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LARISSA MARCHIORI PACHECO

ESSAYS ON THE INTERACTIONS OF INSTITUTIONAL VOIDS AND CORPORATE SOCIAL RESPONSIBILITY IN LATIN AMERICA

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Dissertation presented to the School of Business Administration of São Paulo, Fundação Getúlio Vargas, in fulfilment of the requirements to obtain a Doctoral degree in Business Administration.

Research Line: Business Strategy

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ESSAYS ON THE INTERACTIONS OF INSTITUTIONAL VOIDS AND CORPORATE SOCIAL RESPONSIBILITY IN LATIN AMERICA

Resumo

As corporações multinacionais (EMNs) desempenham um papel essencial nos contextos ambiental e social, e a pressão mundial exigindo responsabilidade por esses problemas chama ainda mais atenção para a estratégia de Responsabilidade Social Empresarial (RSE). Como a responsabilidade social das empresas pressupõe a interação entre organizações e várias instâncias de uma sociedade, para explorar o fenômeno, recorro a teorias que navegam entre os níveis de análise organizacional e institucional, considerando sua interação um relacionamento recursivo. O contexto do estudo são os países da América Latina, caracterizados por diversos vazios institucionais que ameaçam as operações destas empresas, mas também criam oportunidades de agência. Nosso foco está em entender como o baixo desenvolvimento institucional da América Latina pode moldar as estratégias de RSE das empresas, mas também como as empresas podem superar o efeito deletério que os vazios institucionais podem ter em suas operações através do seu envolvimento com instituições locais através de práticas de RSE. Consequentemente, questionamos se esse papel ativo das empresas na América Latina, através da RSE, gera impacto nas instituições formais dos países. Portanto, meu objetivo com esta tese é propor um exercício empírico integrativo e multinível sobre as interações entre instituições formais e informais e as atividades de RSE de empresas multinacionais e outras empresas em diferentes contextos latino-americanos. Através de três artigos complementares, pretendo explicar como essas interações são definidas e quais são seus resultados em diferentes níveis de análise, tendo a subsidiária da EMN como principal objeto de pesquisa. Combino diferentes níveis de análise para explorar a relação entre vazios institucionais e a estratégia das empresas, obtendo contribuições sólidas para as literaturas de gestão empresarial, instituições e estratégia internacionais.

Palavras-chave: Vazios Institucionais. Instituições Formais. Instituições Informais. Responsabilidade Social Empresarial. EMN. Subsidiárias.

ESSAYS ON THE INTERACTIONS OF INSTITUTIONAL VOIDS AND CORPORATE SOCIAL RESPONSIBILITY IN LATIN AMERICA

Abstract

Multinational corporations (MNCs) play an essential role in the environmental and social contexts, and the worldwide pressure upon them demanding accountability for these issues calls even more attention to their Corporate Social Responsibility (CSR) strategy. Since CSR presumes the interaction between organizations and several instances of a society, in order to explore the phenomenon, I recur to theories that navigate between the organizational and institutional level of analysis, considering their interaction a recursive relationship. The context of study are Latin American countries, characterized by several institutional voids that threaten business operations, but also create opportunities for agency. Our focus lies on understanding how the low institutional development of Latin America can shape firms CSR strategies, but also how firms can overcome the deleterious effect institutional voids can have on their operations through their engagement to local institutions via CSR practices. Derived from that, we question if this active role of firms in Latin America, through CSR, generates impact on countries' formal institutions. Therefore, my aim with this thesis is to propose an integrative, multi-level empirical exercise on the interactions between formal and informal institutions and CSR activities of MNCs and other firms in different Latin American contexts. Through three complementary articles, I aim to explain how these interactions are defined and what are their outcomes in different levels of analysis with the MNC subsidiary as the main object of research. I combine different levels of analysis to explore the relationship between institutional voids and firms' strategy, deriving sound contributions to the literatures on international business, institutions and strategy.

Key-words: Institutional Voids. Formal Institutions. Informal Institutions. Corporate Social Responsibility. MNC. Subsidiaries.

SUMMARY

INTRODUCTION

Corporate Social Responsibility (CSR) acknowledges "the intimacy of the relationship between the corporation and society and realizes that such relationships must be kept in mind by top managers as the corporation and the related groups pursue their respective goals" (Walton, 1967: 18). Known as a concept with multiple meanings, CSR acts both as a means and an end; a way to deliver firms' core activities as well as a way to obtain legitimacy by embracing stakeholders' concerns (Werther & Chandler, 2011). For this thesis, CSR comprises instances where a firm goes beyond its interests and legal compliance to engage in activities that can promote social good (McWilliams & Siegel, 2001). CSR has long been an interest of international business researchers and the high number of published reviews on the intersection between them (e.g. Kolk & Van Tulder, 2010; Kolk, 2016; Frynas & Yamahaki, 2016; Pisani, Kourula, Kolk, & Meijer, 2017) shows that the relevance of the subject is more than settled.

Multinational corporations (referred to as MNCs) play an essential role in the environmental and social contexts, and the worldwide pressure upon them demanding accountability for these issues calls even more attention to their CSR strategy (Kolk, 2016). Since CSR presumes the interaction between organizations and multiple instances of a society, in order to explore the phenomenon, I recur to theories that navigate between the organizational and institutional level of analysis, considering their interaction a recursive relationship. For CSR to be strategic for these companies, MNCs need to unravel the complex relationships that permeates contextual factors shaping social obligations to which these firms are subject and the CSR projects they intend to enact (Arena, Azzone, & Mapelli, 2018). The context of MNCs encompasses both local and transnational institutional environment (Scherer & Palazzo, 2011), rendering a set of multiple expectations. However, CSR is rooted in the culture of a specific country or region, making the MNC transnationality even more complex (Marano & Kostova, 2016).

One of the main characteristics of an MNC is its immersion in different institutional contexts, in which several institutional actors advocate a different combination of both formal and informal institutions (North, 1990, 1991; Williamson, 2009). In order to explore the relationship between organizations and their environment and yet account for the contextual differences of the various countries where an MNC

operates, I relied on new institutional economics and institutional voids to support my analysis (North, 1990, 1991, 1994; Williamson, 2009; Khanna & Palepu, 1997, 2010). Institutions are hereby defined "as humanly devised constraints that structure human interaction, and these can be formal such as rules and laws or informal such as norms of behaviors" (North, 1990: 3). Therefore, they are understood as the rules of the game that regulate market and nonmarket activities exerted by firms through norms and rules. However, institutions vary significantly from one context to another (Aguilera & Grøgaard, 2019) and these are exacerbated in emerging markets, which are characterized by non-consolidated institutions and instability, defined as institutional voids. Thus, institutional voids correspond to the absence or underdevelopment of institutions that enable and support market activity (Khanna & Palepu, 1997). Altogether, these concepts allow to explore tensions and paradoxes emerging from the interaction of firms with institutional environments. Useful for studying how firms are influenced in their situation in the multiple locations where they operate, the approach differs by highlighting their agency in responding to institutional inconsistencies in non-deterministic ways.

Since its inception, studies in the international business literature were dedicated to exploring the implications of variations in informal and formal institutions for economic activities (Doh et al., 2017). However, not much attention is dedicated to study how firms can pro-actively respond to institutional voids by strategically shaping, avoiding (Pinkham & Peng, 2017), substituting (Boddewyn & Doh, 2011) or even taking advantage (Khanna & Palepu, 2010; Luo & Chung, 2013) of either formal or informal underdeveloped or absent institutions in the emerging markets context – specifically, Latin America. Our focus lies on understanding how this low institutional development can shape firms CSR strategies, but also how firms can overcome the deleterious effect institutional voids can have on their operations through their engagement to local institutions via CSR practices. Derived from that, and not less important, we question if this active role of firms in Latin America, through CSR, generates impact on countries' formal institutions. Therefore, my aim with this thesis is to propose an integrative, multi-level empirical exercise on the interactions between formal and informal institutions and CSR activities of MNCs and other firms in different Latin American contexts. Through three complementary articles, I aim to explain how these interactions are defined and what are their outcomes in different levels of analysis with the MNC subsidiary as the main object of research.

I organize the document as follows. In chapter 1, I introduce the main concepts and theories approached in the three articles, the literature gaps, the overarching research question and the connection between the articles. Chapter 2 focuses on exploring the role of institutional voids as antecedents of CSR activities MNCs subsidiaries engage with in Latin America. In Chapter 3, I direct the attention to the headquarters-subsidiary relationship as well as the active role of firms towards institutional voids by exploring how MNCs subsidiaries engage with voids and develop CSR strategic responses. As the outcome of CSR activities is as important as its execution, I advance for the institutional-level and present in Chapter 4 a study which explores the impact of CSR performance on formal institutions in Latin America. In the final chapter, I present the general conclusion for this thesis and some indications for future research and implications for practice and theory.

CHAPTER ONE: MOTIVATION AND ORVERVIEW

In recent years, remarkable examples of companies' failure in being responsible towards social and environmental issues have driven my interest in exploring this topic. After getting in touch with the large amount of data used to compose the corpus of my thesis, I was intrigued by how MNCs are able to coexist with scandals in their subsidiaries, while positioning themselves as socially responsible, managing to continue thriving. In 2015, headings of around 1800 news reports around the world described the fraud accusations regarding emissions control against the German company Volkswagen. In the same month the scandal gained international momentum, Volkswagen's website positioned the company as a corporate citizen committed with initiatives such as the United Nations Global Compact (Riera & Iborra, 2017). In 2016, Unilever settled with more than 600 workers in India over mercury exposure, and back in 2011 sexual harassment claims from African workers at Unilever's Kenyan state contradicted the MNC global positioning strongly defended by its former CEO, Paul Polman. In his words, "as CEO of Unilever, my personal mission is to galvanize our company to be an effective force for good" (Borelli, 2017) – surely Indian and African workers would not agree with his declaration. Odebrecht international bribery case also caused perplexity for being an exceptional one: the company created a tailored department to manage corruption – an innovation, according to prosecutors in Brazil and the U.S.A. (Pressly, 2018; Rodrigues, 2019).

These inconsistencies called my attention to how MNCs manage to survive in countries where conflicting values, expectations, and practices coexist and can alter how subsidiaries' CSR strategy is coupled – or decoupled from, as in the above cases – with the headquarters values and expectations, materialized in their corporate strategy. Also, raised my attention to the consequences of CSR practices implemented for the institutional development of countries in Latin America. Acknowledging that one exclusive approach to understanding this phenomenon could not encompass all the complexity behind it, I address the problem through different methods (qualitative and quantitative techniques) and approaches (inductive and deductive studies).

In this first chapter, I introduce the theoretical background underlying this thesis, highlighting the theoretical gaps and showing how the three articles offer opportunities to fill them in complementary ways. The main theoretical lenses used in this thesis are new institutional economics and institutional voids, which are further combined with the

CSR literature and Headquarter-Subsidiary Relationship developments in the International Business field. I end with some comments on the methodological design adopted in each article.

When firms operate outside their homeland, they experience somewhat hostile business environments, which can be characterized by economic and political instability and cultural issues that generate competing demands regarding their responsibility towards society. If in one side, in Latin American countries, they enjoy low costs related to workforce and raw material, weak law enforcement and government subsidies (Vernon, 1998), on the other they raise the expectations regarding their contribution to the welfare of local communities and environmental protection (Marsden, 2000). From the interactions between firms and their institutional environment in Latin America, firms' strategies can be shaped and shape the ongoing institutional development in the region. Therefore, my aim with this thesis is to explore the intricacies of **the interaction of firms and institutions, focusing on how it is defined, how it unfolds, as well as the outcomes through different levels of analysis.**

Connecting the loose ends of the literature

We depart from the established assumption that MNCs are important actors in the community where they choose to operate (Marano & Kostova, 2016). Trying to understand the underlying mechanisms that define MNCs CSR practices, and how these interact with institutions and generate outcomes for the country is behind the construction of my thesis.

Considered the rules of the game that regulate, through norms and rules, firms' activities, institutions vary significantly from one country to another (Aguilera & Grøgaard, 2019). These differences are highlight in emerging markets, such as Latin America, which are characterized by institutional voids – or the absence of socio-political structures supporting market functioning (Khanna & Palepu, 1997, 2010). These voids generate conflicting agendas, priorities and expectations regarding MNCs social responsibility, and thus heterogeneous responses to this complex institutional environment are expected and still demands investigation (Dahan, Doh, Oetzel, & Yaziji, 2010; Zhao, Tan, & Park, 2014). With the first article we aim to investigate "**how institutional voids define MNCs CSR strategies and their relationship with local**

institutions in Latin America?". Through a qualitative study, we inductively approached 78 interviews conducted with MNC managers and institutional actors. With our analysis we were able to present a nuanced account of the interaction between institutional voids faced by MNCs in Latin America and how they shape their CSR strategies.

Research in the IB literature calls for empirical work that explore the relevant role of institutional voids' in shaping firms CSR strategy, giving emphasis to informal institutions and highlighting contextual differences (Aguilera & Grøgaard, 2019; Bothello, Nason, & Schnyder, 2019). Our results bring an in-depth analysis of five countries in Latin American, encompassing the perspective of manifold actors that interact with the MNCs subsidiaries CSR activities. Second, informal institutions and informal voids have a crucial role in these countries and they became the focus of our analysis, supporting evidences on how informal voids enable nonmarket activities that aim at tackling them (Doh, Rodrigues, Saka-Helmhout, & Makhija, 2017). We provide clarity to the CSR phenomena, adding a practical perspective on type of practices and processes that are behind MNCs CSR in Latin America due to challenging institutional features (Welch, Piekkari, Plakoyiannaki & Paavilainen-Mäntymäki, 2011).

With the results of this first manuscript, our attention was then derived to the active role of firms in reversely influencing voids through strategic CSR responses. The intention was to undercover how the absence or low development level of local institutions in Latin America could be overcome by MNCs through their strategic engagement to local institutions via CSR practices. Since the literature on institutional voids allows for understanding firms' agency towards institutional imbalances, we adopt this perspective aiming to CSR research (Teegen, Doh, Vachani, 2004; Rathert, 2016). We respond the following research question: **how subsidiaries of four different Western European MNCs respond to institutional voids in Latin American countries**. Through a multiple case study approach, we aimed to test current theory and explore possible applicability in the context of Latin America (Doh, Rodrigues, Saka-Helmhout, & Makhija, 2017). Because Latin America is not a supportive environment for CSR due to the institutional voids that pervade business operations, MNCs coming from developed economies have to create strategies to improve local business conditions normally conducted through non-market strategies. We found mechanisms and enablers for MNCs agency towards voids, allowing them to promote institutional innovation, arbitrage and adaptation.

In this paper we also respond to demands in the international business literature for research that encompasses the discussion of subsidiary-headquarters relationship with regards to MNCs subsidiaries' strategic decisions when facing institutional challenges (Pla-Barber, Villar, & Madhok, 2017). By bridging CSR and institutional voids in the context of HQ-S relationship, I intend to create an innovative connection of ideas, embracing topics that are relevant for practice and can support theoretical advancements for institutional theory and the international business literature in a synergetic fashion (Aguilera & Grøgaard, 2018). Once more, by analyzing the response of MNCs subsidiaries, we respond to calls for more evidence on firms' agency towards institutions in emerging countries context (Doh et al., 2017).

We were able to explore the complex interplay between institutions and organizations, but still had space to investigate how it can impact social, political and economic aspects (Newenham-Kahindi & Stevens, 2018). That question emerged from the necessity to explore outcomes of firms' interactions with local communities, governments, and other institutional actors (Cantwell, Dunning, & Lundan, 2010; Doh, et al., 2017; Rathert, 2016). Past research shows that firms engage with local institutional actors in order to create or change new institutions when they experience deficiencies or institutional voids (Child, Rodrigues & Tse, 2012; Khanna & Palepu, 2010; Li, Peng & Macaulay, 2013; Teegen, Doh, & Vachni, 2004). Following this rationale, changes on local formal and informal institutions are expected (North, 1990) due to the new balance that is achieved when voids are fulfilled (Khanna & Palepu, 2010; Williamson, 2009). The antecedents, mechanisms and characteristics of CSR are deeply explored in extant research, but we made use of a quantitative design and a very robust dataset to explore its outcomes and consequences for formal institutions in Latin America.

We answer to the question "**what is the impact of firms' CSR on institutions in Latin America"** using GLS regressions on a sample of 820 firm-year observations of 145 firms from 34 Latin American countries, over the period of 2005-2018, which provided robust support to our hypothesis. Overall, our analysis suggest that firms CSR have a significant, but negative impact on government effectiveness – considered as betterment of local institutions. This effect is decreased when we consider the moderation of size, but increased when profitability is moderating the relationship. Summarily, this thesis bringing evidences on how institutions shape and are shaped by

firms' action, even more so in countries where institutional voids prevail (Aguilera & Grøgaard, 2019; Doh et al., 2017).

Additionally, research on institutional voids in the International Business field has rapidly grown, but most of it is limited to developed, single-countries scenario (e.g. Luo & Chung, 2013; Rathert, 2016; Regnér & Edman, 2013; Teegen, Doh, & Vahani, 2004), overlooking the complementarities of other emerging countries and cross-border relationships. Therefore, this study can significantly contribute to the international business literature by bridging a set of theories which can explain the MNC phenomena from a new perspective, while bringing in-depth contributions from five different countries in Latin America as well as quantitative, large data from all countries in the region with our third article.

Answering these questions, in a complementary fashion and using a broader perspective of CSR was the primary goal of this thesis. Our approach can contribute significantly to the CSR and ethics literature, by expanding the understanding of CSR antecedents, enablers and mechanisms that allow its implementation, as well as its configuration as a strategic response to institutional features and its outcomes in a national level. The articles in this thesis will allow to contribute to broader scholarly interest in the social responsibility and political approaches to the topic, emphasizing the embeddedness of firms in societies and institutional environment of the countries where they operate, providing a theoretical contribution that makes knowledge more tangible.

The thesis also aims to contribute to strategy research, by proposing a cross-fertilization between new institutional economics, international business and strategy. Strategy research has developed significantly in the last decades but still suffers from some shortcomings. By considering only financial indicators to measure performance, theorists miss the opportunity to explore other mechanisms that might offer a broader perspective. Mechanisms that select out organizations are not tight, and change over time (Durand, 2006) and external events can change how strategies are developed and interpreted by actors in a social system (Durand, 2012). Bringing institutions and institutional voids to strategy theory helps to expand the argument of stability and homogeneity of firms' performance. Also, it inserts a clearer perspective on firms' change processes and explains heterogeneity as an outcome of external influences. Additionally, it offers a possibility to account for multi-level explanations for variance and consequences for firms, as well as agency in the institutional context (Khanna & Palepu, 2010; Doh, Rodrigues, Saka-Helmhout, & Makhija, 2017; Durand, 2012).

Framing the articles

In this thesis I applied different methodologies, combined with deductive and inductive reasoning, to explore the phenomena under study. I present three articles which aim to explain **the interaction of firms and institutions, focusing on how it is defined, how it unfolds, as well as the outcomes through different levels of analysis.** Applied to the context of Latin America and the MNCs subsidiaries CSR strategy, the main research question is: **how institutional voids and the CSR strategy of MNCs interact in Latin America?** Since I am able to combine different levels of analysis to explore the relationship between institutional voids and firm's strategy, I can derive sound contributions to the literature on international business, institutions and strategy, and improve theory development through the understanding of such a complex phenomenon as the MNC subsidiary CSR implementation in Latin American countries and its interaction with formal and informal institutions. Table 1 gathers the rationale behind the articles, the research questions and methods chosen to approach them, as well as the findings for each article and the thesis general conclusions. Further details are given in the following chapters of this thesis.

** Insert Table 1 about here **

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Table 1 – Research Design

	How institutional voids and the CSR strategy of MNCs interact in Latin America?		
MAIN GAP	Call for research that explores the complex interplay between institutions, institutional voids and organizations, and how they can impact social, political and economic aspects (Doh et al., 2017; Newenham-Kahindi, A., & Stevens).		
ARTICLES	**Institutional voids as CSR antecedents**	**CSR response to institutional voids**	**CSR and institutional change**
RESEARCH GAPS	MNCs heterogeneous response to institutional voids in emerging markets still demands investigation (Dahan, Doh, Oetzel, & Yaziji, 2010; Zhao, Tan, & Park, 2014). Claim for research that appreciate informal institutions and that are context-driven when analyzing institutional voids interaction with firms' CSR practices (Aguilera & Grøgaard, 2019; Bothello, Nason, & Schnyder, 2019).	Test the boundaries and applicability of current developments on nonmarket responses to institutional voids (Doh, Rodrigues, Saka-Helmhout, & Makhija, 2017). Discussion on S-H relationship about strategic decisions required from subsidiaries when facing institutional challenges (Pla-Barber, Villar, & Madhok, 2017).	Demand for evidences on how institutions shape and are shaped by firms' action in countries where institutional voids prevail (Aguilera & Grøgaard, 2019; Doh et al., 2017) Call for quantitative designs, combining both firm and country-level data, aiming at explaining the outcomes of CSR, especially in the context of emerging markets (Kolk, 2016).
RESEARCH QUESTION	**How institutional voids define MNCs CSR strategies and their relationship with local institutions in Latin America?**	**How subsidiaries of four different Western European MNCs respond to institutional voids in Latin American countries?**	**What is the impact of firms' CSR on institutions in Latin America?**
RESEARCH METHODS	Content analysis + inductive research, comprised of 78 interviews with MNCs subsidiaries, EMNCs, Business Associations, NGOs, and Governmental Entities in Brazil, Argentina, Colombia, Peru and Mexico.	Multiple case study with four Western European MNC subsidiaries and headquarters operating in Brazil, Argentina, Colombia, Peru and Mexico.	GLS regressions, with random effects and sequential models, based on 820 firm-year observations for 145 firms from 34 Latin American countries, over the period of 2005-2018.
FINDINGS	Firms operating among informal voids face a bigger challenge while having to overcome cultural barriers, demanding the enforcement of social-responsibility values in their employees, value chain and stakeholders. CSR needs to go in hands with a compensation for informal voids present in Latin America. Through CSR, MNCs create significant barriers to acknowledged risks, legitimize their operations and protect their brand, safeguarding long-term survival. By addressing informal voids through CSR, they promote a profound change in informal institutions that, in the future, might support changes in formal institutions.	Results show three mechanisms through which MNCs interact with local institutions through their CSR practices, as well as three enablers that make such strategic response possible. This agentic role of MNCs in this environment derives from their power and influence across the analyzed countries as well as from the institutional voids that represent opportunities for action. As an outcome, our research provides empirical support on how MNCs develop competitive advantages related to their social-responsibility commitments by supporting institutional innovation, arbitrage and adaptation.	Our analysis suggest that firms CSR have a significant, but negative impact on government effectiveness – considered as betterment of local institutions. This effect is decreased when we consider the moderation of size, but increased when profitability is moderating the relationship. Therefore, bigger companies tend to diminish the negative effect of high CSR performance on institutions in Latin America but the reverse happens when firms are more profitable.
GENERAL CONCLUSION	The institutional environment of Latin America is challenging and present institutional voids, that affect firms' decisions regarding their CSR implementation. Mostly related to informal voids that extenuate the gravity of local socio, economic and environmental conditions, their CSR is consequently directed to counteract cultural deficiencies that will further allow a fair competitive environment to emerge. Since MNCs have influence and power over institutional actors, their CSR activities can also be directed to fill formal voids and create or change local institutions. These interactions through CSR activities can generate positive gains for the countries in Latin America in terms of government effectiveness, especially when conducted by larger and less profitable firms.		

CHAPTER TWO: INSTITUTIONAL VOIDS AS CSR ANTECEDENTS

The role of informal voids in shaping the CSR of subsidiaries in Latin America

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INTRODUCTION

Corporate Social Responsibility (CSR) guides practice and strategy in organizations, but still remains an amorphous term, ambiguous in meaning (Höllerer, Meyer & Lounsbury, 2017; McWilliams, Siegel & Wright, 2006), which serves as an umbrella concept for business and society relations (Matten & Moon, 2008). Nevertheless, previous research achieved a solid agreement that its practice and meaning varies across different countries (Williams & Aguilera, 2008) since those are embedded in the environment where they are implemented (Marano & Kostova, 2016). CSR, thus, encompasses "expectations and cultural constructions that vary across empirical contexts and historical eras" (Höllerer, Meyer & Lounsbury, 2017, p.198). Thus, organizations that operate in different institutional environments face different expectations regarding CSR, derived from their defining formal and informal institutions (North, 1990).

Institutions can be understood "as humanly devised constraints that structure human interaction, and these can be formal such as rules and laws or informal such as norms of behaviors" (North, 1990: 3). Considered the rules of the game that regulate, through norms and rules, firms' activities, institutions vary significantly from one context to another (Aguilera & Grøgaard, 2019). These differences are exacerbated in emerging markets, which are characterized by non-consolidated institutions, instability and significant institutional voids. Defined as lack of socio-political structures supporting market functioning (Khanna & Palepu, 1997, 2010), institutional voids generate conflicting agendas, priorities and expectations regarding MNCs social responsibility. In a context of constant change, MNCs long-term operation is challenged and their heterogeneous response to this complex institutional environment still demands investigation (Dahan, Doh, Oetzel, & Yaziji, 2010; Zhao, Tan, & Park, 2014). Our aim with this research is to investigate "**how institutional voids define MNCs CSR**

strategies and their relationship with local institutions in Latin America?". Through a qualitative, inductive study, we examined 78 interviews conducted with MNC managers and institutional actors, involving three rounds of coding using the software NVivo and frequent references to the literature. Our approach to our data considered the dynamics of a complex setting aiming to generate contextual explanations which account for firms' agency as well as their position in a social structure (Pratt, Kaplan, & Whittington, 2019; Welch et al., 2011). Diving deep in the data allowed us to present a rich, nuanced account of the interaction between institutional voids faced by MNCs in Latin America and how they shape their CSR strategies.

Recent reviews on the relevant role of the institutional voids' lens claim for research that appreciate informal institutions and that are context-driven (Aguilera & Grøgaard, 2019; Bothello, Nason, & Schnyder, 2019). First, our research contributes to this gap by bringing an in-depth analysis of five countries in Latin American, encompassing the perspective of numerous actors that interact with the MNCs subsidiaries CSR activities. Second, we show empirical evidence that highlights the relevance of informal institutions in delimiting the complexity MNCs face in Latin America. Also, we add to this body of research by bringing evidence on how institutional voids, both formal and informal, enable nonmarket actors to transform institutions while seeking for competitive advantages (Doh, Rodrigues, Saka-Helmhout, & Makhija, 2017). The proposed cross-fertilization between institutional theory and the IB literature brings a practical clarity to the CSR phenomena (Welch, Piekkari, Plakoyiannaki & Paavilainen-Mäntymäki, 2011). Also, the connection of firm-level phenomena to institutional concepts allows theory building that will guide further management research. We also present practical mechanisms that reflect the interaction with businesses and society when they face contradictions due to their transnationality (Amaeshi, Adegbite, & Rajwani, 2016).

We divide this paper into five parts. In the first section, we introduced our research and in the second section, we describe the theoretical grounding of our manuscript. We follow with the methodological aspects and in the fourth section present our findings. Finally, we reflect on existing theories and present the limitations of our study and suggestions for future research in section five.

THEORETICAL BACKGROUND

CSR in a Global Environment

CSR is both means and an end, a way to deliver firms' core activities as well as a way to obtain legitimacy by promoting social good (Werther & Chandler, 2011). Due to their influential role in local communities, the CSR practices of MNCs shape what institutional actors understand and value as something that generates social good. Since these are situated practices, context plays an important role in shaping its definition. The fact that MNCs are embedded in different institutional environments and interact with multiple actors and contexts opens space for significant contradictions about the social responsibility of firms.

The globalization process led national cultures to experience increased heterogeneity and a pluralism of values and lifestyles (Scherer & Palazzo, 2011, p.902). However, with the global integration of issues and policies, policy transfers forced by international organizations push other countries to adopt policies that mirror the institutional framework of powerful countries that can influence the CSR agenda (Benson & Jordan, 2011; Dolowitz & Marsh, 1996; Evans, 2009). In this context, MNCs testified the rise of global governance mechanisms for CSR, considered as formal institutions that define and are defined by its institutionalization in a globalized world.
The emergent political power of these non-state and non-political actors (Beck, 2000) interferes with the MNCs CSR strategies' and contributes to an increased participation of corporations in global issues and the production of global public goods (Vogel, 2007).

For instance, the World Trade Organization, the World Bank, the United Nations and the GRI (Global Reporting Initiative) exert governance over CSR issues (Detomasi, 2007; Levy, Brown, & De Jong, 2010), generating demands that surpass local interests. CSR issues are embedded within new democratic frameworks, on the emphasis on transnational governance mechanisms, heterarchy and the politicization of corporations, directing their attention to higher-order interests instead of national level, localized demands (Teegen, Dog, & Vachani, 2004). Thus, the globalization of practices and cultures exposes MNCs to a complexity derived from a conflict between global institutional pressures and local demands (Pache & Santos, 2010), changing how they

obtain and maintain legitimacy in the diverse countries where they operate (Scherer, Palazzo, & Seidl, 2013).

However, CSR transnationality is not easily translated into practice. First, due to the emergence of a great diversity of CSR governance mechanisms, MNCs face an absence of acceptable and coherent standards of behavior (Chandler & Mazlish, 2005). On the one side, developed countries with higher power and legitimacy influence the agenda of international bodies and push an international mandate of CSR practices that mirror their own policies (Benson & Jordan, 2011), forcing compliance to a myriad of standards that conflict with local demands. On the other, the implementation of CSR is harnessed to the local actions of firms and the consideration of the community with which it interacts so it can produce social goods that is valuable and acknowledged by them.

The simultaneous inconsistency between expectations regarding CSR practices creates tension and challenges firms to find a solution to navigate complexity (Marano & Kostova, 2016). Scherer, Palazzo and Seidl (2013) suggest the best strategy to manage complexity is to develop capabilities that allow the firm to be flexible when dealing with conflicting, paradoxical demands. No single strategy is enough for MNCs to manage CSR. Despite arguing that companies choose to comply, enforce or negotiate their CSR practices, the authors do not explore firms' pathways in engaging with formal and informal institutions (North, 1991). We argue that the institutional complexity MNCs experience abroad emphasizes their agentic role towards institutional voids, being those formal or informal.

CSR in Latin America

Latin America presents itself as a very complex environment, where generalizations about any subject are hard to be produced or applied – even more so in the CSR context (Schmidheiny, 2006). Evidence shows that in the last decades, CSR meaning in Latin America has been attached to social issues instead of environmental ones, mainly because these are more evident and relevant for locals. Despite being the owners of a large biodiversity and home for several environmental scandals, the increasing poverty, education issues, inequality, violence, corruption and other social evils pervade life in Latin America and direct CSR meaning and practices towards them.

However, CSR global roots make it unsuitable for the region (Schmidheiny, 2006) and turns into a firm strategy that is heavily influence by the social issues that severely affect these countries (Casanova & Dumas, 2010). Among all, Brazil has become the hotspot for CSR implementation (Casanova & Dumas, 2010; Schmidheiny, 2006) due to an increased interest of companies to create a devise between the corruption that ravages the country and their operations as well as to be recognized as a solution for social issues rather than its cause, and the several non-governmental initiatives that flooded companies with indicators, standards and new corporate values. Despite a growing movement towards CSR implementation, the region still needs to improve the institutional capacity of governments, civil society and investment climate, not forgetting the need to adapt CSR to the specificities of each country (Peinado-Vara, 2006).

In this context, MNCs are torn between conflicting interests of a myriad of stakeholders and institutional actors. Nevertheless, despite a global enforcement towards it, the low institutionalization of CSR in Latin America may lead to low investments in CSR due to the lack of established standards and regulations (Torres-Baumgarten & Yucetepe, 2009). Amaeshi and colleagues (2016) support this argument by emphasizing that CSR implementation demands certain conditions and institutional arrangements that might not be present in emerging economies, such as the countries in Latin America - i.e. strong market, government and civil society (Husted & Allen, 2006; Matten & Moon, 2008). When these institutional arrangements are absent or weak, researchers argue that CSR is not viable or possible (Campbell, 2007). In other words, past research suggested that in the presence of institutional voids, CSR would not be efficient, creating opportunities for deviant behavior (Matten & Moon, 2008).

Moving away from this passive perspective, we believe that institutional voids not only restrict MNCs action but create opportunities that can be explored through CSR strategies. Amaeshi, Adegbite and Rajwani (2014) show that firms tend to develop coping strategies, with CSR activities being configured as tools for private governance of externalities. Despite emphasizing the difficulty firms face when trying to implement high-standards for CSR in emerging economies (Li, Fetscherin, Alon, Lattemann, & Yeh, 2010), this body of literature lacks research that highlights the how MNCs address these inconsistencies. In other words, research is still needed to develop a comprehensive framework that explains how the relationship between the MNC and

institutions in emerging markets are contingent to a combination of different voids and development levels in different institutional instances (Zhao, Tan, & Park, 2014).

Institutional Voids and CSR

Institutional voids are defined as the absence or underdevelopment of institutions that enable and support market activity (Khanna & Palepu, 1997). Since its inception, multiple studies in the international business literature were dedicated to exploring the implications of variations in informal and formal institutions for economic activities (Doh et al., 2017). With a focus on emerging markets, Khanna and Palepu (1997) equipped researchers with a framework that explore tensions and paradoxes emerging from the interaction of firms in this institutional environment. By challenging the perspective of institutions as constraints to human action (DiMaggio & Powell, 1983), institutional voids literature allows understanding firms' agency towards institutional imbalances through different individual and collective strategies. Firms can pro-actively respond to institutional voids by strategically shaping, avoiding (Pinkham & Peng, 2017), substituting (Boddewyn & Doh, 2011) or even taking advantage (Khanna & Palepu, 2010; Luo & Chung, 2013) of either formal or informal underdeveloped institutions in a given context.

Its importance in the international business field is a consequence of the possibilities it generates for theory development regarding host/home country institutional voids and strategic responses of firms (Doh et al., 2017). In summary, institutional voids relate to institutional deficiencies that disturb market transactions, leading to opportunistic behavior, rent concentration in a few actors and unfair competition. Therefore, it offers a perspective on institutional features that instigate firms' agency. When enacted, institutional voids might turn into opportunities for firms (Doh et al., 2017) that can generate both positive and/or negative externalities. Due to their intrinsic connection to local institutions, voids approximate context and firm strategy and, consequently, serve as a good theoretical explanation for firm heterogeneity. Albeit their empirical and theoretical relevance in the field, opportunities for research remain open.

Voids not only shape or disrupt market transactions, but also nonmarket activities performed by businesses. Despite being guided by social and political logics, and not only rational, commercial ones, nonmarket activities can also affect market functioning

(Boddewyn & Doh, 2011). Nonmarket activities encompass, for instance, informal interactions with groups that engage in the definition of the 'rules of the game' (North, 1991). Considered a nonmarket activity, CSR can be used as a strategy to mitigate or deal with institutional voids (Cantwell, Dunning, Lundan, 2010). Additionally, nonmarket transactions are closely related to and are outcomes of informal institutions. In this respect, little emphasis has been given to how informal institutions, that encompass beliefs and values that are specific to a culture and determine expectations and behavior, shape voids and create spaces for business action (Bothello, Nason, & Schnyder, 2019; Doh et al., 2017). Bridging both CSR, as a nonmarket activity of firms operating in a giving context, and informal institutions can benefit research in international business by bringing a more nuanced perspective on the influence of voids on firms' strategy and how this can influence the institutional environment where they are immersed.

METHODS AND TECHNIQUES

Research design and data collection

Our qualitative design encompasses 78 semi-structured interviews conducted from July to November 2017 in Argentina, Brazil, Colombia, Mexico and Peru. Our sample encompasses CSR/Compliance/Sustainability managers of MNC subsidiaries, managers of EMNCs, NGO representatives, government representatives, business associations representatives, researchers and managers of local small and medium-sized companies. The MNCs subsidiaries are headquartered in Europe and the United States and have operations in at least one of the countries mentioned above. Our object of study, the subsidiaries of MNCs operating in five Latin American countries, were not selected for their representativeness in a population or possibility to generalize findings but, mainly, due to their theoretical contribution and data availability (Merriam & Tisdell, 2016). We selected the respondents for their potential to contribute to a comprehensive understanding of the role of institutional actors in shaping MNCs CSR strategy in the context of Latin America, following the tenets of theoretical sampling (Charmaz, 2000; Gioia et al., 2010). Table 1 summarizes the main categories of interviewees and the number of respondents per country (see Appendix A for detailed information on the interviewees).

*** Insert Table 1 here ***

The interviews were based on a semi-structured, open-ended interview guide, which explored three critical aspects: the understanding of CSR in the local context, the MNC subsidiary relationship with local actors and their main challenges and difficulties. The questions were adapted to each cohort of actors, modified or extended during the five-month interview process (available upon request). We conducted the interviews in Portuguese, Spanish or German, and further transcribed in the same languages by a third part, not involved in the research process.

Research Setting

Our research setting encompasses five Latin American countries, which concentrate 72% of the population and 74% of the region's gross domestic product. Together, Brazil, Argentina, Peru, Colombia and Mexico produce two-thirds of all imports and exports (65%) and receive nearly three-quarters of all foreign direct investments (74%). Latin American countries not only share historical and cultural roots, but also frequent internal changes due external economic and political influences (Fleury & Fleury, 2011). Their recent history also tells a lot about how their institutions are still being consolidated and susceptible to the influence of developed countries and large foreign corporations. Building democratic institutions involves creating norms, rules and organizations, laying down clear principles that will guide action (Scully, 1995). This process began to happen in the region during the extensive political regime changes of the 80s and 90s, but the quality of this process is questionable (Helmke & Levitsky, 2006).

Prevailing cultural practices and beliefs have a lot to do with the widespread of established patterns of clientelism, corruption, and patrimonialism throughout Latin America (O'Donnell, 1996). The institutional complexity in which MNCs are immersed in Latin America have an important role in how business is conducted. Foreign companies have been implicated in a tangle of benefits and bribes in this region, such as the scandal of corruption starred globally by Siemens – which led Siemens Argentina to negotiations with the US Department of Justice. These and other misconducts involved several national firms and MNCs, and have been instigating cultural changes as well as the reassessment of values and beliefs (Jamali et al., 2017). Despite signs of recovery and stable economic growth in the region, other issues still challenge firms' operations.

This complex institutional scenario that characterizes Latin America is a perfect environment to learn about firms' experiences, difficulties, achievements and failures when implement CSR strategies (Lindgreen & Córdoba, 2010).

Data analysis

Our inductive approach to our data was based on the tenets of inductive coding procedures, following the sequence of open coding, axial coding and selective coding (Strauss & Corbin, 1990). As the coding process progressed and the contact with the package of theories that are usually applied to the phenomena under study increased (Hsieh & Shannon, 2005), these codes were changed, eliminated and supplemented with new ones according to the authors' agreement (Gilgun, 2011). We began with 62 codes in the first-round of open coding and were finally summarized to 27 codes in the second-round of axial coding. In this phase, the dominant codes were considered the base to our reflections on the CSR phenomena in the researched context. In order to organize our data and present our outcomes through a model, we proceeded with a third and final-round coding, using the selective coding procedures to reduce to 19 codes that compiled the main topics approached in this research.

Our first approach to our data was based on open coding guidelines, with the focus on "breaking down, examining, comparing, conceptualizing and categorizing data" (Strauss & Corbin, 1990:61) regarding its properties and dimensions (Sarker, Lau, Sahay, 2000). It was initially conducted through a "line by line" analysis and further directed to sentences and paragraphs of all transcribed text in our sample. 62 codes were generated in this initial open coding phase. Also, it is important to highlight that during the open coding process, a portion of axial coding was done informally as foreseen by Strauss and Corbin (1990). Another remark is that a great majority of these initial codes were based on current theories that are commonly applied to CSR issues in the international business context, despite the authors' commitment to an open, non-biased reading of textual data. The notion of formal and informal institutions as drivers of CSR practices (North, 1990) appeared to be a promising theoretical framework. Indeed, those aspects were brought to our first analysis, but other observations emerging from it called our attention to the engagement of these firms with local actors when facing institutional voids (Khanna & Palepu, 1997). We had an interesting empirical finding demanding an explanation that would account for agency, so we tried to match theory with the

phenomenon we saw in the real world using the constant comparative method (Dubois & Gadde, 2002; Strauss & Corbin, 1990).

Our second-round coding was informed by studies on institutional dynamics, aiming to explore the active role of MNCs on institutional voids, which are "considered actionable constructs that can be reacted to or shaped" (Doh et al., 2017, p. 294). The axial coding focuses on "making connections between a category and its subcategories" (Strauss & Corbin, 1990:97) that were created during the open coding process. In this phase we looked for data that suggests relationships (even if only plausible) among categories and sub-categories. The literature of institutional voids in International Business informed our analysis and the interaction with this literature led to core themes, which comprehended institutional aspects (formal and informal institutions; formal and informal voids), local CSR understanding and strategies, institutional dynamics (change related to institutional voids) and the implications for MNCs and other actors located in the studied context.

In the third-round coding, using the selective coding procedures we aimed at identifying "core categories", which represent the central phenomena that requires a theoretical explanation (Sarker, Lau, Sahay, 2000). In this phase, instead of forcing the "paradigm model" into our data (Glaser, 1992), we made use of theories that facilitated the explanation of the phenomena at the center of our research and allowed to generate a storyline based on our data. Therefore, we compared the institutional voids faced in each of the countries studied as well as firms' responses, trying to find similarities and particularities. We synthesized our findings in a model that adds to current knowledge on firms' response to institutional voids when operating in emerging countries. The coding process is represented in Figure 1, whereas in Table 2 we introduce the data structure, derived from the last round of coding and subsequent hierarchical structuring, which inductively based the development of our model. The intention is to show evidences on how we progressed from raw data to concepts that base our contextualized analysis of MNCs CSR in Latin America (Gioia, Corley & Hamilton, 2012).

*** Insert Figure1 here ***

***Insert Table 2 here ***

FINDINGS

CSR in Latin America

CSR is contextual, as previous research shows, and, therefore, its meaning and practices are dependent on the formal and informal institutions in play when those are defined and implemented. Our interviewees corroborate this perspective by affirming that CSR understanding is a context-dependent matter, but also emphasize the importance of personal identification and commitment within the firm. More than stating a mission and establishing goals, in order to implement a CSR strategy, the firm depends on the individuals behind this process. As the manager of Zeta Argentina highlights, "*there are convinced people, lagging opportunists who expect this to be just transitory to go back to old practices; there are skeptics and there are those who are willing to cross the line. This is human nature. The point is how many controls, how many trenchers, how much conviction there is in those that manage the company*" (I-28). In order to implement this agenda, our findings support the affirmation that managers responsible for CSR practices believe in social good as a goal to be pursued and act towards it. Furthermore, this personal commitment is spread within the MNCs in our sample. Thus, a shared identification with the subject is a manifestation of a value currently emphasized in the management of firms in Latin America. "[CSR] *depends on people, on values, on culture, on what you learned throughout your life. […] the company needs to have these values, this culture and work with people to go beyond what's written in a paper*" (I-67). Convincement and a shared identification are the solid basis for the MNCs that pursue a social responsibility journey.

As a subsidiary, this is the outcome of a commitment to CSR at the headquarters level, shaping corporate policies and strategy. The shared identification translates into practices that reflect a public commitment of the entire organization, in a global level, to supporting CSR, involving the cascading of goals and policies for the corporation as a whole, and general principles that guide business operations. However, when operating in the countries under scrutiny, all firms report practices and meanings in the local level that clash with this shared identification and practices within the MNC. "*Big companies do CSR here, but the problem is with the local companies. Those have more control and pressure from their headquarters to do so.*" (I-17), evidencing the distance between local practices and MNCs CSR practices. A context where firms experience an atmosphere of

tolerance towards social irresponsibility leads us to assert that the external references that are brought through the globalization process and the increasing presence of MNCs in these territories exacerbate the conflict between the global CSR mandates in the MNC headquarter and the ones supported by local businesses.

Latin American institutional context: formal and informal voids

Latin American countries carry historical, cultural and ideological roots perpetuated by local actors and businesses. As recognized by both local and foreign actors, this has led to the institutionalization of cultural aspects that are ingrained in the daily life, reflected in business activities and in the definition of the social responsibility of firms.
Altogether, the reported experiences shown in Table 3 reflect higher similarities face in the countries where the interviews were conducted. Generally, as the interviews evolved, the accounts drawn a scenario of hysteria, cultural issues that are inherited and significantly hard to change, disbelief, and insecurity and, as a sign of paralysis, conformism. As the Executive Manager of an NGO mentions (I-32[1]), the environment is not favorable for CSR since even Latin Americans do not believe in their local institutions. "*The rules of the game change so frequently, you have this feeling of isolation, and under these conditions you just care about yourself – nothing matters for you"*, highlights the General Counsel of an MNC in Argentina (I-30). Therefore, the idiosyncrasy of Latin American countries establishes a scenario where social good is a difficult object to pursue. Despite desired, the problems the region faces impede its development and generates a short-term necessity that does not encompass such long-term, societal commitments. For the Compliance Officer of MNC *Beta* in Colombia, "*being embedded in corruption and malpractices for so long, in a culture where bribery is considered normal, lack of consequences is also acceptable. There are laws, but nobody is arrested, or if so, they end up released after a few days. This atmosphere I am describing has developed this high level of tolerance, this permeability to corruption, and we simply do not react to these aspects"*.

*** Insert Table 3 here ***

Other highlighted aspects are the high degrees of informality and illegality that shape their local economies, also generating collateral effects: "*In Colombia, the main*

problem is our highly informal economy that comes in hand with illegality and, indirectly, corruption” (I-38). As one manager reports, in Colombia the illegal market is very representative in the local economy and this has an important impact on the efforts conducted by *Beta* Colombia to avoid incidents involving money laundry and terrorist financing. Cultural traditions increase the difficulty to push human and labor rights in Argentina: “*regarding child labor, the majority of families that force their children to work do not recognize it as something bad. It is part of their culture - they were educated within this perspective and were once child laborers themselves and believe their children should go through the same experience*” (I-21). Those informal institutions, based on cultural traditions, tend to jeopardize firms’ activities, which carry a set of values and cultural aspects from a completely different institutional environment.

It is a significant battlefield since MNCs struggle with “*environmental degradation*” (I-24), “*normalization of child work*” (I-21) and “*a general climate of corruption*” (I-45), all of this “*ingrained and reproduced, because that is how it is*” (I-49). As one of the managers from an EMNC mentions, “*in Argentina we faced several crises and, in these circumstances, in general, the short term is much more important than the long term. The benefits you obtain for promoting common good come only in the long term. It is a cultural theme, but as soon as a country perceives signs of stability, then one can perceive benefits in the long term that are greater than those in the short term.” (I-24).* Precisely due this reality, the MNCs we studied are exposed to a challenging environment. As the manager of a Retailing MNC (I-8) mentions, “*it is difficult to compete in a scenario where you have smaller, family-owned companies that do not follow the same rules of the game. They do not even comply with labor legislation in a 100% correct manner. They follow their own rules and are able to have price advantages and this generates in our consumers the perception that our price is more expensive. Thinking about this scenario, that is not fair in our understanding, we are very committed to issues related to compliance and we also believe in business sustainability”*. In the words of an NGO manager (I-14) *“the idea of working and focusing attention on multinationals is to create an upward pattern and raise the overall business environment, even by its weight in the economy and the big impact in the entire value chain*”.

CSR defined by formal and informal voids

For those immersed in environmental, social, regulatory, political, and economic issues, CSR relates to "*assuming co-responsibility to an integral environment where everyone has something and a solid ground to be able to decide what one wants to do with one's own lives. If you don't have food to eat, no access to water, no education, you cannot make decisions or exercise your free will*" (I-61). The constant instability and developmental stages of their institutions also increase the disbelief in culpability and responsibility, as well as the competence of local institutions to safeguard minimum rights and reinforce ethical and legal behaviors. The accounts reveal that the local practices are not aligned with those the MNCs carry from their headquarters since deviant practices are significantly present in this business scenario. The manager of *Alpha* Argentina explains the situation faced by the company with a project aimed at reducing their products environmental footprint: "*about our products, we are developing everything related to their environmental, carbon and water footprints. In Europe a person can select which product to buy from an ecological point of view, they can compare between products with different environmental footprints. Here in Argentina we do not have this possibility. We buy products for their price; we cannot pay extra. There is no value for that yet and we cannot show the positive results we obtained through these projects to anyone. Those who decide to make things correctly perceive no financial gains. We cannot say we do it to sell more. CSR is not yet benefiting our business*". Actors in the MNC value chain also acknowledge that *"transnational corporations are governed by local policies and guidelines, and yet they are also governed - for example, in the case of Kappa Mex, those from Switzerland and global guidelines. So, these transnational corporations have both sides versus the national one. (SME Manager, I-55).* With the institutionalization of corruptive behavior, CSR institutionalization and pursue of social good are deterred.

Based on developed countries, MNCs follow higher standards and strict regulations, shaping CSR practices and meanings differently from what is expected and done in Latin America. This is an important aspect reflected in managers frequent references to general principles that guided actions locally, as in the words of the Legal Vice-President of Alpha Brazil "t*oday Alpha has a global document and the goal is to improve the quality of life, contributing to a healthier future, on the following pillars: people and family, community and environment. In Brazil, we put our journey of*

integrity as a purpose. Concerning values, the main thing is respect for us, for others, for the community, for the planet". Another executive of Alpha, in Argentina, mentions that their CSR *"have to do with some guidelines and visions that come globally, to which we join and commit locally; for that reason, it seems that locally, we are pioneers and we generate a contagious effect on the multilatinas and local firms".* From the inconsistencies, the firms in our sample report to experience several institutional voids, and simultaneously, identify spaces for agency. MNC subsidiaries emphasize that their experience in more developed countries allow them to identify opportunities to initiate a change movement in Latin America: "*in countries like Latin America, [not complying with legislations] it is rooted in society. But that part is what we have to deal with, to promote change. Through more advanced countries, that we have experimented and have already developed these new legislations" (MNC Executive, I-47).*

"*We are better, but it is a gradual change – long-term stability is necessary since it helps these cultural changes to be maintained*" (I-30), reflects an executive manager. The challenge is, as reported by local MNCs, "*[companies] are in different levels. If we were in the same level, all the organizations were in the same level, no matter their sizes, were aware of the relevance of such themes and there were no inequalities in terms of practice implementation that is pro-social responsibility, [a transition to a more socially responsible business environment] could be feasible*" (I-45). The discourse of managers and other actors share a certain disbelief, which can endanger the spread of such practices as a conduit for change, for social development. Social responsibility seems to be confined to a niche of firms, which have access to knowledge, resources and power that makes CSR feasible – in other words, to the MNCs.

For the MNCs, this reliance is an opportunity to exert influence and explore the local market, while raising their peers to an advantageous position for their own prosperity. Thus, despite the complexity, these firms champion demanding and resource-intensive CSR practices. CSR for these firms is, before anything, about business survival. "*One must be a proactive actor in generating those aspects of culture in those companies [*in the value chain*]. We have to think that they are small companies with less resources, and that is where the idea of having that CSR comes from, cultivating those cultural aspects, supporting these companies" (*MNC Executive, *Beta* Colombia*).* They assume the "social burden" to promote CSR, occupying the role of the absent State in various instances and dealing with different issues. Managers believe that is their *"role to share good practices, to say no and try to do something different even in an*

unfavorable scenario; we have a very important role as a private initiative in this new Brazil that is emerging" (I-9). Connecting CSR to business goals is detrimental to the value behind it. We assess that the motivation to interact with the local environment is one way to make their business viable. In addition, the possibility to be valued as a promoter of social good, capturing the benefits of pursuing it gives MNCs an advantage to compete and create bonds with the local market. CSR, therefore, becomes profitable and a source of competitiveness – while safeguarding international standards and obedience to the headquarters strategy.

DISCUSSION

CSR meaning and practice vary among institutional environments due the relevant influence of context in social and environmental issues (Marano & Kostova, 2016). MNCs, as companies that have activities around the globe, are less embedded in local environments and subject to a myriad of expectations in play. Subject to a transnational environment, MNCs are exposed to different canvasses that inspire also different CSR practices. Also, CSR demands engagement in the local level due to its relational essence. From our findings, we argue that independently of the low embeddedness that characterizes their business operations abroad, CSR demands an in-depth knowledge about the local environment as well as building strong relationships with local actors. As an outcome, the interaction with local formal and informal institutions engages MNCs in an active, entrepreneurial role, induced by the institutional complexity it entails (Becker-Ritterspach, Lange, & Becker-Ritterspach, 2017). This comes with the possibility to explore the active role of firms towards social issues, which can generate benefits for both society and the businesses.

Deriving from the institutional voids present in the Latin American countries we researched, MNCs can explore inefficient and absent formal and informal institutions and engage in activities that disrupt local institutionalized practices and enforce CSR values and culture as well as business practices to be pursued (Luo & Chung, 2013; Doh et al., 2017). In such environment MNCs cannot directly reproduce their core capabilities (Becker-Ritterspach, Lange, & Becker-Ritterspach, 2017), and even with adaptations on global policies and mandates from the headquarters, efforts for leveling the playing field are necessary due the lag between their CSR practices and programs when compared to local, smaller companies. Due the institutional framework of these

countries, dominant practices that support the maintenance - and existence of formal and informal voids - constrain MNCs CSR strategy (Khanna & Palepu, 1997, 2010).
However, their idiosyncratic complexity creates opportunities for firms to act towards them. Summarily, our data shows that instead of hindering MNCs activities, voids are an opportunity explored by those companies through CSR practices as via to safeguard their survivability in the long term, to limit areas of risk related to their operation in those countries as well as to compensate for the absence of institutions that would facilitate business management in a way to observe global standards related to social and environmental issues that are stricter in their country of origin (Pache & Santos, 2010; Scherer, Palazzo, & Seidl, 2013).

MNCs engage actors in this institutional environment to build competences that will allow those to be able follow the new rules of the game they impose – mainly relating to corruptive and ethical behavior. As interviewees mention, the intention is to bring them to the same level, balance standards and equalize competition. However, these new rules represent frameworks for CSR developed in developed countries and other transnational mandates established in the international arena (Benson & Jordan, 2011), and they represent a great contrast with practices perpetrated by local companies, independent of their sizes. In a context of lax regulations, low institutional capacity to enforce the existing laws and, consequently, absent sanctions, MNCs try to promote a certain degree of institutional sophistication (Zhao, Tan, & Park, 2014) that feeds into the constant changing and evolving formal institutions in the Latin American region.
That is, they push CSR by exploring the inconsistencies generated by the institutional instability (informal voids) they experience in Latin America.

Not only formal voids play a role in shaping CSR in the MNCs context, but they are targeted by these very same practices as a way to promote change in the institutional environment. However, it is important to recognize the relevance of cultural traditions and ingrained beliefs (informal voids) and how MNCs explore them through CSR, as a nonmarket activity (North 1991). These transactions and interactions that occur outside of formal market structures between firms and NGOs, LGOs and other actors, tend be a consequence of informal institutions that base the economy of a given country. In the case of all Latin American countries we analyze, the cultural heritage of their national history, closely related to religious traditions from Catholicism, and the formation of a patriarchal and hierarchical society shape values and beliefs ingrained in daily life and business transactions (Lindgreen & Cordoba, 2010; O'Donnell, 1996). Since

philanthropy and inequality are emphasized in their historical development, the formal voids present in those countries have a lot to do with power abuse, self-interest, and reinforcement of differences, reported by our interviewees as characteristic informal voids found in Peru, Argentina, Mexico, Colombia and Brazil. In the same rationale, CSR understanding and related practices implemented by local companies are still attached to the philanthropic idea of helping communities and those that need the most.

We have to acknowledge that a significant transition is happening in those countries, both in terms of CSR understanding and practices and institutional development. This transformation is highlighted by some actors, and is associated with the role of MNCs and international (and, consequently, higher) standards present and enforced in business transactions. Changes in their local formal institutions are being preceded by a forced reset of informal institutions that determine expectations and behavior (Bothello, Nason, & Schnyder, 2019). The process of building institutionally stable democracies (Scully, 1995) goes in hand with deep cultural changes, that are being anticipated and led by MNCs due their origin or insertion in developed economies. Since their CSR practices in these countries basically encompass a myriad of trainings, bi-lateral policies, adoption of higher standards for business transactions, etc., through these MNCs reverberate a socially responsible culture that aims to alleviate the effect of a passive, normalized culture. In this manner, MNCs use CSR as a strategy to compensate for gaps in informal institutions necessary for building an ethical, pro-social set of formal institutions in emerging economies that will support an approximation to those in developed economies. We tried to synthesize in Figure 2 the thoughts expressed in this section and present it bellow.

*** Insert Figure 2 here ***

Through CSR, MNCs create significant barriers to acknowledged risks of getting entangled in scandals related to corruption, environmental or human rights issues. As a consequence, they legitimize their operations and protect their brand, safeguarding long-term survival. By addressing informal voids through CSR (Doh et al., 2017), they promote a profound change in informal institutions that, in the future, might support changes in the formal institutions. Such is the case of the Odebrecht scandal that hit many Latin American countries, including those under scrutiny, and was highly emphasized by our interviewees. The presence of an international corruption scandal,

generated lead firms and governments to collectively deal with voids in those countries both in terms of laws and regulations that would sanction managerial malfeasances (generating innovations in the Judiciary of these countries) and an appreciation of these cases without normalizing corruption and money laundry as a traditional, and therefore expected, behavior in their culture.

CONCLUSION AND FINAL REMARKS

Benefiting from the fruitful intersection between institutional theory and International Business literature, we developed this research aiming to investigate "**how institutional voids define MNCs CSR strategies and their relationship with local institutions in Latin America?**" Our inductive study draws on 78 interviews conducted with MNC managers and institutional actors, following the tenets of inductive data coding and analysis, involving three rounds of coding using the software NVivo and frequent references to the literature. We present the cases of five Latin American countries intending to extenuate the differences and similarities between those in order to generate an in-depth contextual report on how MNCs subsidiaries CSR strategy interacts with the institutional voids that afflict these countries. The outcomes provide new evidence on the role of informal voids in shaping formal institutions and CSR practice, which are consistent throughout the five countries. We also contribute by providing a nuanced perspective of CSR content, meaning and practice in emerging markets.

For the institutional literature, our study emphasizes the antecedent role of informal institutions in shaping firms' practices – either towards social responsibility or irresponsibility. Concurring with the recommendations of Bothello, Nason, and Schnyder (2019) to drop institutional voids from our academic writings based on the critics that it does not encompass informal institutions, we believe that the concept is encompassing enough to provide explanations related to both informal and formal institutions (Boddewyn & Doh, 2011). As our findings suggest, informal voids represent the fundamental gaps in terms of culture, beliefs and values that support institutional development in a country. As such, our research findings led us to consider current claims for a more in-depth consideration of institutional voids in the literature (Doh et al., 2017), and we provide evidence on the interactions between formal and informal voids and the consequences experienced in emerging economies in Latin America.

Regarding the CSR literature, we bring evidences on the intrinsic relationship between culture, values e beliefs and the maintenance of unethical, socially irresponsible firm behavior. Firms operating among informal voids face a bigger challenge while having to overcome cultural barriers, demanding significant resource investments that will support the enforcement of social-responsibility values in their employees, value chain and stakeholders. CSR is primarily about identification and personal commitment, therefore if these informal voids are maintained, CSR is hardly successfully implemented. In order to generate social, economic and environmental development, CSR practices and programs need to go in hand with a compensation for the informal voids present in the context where is being implemented. Also, we support the relevance of foreign companies in bringing international standards for CSR into business transactions in emerging economies that support the betterment of both informal and formal institutions.

By bridging both CSR, as a nonmarket activity of firms operating in a giving context, and informal institutions in the context of international business, we aimed to present a nuanced perspective on the influence of voids on firms' strategy and how these are addressed by firms through CSR practices designed in their home countries and localized in the host countries according to local demands. It is important to stress that the interviews were conducted in a moment where corruption scandals were exposed involving Brazilian companies and its subsidiaries in the region and in other countries. Therefore, the accounts tended to address the corruptive behavior of firms in Latin America as one of the most relevant informal voids that jeopardize the initiative of MNCs subsidiaries for implementing CSR. Despite the bias that this event had in our interviews, it highlights the relevance of context in CSR practice and research, as well as the reach and consequences of malfeasances involving multinational corporations in Latin America.

For managers, our findings stress the relevance of CSR in the context of Latin America, as well as the challenges faced by both foreign and local firms. For MNCs, it is highlighted the role they possess as primary conveyors of information, practices, programs, policies that are determined in the international arena and represent higher standards than those applied in the Latin American game. These players have this social burden to initiate a movement that will reflect, in the long term, on the development of institutions that support market transactions in a fair, competitive way. Focusing on cultural and behavioral change in their CSR programs, these firms initiate a herd

movement with local firms, and in partnership with other actors, which can improve local business conditions. Derived from this change in informal institutions, follows reflections about the supporting formal institutions, as laws and regulations, necessary to support socio-economic development in emerging countries. We expect that managers will make use of this understanding to support and engage in CSR practices that facilitate change, in partnership with relevant institutional actors.

In terms of limitations of this current study, we base our analysis on personal reports of past experiences that happened in the studied context and companies. Despite our effort to consider all actors encompassed by our research, more could be explored through an in-situ, longitudinal study that captures firms' responses to institutional voids, either formal or informal, in real time. From an academic perspective, exploring emerging contexts provides a significant opportunity to learn with firms' experiences when implementing CSR strategies (Lindgreen & Córdoba, 2010) and explore trends for an important research field for the IB and institutions literature (Doh et al., 2017). Future research could build on our evidences to explore other contexts, such as developed, institutionally stable scenarios. This comparison builds a sound understanding of MNCs responsible behavior, supporting a strong theoretical development to explain strategy decisions and their societal impact. In addition, researchers can develop testable hypothesis that will further support the assertions we develop in our study through experimental or quasi-experimental studies that use institutional changes or misconduct scandals as a point of reference to capture MNCs responses to institutional voids. For being a challenging construct to be measured, culture, values and beliefs can be estimated through already existing proxy indicators available in well-known databases.

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Table 1 – Interviews separated by country and categories

Category	Argentina	Brazil	Colombia	Mexico	Peru
Managers of MNCs subsidiaries	5	7	1	4	5
Representatives of Business Associations and NGOs	3	4	6	8	2
Managers and CEOs of Local SMEs	3	1	2	3	4
Managers of EMNCs	2	3	2	-	4
Academic experts	3	-	-	-	1
Government Representatives	1	-	3	1	-
Total (78)	**17**	**15**	**14**	**16**	**16**

Figure 1 – Model of MNC CSR–institutions interaction in emerging economies

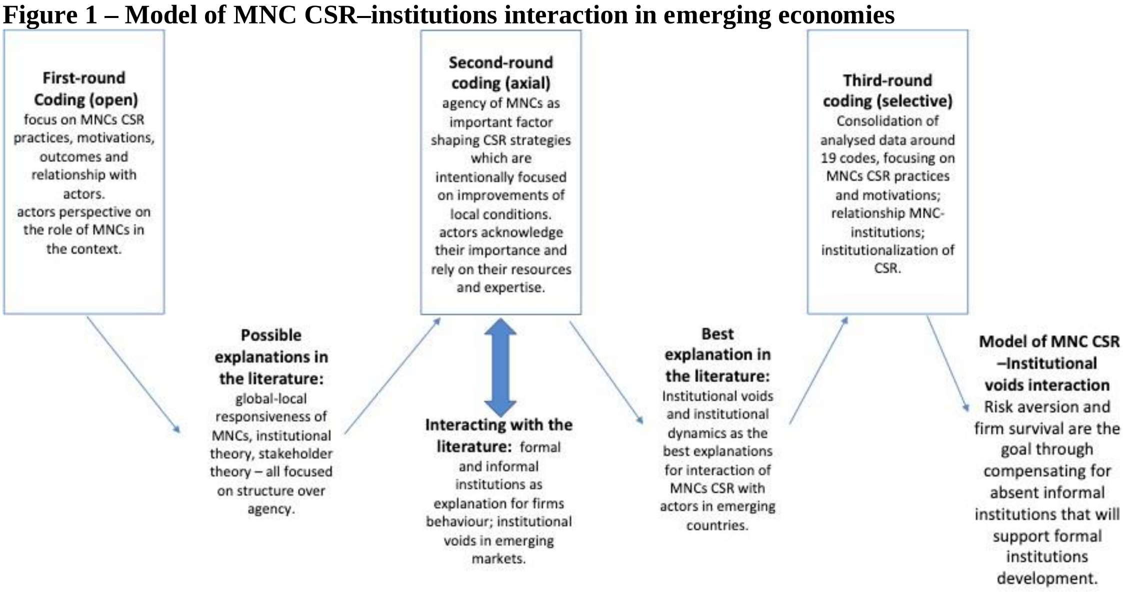

Table 2 – Data Structure

Axial codes	Analytical codes	THEORETICAL CONSTRUCTS
- "It is good the local legislation is achieving the standards of our firm in a global level". - "We have goals for the whole corporation". - "It is a public commitment that our firm made throughout the world and we have to pursue it too". -"We are always involved in global themes". -"We do it only for a concept of the company and of those who integrate the company based on what the headquarters asks us".	Headquarters Strategy	**CSR context**
- "I love this subject!" / "It is a sensitive matter; we live it as citizens." - "CSR commitment involves convincing. Like any idea, it is about how you sell it". - "CSR demands an adjustment of personal values and beliefs". - "We are already convinced". - "We turned into a group of idealists, of people who want to change the world". - CSR demands personal commitment, emphasizing the role of values and beliefs that supports its institutionalization.	Personal values and beliefs	
- "In places with an absent State, when an MNC arrives the community assumes it is its responsibility to provide social welfare". - "We as big, global companies carry this social burden". - "MNEs have the obligation to help other firms to have access to this kind of information". - "Nowadays everything is public and visible". / "The society expects us to support its causes".	MNCs leadership	
- Normalization of corruption and other evils. - "The challenges are linked to cultural changes, institutional changes, and personal changes". -"The same problems we face here in Mexico, one company will face in other Latin American countries".	Cultural traits	**Local informal voids**
- "A bribe? Of course, we were asked for a bribe!" - "We face corruption in our daily life". - "We live in an atmosphere of tolerance". - "CSR is a trend, but it is not valued in Latin America".	Normalization and connivance	
-"People do not report because they do not believe in the judicial system". -"We are facing a credibility crisis of institutions". - "Being embedded in corruption and malpractices for so long, in a culture where this is considered normal, lack of consequences is also acceptable".	Disbelief	
- "The rules of the game change so frequently, you have this sensation of isolation, and under these conditions, you just care about yourself". - "Local communities see firms as enemies". - "Unfair competition". - Informality, illegality, slavery, bribery, corruption, disrespect for human rights.	Instability	**Local formal voids**
-"CSR and Compliance practices helped us to prevent, in Colombia, a large number of problems - and, perhaps, they had ended up in scandals". -"Risk prevention of money laundering or corruption". -"Corruption is a very high tax, right? Therefore, you develop compliance practices as a way to avoid paying this tax". -"We adopted CSR and Compliance practices after our global scandal in 2006".	Risk aversion	**CSR motivation**

- “I am bringing this competitor to the same level that I already am. I am able to help these companies have the same rules and concerns”. -“Construction of a competitive value chain of service providers”. -“This way we can follow the same rules of the game”.	Compensate	
– “It is how we manage this in Mexico or is how we have to conduct it. Why? Because we are in this game and we want to play with the big players, so we follow them”. -“Adds value, it is an invaluable asset”. -“The competition itself will eliminate companies that do not work well”.	Survive	

Figure 2 – Model of MNC CSR–institutional voids interaction in emerging economies

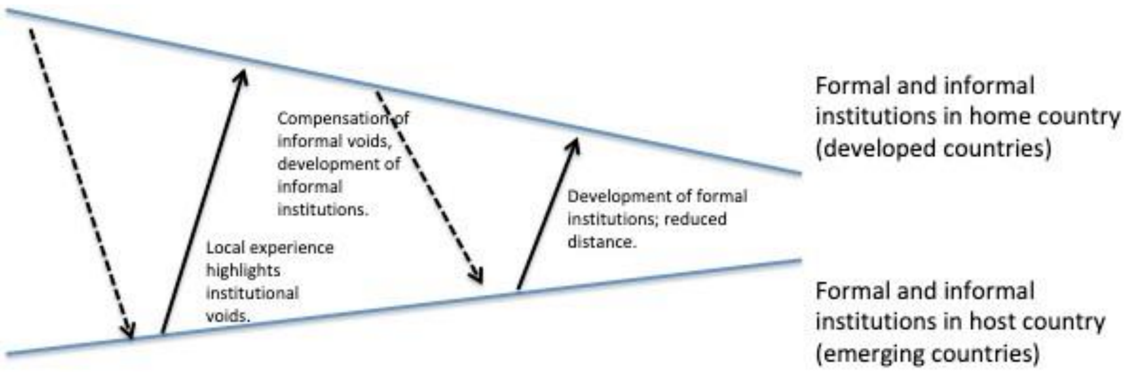

Table 3 – Data Evidences from Brazil, Mexico, Colombia, Peru and Argentina

Country	Themes	Excerpts from the interviews
BRAZIL	**Local informal voids**	“Engagement and understanding, unfortunately most companies here understand more about pain, because unfortunately the system was made more for you to act illegally. So, if you don’t create, encourage a different practice you maintain businesses as usual.” (NPO; I-14) “During this period, the code of ethics, code of conduct, guidelines for sustainability reports emerged and after a crisis in the communication sector, we stopped publishing our sustainability report and I confess that we had a decline in monitoring these indicators.” (LLC; I-4) “What is very relevant for us are the compliance gaps and there can be nothing more material and concrete than that.” (ALPHA BRA; MNE I-9) “The problem of corruption, for example, there’s no corruption if there is no one who corrupts.” (NGO; I-14) “Brazil has always been a country with strong ambiguities and today, with everything that is happening, we see it more than ever.” (ALPHA BRA; MNE I-10)
	Local Formal Voids	“In Brazil there was a wave of social responsibility and this was decreasing, I don't know if it's just a common-sense perception, but it's the impression that I have. One of the biggest challenges is not to let the good practices die with the crisis.” (LLC; I-4) “This makes any company operating or doing business in Brazil today, this already brings a significant risk and the bigger and broader the value chain that a company generates in Brazil, the bigger and broader this risk area becomes.” (ALPHA BRA; MNE I-10) “In Brazil, at the beginning of the corruption scandal, some NGOs involved. This caused some companies to move away from NGOs.” (BA; I-1) “There are other small problems, the relationship with the government, corruption, the lack of transparency, the value chain; they are small challenges in the middle of the road that need to be solved, but they are punctual.” (GAMMA BRA, MNE I-5) “It is difficult to compete in a scenario where you have smaller, family-owned companies, where they do not follow the same rules of the game. They do not even comply with labor legislation in a 100% correct manner.” (ETA; MNE I-8)
	CSR context	“We had been working on this front to create tools for companies in that sense, and at the time we had many more companies involved because abroad they had already adopted anti-corruption policies because they would be punished in their countries for having a corruption scandal in foreign countries.” (NGO; I-14) “We as a company and with a mission to develop the compliance program, we do it out of conviction to always do the right thing and we hope that each employee has ethical principles and personal values , integrity and respect.” (ALPHA BRA; MNE I-9) “This is a vision of the CEO of the company, he is a sensitive person to this topic.” (LLC; I-4) “We always try to align globally. We have a job to classify 19 themes, at what level we are, if we are only managing, if its more strategic and also so that we know where we want to go in 3 years and what we have to do to achieve that result. And we always make the relationship with the international agenda, the Global Compact, UN Women, to improve more.” (GAMMA BRA; MNE I-6) “Switzerland asked for policies on working conditions, discrimination and harassment, corruption, fraud, information confidentiality, environmental impact, the theme of infant formula for babies, and other claims. This has grown, but the problem are style and leadership.” (ALPHA BRA; MNE I-10)
	CSR motivation	“With the current context in Brazil, it is a very opportune moment for the development of an ethical integrity journey.” (ALPHA BRA; MNE I-10) “We want to help the government with this, despite the fact that we know that there is a constitution that guarantees health for all citizens, something that is a priority in Brazil - and that is precisely why it is not feasible for the population to have access. How do we manage, within the social responsibility area, to contribute to this government that cannot handle this 75%?” (GAMMA BRA, I-7) “Our focus is to reduce some image risks, guarantee prices. All of this we understand is within sustainability.” (GAMMA BRA, MNE I-6) “We are very diligent and strict in relation to partners, we offer training and we discuss when we have some problem or claim related to them, we will talk to understand. We have received many visits from suppliers, customers, and we try to help implement and strengthen their integrity system.” (BETA BRA; MNE I-11) “Thinking about this competition scenario that is not fair in our understanding, we are very committed to issues related to compliance and we also believe in business sustainability.” (ETA BRA, I-8)

Country	Themes	Excerpts from the interviews
MEXICO	**Local informal voids**	“A cultural theme, the corruption that can happen in Latin America. Because interestingly, I also know the rest of the countries of LATAM, the problems that present themselves of corruption in Mexico, present themselves in the same way in Brazil and Argentina.” (SME; I-51) “If it is not possible, then these companies, with a great economic capacity, but with a deficiency in terms of culture, transparency and anti-corruption, could not be doing business in Europe.” (KAPPA MEX; MNC I-49) “We have to change this way of doing business, because being honest, in Mexico and in many parts of the world, there is bribery and corruption. We have to change this mechanism” (IOTA MEX; MNC I-48) “I can't compare how a company develops in Germany, but I want to imagine it, because I didn't work there, but I imagine that not in the same way as here. It develops observing laws and policies established in Germany as well as we have here Mexico. However, a German person thinks differently from a Mexican person, they have very different ideologies and ways of thinking” (IOTA MEX; MNC I-48)
	Local Formal Voids	“I consider one common denominator, among Latin American affiliates. The challenges that we all face, different from some other affiliates in other regions which are different. The challenges we have in LATAM, are not the same w face in Europe, definitely not. However, those within LATAM, within the different affiliates, in different countries, they are common, they are.” (GAMMA MEX; MNC I-47) “The risk mitigation theme is something important for us, especially considering the environment in which Latin America is found. One of the challenges we need to overcome in Latin America is, for instance, the theme of corruption. It is something that we face constantly, it is a reality, not only in Mexico but also in the rest of the countries that comprise LATAM [phonetically], such as Brazil, Argentina, Chile, Peru . It is a common denominator.” (SME; I-51) “Indeed, [corruption] in Latin American countries, it is rooted, in society, that is how it works.” (KAPPA MEX; MNC I-50) “The Mexican law is one of the best ones that exists in all subjects, but the problem lies on who applies it - as a subject who can think and act, following its own interests. The person may be a corruptible subject or not, but it depends on the subject, the situation, the money involved.” (IOTA MEX; MNC I-48) “Our environmental regulations follow European standards, but there is no one to enforce it. Then, they end up contaminating rivers.” (NPO 100 MEX)
	CSR context	“Because in Mexico it is difficult to work with the culture of doing business with social responsibility. They see it as a heavy burden, which is not profitable, unfortunately”. (SME; I-51) “Luckily, we has these standards and even higher. We are satisfied that local legislation is catching up with Kappa global standards (KAPPA MEX; MNC I-49) “There are global companies working in Mexico, with these standards. There are also national companies that have migrated and do business in Europe and they also have to comply with the highest standards.” (KAPPA MEX; MNC I-49) “But there are also foreign companies that violate human rights in Mexico and not necessarily do the same in their countries, which I think is a very important difference, right? And that is about how country of origins could regulate their own companies.” (NGO; I-56) “We develop a series of trainings throughout the year focused on explaining in more detail what the Headquarters gives us, applying it to local legislation and explaining the penalties and consequences.” (IOTA MEX; MNC I-48)
	CSR motivation	“We don't make business with the government. And the construction contracts they accept are strictly guided by rules. Sometimes it also costs them time and losses for permits that take time to come out. But little by little they imposed themselves, and continues to do business and each time has a more select group of clients.” (BA ID084) “Just as we train our providers to make sure they understand our policies, we also do it with our employees. Everything needs to be within the law.” (GAMMA MEX; MNC I-47) “We're also careful with this kind of interactions, right? We are very careful about donations. We do not make donations when we are aware someone will obtain a benefit. That is a specific topic, because it is an important area of risk.” (KAPPA MEX; MNC I-49) “This American MNC has a foundation in Mexico and they have several lines of work. One is strengthening the value chain of small producers. So, they work with small producers in various Mexican communities helping to strengthen their product so that this product can enter their stores.” (NGO; I-53) “It is our responsibility, as large companies which have better access to resources, to promote these changes and support people moving towards that. (KAPPPA MEX; MNC I-50)

Country	Themes	Excerpts from the interviews
COLOMBIA	Local informal voids	“It's a topic that is quite complicated. If all organizations were at the same level, regardless of the size of the organization, and were aware of the importance that these themes and such gaps didn’t exist in terms of implementing actions in favor of social responsibility issues, etc., it could be feasible. But unfortunately, in Colombia the theme is very dispersed. There is no level, not the same knowledge, not the same conscience about the impact of these social responsibility issues. So, I think it's a topic that isn't very feasible. It would be too heavy a burden for these companies that know the topic but have bellow them several of other small companies that can't quite understand these topics.” (EMNC, I-45) “If people do not have the culture, the education, they are not going to practice it in any company. It should be at the societal level. There is an ignorance in that sense. There is no clarity in the concepts. The values have been inverted in our Society.” (NGO; I-46) “What happens is that the fact that corruption scandals are not so frequent, what generates in people is just like what happens to us with violence: it has reached a kind of normalization of violence and corruption, and nobody reacts to it.” (LGO; I-42)
	Local Formal Voids	“"I know that in Europe they have fines." No. The Latin American legal framework is very different. We have a very different legal base to that which may exist elsewhere, for example, in the United States. Then, the sanctions begin to present itself from a moral point of view.” (BETA COL; MNC I-34) “In Latin American countries, the private sector is the one who contracts the most with the public sector, and let's say, there are many vices in the entire contractual issue.” (NGO, I-36) “I think that definitely, and one of the most important issues that we have to resolve here in Colombia, is the issue of illegal mineral extraction. There are quite important environmental voids.” (LGO; I-41) “In Colombia, as in other countries, there is no crime that we call “corruption”. There are forms associated with corruption and, in fact, the great challenge around that is to have a clear definition of what corruption is.” (LGO; I-42) “Because both companies and communities are often affected by changes in the rules of the game or insecurity, legal uncertainty, right? So, that makes the relationship a little difficult.” (NGO; I-38)
	CSR context	“But in general, I think that there is more and more awareness and if you see the business groups, the largest, they are all deeply committed to the issue of sustainability.” (EMNC, I-44) “In the end, understand that this issue of CSR is more about understanding it and practicing it, and willingness. From me, being knowledgeable and aware of what it is, I make the decision to practice it, it is not so much about a budget, it is not so much about money.” (NGO; I-46) “In terms of social responsibility, let's say that what we have observed is that there is still a philanthropic approach to that issue, in Colombia.” (NGO, I-38) “If a company of the Binational Chamber, shows the example in its sector and generates a peer pressure, these practices have a chance to spread.” (LGO; I-42) “I have to tell you that this comes from the owners of the company. The family that is the organization's priority shareholder always sought the benefit of communities.” (EMNC; I-45) “It is a question of being an example, and that generally ends up creating peer pressure. They are multinationals, but they compete with national companies in the sector.” (LGO; I-42)
	CSR motivation	“All companies exist to do business, to obtain profitability, to grow, and we share the same ambitions. I believe that the key is, on the one hand, to have ground rules, to have basic, clear rules of the game. To be very clear with our value chain, on the limits, on steps that we are not willing to take.” (BETA COL; MNC I-34) “We have made isolated efforts, but each time we want to make more intensive efforts to help combat this informality.” (EMNC; I-44) “If there is a sanction, that sanction in some way will be advertised and that has a full impact on the reputation of companies and people. And that is something that here in Latin America we are not willing to deal with the damage.” (BETA COL; MNC I-34) “We are currently working on a Collective Action initiative in the area of infrastructure, which is the one that moves the most money in this country.” (BETA COL; MNC I-34)

Country	Themes	Excerpts from the interviews
PERU	Local informal voids	"So, the truth is that it is a little bit difficult and, apart from that, it [corruption] is a cultural theme here in Peru." (LAMBDA PER; MNC I-63) "Because of the context and the country [Peru], it is different from the European culture, where people are much more concerned about compliance with those corporate rules. In countries like Latin American ones, it is very complex. For this reason, we decided to implement it here, to be stricter with global politics." (SIGMA PER; I-67) "Peruvians are less open than Swiss employees, but I think the opportunity we have inside our company is to create a culture that can be somewhat different even from the society in which it operates." (EMNC; I-76) "I think there is a lot of corruption at many levels and there is already a cultural problem, which is a little difficult to solve." (EMNC; I-75) "They are different worlds, culturally, economically, and politically speaking. They are different environments for the company. In Peru - and you will surely see it in Latin America - there is a lot of culture of informality and illegality." (BA; I-71)
	Local Formal Voids	"We would have to have a stricter regulation than the one that Germany has so that it is our policy that must be considered and not that of Germany. Rather, on the contrary: our legislation, our internal procedures are not." (BETA PER; MNC I-65) "We as a Latin American country believe that ... Well, you know where we are on the international transparency map. And, then, that visually allows us to understand the country risk and the need that we have as a country to give great importance to corruption issues - that is not only in the country and in the State, but is also seen in the private sector. Here in Peru, yes, we are quite lax about it. (BETA PER; MNC I-65) "The topic [corruption] is becoming quite publicized, especially in recent years in terms of region in Latin America, due to the Odebrecht case, for example. At the moment it is the most outstanding case in the region and has hit several countries in Latin America." (BETA PER; MNC I-66) "The civil construction entities that are in Peru usually request bribes; that is to say, they charge you so that you can finish doing the work in the field." (SIGMA PER; I-67) "Because just like education, we believe that corruption is an issue that affects society in Latin America and Peru in particular." (EMNC; I-77) "There is a very strong issue [of human rights violation], all this is supported by a large market for the exploitation of people in general, right? That mixes with the informal sector, normaly." (NPO; I-68)
	CSR context	"The family has run the company for four generations and that gives us a great example, and part of the business values that we have is precisely their thankfulness." (LAMBDA PER; MNC I-64) "It is true that we follow the parent company policies that are sent to us. Policies, processes, and tools." (BETA PER; MNC I-65) "Sigma Headquarters has a gift, entertainment and expenses policy. That policy has been translated into Spanish. But, in addition, we have added to that a somewhat local policy." (SIGMA PER; I-67) "Lambda in Switzerland has a fairly detailed code of conduct and ethics in terms of examples and requires all its subsidiary offices worldwide to follow them." (LAMBDA PER; MNC I-63)
	CSR motivation	"Our idea was to see how we could help a little, contribute with society." (LAMBDA PER; MNC I-63) "We collaterally achieve brand recognition associated with the social issues we address." (LAMBDA PER; MNC I-64) "And I think that also an advantage is that we realized that the costs of getting involved on corruption scandals would be much more expensive compared to costs involved in having a Compliance program. So, you have already put it on a scale, right?" (BETA PER; MNC I-65) "First, have your own rules and policies. Two, let's say in the game, so to speak, the players, make sure that all the players, really are on the same level, following the same rules of the game." (BETA PER; MNC I-66) "So, that is a great challenge that the government has, and that I believe that we can help together as companies; to work on something that allows us to deal with it, in an open, transparent way and, above all, protecting companies, that wish to work with a high ethical standard." (SIGMA PER; I-67)

Country	Themes	Excerpts from the interviews
ARGENTINA	**Local informal voids**	"In Argentina some of our businessmen have a characteristic, which is what we call or misnamed "*viveza criolla*" (creole liveliness), related to obtaining small advantages where possible. And these small advantages have done our country a lot of harm, because they are widespread" (LGO; I-23). "If I find out that my friend evades taxes in Argentina, maybe I don't condemn him socially and stop being his friend. In other countries, from the studies we have read, there is social condemnation of this type of actions, of improper actions" (BETA ARG; MNE; I- 26). "There are no better or worse values, there is a set of values and it has to do with the priorities that one has within that scale of values. In the case of Latin America, transparency is not a value. We value other things. So, regarding this case [of CSR implementation], the values are changed or ordered in a different way. It would be expected that Latin America, Africa and Asia embrace transparency as a value, because I believe that would make us better as a society. I do not think it is something imported from the North, I think it is a behavior that all human beings should target." (NPO; I-32) "Argentina has good regulations; the problem is that there is a great gap between regulations and conduct. So, one would say it is a legislative problem, but that is not the case. The problem is that people do not comply then, so there's a gap between the norm and behavior." (NPO; I-32) "One of the main problems we face [in Argentina] is the lack of a general awareness regarding corruption. […] no one recognizes his or her own contribution, by action or omission. That is a culture that puts us amongst the worst in terms of corruption perception. Our society is corrupt in the smallest acts, it is advantageous, and it is focused on short-term benefits. […] Argentina has to work hard on that change, on that sociocultural change." (ZETA ARG; MNE I-28)
	Local Formal Voids	"That [CSR] is an interesting project that in Europe is better known, is used more, but in Latin America it is much more incipient. It is not valued yet. […] For example, regarding corruption or all that about values, there are still no laws. A Corporate Responsibility Law regarding the acts of corruption is about to come out because these are the laws we need to enter the OECD." (ALPHA ARG; I-25) "[…] Institutions in Latin America are captured by some and are used, not to generate common good, but to benefit a few." (NPO; I-32) "But as institutions function and society, in general, perceives that not acting according to the law has important consequences, we are going to ensure that everything closes, the work of NGOs, companies, individual moral responsibility. (BETA ARG; MNE; I-27) "Yes, there are laws. However, child labor is something that is absolutely normalized in Argentina and that should not happen because laws exist. One of the big problems in Argentina is the level of compliance with these laws, both by citizens and companies, and control." (UNI; I-21).
	CSR context	"Over there in Switzerland it is much more developed and people look for that, to see which company works more with the environment or who are the ones that are most involved. Here you can ask nobody knows what sustainability is. So, look at the distance that remains." (ALPHA ARG; MNE I-25) "Eventually convince them [employees in Argentina] why this is good or bad for them, to obtain their loyalty, convincement and willingness to do so because we are not going to put a Compliance Officer next to each of the company's employees. It is not what one is supposed to do with this topic." (ZETA ARG; MNE I-28). "The European companies, especially the German, the Swiss and the Austrian, are very involved with CSR, but the others do not. So, what we are trying to do is, through examples of European companies, motivate other companies." (LGO; I-23). "CSR always come from the big global firms, which cascade the themes from the parent company and implement it. At the end, I think there is some contagion. I see these firms much more permeable, I don't know if they want to, but obviously, the order comes down from the headquarters to implement it and they do it." (NPO; I-32)
	CSR motivation	"It has to do with transforming society, not just the company, and helping Argentine society to also be more transparent, to make our markets flatter, in order to compete equally and with ethical guidelines, right?" (BETA ARG; MNE; I-27) "So far I insist, it has been either philanthropy or greenwashing, but no matter how, the theme is beginning to institutionalize" (UNI; I-21). "Argentina and many countries in the region are very interested in the investment that comes from democratic countries, sometimes very concerned with Corporate Social Responsibility. I think that it changes posture a bit, right? And you can see it." (UNI; I-22) "I believe that the culture is beginning to change, that the cultural change is a slow change, I do not think it will bring many problems, but it will take time, regardless of whether the Law is sanctioned and certain behaviors are mandatory from tomorrow." (ZETA ARG; MNE I-28) "When sustainability becomes a business, then I think it will be attractive, but not today. More than anything it is a trend, and here in Argentina that trend is not valued. But, you have to be prepared. I think that eventually is going to happen." (ALPHA ARG; MNE I-25)

APPENDIX A

Detailed information of the interviewees

Code	Sector	Job title	Organization Type	Country of Origin
Interviewee 1	3rd. sector	Representative (and former Petrobras employee)	Business Association	Brazil
Interviewee 2	Oil & Gas (Theta BRA)	Former Executive and Representative of the firm at the United Nations	Brazilian State-Owned Enterprise	Brazil
Interviewee 3	Power Generation, Distribution and Transmission	Coordinator for Environmental and Social Responsibility	Brazilian State-Owned Enterprise	Brazil
Interviewee 4	Telecommunication	Superintendent	Local Large Company	Brazil
Interviewee 5	Pharmaceutical (Gamma BRA)	Marketing Assistant Oncology Department	MNC Subsidiary	Switzerland
Interviewee 6	Pharmaceutical (Gamma BRA)	Coordinator of Procurement	MNC Subsidiary	Switzerland
Interviewee 7	Pharmaceutical (Gamma BRA)	Purchasing Manager	MNC Subsidiary	Switzerland
Interviewee 8	Retailing (Eta BRA)	Legal and Compliance Executive	MNC Subsidiary	U.S.A.
Interviewee 9	Food and Beverage (Alpha BRA)	Legal VP	MNC Subsidiary	Switzerland
Interviewee 10	Food and Beverage (Alpha BRA)	Compliance Executive Officer	MNC Subsidiary	Switzerland
Interviewee 11	Technology Hardware and Equipment (Beta BRA)	Director Compliance Officer	MNC Subsidiary	Germany
Interviewee 12	Technology Hardware and Equipment (Beta BRA)	Data Protection Officer	MNC Subsidiary	Germany
Interviewee 13	3rd. sector	Representative	NGO	Germany
Interviewee 14	3rd. sector	Executive Manager for Corporate Practices and Public Policy	NGO	Brazil
Interviewee 15	3rd. sector	Representative	NGO	Brazil
Interviewee 16	Tourism	Director of Marketing Relationship	Brazilian SME	Brazil
Interviewee 17	3rd sector	Legal and Policy Advisor and Associate Researcher	NGO	Argentina
Interviewee 18	Health Care Services	Executive Manager	SME	Argentina
Interviewee 19	Health Care Services	CEO	SME	Argentina
Interviewee 20	Academia (University)	Professor and Founding partner at Funes de Rioja & Asociados	University	Argentina
Interviewee 21	Academia (University)	Professor	University	Argentina
Interviewee 22	Academia (University)	Head of the Department of Public Policies and International Relations	University	Argentina
Interviewee 23	Public sector	National Congresswoman	Local Governmental Organization	Argentina
Interviewee 24	Logistic services	CEO	EMNC	Argentina
Interviewee 25	Food and Beverage (Alpha ARG)	Head of Safety, Health and Environment Región Plata	MNC Subsidiary	Switzerland
Interviewee 26	Technology	Head of Strategy and	MNC Subsidiary	Germany

	Hardware and Equipment (Beta ARG)	Corporate Communications		
Interviewee 27	Technology Hardware and Equipment (Beta ARG)	Integrity & Compliance and Co-Chair Regional Compliance Officer	MNC Subsidiary	Germany
Interviewee 28	Pharmaceuticals & Biotechnology (Zeta ARG)	Compliance Officer	MNC Subsidiary	U.S.A.
Interviewee 29	Agricultural engineering equipment	President	MNC Subsidiary	Germany
Interviewee 30	Insurance products (Epsilon ARG)	General Counsel	MNC Subsidiary	U.S.A.
Interviewee 31	3rd. sector	President	NGO	Argentina
Interviewee 32	3rd. sector	Executive Manager	NGO	Argentina
Interviewee 33	Agriculture (Delta ARG)	Founder and President	EMNC	Argentina
Interviewee 34	Technology Hardware and Equipment (Beta COL)	Regional Compliance Officer	MNC	Germany
Interviewee 35	3rd. sector	Coordinator for the Corporate Ethics and Integrity Program	NGO	Colombia
Interviewee 36	3rd. sector	Advisor to the Corporate Ethics and Integrity Program	NGO	Colombia
Interviewee 37	3rd. sector	Representative of Sectorial Committee	NGO	Colombia
Interviewee 38	3rd. sector	Executive Manager	NGO	Colombia
Interviewee 39	Engineering	Manufacturing Processes Director	SME	Colombia
Interviewee 40	3rd. sector	Coordinator for International Relations, Anticorruption and Report	NGO	Colombia
Interviewee 41	Public Sector	Coordinator of Mitigation and Climate Change	Local Governmental Organization	Colombia
Interviewee 42	Public Sector	Adviser	Local Governmental Organization	Colombia
Interviewee 43	Public Sector	Adviser to the Productivity and Competitiveness Department	Local Governmental Organization	Colombia
Interviewee 44	Business Group (Telecommunication)	CSR Manager	EMNC	Colombia
Interviewee 45	Construction material and Retail	Leader for Social Management - CSR	EMNC	Colombia
Interviewee 46	3rd. sector	Representative	NGO	Colombia
Interviewee 47	Pharmaceutical (Gamma MEX)	Head of Procurement Mexico	MNC	Switzerland
Interviewee 48	Medical and Safety Technology (Iota MEX)	Legal Manager	MNC Subsidiary	Germany
Interviewee 49	Chemicals and Pharmaceutical (Kappa MEX)	Compliance Officer	MNC Subsidiary	Germany
Interviewee 50	Chemicals and Pharmaceutical (Kappa MEX)	Director Legal	MNC Subsidiary	Germany
Interviewee 51	Construction	Operational Director	SME	Mexico
Interviewee 52	3rd. sector	Executive Director and Founder	NGO	Mexico
Interviewee 53	3rd. sector	Research Director	NGO	Mexico

Interviewee 54	3rd. sector	Project Coordinator	Business Association	Mexico
Interviewee 55	Tourism and Hospitality	General Manager	SME	Mexico
Interviewee 56	3rd. sector	Researcher and Representative for Mexico, Central America and Caribbean	NGO	Mexico
Interviewee 57	Public Sector	Head of Global Business and Affairs	Local Governmental Organization	Mexico
Interviewee 58	3rd. sector	Regional Director for Latin America	NGO	Mexico
Interviewee 59	3rd. sector	Journalist and Manager	NGO	Mexico
Interviewee 60	3rd. sector	Deputy Managing Director	Business Association	Mexico
Interviewee 61	3rd. sector	Coordinator of the Public Integrity Program for the Private Sector	NGO	Mexico
Interviewee 62	Logistics	Compliance Manager	SME	Mexico
Interviewee 63	Retailing (Lambda PER)	Category Manager	MNC Subsidiary	Switzerland
Interviewee 64	Retailing (Lambda PER)	General Manager	MNC Subsidiary	Switzerland
Interviewee 65	Technology Hardware and Equipment (Beta PER)	Compliance Officer	MNC Subsidiary	Germany
Interviewee 66	Technology Hardware and Equipment (Beta PER)	Legal Manager	MNC Subsidiary	Germany
Interviewee 67	Electrical Equipment (Sigma PER)	Legal and Integrity Manager	MNC Subsidiary	Switzerland
Interviewee 68	3rd. sector	Sub-director	NGO	Peru
Interviewee 69	Law Firm	Partner	SME	Peru
Interviewee 70	Business Group (Agriculture and Industry)	Sustainability and Communications Manager	EMNC	Peru
Interviewee 71	3rd. sector	Foreign Trade Manager (Innovation and Technology)	Business Association	Peru
Interviewee 72	Electronic Payment Solutions	CEO	SME	Peru
Interviewee 73	Textiles	General Manager	SME	Peru
Interviewee 74	Consultancy	Sustainable Business Manager	SME	Peru
Interviewee 75	Chemicals and Pharmaceutical	Legal Manager	EMNC	Peru
Interviewee 76	Engineering and Construction	Sustainability and Human Talent Manager	EMNC	Peru
Interviewee 77	Engineering and Construction	Sustainable Management Coordinator	EMNC	Peru
Interviewee 78	Academia (University)	Professor	University	Peru

Note. ARG= Argentina; BRA= Brazil; COL= Colombia; MEX=Mexico; PER=Peru.

CHAPTER THREE: CSR RESPONSE TO INSTITUTIONAL VOIDS

Using informal voids as a platform for change: the case of CSR in Latin America

Larissa Marchiori Pacheco
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INTRODUCTION

The concept of Corporate Social Responsibility relates to a firm's recognition of the intrinsic "relationship between the corporation and society and that such relationships must be kept in mind by top managers as the corporation and the related groups pursue their respective goals" (Walton, 1967, p. 18). When establishing operations in contexts such as Latin America, MNCs (Multinational Corporations) are urged to develop CSR practices due to the institutional conditions that can influence their business transactions (Boddewyn & Doh, 2011). Characterized by persistent institutional voids, this region presents itself as a challenging environment, even more so when firms experience significant differences in terms of institutional development. Institutional voids represent the absence or underdevelopment of institutions that enable and support market activity (Khanna & Palepu, 1997), opening space for misconduct. MNCs that do not experience institutional voids in their home countries might find it challenging to maintain practice standards, and a certain level of localization is required to deal with the agency spaces that emerge from these inconsistencies (Bartlett & Ghoshal, 1989).

If institutional voids relate to institutional deficiencies that disturb market transactions, leading to opportunistic behavior, rent concentration in a few actors and unfair competition (Khanna & Palepu, 2010), our focus lies on understanding how this low institutional development can be overcome by MNCs through their strategic engagement to local institutions via CSR practices (mainly focused on its consequences, such as corruption, inequality, abuse of power, etc.). Because the literature on institutional voids allows for understanding firms' agency towards institutional imbalances through different individual and collective strategies, we embrace this perspective on institutional features and add to the

burgeoning agenda of research focused on MNCs CSR (Teegen, Doh, Vachani, 2004; Rathert, 2016).

We aim to explore **how subsidiaries of four different Western European MNCs respond to institutional voids in Latin American countries**. Our study contributes to IB literature by testing the boundaries and applicability of current developments in what concerns nonmarket responses to institutional voids (Doh, Rodrigues, Saka-Helmhout, & Makhija, 2017), using four case studies in five different countries as our methodological approach. We found that while the Latin American context represents a very complex environment for MNCs coming from developed economies, they actively respond to these inconsistencies. Our results show three mechanisms through which MNCs interact with local institutions through their CSR practices, as well as three enablers that make such strategic response possible. This agentic role of MNCs in this environment derives from their power and influence across the analyzed countries as well as from the institutional voids that represent opportunities for action. As an outcome, our research provides empirical support on how MNCs develop competitive advantages related to their social-responsibility commitments by supporting institutional innovation, arbitrage and adaptation.

Against this background and multiple calls for research we also add to international business literature by encompassing the discussion of subsidiary-headquarters relationship with regards to strategic decisions that are required from MNCs subsidiaries when facing institutional challenges (Pla-Barber, Villar, & Madhok, 2017). The results also contribute to the institutional theory by bringing empirical evidences to the nascent discussions on firms' agency towards institutions in emerging countries context (Doh et al., 2017). We bring contributions to strategic management literature by contextualizing firms' responses to voids, providing evidence on the mechanisms and enablers of such responses that are specific to emerging markets, such as Latin America, and related to nonmarket firm activities.

The remainder of this paper is divided into five parts. In the second section we describe the theoretical grounding of our manuscript. We follow with a description of the methodological aspects and present our data. Section four presents our findings regarding the interactions of MNCs subsidiaries and institutional voids in the context studied. Finally, we use these findings to reflect on existing theories and present suggestions for future research.

THEORETICAL BACKGROUND

Institutional Voids and Nonmarket Responses

Institutions are defined as the rules of the game of a given context (North, 1990). Each country has its own set of formal (regulations and laws) and informal (norms and culture) institutions, and those will affect the economy, society and businesses in different ways (Aguilera & Grøgaard, 2019). In the IB literature, past studies attempted to explore the antecedent role of both formal and informal institutions towards MNCs behavior (Doh et al., 2017). Despite having an acknowledge relevance for international businesses, a few actors devoted attention to certain conditions in which institutions were absent or presented malfunctions that disturbed market transactions (Khanna & Palepu, 1997). When institutional structures affect market structures, disrupting its function, firms face institutional voids (Khanna & Palepu, 2010; Boddewyn & Doh, 2011). Therefore, they represent the absence or underdevelopment of institutions that enable and support market activity (Khanna & Palepu, 1997). Institutional voids allows researchers to explore firm's agency towards these underdeveloped or absent institutions, and several are the studies focused on the agentic role of firms in responding to institutional voids through market strategies (Chang & Hong, 2000; Khanna & Palepu, 2010; Lundan, 2010; Pinkham & Peng, 2017).

However, few empirical researches have specifically explored the relevance of nonmarket strategies as a response to institutional voids (Cantwell, Dunning, & Lundan, 2010). Despite being guided by social and political logics, nonmarket activities can also affect market functioning (Boddewyn & Doh, 2011). Nonmarket activities encompass, for instance, informal interactions with groups that engage in the definition of the 'rules of the game' (North, 1991). Considered a nonmarket activity, CSR can be used as a strategy to mitigate or deal with institutional voids (Cantwell, Dunning, Lundan, 2010). Known as a fluid concept, CSR acts both as a means and an end; a way to deliver firms' core activities as well as a way to obtain legitimacy by embracing stakeholders' concerns (Werther & Chandler, 2011). We consider that CSR is not only shaped by the institutional voids but can be used as a strategic tool of MNCs to respond to weak institutions that prevail in some countries. Specifically, in Latin America, institutional voids prevail in their institutional environment and disturb both market and nonmarket transactions, being a perfect scenario to

explore the response of MNCs through CSR strategies (Casanova & Dumas, 2010; Husted & Allen, 2006; Matten & Moon, 2008). Therefore, we affirm that:

Proposition 1: *In Latin America, MNCs develop CSR strategies with aims to address the institutional voids that affect business operations.*

MNCs response to institutional voids: previous developments

The institutional voids literature allows understanding firms' agency towards institutional imbalances through different individual and collective strategies. Specifically, the unstable context of Latin American countries in multiple instances, the state failure and limitations of international institutions to provide a betterment of social and environmental conditions creates space for MNCs agency (Scherer & Palazzo, 2011). Firms can pro-actively respond to institutional voids by strategically shaping (Regner & Edman, 2013), avoiding (Pinkham & Peng, 2017), substituting (Boddewyn & Doh, 2011) or even taking advantage (Khanna & Palepu, 2010; Luo & Chung, 2013) of either formal or informal underdeveloped institutions in a given context. When we direct attention to nonmarket strategies, focusing specifically on CSR, we find previous developments that points us to some strategies MNCs use to respond to institutional voids.

Cantwell, Dunning and Lundan (2010) develop a framework that emphasizes three types of institutional engagement: avoidance, adaptation and coevolution. They mention that the effective management of a nonmarket environment requires adaptation and active agency by firms. This assertion is supported by other findings that emphasize the role of partnering with institutional actors, such as NGOs and Business Associations, in order to create and legitimize new standards that are compatible with the CSR global agenda, allowing to overcome some of the local deficiencies (Teegen, Doh, & Vachani, 2004). Other studies speculate around the possibility for MNCs also to exert power and influence in order to promote changes in laws and regulations (Boddewyn & Brewer, 1994) or orchestrate its interests with the ones from local governments (Child, Rodrigues & Tse, 2012; Li, Peng & Macaulay, 2013). Not only power plays a role in the strategic response of firms, but the exploration of interpersonal trust and personal connections are used to overcome institutional voids (Narayanan & Fahey, 2005).

MNC configuration: headquarters-subsidiary relationship

MNCs are comprised of geographically dispersed subsidiary units that control differentiated resources and respond to the corporate headquarter (Bartlett & Ghoshal, 1989). MNCs have a very complex configuration and long has been the tradition of research focused on the relationship between headquarters and their local subsidiaries (treated as HQ-S relationship), trying to understand how it is structured and managed (Pla-Barber, Villar, & Madhok, 2017). A subsidiary can have different functions and goals within the MNC network, which may vary in terms of the scope of responsibilities and mandates (Mudambi, Pedersen, & Andersson, 2014; Birkinshaw & Hood, 1998). The diffusion of practices between headquarters and subsidiaries share the same organizational language and culture, they have a proximity -that can be virtual or physical-, which implicates in interactions among employees, and conjoint activities (Tallman & Chacar, 2011). We depart from the understanding that subsidiaries have a certain degree of freedom to develop entrepreneurial activities, that are autonomous from the headquarters and may involve a certain level of risk (Schmid, Dzedek, & Lehrer, 2014; Birkinshaw, 1997).

The early literature distinguishes between multidomestic and global integration strategies, being the first characterized by local responsiveness and the later by global efficiency (Bartlett & Ghoshal, 1989). The main difference between these is the level of control and coordination mechanisms that are applied to the HQ-S relationship (Pla-Barber, Villar, & Madhok, 2017). A multidomestic strategy demands less control from the HQ, since all the value-added activities happen at the subsidiary level. On the contrary, the global integration strategy is characterized by a more intense flux of resources, being those informational, human and/or financial, demanding a higher HQ commitment to the subsidiary. Recent research discusses the increasing decentralization of decision-making, influence, knowledge, and initiative-taking within MNCs, defining the HQ-S relationship as an ‘heterarchy’ (Schmid, Dzedek, Lehrer, 2014; Lee & Williams, 2005).

Within the MNC network, subsidiaries compete with themselves for resources and for maintaining – or obtaining and even improving – their status within the overall corporation (Mudambi & Navarra, 2004). They depend on the headquarters to obtain “major resources, including technology, capital, and expertise” (Kostova & Roth, 2002, p.218), but also the headquarters depend on them since they control resources that are crucial for business survival (Ghoshal & Nohria, 1989). Contingent on their relevance to the MNC, subsidiaries have the means to influence activities within the headquarters, shaping the strategy of the

entire network (Andersson, Forsgren, & Holm, 2007). In this sense, they can pro-actively develop entrepreneurial activities, that are autonomous from the headquarters and may involve a certain level of risk (Schmid, Dzedek, & Lehrer, 2014; Birkinshaw, 1997). However, this will depend on whether its managers are prone to take risks and embrace new business opportunities locally with the headquarters support (Birkinshaw, 1997). This translates into global guidelines for entrepreneurial orientation and is accompanied with the granting of high levels of subsidiary autonomy (Borini, Fleury, Fleury, Junior, & Miranda, 2009). Autonomy antecedes it and refers to the extent a subsidiary can make strategic decisions without the interference of its headquarters (Birkinshaw & Morrison, 1995; Young & Tavares, 2004). This concept is fundamental for subsidiaries survival in environments where they experience high levels of information asymmetry between home and host markets (Kostova, Nell & Hoenen, 2018).

CSR and the H-S relationship

An increased international focus on social and environmental costs engendered by MNCs activities also contributed to the emergence of international governance systems related to CSR issues (Levy, Brown, & De Jong, 2010; Detomasi, 2007; Monshipouri, Welch Jr., & Kennedy, 2003). Therefore, MNCs tend to develop global commitments to important governance tools that are defined in the international arena and cascade them to the subsidiaries as general principles to be followed. These institutions at the global level shape practices and policies of corporations, both multinationals and local ones (Waddock, 2008). Consequently, the globalization of CSR issues in the international environment is embedded with new democratic frameworks, emphasis on transnational governance mechanisms, heterarchy and the politization of corporations which direct their attention to higher-order interests instead of national-level, localized demands (Teegen, Doh, & Vachani, 2004).

The context of MNCs encompasses several expectations regarding CSR, which are rooted in the culture of the countries where they operate, making their transnationality even more complex (Forsgren, 2017). Both in the national and the international fields, institutional actors advocate different patterns of behavior with unique shared understandings of what is appropriate, challenging their operations abroad. In a scenario of inherent complexity, MNCs are faced with the growing erosion of national regulatory frameworks and the evolving strength of soft law mechanisms and an institutional context of global governance (Scherer & Palazzo, 2011). If in on the one hand, they are more and more focused on higher-level social

and environmental issues and are motivated to embrace a global agenda for CSR, on the other, the context of some countries where they operate might not reinforce those initiatives and generate even more complexity due to significant institutional voids (Khanna & Palepu, 2010).

As theory suggests, subsidiaries come to emerging countries following global mandates for CSR, based on international standards and the corporate strategy defined by their headquarters. Depending on an MNC economic reliance towards a country, its subsidiary will have more incentives to commit to validated practices and adopt behaviors considered legitimated in the country (Marano & Kostova, 2016). When implementing CSR, a subsidiary is torn between global agendas, issues in the local environment and the headquarters' demands. How they will make strategic decisions regarding CSR issues will then depend on which demands they will attend to and engage with. In this context, it is crucial for the MNC to assure that the same attitude towards social and environmental issues is maintained in every country it decides to operate, and even more so when the institutional framework in the host country generates ambiguities (North, 1990; Tan & Wang, 2011).

Proposition 2: *MNCs CSR as a strategic response to institutional voids depends on the autonomy established between subsidiary and headquarters.*

Interestingly, the interactions of MNC subsidiaries with the institutional environment of Latin American countries can reshape meanings, values, and practices that can reverberate throughout the entire network (Andersson, Forsgren, & Holm, 2007) and act as a compensation for institutional voids. Bridging both CSR, as a nonmarket activity of firms operating in a giving context, institutional voids and the literature on H-S relationship can benefit research in international business by bringing a more nuanced perspective on the influence of voids on firms' strategy and how this can influence the institutional environment where they are immersed. As previously shown, the corpus of research on strategic responses of MNCS in the CSR context emphasizes strategies such as *partnering* and the *use of networks* to avoid the damages caused by absent or underdeveloped institutions.

However, they lack a clear and encompassing model that gathers all different responses, antecedents and mechanisms used by MNCs. Not within the context of CSR and other nonmarket activities, but focusing on responses to institutional voids, Regnér and Edman (2013) present a very detailed framework that organizes the strategic responses of firms to shape, transpose and evade institutions defining them *as innovation, arbitrage,*

circumvention and *adaptation*. Borrowing from their typology and aiming to extend existing theory, we add as another enabling factor for MNCs strategic response to voids the issue of subsidiary autonomy towards the headquarters (or the configuration of this relationship). Depending on how much autonomy is given to a subsidiary and how much the subsidiary can profit from this autonomy, they will tend to develop strategic responses towards more active roles in the local institutional environment. We attempt to put these previous findings to test in the Latin American context, an environment that is completely different from the ones that based most of the studies on strategic response to institutions.

Proposition 3: *Because MNCs subsidiaries aim to maintain headquarters standards and comply with international mandates, CSR strategies are used to respond to institutional voids through the creation of new institutions (institutional innovation).*

Proposition 4: *Because MNCs subsidiaries aim to maintain headquarters standards and comply with international mandates, CSR strategies are used to respond to institutional voids through institutional arbitrage.*

Proposition 5: *Because MNCs subsidiaries aim to maintain headquarters standards and comply with international mandates, CSR strategies developed in contexts where they experience institutional voids aim at institutional adaptation.*

Proposition 6: *Because MNCs subsidiaries aim to maintain headquarters standards and comply with international mandates, CSR strategies are used to respond to institutional voids through institutional circumvention.*

METHODS AND TECHNIQUES

Research design and data collection

Given our intention to test and extend existing theory, we follow recent calls for more pluralistic, contextual and innovative case study research when addressing the problematic of international businesses response to institutions (Doh et al., 2017; Welch, Piekkari, Plakoyiannaki & Paavilainen-Mäntymäki, 2011) and conduct a comparative, embedded multiple case study design (Eisenhardt, 1989; Yin, 2003). By using the case of four

multinationals from Western European countries (Germany and Switzerland) operating in Latina American countries (Argentina, Brazil, Colombia, Mexico and Peru) we hope to increase robustness and provide analytical generalization derived from the findings obtained across the analyzed cases (Piekkari, Welch, & Paavilainen, 2009). Case selection was based on the possibility to explore literal replication of the theory we want to test among the cases that inform this research.

From July to November 2017, 16 interviews were conducted with MNC subsidiaries' representatives in Argentina, Brazil, Colombia, Mexico and Peru. A second round of interviews was conducted in 2018, during the month of July and in the end of 2019 happened the third and last round, totaling 25 semi-structured interviews - each with an average duration of 60 min, summing up to 35 hours of interviews and approximately 500 pages of transcriptions. The Latin American countries under analysis concentrate 72% of the population of Latin America and 74% of the region's gross domestic product; they produce two-thirds of all imports and exports (65%) and receive nearly three-quarters of all foreign direct investments (74%), justifying our selection. For that reason, they represent the most important markets for these MNCs, giving the subsidiaries a strategic relevance within the MNC network. The managers and executives interviewed were indicated by the companies and selected based on their connection with the CSR topic, which range from social issues such as human rights and corruption, to environmental issues, such as pollution and environmental hazards. The risk of *self-selection* bias and reflexivity (the interviewee limits his/her answers to what is expected by the interviewer) was avoided by collecting data in different countries, also reducing cultural biases from the interviews (Yin, 2003; Fletcher & Plakoyiannaki, 2011).

Table 1 presents detailed information on the number of respondents, their position in the company as well as the countries where the interviewees are based. The identity of each studied company as well as its managers and executives are kept confidential, respecting the confidentiality agreement signed between the researcher and each interviewee. Companies' names were substituted by letters from the Greek alphabet: Alpha, Beta, Gamma and Delta, and the identification of each interviewee is based on a combination between the fictitious name of the company and a number, respecting an ordinal sequence. The interviews were conducted in Portuguese, Spanish, English and German and were further transcribed in the same language. Since all authors have fluency on these languages, they were analyzed in their original idiom. The semi-structured interview guide was elaborated in German and further translated to Portuguese, Spanish and English and was based on four critical aspects:

understanding of CSR meaning, CSR strategy and practices, relationship between and headquarters and subsidiary regarding CSR strategy and practices. In order to triangulate the interviews, we accessed the Annual Sustainability Reports from the last five years of the four companies as well as website pages with content related to CSR. The use of this additional information safeguarded credibility and validity for our analysis, complementing the material used in this research (Piekkari & Welch, 2011).

*** Insert Table 1 about here ***

Studied cases

As previously mentioned, the selected Latin American countries represent relevant markets for the four cases chosen. All companies have a long trajectory operating in those countries, with the exception of Delta. Alpha is an MNC operating in the Food and Beverage industry and established in Switzerland for more than 100 years and with sales in more that 187 countries. Its operations are managed in a decentralized manner, through the separation between regional zones in the world (and consequently, with regional headquarters) and other businesses that are not still under the supervision of these zones. The zone where the Latin American countries are located is responsible for approximately 46% of the group sales and accounts for 33% of its total employees and gathers the biggest numbers of factories (156). Specifically, the Latin American region is responsible for 31.5% of the regions' total sale and the growth experienced in some countries such as Brazil benefitted businesses in the area. As Alpha annual reports always mention, in some of its businesses the sale of local brands represents almost 60% of total sales, which led us to infer that Alpha has a very decentralized structure, conferring and supporting subsidiary autonomy with regards to strategic decisions.

Beta is an MNC incorporated more than 150 years ago in Germany. A recent strategical change at Beta has given more entrepreneurial freedom to the business segments of the company with a goal to headquarter 50% or more of its businesses outside Germany, as per information provided in the Annual Report. Sales in Latin America represent no more than 4% of the group sales around the globe, but the market is an important source of raw materials and has a growing demand for the products and services offered by Beta, being considered one of the greatest business opportunities for the next years. Only in the Americas, Beta has 171 companies operating under its business segments. As we can observe for Alpha, the organization of Beta is also decentralized, focusing in business regions, and

also indicates a certain degree of autonomy on the subsidiary side. Gamma, on the other hand, is a Swiss company active in the Pharmaceutical segment in the last 120 years aiming to advance the field of medicine, focusing on diagnosis and treatments. In Latin American factories, Gamma concentrates approximately 4% of its total employees. In each business division, Latin America represents approximately 10% of total sales and region is managed through a regional division. Due the purpose of the organization, its strength comes from localized R&D laboratories that build strong local and regional networks, but also work conjointly to develop new products and services. The company is centralized in its structure, but we anticipate a lower level of autonomy in its subsidiaries inside each business region/segment.

Delta is a Swiss familiar company, funded more than 130 years and with both production and distribution operations in more than 100 countries. For Delta, Latin America is a new market and the establishment of its subsidiary in Peru dates from a recent acquisition of previous suppliers, 5 years ago. Its current challenge is to instill its culture in its new units around the globe. Our interest in adding this company to our sample was to create a distinction to test the boundaries of the theory we use to base our research (Piekkari, Welch, & Paavilainen, 2009). While in terms of size and type these companies have some similarities, we expect results to be different for this specific deviant case. Therefore, with the selected cases we aim to test previous findings and validate a model for MNCs response to formal and informal voids in Latin American countries.

Data analysis

The collected data was analyzed using the software NVivo and following the techniques of data reduction and presentation suggested by Miles, Huberman, and Saldaña (2014). We analyzed our data based on prevailing theories that based our research model, presented in the previous section. Our aim was to test the assumptions behind these theories in a novel context, by comparing four cases both within and between them, through a deductive rationale. We initiated our analysis with a general reading of each document, aiming to assign a global understanding to the data collected. As a next step, we initiated the coding process with 10 provisional codes previously defined based on model that we aimed to test (3 enablers, 3 mechanisms and 4 strategic responses). However, these codes were constantly changed, eliminated and supplemented with new codes through the coding process (Gilgun, 2011). The four cases were analyzed in two steps, as suggested by Eisenhardt (1989) and Yin

(2003): within case analysis, with an individual analysis of each case company in each country aiming to find similarities and differences, and a cross-case pattern, trying to extend these comparisons to the four case companies. The results are presented in the next section.

FINDINGS

Recent theoretical developments (Regnér & Edman, 2013) based our analysis and directed the organization of our research findings. Table 2 shows the four strategic responses that already listed in the literature and the identification of mechanisms and enablers that manifested in our sample. It is important to highlight that in all cases MNCs experience ambiguities, which are a parallel for the institutional voids present in Latin America. Therefore, the strategies are executed departing from the experience of inconsistencies – or high institutional ambiguities. For that reason, our analysis concentrates on the responses to voids in contexts where firms experience inconsistencies due to the differences in terms of formal and informal institutions in place in their home countries in comparison to the ones from host-markets in Latin America. Thus, according to the authors, the strategies that would manifest are Institutional Arbitrage and Institutional Circumvention and the differences would lie on the social position of the MNC (the expected roles, its multinationality and foreignness). However, Regnér and Edman (2013) didn't explicitly account for the complexities generated due the MNC structure and internal transfer of resources, policies, culture and knowledge between headquarters and subsidiaries. We add this factor as an enabler for MNCs responses through CSR in Latin America since it was repeatedly mentioned by our interviewees.

*** Insert Table 2 about here ***

As it is possible to identify in the discourse of managers as well as in the annual reports, Latin America is an environment that challenges their firms' operations and the pursue of social responsibility goals. Far from our intention to deeply describe each of the countries where those firms are established, and derived from the interviews, we assert that Latin American countries carry historical, cultural and ideological roots perpetuated by local actors and businesses, which is surrounded by high corruption levels, inequality, political and economic instability, violence, abuse of human rights and environmental laws, among other evils decurrent from lax regulations and weak law enforcement, as well as cultural and values

that normalize them. In other words, these countries' institutional voids hinder firms' activities. However, CSR seems to be used as a nonmarket strategy to change the local business environment and create structures and institutions that will overcome voids and positively affect formal market structures.

CSR spread is highly dependent on the individual trajectories of those conducting its practices and personal identification with the topic, as well as the organization trajectory as a whole. Everything an MNC does related to CSR depends on how the message is captured and interpreted; as well as the meanings and beliefs of a society. If they are not perceived as valuable, they are worthless efforts. The manager of *Alpha* Argentina explains the situation faced by the company when deciding to invest on CSR projects locally: "*We are developing everything related to our products' environmental, carbon and water footprints. In Europe, a person can select which product to buy from an ecological point of view, they can compare between products with different environmental footprints. Here in Argentina we do not have this possibility. We buy products for their price; we cannot pay extra. There is no value for that yet and we cannot show the positive results we obtained through these projects to anyone. Those who decide to make things correctly perceive no financial gains. We cannot say we do it to sell more. CSR is not yet benefiting our business*". Summarily what the manager says reflects other opinions emitted by our interviewees that change in local institutions, be them formal or informal, is necessary due to the lack of education and awareness, as well as other challenges related to law enforcement or absence of policies and laws that regulate certain activities or misconducts.

However, as one manager emphasizes: "*The public sector, the private sector and civil society, generate a space for transformation, for change. They could not live without each other, right?"* (Gamma Brazil). Therefore, these companies see in the inconsistencies generated by institutional voids, opportunities to be explored – and are manifested through CSR activities – confirming our first proposition. Isolated, each company that was analyzed has its own values, principles and trajectory to be pursued regarding CSR. When combined, the experiences reported in the interviews reveal that CSR practices enacted by MNCs hide an intention to work with local institutions, as a vector for change. That rationale is supported by affirmations such as the one from Gamma headquarters' manager: *"CSR is probably one more step to protect and maintain our company value, but also to assume a responsibility in the market, where you say the limit is perhaps not only the protection of your own brand, but that you may also try to change the business environment in this direction in a positive way, perhaps also by following these ethical standards that you also impose or pursue."*

As presented in Table 2, in firms Alpha, Beta and Gamma we verify the manifestation of certain enablers that allow firms to use CSR strategy such as the autonomy conceived by the Headquarters, driven by the aim to localize management decision as well as solutions that will improve performance and competitiveness in Latin America. This confirms our second proposition, confirming the relevance of autonomy as a condition for CSR implementation as a strategic response to institutional voids. Also, as expected, the transnationality of MNCs confer to them status, power and visibility to become an "example" for other firms to follow, giving them space to enforce their own standards and policies when they experience the absence of equivalent ones in the host environment. In the negate case of Delta, the main enabler to work on institutional voids in Peru was the identification with values of the family that founded the company. Despite the great level of autonomy that was conceived to the subsidiary, CSR is still thought as a way "*help the others in need*" and not fill important gaps in terms of laws, regulations, education or culture.

As for the mechanisms through which Alpha, Beta and Gamma responded to voids in each country they operate, we also found that because MNCs have access to resources (either financial, human or knowledge), managing local institutions becomes viable. Since these MNCs are empowered by the resources they possess and which are transferred from overseas, they are expected to perform certain roles that go beyond normal market transactions. Managers from these MNCs agree with this reliance and make use of it to reduce information asymmetries due to the voids that embed local actors' activities. This mechanism can be seen in this excerpt from Gamma Mexico: *"Companies like Gamma that make investments and promotions on CSR, so that this happens and so that it can work in the right way, definitely help the communities and the country. That's a fact."* In a way, CSR becomes a way to level the playing field and harmonize expectations and serve as brand protection and risk management. Reflexivity is also a mechanism used by companies, since through it they can envision alternate scenarios that make them capable to support change in local institutions. When these firms migrate to other countries, they bring with them parts of the home country institutional environment, making them able to recognize similitudes and differences and explore alternative institutions based on their experience in other countries. As expected, despite being aware of the relevance of the company and how being part of an MNC network enables them to have access to different cultures and values, as well as financial structure to support CSR, Delta doesn't make use of these mechanisms to base their response to voids. Since their CSR is indirectly (or unknowingly) aimed at covering these gaps, this outcome is reasonable. However, it is important to point out how they converted a simple marketing

project into a CSR one, making use of their influence and reputation to establish partnerships: "*When we found that we could support local institutions in partnership with the local government we turned into a CSR strategy*" (Delta Peru).

We identify that responses to institutional voids in Latin America manifest accordingly to what is suggested by previous findings, regarding the emphasis on social capital and the use of networks as a response to institutional conditions. Also, these companies actively intend to change local institutions, or create new ones when absent, in order to match them with internal standards that guide the MNC operation abroad. In the case of *Beta*, the executive from Argentina highlights the active participation of the company in different circles that decide the rules of the game both for formal (through chambers and associations, with local governments and peers) and informal (via training and sensitization, with employees and supply chain) institutions: "*We have working groups in various organizations, we are present in most of the Chambers. It is time and more work for us, but I think it is worth it because it is the best way to generate positive group pressure, from the private sector, to ask the public sector for the changes that are required*." (Alpha Argentina). Creating a free space to discuss misconducts and promote social responsibility is a way to change the ingrained beliefs and countervail the normalization of corruption, environmental crimes or aggressions to human rights.

Derived from it, we identify that through the *articulation* of influential actors, MNCs profit from spaces of inconsistencies, to push practices, standards, norms and regulations that favor their survivability in the host-country. They have the relational power, knowledge, financial resources, and a genuine motivation to observe international and the headquarters' requirements, allowing them to be bridge between institutional voids, its associated misconducts, and socially responsible management standards and practices. The role of the MNC might relate to pulling the strings to open space for dialogue, through their nonmarket activities. In a way, the MNC works to create new formal institutions, such as the manager of Gamma Brazil reports: *"We want to help the government with this, despite the fact that we know that there is a constitution that guarantees health for all citizens, something that is a priority in Brazil - and that is precisely why it is not feasible for the population to have access. How do we manage, within the social responsibility area, to contribute to this government that cannot handle this 75%?".*

The manager of Beta Colombia explicitly supports the **institutional innovation** intended behind their CSR:*"We are very active [about CSR], not only commercially and focused on generating business for the company, but also in some way evangelizing, to use*

that term, to spread and invite more companies to join this compliance journey, considering that at the regional level we have a fairly broad value chain and that we are leading various efforts with the public sector to, in addition to training and education, also train these companies or inspire them to be part of global chains, through certifications, trainings, or simply raising awareness that they know what corporate ethics and compliance are.". Therefore, these MNCs use CSR to support law creation (as Beta and Alpha mention about Argentina's recent development of corruption-related laws) and public-policy development (as Gamma emphasizes its participation in dialogues that support access to health in Brazil through public policies). Internally, MNCs work directly with informal institutions since they are also connected to voids present in Latin America. By influencing beliefs and values, through training, communication, and enforcement of internal codes of conduct both to employees and their partners – or value chain -, they aim to overcome the normalization of misconducts and enforce a new set of norms of behavior based on imported values from their home country. The manager from Alpha headquarters support such assertion: "*Beyond setting CSR programs, most of what we do relates to ethics and that means trying to influence the way people think, related to a certain number of topics. So that goes then mostly on training, on communication. So, we ask for example the head of every country to have at least once or twice per year communications that are specific to compliance, about doing the right things, they are talking about human rights, etc." (Alpha Switzerland).*

In some cases, the MNC concentrates part of their CSR efforts on trying to emphasize the differences between home and host country institutions, and enforcing practices, policies, values that are defined by the headquarters. The transference of institutions from developed countries highlights the underdevelopment of institutions in Latin America, such as when firms work actively to denunciate cases of corruption, as mentioned by Beta's manager in Colombia. This leveraging involves practices that "alert" local firms to the possibilities of gains through CSR and characterizes the intention to conduct an institutional arbitrage. Executives highlight the need for a deep connection with employees and members of their value chain, so they become aware of the best practices and mechanisms to recognize and report the incoherence between the expected behavior and daily life at the corporation. In the words of the interviewed executives, the MNCs need to be proactive and generate this conversation with other companies, since they have the capacity to "*engage their value chain and generate a certain degree of cultural evolution*" (Gamma Brazil).

Managers reflect that implementing CSR is challenging because "*one cannot control what others do, because the [ethical] conduct is very subjective, it is a matter of the person*

and not the company" (Delta Peru). It is all about a set of values, not judged as good or bad, but dependent on the relevance and priorities a certain group of people has. If the environment does not embrace it, then it is not important in the routine of locals. Social responsibility needs to be recognized as an objective and an object to be pursued, otherwise any efforts to put CSR into practice will not be rewarded. That is why MNCs try to overcome institutional deficiencies and absences by creating new institutions or negotiating the substitution of existing failing ones.

The choice to comply to local demands is manifested through the response as **institutional adaptation**. CSR strategies and practices are localized, also following current principles defined in the companies' strategy for managing the corporation as whole. Beta manager in Mexico says: *"The policy or the scheme is fully adopted from Europe, but with some changes at the local level and also being very sensitive to the current situation faced as a country, at the business level, and also at the government level, regarding Public Policy".* The manager at the headquarters of Alpha emphasize that CSR is both defined by institutional requirements at a global level, as well as by local ones: *"There are both centrally driven issues, but there [in other countries] too, simply because there are very, very different framework conditions locally, things that may then be initiated from a local unit."* Delta, as a negate or control case, shows the expected outcomes and allowed us to use it as a reference when comparing all initiatives mentioned by Alpha, Beta, and Gamma. Summarily, our sample shows evidences that support our propositions three, four and five, but shows no evidence of institutional circumvention as predicted in previous literature.

DISCUSSION

Despite high levels of government intervention that could limit their strategic choices, the firms in our sample were able to engage in supporting new regulations, spreading good practices, changing cultural aspects and acting as the main drivers of a social and environmental change. Our analysis suggests that institutional voids opens space for MNCs activity as institutional agents (Doh et al., 2017). MNCs may enact change in emerging countries in order to be able to comply with the global principles mandate from their headquarters and obtain legitimacy by following the global CSR agenda. Others may pursue this so they can level the playing field and develop the local market in order to compete with their full capabilities. Also, MNCs declare a strong value-based orientation, emphasizing a corporate culture more sensitive to social and environmental issues. Despite their reasons,

their primary goal is to limit the ability of institutional voids to hinder their activities and explore the potential of the local market to its fullest.

The initiative of MNCs in Latin America also goes in hand with the global CSR policies determined by their headquarters (Kostova, Nell & Hoenen, 2018; Schmid, Dzedek, & Lehrer, 2014; Birkinshaw, 1997). Summarily, for generating internal coherence within the MNC network, subsidiaries engage with local institutions in order to support the building of new institutions, followed by changes in cultural aspects and values conforming to the institutions prevailing in their home country. This process initiates trough the spreading of new practices and promoting legislation on topics of corruption and transparency, environmental protection and climate change, and labor rights - main issues they are currently pioneering. By also supporting a new cultural scene, MNCs can influence practices so they are able to compete as if they were operating in their home countries and obtain competitive advantages. Also, they become legitimated by leading CSR initiatives that are aligned with the local expectations about their role in society.

The non-market environment of MNCs cannot be generalized as exogenous limitations to their operations but can be managed through non-market activities such as CSR (Rodriguez, Sieguel, Hillman & Eden, 2006). Thus, it configures a space for experimentation where firms both need to make the most of opportunities and act minimizing threats. In order to maintain internal coherence with the social responsibility strategies adopted in the context of their home country and be able to profit from them, MNCs subsidiaries not only adapt to local norms and practices when operating in emerging countries (Cantwell, Dunning & Lundan, 2010). They additionally establish higher standards for social responsibility and engage in disseminating practices throughout their value chain, employees and local peers and other institutional actors, levelling the playing field. Through **institutional innovation** (Boddewyn & Brewer, 1994; Child, Rodrigues & Tse, 2012; Li, Peng & Macaulay, 201), the MNC orchestrate interests in a way to support the development of new institutions that are absent in the environment and are necessary for a fair competition, as well for a successful socially-responsible journey in that country. However, contrary to what Regnér and Edman (2013) prescribe, the MNCs we study initiate this innovation process in a context with high ambiguities. That is, they experience institutional voids and face high inconsistencies between their home and host country institutional framework. Therefore, institutional innovation is also possible in environments where firms must deal with significant differences in terms of laws, regulations, and cultural values – contesting their proposition.

When firms try to negotiate meanings and practices, emphasizing that imported practices are better or more efficient, or even more socially responsible, than local ones, they are performing a type o **institutional arbitrage** (Regnér & Edman, 2013). Alike the innovation process they engage, instead of supporting the creation of new institutions, they aim to overcome the limitations imposed by institutional voids by challenging prevailing institutions. As an outcome, they aim to disrupt ingrained business practices and values, and achieve a new consensus regarding social responsibility, which favors the competitiveness of the MNC. Thus, MNCs promote a new way of doing business that have CSR at its core, which comes along with a vigorous change in local culture and values. In some cases, through coordinated actions, MNCs localize their CSR strategy to deal with institutional (Bartlett & Ghoshal, 1989) to a level that do not jeopardize compliance with global requirements for CSR defined by developed countries, where their headquarters are located, in order to comply to local low CSR standards. Therefore, **institutional adaptation** is reported and goes in hand with the traditional outcomes found in international business studies that see institutions as constraints to which MNCs tend to conform with (Cantwell, Dunning & Lundan, 2010; Meyer et al., 2009).

We argue that institutional change is a desired outcome since, as our data extensively reports, the relationships established by the MNC with local actors involve negotiations, power imbalances, and significant pressure from local communities and political actors. Each CSR practice, when deriving from a strategic positioning of the firm as mentioned by our managers, generates a relational space that leads to a change process. This is where **arbitrage** and **innovation** take place. For instance, the case of *Beta* and the energy sector in Colombia. The firm initiated an open space for negotiating expectations about their project for energy efficiency in the country, an important collective action to engage actors to support the projects led by them. This collective action generated codes of conduct, was object of regulations and ended up generating new practices relative to the regulation of the energy sector, and partnerships for implementation. New institutions are created and supported through the articulation of these actors, with these new practices reflecting the ongoing institutionalization of CSR in the country. If before there was not much interest in solar and wind power, smart cities, or green innovations, now the conversation is set, new practices emerged, new technologies developed, regulations created and a transition to a greener society is in place. In those relationships, firms tend to be ‘elevated’ to a status of citizens, “political actors” that even assume State roles where it is absent (Khanna & Palepu, 2010; Boddewyn & Doh, 2011).

Our reflections so far reflect enablers, which are behind the mechanisms itself, and are necessary to understand how the strategic response to institutional voids is conceived and put into practice. Through autonomy, transnationality and personal identification, MNCs exert the power granted by local communities and political actors related to the expected roles, and also derived from the resources they control and the capacity they have to identify the institutional voids in the country (Regnér & Edman, 2013). The institutional change they initiate emerges due to the relative importance and discretion of these organizations. That does not mean that other firms are not doing anything about CSR, but hardly their efforts will resonate in the institutional sphere.

CONCLUSION AND FINAL REMARKS

By merging two fields of research, new institutional economics and international business, we aimed to explore how subsidiaries of four different Western European MNCs respond to institutional voids in Latin American countries. Through comparative case studies, placed in Brazil, Argentina, Colombia, Mexico and Peru, we tested current theory and verified the limits of its applicability to an emerging market context in what concerns nonmarket responses to institutional voids. Our findings show that MNCs develop strategic responses to institutional voids experience in these countries through enablers related to personal identification, autonomy conferred by the headquarters and their transnationality, MNCs, and the mechanisms of reflexivity, resources and expected roles in the host-country. The responses they implement are conducted through their CSR activities and aim at institutional innovations, arbitrage and adaptation.

For the institutional literature, we bring evidences on the agentic role of MNCs when facing constraints related to institutional voids. We found that while the Latin American context represents a very complex environment for MNCs coming from developed economies, they actively respond to these inconsistencies. This agentic role of MNCs in this environment derives from their power and influence across the analyzed countries as well as from the institutional voids that represent opportunities for action. As an outcome, our research provides empirical support on how MNCs develop competitive advantages related to their social-responsibility commitments by supporting institutional innovation, arbitrage and adaptation.

When MNCs subsidiaries establish activities in Latin America, they deliberately chose to minimize the hampering effects of the underdeveloped scenario by strategically

engaging in institutional change – while also embracing local demands in order to safeguard legitimacy and reduce their liability of foreignness. Their aim with these initiatives is also to level the playing field and develop the local market in order to compete with their full capabilities. Another motivation for engagement with institutions in the host-country is the necessity to maintain internal coherence within the MNC network, by enforcing general international standards.

Regarding CSR literature, we support past evidences on the types of practices and strategies enacted by MNCs and the relevance of international standards in this process. The globalization of CSR created a certain homogeneity, which is perceived among the cases analyzed. The strategy pursued is the same: global principles, following global standards, cascaded to subsidiaries with a certain level of autonomy to decide on which strategy to implement that will benefit both the company and local communities. The transition from a philanthropic idea to a strategic commitment can also be perceived through the comparison with our deviant case. CSR in Latin America is in a process of institutionalization, leaded my MNCs, with the aims to improve local business conditions and support institutional change.

Our study also brings contributions to the International Business literature by showing evidence on the relevance of the headquarter-subsidiary relationship when nonmarket strategies are implemented. As MNCs subsidiaries become more spread and independent, the importance of guiding principles for strategy implementation throughout the world becomes evident. In a globalized world, scandals related to corruption, non-observance of human rights and environmental protection comes to the attention of the international community in a matter of seconds. Therefore, headquarters of MNCs must assure that these international standards and general guidelines regarding CSR strategy are implemented. Despite the flexibility in adopting those principles, CSR is a case where centralization by the headquarters is mandatory.

From a managerial standpoint, we undercover the relevance of acting towards the betterment of societal conditions in Latin America in order to create a business environment that favors competition, overcoming social and environmental issues that might hinder firms' operations. We believe that MNCs have a strong and important role in these environments and supporting these changes can benefit their competitiveness, guaranteeing coherence with international standards set to regulate CSR activities. Localizing CSR is an important strategy but conferring subsidiaries autonomy by creating regional areas of intelligence and decision making can improve the efficacy of these strategies, both for companies and societies.

As any empirical exercise, this research is not exempt from limitations. Our data come from a cross-sectional design, which could limit analysis on the causal mechanisms behind the institutional engagement of MNCs and the possible consequences (institutional change, for instance). Despite our efforts to account for every crucial actor in each country, we must acknowledge that other than those interviewed could add more complexity to this analysis. More empirical research is necessary in order to explore if the strategic responses performed by MNCs in this research setting might not apply to other realities. We aimed at testing the boundaries of existing theories using case studies, but future studies could replicate this same research framework using longitudinal or historical data, so they are better able to capture the processual aspect of institutional change. With the same intention, quantitative designs could help exploring if the intention of firms to support institutional development in fragile places such as Latin America is proving to be effective.

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Table 1 – Interviews separated by firms

Companies/ Country	**ALPHA**	**BETA**	**GAMMA**	**LAMBDA**
Sector	Food and Beverage	Technology Hardware & Equipment	Pharmaceutical	Retailing
Subsidiary interviews				
Brazil	Legal Vice-President (2017) – Alpha 1 **&** Compliance Executive Officer (2017) – Alpha 2	Director Compliance Officer (2017) – Beta 1 **&** Data Protection Officer (2017) – Beta 2	Marketing Assistant Oncology Department (2017) – Gamma 1 **&** Coordinator of Procurement (2017) – Gamma 2 **&** Purchasing Manager (2017) – Gamma 3	-
Argentina	Head of Safety, Health and Environment Plata Region (2017) – Alpha 3	Head of Strategy and Corporate Communications (2017) – Beta 3 **&** Integrity and Compliance and Co-Chair Regional Compliance Officer (2017) – Beta 4	-	-
Colombia	-	Regional Compliance Officer (2017) – Beta 5	-	-
Mexico	-	Government Affairs Manager (2018) – Beta 6	Head of Procurement Mexico (2017) – Gamma 4 **&** Senior Procurement Manager Region LATAM (2018) – Gamma 5	-
Peru	-	Compliance Officer (2017) – Beta 7 **&** Legal Manager (2017) – Beta 8	-	Category Manager (2017) – Lambda 1 **&** General Manager (2017) – Lambda 2
18 interviews with subsidiary managers				
Headquarters interviews				
Switzerland	Group Compliance Manager (2019) – Alpha 4	∅	Supply Chain Risk and Sustainability Advisor (2019) – Gamma 6	General Manager for Asia Sourcing Team (2019) – Lambda 3 **&** BPO in Supply Chain (2019) – Lambda 4 **&** Head of Global Purchasing (2019) – Lambda 5
Germany	∅	Head of Compliance Business Segment 1 – Beta 9 **&** Head of Compliance Business Segment 2 – Beta 10	∅	∅
7 interviews with subsidiary managers				

Companies / Categories of analysis	Alpha	Beta	Gamma	Delta
Enablers subsidiary autonomy, transnationality, identification	"It is a public commitment that [our firm] made around the world, globally. It made a public commitment, and that is why we cascade these objectives to all the regions. [...] It is a challenge that whoever wants to do things right does not have any economic benefit, we cannot say that we are doing it to sell more. We do it only due to the company's policy and because we are asked by [the headquarters] to do it. However, we cannot transform this into economic benefits. That is not yet the case. (Alpha Argentina)" – The difference is we make it out of conviction. Alpha throughout its 150 years of history has always been a global company, very decentralized. Think global and act local, giving space to work this culture within what is effective for the Brazilian market. It may be that in Mexico we would have to change something, but we have this approach to CSR here because for the Brazilian is very much about convincing. (Alpha Brazil) Today Alpha has a global document that is Purpose and Values Framework and the goal is to improve the quality of life, contributing to a healthier future, on the following pillars: people and family, community and environment. In Brazil we put our journey of integrity as a purpose. We have added some concepts and points that help us in executing and communicating these pillars more effectively." (Alpha Brazil) "We force our subsidiaries to commit to it. We add trainings to make sure all employees and leaders are aware of their responsibility on ensuring that their team is doing the things that they are right on a speak up. So, on ensuring that you try to set a culture, where people will feel free to speak up if something goes wrong and all what goes with that." (Alpha Switzerland)	"They have to do with some guidelines and visions that come globally, to which we join and commit locally." (Beta Brazil) "This is the characteristic of Beta, which is one of the most globalized companies in the world, operating in 190 countries. We always count much with local intelligence. Each country has its own specificities, and Beta is willing to develop a global orientation program that is adapted to the needs of the locals. We are evolving significantly in the agreement with the company, but we have some peculiarities quite characteristic of the Brazilian market." (Beta Brazil) "The important thing is, if you put the magnifying glass on that, it is part of a corporate strategy, leaded by a company that intends to be responsible. A more integrated issue. We want to be sustainable not only in terms of the environment, but because this is the only formula for business survival". (Beta Argentina) "We apply German standards. Germany says: "Well, this is the policy; comply with it" and we fulfill it because it is related to our processes. However, if in our country we have a government obligation to send a special report to a government entity, we will do it." (Beta Peru)	"Gamma gives a lot of autonomy to the subsidiaries; we identify it here. Not necessarily a drug disposal campaign will make sense in another country. What exists globally is that we disseminate what we do regarding sustainability, not necessarily through a report; but that in other ways companies can tell what they are doing. There is an annual Gamma event that involves the affiliates in how we can enhance those aspects, such as engaging more and more senior leaders to build on their ways of doing business. Concerning what is done, we have an autonomy to play according to a local need [...]." (Gamma Mexico) "We guide ourselves by the company's strategic map and it includes sustainability; so, we feel comfortable to follow it and know that we will have all the support." (Gamma Brazil) "The anti-corruption questionnaire, the trainings, the Supplier and Innovation Day events, all of that is something that Latin America has occasionally promoted in a differentiated way from other regions." (Gamma Mexico)	"I believe that we have many links in common with the family, and as I say, we feel that we are part of the family, because we are their partners. So, I think there are several principles in which we all agree, right?" (Delta Peru)

Mechanisms reflexivity, resources and role expectations	"CSR requires smart and efficient efforts, being also practical and feasible within our budget constraints. There is an additional effort, though, that is the culture construction. I have the monitoring processes, reviews, due diligence, auditing and I check my whole value chain to see if they are complying with the standards, they need to maintain so they can do business as I require. We have to make sure, everyone internalizes the best practices, the alerts and the belief that this is the best way to obtain autonomy, to not be bureaucratic, for the processes to flow, to avoid deviations" (Alpha Argentina)". "Perhaps we have more access to information because things come directly to us from Switzerland, because we have access to all this material and knowledge." (Alpha Argentina)	**"**Because from the moment you help others, you are improving your chain. I am bringing this competitor to the same level as I already was, I can help those companies have the same rules and concerns. I have an interest in participating in the construction of a competitive value chain of service providers, that all are in the same condition or that they have the minimum conditions so that we can follow the same rules of the game. Knowing that I am contributing to the law and others knowing that they are playing the same role." (Beta Argentina) "One must also be an actor and proactive in generating those aspects of culture in those companies [in the value chain]. We must think that they are small companies with less resources, and that is where the idea of having that Corporate Social Responsibility comes from, cultivating those cultural aspects, supporting those companies." (Beta Colombia) "It seems that locally, we are pioneers and we generate a contagious effect on the multilatinas and local firms." (Beta Brazil) "During all these years Beta has been acquiring greater responsibility on other topics, and not only because someone said "I want to give it to you", but also because the world is moving in that direction, of given more emphasis on political knowledge, normative knowledge and others." (Beta Peru)	"Our role is to share good practices, to say no and try to do something different even in an unfavorable scenario with local cultural challenges. We have a very important role as a private initiative in this new Brazil that is emerging." (Gamma Brazil) "When we see a need for any area regarding their sustainability goals, we make the recommendation and the area itself takes charge. We always try to align globally". (Gamma Brazil) "Companies like Gamma that make investments and promotions on CSR, so that this happens and so that it can work in the right way, definitely help the communities and the country. That's a fact." (Gamma Mexico) "More than adapting, we adopt. In other words, with Sustainability and Compliance these are the rules of the game. There is no negotiation, it must be done yes or yes. So, we adopt and implement them." (Gamma Mexico) "One key challenge is of course the country. Depending on the individual country where we operate in, they may be at different stages of maturity with regards to legislation and enforcement and justice. There are countries, where you may not have any real issues, because they have a very good law enforcement in place, and you have justice. And then you have others, where it's more kind of the Wild West type of thing. You may have laws, but the enforcement may not be as strict and you will find arbitrary interpretation of law. So, you do not have necessarily justice as you would need to" (Gamma Switzerland)	"I tell you that it is a very horizontal company, so it is quite flat. You are not aware of the distance between Headquarters and subsidiaries" (Delta Peru) "It is not within our new philosophy as a company. We have done all our business until now following a path to integrity, and it will always be like this." (Delta Peru) "We want to be a socially responsible company. That's what we want, and also that our partners do the same, that's classic to cover all the basics, we have to do this." (Delta Switzerland)
Strategies arbitrage, circumvention, *innovation*	"We have working groups in various organizations, ideas, we are present in most of the Chambers. It is time and more work for us, but I think it is worth it because it is the best way to generate positive group pressure, from the private sector, to ask the public sector for the changes that are required." (Alpha Argentina)	"[…] Concerning the public sector, what we do is also work together with the public sector through the cameras and in conjunction with other companies, to provide the voice of the private sector. For example, anti-corruption legislation, that is the Law of Criminal Liability of the legal entity, is now already in Congress to be approved, already has sanction from Senators and these are the legislative changes that the region needed." (Beta Argentina)	"[Gamma Mexico] participates, maybe not directly but through chambers and associations, we participate and are always present. In those global issues, obviously we are always present. In these chambers and associations, the number of participants is always growing, there are always new players that are attentive and seeing – it is how we	"It began as a promotion for our stores, right? And when we found that we could support local institutions in partnership with the local government we turned into a CSR strategy. In some way, I could help someone in need, and basically, a little bit trying to follow the philosophy from our parent company,

	"Alpha Brazil, within the family and community pillar, as a company that values integrity, also contributes to the very evolution of society, at least within the value chain in which it participates." (Alpha Brazil) "Beyond setting CSR programs, most of what we do relate to ethics and that means trying to influence the way people, think, related to a certain number of topics. So that goes then mostly on training, on communication. So, we ask for example the head of every country to have at least once or twice per year communications that are specific to compliance, about doing the right things, they are talking about human rights, etc." (Alpha Switzerland)	"[Beta] creates circles of trust between the business communities with the different types of companies that compose them. We work very hard in the chamber of commerce; make alliances, pacts of integrity, and collective actions. We generate places where one can talk about these things in an environment of trust to dismantle them, lose the fear of the public sector and help the public sector so that it can be more efficient, more transparent, showing them the best practices, too." (Beta Colombia) "I make use of my auditing visits to build culture. In those visits I give trainings, generate awareness in certain subjects. I make the most to educate them in distinct aspects and help them to find a way, in a practical perspective, they can cover certain risks" (Beta Colombia) "Since 2009 we have a foundation in the country, focusing on contributing to a sustainability strategy in the country in general, and, particularly, to contribute in those areas in which we are strong, in which we have knowledge, such as technical education." (Beta Argentina) "We participated in collective actions with cameras, with unions, with the industry. We are part of a guild of electrical producers, where both Beta and some competitors are part of this association. And we have signed integrity agreements among all the associates, some of them competitors of Siemens. We commit ourselves to act under legal regulations and everything that implies good business practices." (Beta Peru) "And if there are turbulent situations in the market, Beta presents itself with these initiatives and there are the greatest efforts to denounce them for the sake of discussion and analysis." (Beta Colombia) "The policy or the scheme is fully adopted from Europe, but with some changes at the local level and also being very sensitive to the current situation faced as a country, at the business level, and also at the government level, regarding Public Policy." (Beta Mexico) "Just a couple of years ago, well, just a year ago, we started a working relationship with the Ministry of Education, to support education and training. Why? Because we have the objective that, with the technology portfolio that we	manage this in Mexico or is how we must conduct it. Why? Because we are in this game and we want to play with the big players, so we follow them". (Gamma Mexico) "For 4 years we have implemented the code of conduct for all our suppliers and for 3 years we have an e-learning where we encourage suppliers to do some trainings and monitor so that the code of conduct is complied with by all people who are involved with Gamma. Within our supply chain we have a sustainability audit in which we monitor the audits together with the global team. Every year, we monitor suppliers who are audited by SGS, which is our global partner to carry out these audits, so far we have conducted 29 audits." (Gamma Brazil) "Precisely, what we do at Gamma is constantly permeating this type of information [about CSR], punctually here in Latin America, so that all employees know and know the importance of this." (Gamma Mexico) "We also help our entire value chain with support, in certain cases in an economic way, making sure these providers can be developed." (Gamma Mexico) "As a multinational company, we have many processes and formalisms of Corporate Social Responsibility. In our case, as a multinational company and which is a very important contributor to Sustainability and Compliance, we have an area dedicated to it, among other functions. And we have a whole regulatory framework for everything that has to be done." (Gamma Mexico)	from Delta in Switzerland, how to help the community, and how to be thankful in some way." (Delta Peru)

		manage, we need more trained professionals." (Beta Mexico) "We are very active [about CSR], not only commercially and focused on generating business for the company, but also in some way evangelizing, to use that term, to spread and invite more companies to join this compliance journey, considering that at the regional level we have a fairly broad value chain and that we are leading various efforts with the public sector to, in addition to training and education, also train these companies or inspire them to be part of global chains, through certifications, trainings, or simply raising awareness that they know what corporate ethics and compliance are." "At Beta, this basically means that we naturally do business in which local laws and supraregional laws and regulations are complied with, as a minimum requirement, and then we also follow our own Business Conduct Guidelines, doing everything as a company to protect our brand." (Beta Germany) "It is probably one more step to protect and maintain your company value, but also to assume a responsibility in the market, where you say the limit is perhaps not only the protection of your own brand, but that you may also try to change the business environment in this direction in a positive way , perhaps also by following these ethical standards that you also impose or pursue." (Beta Germany)		

CHAPTER FOUR: CSR AND INSTITUTIONAL CHANGE

After all, is firms' CSR promoting institutional change in Latin America?

Larissa Marchiori Pacheco
Elizabeth M. Moore

INTRODUCTION

The globalization of CSR (Corporate Social Responsibility) issues and the politization of corporate actors led to a widespread reliance on firms as a vector for development through their CSR strategies, with emphasis on Multinational Corporations (Scherer, 2018; Scherer & Palazzo, 2011). However, most of the research published in the international business and management literature – if not all – concentrates on the motivations and enablers of CSR (Dau, Moore, & Soto, 2017; Demirbag, Wood, Makhmadshoev, & Rymkevich, 2017; Marano, Tashman, & Kostova, 2017; Marano & Kostova, 2016; Park & Ghauri, 2015; Zhao, Tan, & Park, 2014), its nature and attributed meanings (Amaeshi, 2011; Jamali, Karam, Yin, & Soundararajan, 2017; Selmier II & Newenham-Kahindi, & Oh, 2015) and outcomes at the firm-level (Jiang, Jung, & Makino, 2018; Story & Neves, 2014; Zhao, Zhang, & Kwon, 2018). Despite its relevance, little attention has been given to the outcomes at a societal level, in terms of CSR impact on local institutions.

There is a strong support for the relevance of institutions in shaping firms' CSR intention and strategies (Aguilera & Grøgaard, 2019; Boddewyn & Doh, 2011; Dau, Moore, & Newburry, 2020). However, we direct our attention to the inverse relationship. Our research interest derives from recent developments that bring evidences of CSR being used as a strategic tool to respond to local institutions – or their absence and underdevelopment (Cantwell, Dunning, & Lundan, 2010; Doh, Rodrigues, Saka-Helmhout, & Makhija, 2017; Rathert, 2016). Studies reveal that firms engage with local institutional actors in order to create or change new institutions when they experience deficiencies or institutional voids (Child, Rodrigues & Tse, 2012; Khanna & Palepu, 2010; Li, Peng & Macaulay, 2013; Teegen, Doh, & Vachni, 2004). Moreover, nonmarket activities such as CSR can also affect market functioning (Boddewyn & Doh, 2011). Therefore, an impact on local formal and informal institutions is expected (North, 1990).

In environments characterized by institutional voids, defined as the lack of socio-political structures supporting market functioning (Khanna & Palepu, 1997; 2010), such as some Latin American countries, firms experience instability and non-consolidated institutions and a conflict of agendas, priorities and expectations regarding their role in society. Moving away from the idea of institutions as constraints that structure human interaction (North, 1990), we affirm that these spaces created by institutional voids are occupied by firms through CSR practices (Doh et al., 2017) as way to safeguard legitimacy, improve their competitive advantages and manage associated risks. Therefore, firms can promote significant structural and cultural changes that will support the development process of these countries. The antecedents, mechanisms and characteristics of CSR are deeply explored in extant research, but we focus on its outcomes and consequences for formal institutions in Latin America.

Attempts to measure the societal impact of CSR relied on case studies and small samples to explain institutional change (see Forcadell & Aracil, 2019 for an example). Additionally, recent calls for research demand for quantitative designs, combining both firm and country-level data, aiming at explaining the outcomes of CSR, especially in the context of emerging markets (Kolk, 2016). Against this background and aiming to fill this gap, we aim to undercover the impact of CSR on local institutions by answering the following research question: "**what is the impact of firms' CSR on institutions in Latin America"**. Through a quantitative design applied to a sample of 820 firm-year observations of 145 firms from 34 Latin American countries, over the period of 2005-2018, we provide robust support to our hypothesis. Overall, our analysis suggest that firms CSR have a significant, but negative impact on government effectiveness – considered as betterment of local institutions. This effect is decreased when we consider the moderation of size, but increased when profitability is moderating the relationship. Therefore, bigger companies tend to diminish the negative effect of high CSR performance on institutions in Latin America but the reverse happens when firms are more profitable.

Our results add to the institutional theory literature by bringing evidences on how institutions shape and are shaped by firms' action, even more so in countries where institutional voids prevail (Aguilera & Grøgaard, 2019; Doh et al., 2017). Also, our assertions shed light on the inconclusive discussion on which types of firms are able to contribute to the institutional development of Latin American countries. We explored a low investigated area of research, that has interdisciplinary relevance and extend these contributions to the international business literature, since we add to the burgeoning research agenda on emerging

countries and how firms counteract challenges related to an evolving institutional environment (Meyer & Peng, 2016), and its typically sudden and unpredictable changes (Rottig, 2016). For the CSR literature, we bring evidence on the outcomes and effectiveness of firms pushing this agenda with aims to promote a sustainable development and overcoming failing structures in emerging markets, discussing their prominent role as well as its limits (Dau, Moore, & Newburry, 2020).

The remainder of this paper is divided into five parts. In the second section we describe the theoretical grounding of our manuscript. We follow with a description of the methodological aspects and present our data. Section four presents our findings on the impact of CSR on institutional change in emerging markets. Finally, we discuss these findings and reflect on existing theories, presenting suggestions for future research in our conclusion session

THEORETICAL BACKGROUND

Institutions, institutional voids and change

According to North (1990, p.3), institutions are defined as humanly devised constraints that shape human interaction. Therefore, they correspond to the rules of the game in a society, encompassing both formal and explicit (laws and regulations) as well as informal and tacit (values, norms of behavior and beliefs) rules and constraints (Rottig, 2016; North, 1991). Compliance with these rules determines firms' survivability and legitimation in a society. Therefore, theory suggests that firms need to observe these rules, which vary significantly from one context to another (Aguilera & Grøgaard, 2019), depending on factors such as social, economic and political conditions (Williamson, 2009). The combination of both formal and informal institutions supports market functioning, guarantees legal protection for individuals and organizations and shapes local culture. In emerging economies, and specifically in Latin America, these connections are disrupted by institutional voids, depicted as the absence or underdevelopment of institutions, affecting market structures and its main functions (Khanna & Palepu, 2010; Boddewyn & Doh, 2011).

Firms operating in such environments experience an undergoing institutionalization process, characterized by economic and political instability (Fleury & Fleury, 2011) as well as social and environmental issues. However, as countries evolve, both formal and informal institutions also are reconfigured (Williamson, 2009). This change process is incremental,

evolutionary and reliant on both endogenous and exogenous institutional processes (North, 1990; Mahoney & Thelen, 2010). North (1994) advises that formal institutions normally have a rapid transition, due to frequent changes in governments and policies, while informal institutions follow a different pace, more gradual, due to their social idiosyncrasy and path dependency. However, any changes promoted in both formal and informal institutions generates a movement towards a new balance, reshaping the combination and interactions among them (Williamson, 2009). For instance, if a change in formal institutions is promoted in an emerging country, through the creation of new laws to regulate corruption crimes, as a way to overcome an institutional void, will have consequences for the whole equilibrium in this fragile environment (Mahoney & Thelen, 2010). Therefore, these inconsistencies and ever-changing conditions opens space for firms to act towards these voids, and influence the institutional development of emerging markets.

Despite intensely explored in the international business literature as a concept that connects tensions and paradoxes emerging from firm's interactions with the institutional environment (Doh et al., 2017), there's still space for research that explores the agency of firms towards inconsistencies generated by institutional voids as well as the outcomes of such initiatives for local institutions. Since firms can actively respond to institutional voids through different strategies aiming at shaping, evading or creating new institutions (Boddewyn & Doh, 2011; Cantwell, Dunning, Lundan, 2010; Khanna & Palepu, 2010; Luo & Chung, 2013; Pinkham & Peng, 2017), changes in the institutional environment can be expected. These changes can either support the maintenance of these voids or their substitution through novel formal or informal institutional structures.

However, the exploration of institutional voids by firms can lead to opportunistic behavior, rent concentration in a few actors and unfair competition (Doh et al., 2017). On the other hand, it can also generate positive externalities, mainly through the nonmarket activities exerted by these firms. When they engage with institutional actors aiming to overcome the limitations imposed by institutional voids, countries can experience improvements in local laws and regulations (Boddewyn & Brewer, 1994), renegotiation of meanings regarding good business practices (Teegen, Doh, & Vachani, 2004), and establishment of partnerships (Child, Rodrigues & Tse, 2012; Li, Peng & Macaulay, 2013) that will eventually support their ongoing institutionalization process, such as the case of Latin American countries. Therefore, CSR practices can be used as firms' nonmarket strategy to spur improvements in the institutional environment, which in a long term can support the elimination, or at least

alleviation of the magnitude, of local institutional voids (Cantwell, Dunning, & Lundan, 2010).

Albeit their empirical and theoretical relevance in the field, opportunities for research remain open for exploring this relationship. Institutional change can take place in small periods of time, or in time spans that are measured in decades or centuries (Dacin, Goodstein, & Scott, 2002). Either way, since Latin American countries, as emerging markets that are susceptible to the influence of exogenous institutional influences (Williamson, 2009), it is mister to direct efforts towards a deeper comprehension of the consequences of firms' social responsibility practices on their institutional structure. Research conducted so far has brought several contributions on firms' responses to the institutional environment (Doh et al., 2017), however knowledge on their societal outcomes is still underrepresented, especially in the context of emerging markets (Kolk, 2016).

CSR as a response to formal institutional voids

CSR has different meanings and perspectives in different cultural settings (Matten & Moon, 2004), opening space for multiple definitions and ambiguities. As quoted by Carroll (1999, p. 280), Votaw's definition is still valid: "The term [social responsibility] is a brilliant one: it means something, but not always the same thing, to everybody. To some it conveys the idea of legal responsibility or liability; to others, it means socially responsible behavior in an ethical sense; to still others, the meaning transmitted is that of 'responsible for' in a causal mode; many simply equate it with a charitable contribution; some take it to mean socially conscious; many of those who embrace it most fervently see it as a mere synonym for 'legitimacy', in the context of 'belonging' or being proper or valid; a few see it as a sort of fiduciary duty imposing higher standards of behavior on the businessmen than on citizens at large." Therefore, CSR remains an amorphous term, ambiguous in meaning (Höllerer, Meyer & Lounsbury, 2017; McWilliams, Siegel & Wright, 2006). However, in our understanding, CSR encompasses subjects related to the relationship between businesses and society (Matten & Moon, 2008). It represents a way to deliver firms' core activities and obtain legitimacy while promoting social good (Werther & Chandler, 2011).

Despite a growing movement towards CSR implementation, Latin America does not have the governmental institutional capacity to support its complete adoption (Peinado-Vara, 2006). CSR demands certain conditions and institutional arrangements that might not be present in emerging economies, such as the combination of a strong market, government and

civil society (Husted & Allen, 2006; Matten & Moon, 2008). In response to an increasing international governance pressure and several requirements that confer legitimation for their operations locally and abroad (Levy, Brown, & De Jong, 2010, Scherer & Palazzo, 2011), firms adopt CSR practices even in non-supporting environments. However, the characteristic of these practices is shaped by local demands and insufficiencies (Marano & Kostova, 2016). In other words, when CSR is adopted in emerging countries, its content and associated practices are influenced by the institutional conditions that affect business operations, such as norms and regulations – or lack thereof (Boddewyn & Doh, 2011).

This assertion is supported by previous findings which emphasize how firms developed relationships with institutional actors, such as NGOs and Business Associations, in order to create and legitimize new standards that are compatible with the CSR global agenda, allowing to overcome some of the local deficiencies (Teegen, Doh, & Vachani, 2004). Other studies speculate around firm's role in promoting changes in laws and regulations (Boddewyn & Brewer, 1994) or orchestrating interests with the ones from local governments (Child, Rodrigues & Tse, 2012; Li, Peng & Macaulay, 2013). Therefore, because in emerging countries firms experience institutional voids, and those shape their practices, firms' CSR can reversely influence formal institutions as a way to overcome these voids and create the formal institutions that are necessary for proper market functioning. The antecedents, mechanisms and characteristics of CSR are deeply explored in extant research, but we focus on its outcomes and consequences for formal institutions in Latin America. In the next section we elaborate and present the hypothesis that guided this study.

The impact of CSR on formal institutions: hypotheses development

Impact of CSR on government effectiveness

Formal institutions correspond to policies, laws and codified regulations (North, 1991) and they give support to markets functioning, in a balanced combination with informal institutions (Williamson, 2009). When absent or underdeveloped, institutional voids emerge and can take different forms such as the lack of reliable and adequate information for decision making, misguided regulations that favor political interests over economic efficiency, inefficient judicial systems, law and contracts enforcement, or the absence of intermediary institutions that can support market transactions (Khanna & Palepu, 1997, 2010). All in all, these disruptions present in some Latin American countries, turn market transactions into very risky

endeavors, jeopardizing their economic growth in the long run (Rottig, 2016). Despite previous research efforts consistent findings that support that firms actively shape and manage institutional voids through market strategies (Doh et al., 2017), few attempts were made to explore how nonmarket strategies can be used as a response to institutional voids (Cantwell, Dunning, & Lundan, 2010).

Despite being guided by social and political logics, nonmarket activities can also affect market functioning (Boddewyn & Doh, 2011) through informal interactions with groups that engage in the definition of the 'rules of the game' (North, 1991). Considered a nonmarket activity, CSR can be used as a strategy to mitigate or deal with institutional voids (Cantwell, Dunning, Lundan, 2010). Therefore, higher levels of firms' CSR in a country can influence, in a positive way, the redefinition of the rules of the game, impacting absent or underdeveloped formal institutions. However, the institutional change initiated through firms CSR can lead the outcome to both directions, meaning that they can either support the development of formal institutions or their stagnation, broadening its inefficiencies (Rottig, 2016).

The institutionalization process of Latin American countries is still recent, and initiated during the extensive political regime changes of the 80s and 90s, but the quality of this process is questionable (Helmke & Levitsky, 2006). Building democratic institutions involves creating norms, rules and organizations, laying down clear principles that will guide action (Mainwaring & Scully, 1995). When firms engage in this process, through CSR activities, they can support the democratization process of these countries and contribute to an increase in terms of local governments effectiveness (Magalhães, 2014). Government effectiveness corresponds to the ability to find and implement satisfactory solutions to policy issues, and a lack of it can jeopardize a country's legitimacy and authority (Linz, 1978). Thus, high levels of CSR performance, as an outcome of CSR practices, among firms in a given country can contribute to an improvement in the "actual performance of a political system […] marked by an efficient bureaucracy and decision-making system" (Lipset, 1959; 86-87). This rationale supports the following hypothesis:

H1: Firms' CSR performance have a positive effect on government effectiveness in Latin American countries.

The effect of firms' size

As previous research supports, firm level characteristics can affect CSR participation (Udayasankar, 2008). The role of size, however, despite vital is still relatively understudied (Madden et al., 2006). The motivation of firms in engaging with CSR activities is directly related to their size, since bigger firms tend to have ample access to resources (Kolk, 2016), but also significant more impacts in the local environment (Zhao, Tan, & Park, 2014). Recent studies have also explored the initiative of smaller firms towards CSR, showing that they are not necessarily less advanced in putting CSR in practice when compared to bigger ones (Baumann-Pauly, Wickert, Spence, & Scherer, 2013), even in non-supportive environments such as emerging markets (Amaeshi, Adegbite & Rajwani, 2016). The institutional conditions of countries in Latin America challenge firms' survival and, in parallel, CSR demands high investments in human and financial capital (Sharma et al., 1999; Seifert, Morris & Bartkus, 2004). Since bigger firms have more resources and a more complex, encompassing structure (Gallo & Christensen, 2011) and are able to exert power and influence over institutional actors (Boddewyn & Brewer, 1994), their CSR activities can reach institutional levels and initiate change in formal institutions. Several findings support this assertion, showing that big firms make use of their reach and influence, as well as personal connections, to overcome institutional voids and promote changes in laws and regulations while orchestrating interests with local governments (Child, Rodrigues & Tse, 2012; Li, Peng & Macaulay, 2013; Narayanan & Fahey, 2005). We therefore hypothesize that firm size has an important role in the relationship between firms' CSR performance – as an outcome of CSR practices – and government effectiveness, where bigger firms will tend to increase the positive nature of this relationship

H2: Firm size positively moderates the relationship between firms' CSR performance and government effectiveness in Latin American countries.

The effect of firms' profitability

Profitability, as a measure of firm performance, is another firm-level characteristic that is decisive for CSR implementation in emerging markets. Bigger firms, with large-scale operations, are able to better allocate resources and exploit opportunities to overcome institutional voids through CSR, incurring in additional costs (Udayasankar, 2008). The same

does not apply for smaller scale operations. Also, resource limitations lead firms to invest in more traditional, market related strategies to safeguard their competitiveness (Gallo & Christensen, 2011). Higher levels of profitability, derived from large-scale operations, allow firms to direct slack financial resources to deal with institutional voids through complex CSR activities. Because interactions with government actors require leverage and requires high investments (Amaeshi, Adegbite, & Rajwani, 2016), we expect that differences in terms of profitability can change the direction of the expected relationship between a firm CSR performance and improvements in local institutions. Therefore, we hypothesize that:

H2: Firm profitability positively moderates the relationship between firms' CSR performance and government effectiveness in Latin American countries.

METHODOLOGY

Sources and Sampling of Data

To effectively test the hypotheses, we utilize a time panel of all publicly Latin American firms registered within the Thomson Reuters database and all years of data available (2005-2018). The database used within this research was compiled annually since 2000 and collected from the Reuters database archives. While the database captures a variety of firm-level control variables used in this sample, it primarily captures the Environmental, Social, and Government (ESG) score per firm per year. Unlike other CSR databases that focus on specific business policies and firm footprints within particular countries, such as the Human Rights Campaign Corporate Equity Index which focuses on United States' firms, the United Nations Global Compact Initiative is unique in that it has a global reach. Moreover, because the data is organized in a time panel, it accounts for when a company has either an increase or decrease in ESG score.

In addition to the Reuters database, we also collected country-level panel data from the World Bank organization's Worldwide Governance Indicators dataset. The source represents the most official and comprehensive data on country-level governance scores. It has been collected annually since 1957. It accounts for the level of regulatory quality, government effectiveness, rule of law, voice and accountability, and political stability of each country per year. In order to add robustness to our results, we also include country-level and

firm-level controls from the World Bank Development Indicators Dataset and Thomson Reuters. After removing missing values, the final sample includes 820 firm-year observations for 145 firms across Latin America.

Variables and Measures

Table 1 provides a summary of the variables and measures used in this research project.

Dependent Variable. The dependent variable is *Government Effectiveness,* for which we use two measures: *Government Effectiveness* and *Government Capacity*. We describe the first of these in this section and the second in the robustness test section of the paper. The main measure we use to capture the dependent variable is *Government Effectiveness*, a continuous variable used to indicate how effective the government is at enforcing and carrying out regulations and policies. It is distinct from regulatory quality and focuses more on a government's strength and ability in a given year.

*** Insert Table 1 About Here ***

Independent Variable of Interest. The independent variable of interest is the *ESG Score*, for which we use two measures. The first is *ESG Score,* which is a continuous measure captured per firm per year. The scores are designed to transparently and objectively measure a company's relative ESG performance, commitment and effectiveness across 10 main themes (emissions, environmental product innovation, human rights, shareholders, etc.) based on publicly-reported data. The second is *ESG Performance*, which measures the weighted value of a company's ESG score relative to other scores of firms in the country.

Moderating Variable. Additionally, this research centers around two important moderating variables: *firm size* and *firm profitability*. We measure *firm size* based on the total number of full-time employees paid per firm per year. We measure *firm profitability* by using the profit margin of a firm per year. Both of these measures are compiled annually within the Reuters' database.

Control Variables. In order to eliminate alternate explanations and account for other factors that might impact government effectiveness, we add multiple control variables at both the country and firm level. Our analysis includes 34 countries (see Table 2 for a list). First, we control for the *industry,* to mitigate the different industry effects and factors that may affect

firms and the governments they operate within. Second, we control for *organization type* to further abate the different contextual factors that might influence a government based on whether or not a firm has state-ownership ties. Third, we control for the year of analysis to account for different events in a given year that may directly or indirectly influence CSR practices. Fourth, we control for *revenue* because firms with greater resources may have an advantage and ability to implement CSR practices and ultimately influence governments more than firms with less revenue. Fifth, we control for *operating income* to account for the amount of profit a firm has realized after they have paid taxes. Sixth, we control for the *business cycle* as represented by the growth in the gross domestic product, as the cycle and growth of the economy and businesses is likely to impact a firm's decision to allocate funds to CSR activities and then a country's ability to enforce effective policies (Martin & Parker, 1995). Seventh, we control for the country's monetary strength because firms based in countries with stable monetary policies may have more or less of a tendency to be efficient in policy construction. Eighth, we control for the regulatory quality of a country because the level of regulation and specific policies and reforms within a country may have an impact on a firm's decision to engage in CSR practices. Ninth, Finally, as is commonly done in the literature, we lag the data by one year to allow for the impacts of integration to translate into firm actions.

*** Insert Table 2 About Here ***

Research Design

To provide robust and reliable results, we utilize three different methods. We discuss the first of these here and the other two in the robustness test section of the paper. The main method we use is a time series generalized least squares regression (GLS) model with correction for panel-specific autocorrelation. This method is suited to account for difficulties within the structure of panel data and accounts for the continuous nature of the dependent variable used (Baum & Christopher, 2006; Zeger, Liang, & Albert, 1988).

The observations are structured in the following way: firm-year observations nested within firms, which are in turn nested within countries. Due to the hierarchical nature of the panel data, the random effects model is also useful to control for unobserved heterogeneity (Lee, 2002). Further, the random effects models are selected because the individual specific effects are uncorrelated with the independent variables (Greene, 2003; Woolridge, 2002).

In order to further ensure reliable results, we followed Bliese and Ployhart's (2002) testing sequence to construct four-levels of models each building upon the prior for the first test and then two levels of models for the second and third tests. Building sequential models ensures that the results are not impacted by missing data and mitigates the effects of violations of sphericity amongst the errors (Polyhart, Holtz, & Bliese, 2002).

We carry out the testing of our models based on the guidelines established in Frazier, Tix and Barron (2004). To mitigate the potential effects of multicollinearity, the continuous independent variables are standardized (Frazier, Tix, & Barron, 2004; Lee, 2002). The data is lagged by one year to account for the time it takes for the outcomes of trade networks to impact firm strategic decisions regarding CSR signaling. The following is the specific model used:

$$
\begin{aligned}
\textit{Government Effectiveness}_{ijkt} = \beta_0 + \beta_1 & \textit{ESG Score}_{kt=1} \\
& x\ \beta_2 \textit{Firm Size}_{ijkt-1} \\
& + \beta_3 \textit{ESG score} \\
& x\ \beta_4 \textit{Firm Profitability}_{ijkt-} \\
& + \beta_m \textit{Control Variables}_{ijkt-1} + \varepsilon
\end{aligned}
$$

When testing Hypothesis 1, the moderating variables (i.e., $\square_2$. $\square_2$) are not included so we can assess the general impact of ESG score on government effectiveness. In this model, if $\square_1$ is negative and significant, that suggests that ESG score has a negative effect on firm government effectiveness, without making a distinction between types and profitability of firms.

When testing Hypothesis 2, the model above is used using the first moderating effect (*firm size)*. It is important to note that the results of this model are conditional on the continuous moderator and need to be interpreted accordingly (Frazier, Tix & Barron, 2004; Woolridge, 2002). When testing Hypothesis 2 the first interaction term is added (i.e., $\square_5$) to examine the moderating effect of firm size on the relationship between ESG Score and Government Effectiveness. The results are conditional on the continuous moderator. In this model if $\square_1$ is negative and significant, the effect of ESG Score on Government Effectiveness is negative. On the other hand, $\square_2$ captures the differential effect of ESG Score on Government Effectiveness with respect to firms of different sizes. If $\square_2$ is positive and significant, the effect of ESG Score on Government Effectiveness is reduced in when firms are larger.

When testing Hypothesis 3, the model above is used using the first moderating effect (*firm profitability)*. It is important to note that the results of this model are conditional on the continuous moderator and need to be interpreted accordingly (Frazier, Tix & Barron, 2004; Woolridge, 2002). When testing Hypothesis 3 the second interaction term is added (i.e., $\square_4$) to examine the moderating effect of firm profitability on the relationship between ESG Score and Government Effectiveness. The results are conditional on the continuous moderator. In this model if $\square_1$ is negative and significant, the effect of ESG Score on Government Effectiveness is negative. On the other hand, $\square_4$ captures the differential effect of ESG Score on Government Effectiveness with respect to firms of different levels of profitability. If $\square_4$ is positive and significant, the effect of ESG Score on Government Effectiveness is reduced when firms are more profitable.

RESULTS

Table 3 provides the summary statistics and correlations of the variables. ESG Scores values range from 0 to 95 with a mean of 42.17. The average firm in the sample has 5,347 employees and the average government effectiveness of each country is 0.08. The correlations are generally low, except for the three last variables in the table, economic development, business cycle, and regulatory quality. To address potential issues with these high correlations, we removed these three control variables and reran the analyses, obtaining results that are consistent with those of the main analyses. We also tested for multicollinearity using variance inflation factor (VIF) tests and found that the average VIF (2.37) is well below the recommended cutoff of 10 (Kutner, Nachtsheim, Neter, & Li, 2004). This suggests that multicollinearity is not an important issue affecting the results. We kept the control variables in the models because they are important theoretically.

*** Insert Table 3 About Here ***

Main Test Results

Table 4 shows the results of the time series GLS regression models for the impact of ESG Score on Government Effectiveness and how this varies for firms of different sizes and profitability levels. The models are organized sequentially as variables are added to them

(Frazier, Tix & Barron, 2004). Model 1 only includes the control variables. Model 2 adds the variable ESG Score, testing hypothesis 1. Model 3 adds the interaction effect between ESG Score and Firm Size, testing Hypothesis 2. Model 4 adds the interaction effect between ESG Score and Firm Profitability, testing Hypothesis 3.

Model 1 demonstrates control variables. Results indicate, as expected, that increased regulatory quality and monetary strength increase government effectiveness, consistent with prior literature. Interestingly, although firm size (employees) is used as a moderator in later models, model 1 also demonstrates the positive direct effect of firm size on government effectiveness. Although this falls short from the scope of this work, future studies could explore this evidence.

*** Insert Table 4 About Here ***

Model 2 yields a negative and highly statistically significant result for the coefficient of ESG Score ($\square_1$), suggesting that when firms have higher levels of ESG Scores, the government effectiveness in their home country decreases. Since the measure for ESG score is standardized, the magnitude of the coefficient suggests that an increase in one standard deviation of ESG score decreases government effectiveness by 13 percentage points (Model 2). The results of this model interestingly do not provide support for Hypothesis 1.

Models 3 and 4 provide the effects of the moderating relationships. Model 3 provides the effects of the firm size as both an independent variable and as a moderator. The coefficient of the interaction term ($\square_2$) is positive and highly statistically significant, but interestingly the direct effect of firm size has no significant impacts. However, it also suggests that the negative impact of ESG score on government effectiveness is reduced when firms are larger. The results offer support for Hypothesis 2.

Model 4 provides the effects of firm profitability as both an independent variable and as a moderator. The coefficient of the interaction term ($\square_4$) is negative and highly statistically significant. This suggests that the negative impact of ESG scores on Government Effectiveness is worsened when firms have high profitability. The results of this test provide support for Hypothesis 3.

Robustness Tests

We conducted additional analyses, not presented here for the sake of page length, to corroborate that our findings are not due to alternate explanations and to provide more robustness findings. Our results negate the alternative explanations and corroborate our findings relating to the negative impact of ESG Score on government effectiveness, as well as the positive and negative moderation effects of firm size and firm profitability respectively.

Alternate Test Designs. To supplement the main analyses, the fixed effects GLS Regression models, we use two alternative methods. The first is a time-series fixed effects ordinary least squares (OLS) regression with correction for panel specific autocorrelation. This method is appropriate because the independent variables in question vary in systematic amounts due to country differences (Cameron & Trivedi, 2005; Hoffman, Griffin & Gavin, 2000; Lee, 2002). Further, this model is able to control for all time-invariant differences between the countries within this study (Baltagi, 2008; Kutner et al., 2004). In other words, these models are used to study the changes across different countries. The second method we employ is a time-series generalized estimating equation (GEE) model. These models are intended to reduce the bias from ignoring longitudinal correlation to account for temporal dependence amongst time-series observations (Berk & MacDonald, 2008; Blundell & Bond, 1998; Coxe, West & Aiken, 2009). Both alternative methods are appropriate to account for the continuous nature of both the independent and dependent variables within the two hypotheses used. The results corroborate the initial findings.

Alternate Dependent Variable. To achieve robust results, we run the models using an alternate measure for the dependent variable, *Government Effectiveness*. In the main analyses, we use the measure *Government Effectiveness* which captures a government's ability to adequately enforcement and uphold regulations. As an alternate measure, we use *Government Capacity* which is a continuous measure of a government's ability to uphold the rule of law and agreed upon formal regulations in a country per year. This variable is captured annually from the World Bank Governance Indicators Dataset.

Alternate Independent Variables. To achieve robust results, we run the models using an alternate measure for the dependent variable, *ESG Score*. In the main analyses, we use the measure *ESG Score*, which captures a firm's performance on the 10 accepted ESG metrics. As an alternate measure, we use *ESG performance* which is a continuous measure of firm level ESG compliance relative to other firms in the firm's home country. This variable is captured annually from Reuters. It is also important to note that as with the main variable of interest, this alternative measure also captures whether or not a company increased *or* decreased their ESG score. The results support our original findings.

Alternate Control Variables. Moreover, to ensure the validity of our results, we use alternative measures of the control variables at both the firm and country level.

First, in our main model we use employees to capture self-reported firm size. The variable captures the number of employees operating within a firm at any given year as reported on the annual Reuters database. We use a categorical variable, *firm type*, as an alternative measure of employees as an indicator of the size of a firm. Recorded from Reuters database, the values are as follows: 1 = SME (Small or Medium Enterprise); 2 = Company; and 3 = FT (Financial Times) 500 Company. As such, this categorical variable captures whether the firm is one of the largest in the world (i.e., FT 500), a small/medium company (i.e., SME) or somewhere in between (i.e., Company), thus providing a rough measure of firm size. By utilizing the same model from the main hypothesis, our findings are reinforced.

Second, in order to control for the regulatory environment of a given country, our main model uses *regulatory quality*, a variable recorded from the World Bank Country Indicators database. The purpose of this variable is to assess the regulatory strength of a nation. As an alternative measure, we use *political stability* Also recorded from the World Bank's Country Indicators database, *political stability* captures Political Stability and Absence of Violence/Terrorism measures perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism. The estimate provides the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5. Our original findings using this measure are upheld.

Third, as another alternative control of the business cycle of a nation we run the same models using a gross national income growth. Our findings are also verified with this measure. Finally, to account for the possibility that the large number of control variables included in the analyses could be affecting the results, we reran the analyses without any of the control variables. The results provide equivalent support for the hypotheses.

DISCUSSION AND CONCLUSION

Building on institutional theory and the CSR literature, we develop a theoretical framework to explore the consequences of CSR practices for local institutions in emerging markets. We argue that the absence of market-supporting institutions and a socially responsible culture, characterized as institutional voids, opens space for firms' initiating an institutional change process with the aims to level the playing field with developed economies. These changes can be initiated through firms' nonmarket activities, such as CSR, and, as an outcome, favor

business competitiveness and growth. Using a sample of 820 firm-year observations for 145 firms from 34 Latin American countries, over the period of 2005-2018 and controlling for firm-level unobservable heterogeneity, we find supportive evidence that the CSR performance of firms negatively affect government effectiveness. Interestingly, we find that this negative impact of CSR performance on government effectiveness is reduced when firms are larger. On the other hand, this negative relationship is worsened when firms conducting CSR are more profitable.

Through CSR practices, firms are more and more engaging in public health, education, social security, and human rights protection when they operate in countries where the state failures limit access to citizenship rights (Scherer & Palazzo, 2011). Consequently, firms are assuming state-like role that is performed through CSR activities, such as fighting hunger in low developed areas of Mexico, or violence while supporting the transition after the peace deals with the FARCs in Colombia, or even engaging in the creation and passing of new laws that aim at regulating corruptive behavior in Argentina after the Odebrecht scandal spread from Brazil to other Latin American countries in 2017. All these initiatives, anchored by the CSR programs they develop, are a way to protect, enable and implement these citizenship rights (Marshal, 1965) that are lacking in countries with pervading institutional voids. Our results show that, in general, these activities have a negative impact in the betterment of local institutions – specifically government effectiveness. We assume that countries in which firms have high levels of CSR performance, firms' capture of state-functions through their CSR might increase the inability of local governments to design and implement effective solutions for social, economic and environmental issues since they might rely on other actors (including these firms) to deliver such initiatives and reduce their participation in the production of public goods.

The quest for legitimacy, mainly by bigger firms that are more exposed to the national and international markets, leads these firms to engage in CSR in order to avoid public bads and generate public goods, since compliance with the minimum requirements in these environments can have significant negative impacts (Scherer, 2018). Therefore, as our results show, bigger firms tend to lessen the negative impact that CSR has on government effectiveness, since they are able to invest more resources, either financial or human, and have a relational power or influence to develop CSR practices that address social issues and influence public policy design as well as the development of new regulations and laws (Gallo & Christensen, 2011; Sharma et al., 1999; Seifert, Morris & Bartkus, 2004). Bigger firms' CSR performance can support local governments in providing solutions for issues faced by

countries in Latin America. On the contrary, when firms experience high profitability, their intention to approach local communities and address social and environmental issues might hinder initiatives from local governments to provide the necessary formal institutional structure, worsening its effectiveness. One explanation for such outcome is that, despite the greater availability of financial resources, these firms have primary commitments with their stockholders, diverting their investments in CSR and, consequently, diminishing their ability to positively impact government effectiveness.

Our research sheds light on an important outcome of CSR activities, analyzed in terms of institutional change and based on country-level data. We were able to combine a longitudinal dataset and present results that show the evolution of formal institutions, specifically in local governments effectiveness, of all countries in Latin America. Institutional theory predicts that when firms experience institutional voids, they might actively engage with institutional actors in order to counteract the negative effects derived from them. As a consequence, changes in formal institutions might emerge. Through collective actions, partnerships with local governments and business associations to generate peer pressure, firms can, for instance, initiate a change in local legal systems and support the creation of new laws that will regulate corporate misconduct. Surprisingly, our results show that the higher the CSR performance of firms in Latin American countries, less effective is their government in providing formal solutions through public policies for societal issues. Thus, we support previous research that encourages firms' embracing a more political role and offer results that show how this theoretical positive effect can turn into reality and support institutional development.

For research in the international business literature, we bring more evidences on how institutions are shaped and evolve in emerging markets as a result of firms' commitment to nonmarket activities (Cantwell, Dunning, & Lundan, 2010). Emerging markets represent challenging environments and the institutional conditions increase the relevance of firms' agency towards local governments and other institutional actors, as a way support institutional development. We point some directions to this relationship and discuss the limits of the expected positive outcomes. Also, we bring on the discussion on firms' size and profitability, as few studies explore both as moderators of the institutional change process initiated by firms in Emerging Markets. With these outcomes, we support the development of CSR literature and create opportunities for other researchers to explore the limitations of our study.

CSR meaning and practice, as well as formal institutions, are embedded in the countries where they are created, lived and experienced. Therefore, despite the attempt to

generalize our outcomes to a very interesting research setting, still the relationships we witnessed in our study can manifest differently in other contexts. Future studies could benefit from our research design by adding other variables at the firm level that would create other identifiers, such as firms' operations abroad, board size and composition, as well as governance tools that might shape CSR scope and activities. Likewise, other studies could add more complexity to the current research design by merging both formal and informal institutional variables, in order to assess the balance that is achieved after any institutional change process is initiated and the possible effect CSR has in cultural and value-based changes (Williamson, 2009).

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Table 1 – Variables and measures

Measure	Description	Value	Source
Government Effectiveness	Government effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies	Continuous	WBDI
ESG Score	Total ESG score is an aggregated value of CSR performance in many environmental, social and governmental items, e.g. employment quality, health and safety, training and development, human rights, community. The overall ESG score implies an equal weighting of all relevant data points, z-scoring and comparing them with the data points of all other companies to obtain a relative measure of performance expressed as a percentage ranging from 0 to 100 percent.	Continuous	Thomson Reuters ASSET4
Employees	Number of full-time employees paid per firm per year	Continuous	Thomson Reuters Fundamentals
Profit Margin	Net profit margin of a firm per year, represented by the income available to common excluding extraordinary items divided by total revenue.	Continuous	Thomson Reuters Fundamentals
Revenue	Revenues of a firm per year, obtained from the sale of merchandise goods, manufactured products and services, and the distribution of regulated energy resources, depending on a specific company's industry.	Continuous	Thomson Reuters Fundamentals
Operating Income	Total revenues from all of a company's operating activities, after deducting any sales adjustments and excise taxes. Commonly referred to as earnings before interest and taxes (EBIT).	Continuous	Thomson Reuters Fundamentals
Business Cycle	Difference in gross domestic product for the year and the previous year divided by gross domestic product in the previous year	Continuous	WBDI
Regulatory Quality	Captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.	Continuous	WBDI
Monetary Strength	The degree to which the monetary policy in a country is stable and consistent while offering long-term price stability.	Continuous	Fraser Institute
Industry	2-Digit industry identification code	Categorical Indicator	Thomson Reuters Eikon
Organization Type	The types of organizations in a country totaling eight categories (collective investment, academic institutions, business organization, government, government department / agency, market participant, NGO, supranational).	Categorical Indicator	Thomson Reuters Eykon
Year	Categorical indicator of the year of analysis	2005-2018	Thomson Reuters Eykon

Table 2 – List of countries

Countries considered in our analysis	
Anguilla	Falkland Islands
Antigua and Barbuda	Jamaica
Argentina	Mexico
Bahamas	Nicaragua
Barbados	Panama
Belize	Peru
Bolivia	Puerto Rico
Brazil	Saint Lucia
Cayman Islands	Sint Maarten
Chile	Trinidad and Tobago
Colombia	Turks and Caicos Islands
Costa Rica	Uruguay
Curacao	Venezuela
Dominican Republic	Virgin Islands; British
Ecuador	Virgin Islands; United States

Table 3 – Descriptive statistics

	Variable	**Mean**	**s.d.**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
1.	Government Effectiveness	0.19	0.02								
2.	ESG Score	0.16	0.24	-0.20							
3.	Employees	0.89	0.07	-0.06	0.23						
4.	Profit Margin	0.01	0.01	0.00	0.05	0.00					
5.	Revenue	1.05	0.26	-0.09	0.29	0.57	-0.01				
6.	Operating Income	0.94	0.30	-0.05	0.18	0.31	-0.01	0.64			
7.	Business Cycle	0.19	0.20	0.06	-0.05	-0.17	0.02	-0.09	-0.08		
8.	Regulatory Quality	0.07	0.30	0.33	0.07	-0.27	0.01	-0.05	-0.02	0.26	
9.	Monetary Strength	0.04	0.11	0.16	0.09	0.11	-0.01	0.10	0.11	-0.29	0.25

Correlations with an absolute value greater than or equal to 0.01 are significant at 0.05 level (two-tailed).
Descriptives for the 145 firms, 14 industries, 8 organization types, and 14 years are not included for the sake of parsimony.

Table 4 – Results

Variables	**Model 1**		**Model 2**		**Model 3**		**Model 4**	
Intercept	0.07	(0.35)	0.38	(0.33)	0.39	(0.33)	0.35	(0.33)
Revenue	-0.01	(0.01)	-0.01	(0.01)	-0.01	(0.01)	-0.01	(0.01)
Operating Income	0.00	(0.01)	0.00	(0.01)	0.00	(0.01)	0.00	(0.01)
Business Cycle	0.09	(0.05)	0.05	(0.04)	0.05	(0.04)	0.05	(0.04)
Regulatory Quality	0.21	(0.03)	0.24	(0.03)	0.24	(0.03)	0.24	(0.03)
Monetary Strength	0.10	(0.04)	0.10	(0.04)	0.11	(0.04)	0.10	(0.04)
Industry Code	Included		Included		Included		Included	
Organization Type	Included		Included		Included		Included	
Year Control	Included		Included		Included		Included	
Profit Margin	-0.03	(0.16)	0.04	(0.16)	0.05	(0.15)	2.50	(1.18)
Employees	0.02	(0.01)	0.04	(0.01)	0.03	(0.01)	0.04	(0.01)
ESG Score			-0.13	(0.02)	-0.14	(0.02)	-0.12	(0.02)
ESG Score x Employees					0.01	(0.01)		
EGS Score x Profit Margin							-1.21	(0.58)
Wald Chi Squared	237.74		324.91		329.26		330.99	
Log Likelihood	-476.95		-444.48		-442.93		-442.311	
Firms	145		145		145		145	
Observations (n)	820		820		820		820	

Indicators for each country (34) and year (14) are included in the models, but their coefficients are not reported for the sake of brevity
† $p<0.1$, * $p<0.05$, ** $p<0.01$, *** $p<0.001$

CHAPTER FIVE: FINAL CONSIDERATIONS

In this thesis I applied different methodologies to explore the phenomena under study. I present three articles which aim to explain **the interaction of firms and institutions, focusing on how it is defined, how it unfolds, as well as the outcomes through different levels of analysis.** Applied to the context of Latin America and the MNCs subsidiaries CSR strategy, the main research question is: **how institutional voids and the CSR strategy of MNCs interact in Latin America?** The outcomes we obtained with the three articles together provide basis to great advancements in theory and practice. The institutional environment of Latin America is challenging and present several institutional voids, which in turn affect firms' decisions regarding their CSR implementation. Mostly related to informal voids that extenuate the gravity of local socio, economic and environmental conditions, MNCs subsidiaries CSR is consequently directed to counteract cultural deficiencies that will further allow a fair competitive environment to emerge. Since MNCs have influence and power over institutional actors, their CSR activities can also be directed to fill formal voids and create or change local institutions. These interactions through CSR activities can generate positive gains for the countries in Latin America in terms of government effectiveness, especially when conducted by larger firms which have access to resources to promote deep changes in the Latin American institutional scene.

For the institutional literature, the study emphasizes the antecedent role of informal institutions in shaping firms' practices – either towards social responsibility or irresponsibility. I also explore the recommendations from previous research (Bothello, Nason, & Schnyder, 2019) by bringing informal institutions and informal voids to the center of the discussion, shedding light on a rarely researched topic in the international business literature (Boddewyn & Doh, 2011). Informal voids represent gaps in terms of culture, beliefs and values that support institutional development in a country and our research provide an in-depth account of how they shape MNCs nonmarket strategies, that is, how CSR is defined by culture and values prevailing in the countries where they chose to establish their operations (Doh et al., 2017; Marano & Kostova, 2016).

The articles' findings not only show that MNCs are affected by this combination of formal and informal institutions (North, 1991; Williamson, 2009), as well as the voids when those are absent and underdeveloped (Khanna & Palepu, 2010), but they deliberate chose to develop strategic responses to them through enablers related to personal identification,

autonomy conferred by the headquarters and their transnationality, and mechanisms of reflexivity, resources and expected roles in the host-country. The responses they implement are conducted through their CSR activities and aim to promote institutional innovations, arbitrage or adaptation – as previous literature show. I, therefore, was able to test and extend current institutional literature focused on agency, opening space for new research designs that can combine both the strategic responses we capture here as well as their outcomes at a national level.

Currently, firms are engaging in public health, education, social security, and human rights protection when they operate in countries where the state failures limit access to citizenship rights (Marshal, 1965; Scherer & Palazzo, 2011). Our results show that, in general, these activities have a negative impact in the betterment of local institutions – specifically government effectiveness. We assume that countries in which firms have high levels of CSR performance, firms' capture of state-functions through their CSR might increase the inability of local governments to design and implement effective solutions for social, economic and environmental issues since they might rely on firms to do so. However, this negative impact is reduced when bigger firms are involved since they are able to invest more resources, either financial or human, to address social issues and influence institutional change (Gallo & Christensen, 2011; Sharma et al., 1999; Seifert, Morris & Bartkus, 2004).

The three articles also shed light on still vague definitions and understanding that researchers face when studying CSR. We confirm the importance of context and the embeddedness of CSR meaning and practice, which in turns hinder generalizations. More than applying concepts from Western cultures, it is important to support the development of theories that really explain the phenomena while encompassing local idiosyncrasies (Aguilera & Marano, 2016; Kolk, 2016; Scherer, 2018). We aimed to combine both in-depth, qualitative analysis, and a robust quantitative design to explore these issues. We support past evidences on the types of practices and strategies enacted by MNCs and the relevance of international standards in this process. CSR in Latin America is in a process of institutionalization, leaded my MNCs, with the aims to improve local business conditions and support institutional change. Our research also discuss questions related to the outcome of CSR activities, analyzed in terms of institutional change and based on country-level data, which is currently understudied. Findings support current developments on the important political role of firms (Scherer & Palazzo, 2011) and offer results that show how this can turn into reality and support institutional development.

For research in the international business literature, we bring more evidences on how institutional voids are shaped and can be tackled in emerging markets as a result of firms' commitment to nonmarket activities, mainly by MNCs subsidiaries and local big firms (Doh et al., 2017; Cantwell, Dunning, & Lundan, 2010). Emerging markets represent challenging environments and the institutional conditions increase the relevance of firms' agency towards local governments and other institutional actors, as a way support institutional development. We point some directions to this relationship and discuss the limits of current theoretical developments. We also discuss the relevance of the headquarter-subsidiary relationship when nonmarket strategies are implemented. As MNCs subsidiaries become more spread and independent, the importance of guiding principles for strategy implementation throughout the world becomes evident. Despite the flexibility headquarters give to subsidiaries, this nonmarket activity demands centralization by the headquarters through global corporate mandates for CSR. In that way, the necessary support is provided, safeguarding the observation of international governance mechanisms and serves as a guideline for action in the local environments.

When MNCs subsidiaries establish activities in Latin America, they deliberately chose to minimize the hampering effects of the underdeveloped scenario by strategically engaging in institutional change – while also embracing local demands in order to safeguard legitimacy and reduce their liability of foreignness. Their aim with these initiatives is also to level the playing field and develop the local market in order to compete with their full capabilities. Another motivation for engagement with institutions in the host-country is the necessity to maintain internal coherence within the MNC network, by enforcing general international standards.

From a managerial standpoint, we undercover the relevance of acting towards the betterment of societal conditions in Latin America in order to create a business environment that favors competition, overcoming social and environmental issues that might hinder firms' operations. We believe that MNCs have a strong and important role in these environments and supporting these changes can benefit their competitiveness, guaranteeing coherence with international standards set to regulate CSR activities. Localizing CSR is an important strategy but conferring subsidiaries autonomy by creating regional areas of intelligence and decision making can improve the efficacy of these strategies, both for companies and societies. Moreover, I highlighted the role MNCs possess as primary conveyors of information, practices, programs, policies that are determined in the international arena and represent higher standards than those applied in the Latin American game. When operating in these

countries, MNCs must invest in cultural practices to support a change in informal institutions that will, in the future, be the basis for a democratic economy, following the rule of the law and stable market structures. This happens as an outcome of firms' active role in important circles that open space for conversations about institutional deficiencies and how can firms support improvements and changes, in a collective manner.

The limitations for each study were discussed separately, but together they subsidize new avenue of research discussed in the following paragraphs. By combining both cross-sectional data and large datasets, we believe we can provide support for the causal mechanisms behind the institutional engagement of MNCs and the possible consequences. More empirical research is necessary to explore if the antecedents of CSR, the strategic responses to institutional voids and the outcomes identified apply to other realities. Future studies could replicate this same research framework using longitudinal or historical data, so they are better able to capture the processual aspect of institutional change. With the same intention, researchers can add other variables at the firm level that can create other identifiers, such as firms' operations abroad, board size and composition, as well as governance tools that might shape CSR scope and activities. Adding more complexity to the current research design by merging both formal and informal institutional variables, could also complement the findings displayed in this thesis. On the other hand, our interview reports can be biased and rely on past experiences and the selective memory of individuals. In order to overcome these limitations, studies could explore the role of ethnographies or action research designs in allowing for a real account of the relationships explored, by witnessing the whole interaction under a processual view. Experimental or quasi-experimental approaches can also be designed to explore how as managers inside these firms, as individuals also influenced by the institutional voids, balance conflicting values, identities and cultures and support the CSR agenda in the local and international level.

By bridging both CSR, as a nonmarket activity of firms operating in a giving context, and informal institutions in the context of international business, I aimed to present an encompassing perspective on the influence of voids on firms' CSR and how these are addressed by strategic responses of firms, through CSR practices designed in their home countries and localized in the host countries according to local demands. We also show the nuances behind the impact of CSR on institutions in Latin America.