the diverse realities of the regions in which they are implemented. Key takeaways from the analysis include:

- Disentangling Institutional Concepts: It is crucial to define and distinguish between the various strands and applications of Institutional Theory to minimize conceptual ambiguity.
- Assessment of Institutional Influence: Researchers should assess how different institutions shape national policies, governance practices, and firm outcomes, considering their varied impacts and dynamics within the broader institutional context.
- Adopting a Configurational View of Institutions: A comprehensive framework is needed to integrate formal, informal, and historical dimensions of institutions, while considering their coexistence, complementarities, interactions, and conflicts.
- Ensuring Methodological Appropriateness: Both conceptual and empirical studies must employ robust, context-sensitive methodologies that accurately capture the complexity of institutional dynamics.

Data availability statement

The original contributions presented in the study are included in the article/supplementary material, further inquiries can be directed to the corresponding author.

Author contributions

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