The provisioning of collective goods by MNEs in emerging markets

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Abstract

Purpose – This paper aims to determine the essential "collective goods" which a foreign multinational enterprise (MNE) must have before production can start in a remote area of an emerging economy, and to consider the alternative governance modes available to procure or create these goods.

Design/methodology/approach – This purpose is examined conceptually and theoretically. First, the concept of "collective goods" is presented, followed by a consideration of the traditional "buy, ally or make" contractual approaches available to obtain goods and services. These approaches are repositioned in the context of an "emerging economy" so that alternative "ordering systems" as well as "non-contractual" means of obtaining things have to be considered in the context of internalization and reciprocity theories.

Findings – It is difficult to obtain collective goods in remote areas of emerging economies where private ordering prevails and even succeeds but at high transaction costs and with substantial government intervention. However, the use of non-contractual modes of exchange such as reciprocity is available to facilitate exchanges between market MNEs and nonmarket state offices and civil-society associations such as non-governmental organizations with which collaboration is necessary but which cannot be acquired or controlled by MNEs. However, market firms can use philanthropy and lobbying to obtain the help of these nonmarket actors who know how to operate under private and state-ordering systems.

Research limitations/implications – Theoretical implications: Internalization theory explains why MNEs are able to obtain collective goods by providing them "in-house", while reciprocity theory exemplifies how non-contractual modes of exchange can substitute for the traditional but contractual "buy, ally and/or make".

Practical implications – Managerial implications: In terms of the organizational structure of the subsidiary of an MNE operating in an emerging economy, it appears that the line functions of procurement, engineering and production may rely more on contractual exchanges with foreign suppliers, while the staff functions of public affairs, government relations and human resources may be more adept at using reciprocal exchange with local suppliers.

Originality/value – The provisioning of the collective goods when a firm builds its facilities in a remote and underdeveloped part of an emerging economy has hardly received any research attention nor have the non-contractual ways – such as reciprocity – available in the context of private ordering to obtain these goods.

Keywords Emerging markets, Collective goods, Governance modes, Institutional voids, Ordering systems, Transaction-cost economics

Paper type Research paper

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International-business researchers have long analyzed the modes of entry and governance pertaining to the foreign production and distribution of private commercial goods by multinational enterprises (MNEs). However, these production and distribution activities cannot begin to take place without the provisioning of a broadly defined infrastructure[1].

Think of the companies that started extracting oil in Saudi Arabia in the 1930s: before and while early production took place, at a time when roads had to be built, managers and employees had to be housed, schools and infirmaries had to be made ready, water and electricity had to be provided for industrial and personal uses, means of transportation for supplies and people were essential to connect remote production sites to ports and major cities – and so on. We call these critical supplies "collective goods" and our aims are to:

- define this concept;
- consider the alternative governance modes available to provide these goods in emerging markets; and
- determine the exchange and institutional factors affecting the choice among these alternative modes – after first commenting on the notion of infrastructure.

Infrastructure

Four facts stand out about this notion. First, "infrastructure matters" (UNCTAD, 2008, 2010) because economic activity is either impossible or too inefficient when such goods and services as water, electricity, health, education, sanitation, security and communication are missing at local production sites. Second, many countries are "underdeveloped" precisely because of deficiencies in infrastructure – including emerging markets[2] whose economic prospects have attracted significant foreign investment. Third, it is a fact that infrastructural shortages of what are traditionally called "public goods" have often been overcome by investors. Thus, Fisman and Khanna (2004) found that, while some Indian companies refused to invest in "underserviced areas" at home, another segment made up of Indian business groups often chose to supply the missing inputs in those areas. Similarly, referring to Gurgaon, an Indian city near New Delhi, Yardley (2011, p. A12) observed that:

> To compensate for electricity blackouts, Gurgaon's companies and real estate developers operate massive diesel generators capable of powering small towns. No water? Drill private bore-wells. No public transportation? Companies employ hundreds of private buses and taxis. Worried about crime? Gurgaon has almost four times as many private security guards as police officers.

Fourth, the managerial decisions pertaining to the provision in emerging markets of an underlying infrastructure have not received much research attention despite the latter's crucial position in the value-adding chains of MNEs[3]. This underdeveloped state of research gives us the opportunity to investigate how foreign MNEs obtain abroad what we call the "collective goods" (see below for a definition) necessary for the production of the "private goods" that attracted these firms to emerging markets in the first place.

Relevant literature

Buckley and Boddewyn (2016) recently argued that MNEs can contribute to the repair or replacement of failing non-economic institutions providing a wide spectrum of societal functions such as health, education, security and public utilities in underdeveloped countries. However, this MNE role of "political actor" (Scherer *et al.*, 2014) is usually conceived at the national level, while we are exclusively concerned with the local level where a particular firm starts operating at a remote site in an emerging economy. They interpreted this new societal role of MNEs through internalization theory under which the boundaries of a firm are set at the limit where the benefits of further integration of the markets for intermediate products are offset by its costs. We will establish that this theory can also be applied to the case of firms integrating the production of collective goods.

Besides relying on the traditional contractual exchange modes of "buy, make and ally", the provision of collective goods often involves relationships with "nonmarket" actors such as government agents and NGOs so that it is pertinent to consider Parkhe's (1993) analysis of the nature of the alliances between market and nonmarket partners as compared with those exclusively between private organizations. In addition, Boddewyn and Buckley (2017) established, on the basis of Fiske's (1992) relational-models theory, that non-contractual relationships are also available for obtaining various goods from nonmarket actors. Both of these theoretical developments are relevant for the study of the provisioning of collective goods in emerging markets.

In this context, there is a frequent misunderstanding about what systems do rule exchanges in developing countries, due to the recent popularity of the concept of "institutional voids" (Khanna and Palepu, 1997) which evokes the absence of rules[4] so that many international business (IB) researchers discuss emerging markets as if the latter had not developed exchange mechanisms to handle ex-post exchange hazards. Actually, a number of researchers have pointed out that emerging-market countries compensate for the lack of Western-type "public ordering" through "private-" and "state-ordering" systems (Ahuja and Yayavaram, 2011; Gupta, 2011; Li and Filer, 2007). These "ordering systems" deserve further scrutiny because they constitute a key institutional variable bearing on the choice of governance modes.

Consequently, we will argue that there are more governance modes available for the provisioning of collective goods by and/or for MNEs in emerging markets than the three ones – buy, make and ally – considered under transaction-cost-economics and that the choice among the available governance modes is affected by both the type of ordering system prevailing in emerging markets and by the characteristics of the exchanges pertaining to the provisioning of collective goods. These arguments will structure the rest of our analysis, to be followed by conclusions, theoretical and managerial implications and suggestions for further research.

The nature of collective goods

Following Fisman and Khanna (2004) and Khanna and Palepu (1997), we include under this rubric:

- physical infrastructural goods such as roads, wells and utilities (e.g. water, gas and electricity);
- social services like worker training and healthcare as well as the provision of security in a plant's vicinity; and
- institutional safeguards against the market failures, inappropriate government regulations and poor contract enforcement found in emerging markets.

These goods, services and safeguards are "location-specific" because they must be provided at the plant where the production of the firm's private goods takes place, and their sizes, combinations and costs vary from site to site.

While MNEs have also invested in the national infrastructure of roads, railroads, ports, airports, electrical-power grids and communication networks in many emerging markets (Ramamurti and Doh, 2004; UNCTAD, 2008), we are only interested in the collective goods which MNEs need for their local operations at production sites. These goods are essential for the existence, operation and performance of firms, and they are like the "economic intermediate products" of Buckley and Casson (1976) and they are akin to Teece's (1998, p. 72) "complementary assets" whose absence may create a "choke point" in value chains. However, what differentiates collective goods from public and private ones?

In the first place, infrastructural goods, social services and institutional safeguards share a common attribute – namely, that they could be public goods[5] if they were made freely available to everyone by the government – something which private organizations cannot afford to provide unlimitedly (Doering, 2007; Olson, 1965). However, in recent decades, the provisioning of many public goods has been progressively relinquished by governments because the distinction between the public and private spheres – the latter referring essentially to the market economy and the civil society made up of individuals and their associations – has narrowed and blurred, following the privatization of public agencies, the deregulation of economic activity, the liberalization of national economies on account of globalization and the proliferation of NGOs (Sales and Beschorner, 2006; Yaziji and Doh, 2009). Hence, many public goods are now provided by non-profit organizations (e.g. NGOs) and for-profit firms (e.g. MNEs, local companies and private contractors) – both indigenous and foreign – on account of government failures (Buckley and Boddewyn, 2016).

Second, collective goods differ from private ones to the extent that they generate positive externalities for the local collectivities where these organizations operate – as when MNEs supply free education, training, health, transportation and housing services to their employees, build roads, offer security around their facilities and help emerging-market countries move toward a market economy. Thus, when MNEs manage to influence public policy, the benefits of their advocacy role (e.g. better regulation) extend to those who did not engage in it (a case of non-excludability) and, in many cases, are not limited by the fact that others receive the same benefit (a case of non-rivalry).

Third, the supply of public goods by MNEs is not unlimited, and some potential recipients may be excluded so that, in public-economics terms, they amount to "impure public goods" (Kotchen, 2006, p. 818). In public-goods theory, goods and services that are excludable but non-rivalrous are called "club goods" and those that are rivalrous but non-excludable are labeled as "common-pool goods". However, for simplicity's sake, we chose to combine these two definitions into the single one of collective goods that applies to these formerly or potentially public goods that are either non-rival but excludable (e.g. worker training) or non-excludable but rival (e.g. a source of water) in nature. This single definition is sufficient to distinguish collective goods from pure public ones as well as from the private goods that market firms buy, produce and sell for commercial purposes[6].

It is, of course, in the interest of MNEs and other dispensers of collective goods (e.g. NGOs) to offer goods with higher excludability and depletability, to tie their beneficiaries to the organization (e.g. through long-term employment contracts for the workers whom MNEs train and assist medically), to prevent access to these goods and services by competitors and to charge for them whenever possible – that is, to try to transform them into private goods.

Internalization theory lends itself well to the study of the provisioning of collective goods because it deals with the boundary issue of why certain transactions for the provision of intermediate goods are governed "in house", while others are handled in external spot markets or via cooperative arrangements with independent suppliers (Hennart, 1986). It explains why firm boundaries are set at the margin where the benefit of bringing a further activity into it is just offset by the cost of supplanting external markets. Such an activity is more likely to be brought into the MNE when it interacts with other ones already undertaken by the firm – in this case, because, without those collective goods, the production and marketing of its commercial products are either impossible or too costly. We turn now to the issue of which governance modes apply to the provision of collective goods in emerging markets.

The choice of governance mode for the provision of collective goods in emerging markets

How do foreign MNEs opening, say, an oilfield in a remote area of Saudi Arabia obtain collective goods, services and safeguards in an efficient manner? Private commercial goods (e.g. drilling equipment) can be "bought" from reliable business suppliers abroad but what mechanisms are available for obtaining collective goods locally? In this regard, even relatively simple exchanges in underdeveloped countries are organized differently through distinct "ordering systems".

Alternative ordering systems

Williamson (1996, p. 19) cautioned us not to believe that "efficacious rules of law regarding contract disputes are in place and are applied by the courts in an informed, sophisticated, and low-cost way". He went on to argue that such a public ordering of exchanges is often a fiction because most commercial disputes in developed countries, including many that under current rules could be brought to a court, are in fact resolved by arbitration, industry codes of conduct and informal means which he lumped under the label of private ordering (Macey, 1997, pp. 1140-1141). Under the latter, disputes are settled ex post "in the shadow of the law and with 'contract as framework' – for example, through 'credible commitments'" (Williamson, 1996, p. 122). Actually, private-ordering structures are much more developed in emerging markets where any public ordering relying on the police power of the state has simply been replaced by a private-ordering system emanating from civil society and the culture, and equally capable of handling contractual hazards through "relational" exchanges (Gupta, 2011).

Private ordering in emerging markets

In lieu of governments being the sole and "top-down" originators of binding rules, private ordering is a consensual "bottom-up" system which derives its efficacy and legitimacy from the continuous support of its members and allows many exchanges to take place even when pricing is difficult, property rights are unclear or insecure, and the pursuit of self-interest is insufficient to guarantee orderly transactions free of malfeasance and opportunism (Granovetter, 1985). Instead of relying on well-defined property rights and enforceable contract laws, exchanges are embedded in a broad set of relationships with the same party so that non-performance in one exchange can be penalized in later ones. Deviance from approved behavior is sanctioned through ostracism from the exchange process and/or the withholding of legitimacy, which results in the denial of access to essential resources (Ahuja and Yayavaram, 2011; Li and Filer, 2007).

In such a context, the weaknesses of legal formal institutions make informal constraints and personal relationships (e.g. Chinese guanxi or Russian blat) crucial in regulating economic exchanges (Peng *et al.*, 2005, p. 626; Standifird and Marshall, 2000) which are mainly of the relational type (Gupta, 2011). Because they cannot be enforced by a third party, relational contracts must be self-enforcing and the value of future relationships – Macneil's (1980) "shadow of the future" – must be sufficiently large so that neither party wishes to renege.

Societies relying extensively on private ordering are usually characterized by a lower level of generalized public trust and a lack of personal and collective moral values in relations with strangers (Brehm and Rahn, 1997). Those outside a group's affiliation are treated differently or even rejected entirely as exchange partners (Biggart and Delbridge, 2004, p. 41). In addition, people rely mostly on private information obtained through personal relations and networking with insiders so that they need to screen, test and monitor each and every transacting party – with transaction costs increasing significantly as the market expands from a local to regional, national and international levels (Li and Filer, 2007, pp. 83, 86). Private ordering also “locks in” firms with other ones, thereby preventing them from switching to more efficient exchange relationships (Gupta, 2011, p. 21; Powell, 1990, p. 305).

This situation makes the inclusion of “strangers” difficult to achieve in both markets and firms – as when one religious group refuses to trade with another one (e.g. in Egypt today) or when members of other groups are rarely hired (e.g. in contemporary India and South Korea). Such exclusion affects MNEs whose “foreignness” and “privateness” – that is, the facts that they are from another country and that their purposes are private rather than public – set them apart respectively from indigenous firms and not-for-profit organizations (Bhanji and Oxley, 2013)[7]. Besides, governmental units, local community leaders and NGOs differentiate themselves from private firms in terms of their non-materialistic ideals, they cherished independence from private firms and their attempt to project the image that they are not “for sale” even though they may be “for rent” if the proper incentives are offered to them.

Private ordering in emerging economies may co-exist with a strong government that exercises coercive force over firms and favors state enterprises, with such state ordering differing significantly from the one used under public ordering where governments focus on protecting property rights and the enforcement of contracts. In China, for example, NGOs are under the control of the state, and firms – both domestic and foreign – are obliged to assist them with sizeable donations (Peng, 2003). State ordering is, of course, vulnerable to the capricious behavior of “sovereign” states.

Altogether, the consideration of alternative ordering systems helps dispel the notions that developed economies operate exclusively under public ordering, while emerging markets work under dysfunctional political, economic, social and cultural institutions when, in fact, private and/or state ordering allow them to function quite well if at the price of higher transaction costs and government intervention. Therefore, the fact that developed countries can be mainly associated with the public ordering of transactional exchanges and emerging markets with the private and/or state ordering of relational exchanges allows us to use this difference as a major institutional factor affecting the choice of governance modes for the provisioning of collective goods in emerging markets.

The special nature of exchange between market and nonmarket actors

Cooperation among public, civil-society and private organizations takes place under all ordering systems. When organizations cooperate, each side needs the other to advance its individual interests, but uncertainty regarding the partners’ next move increases transaction costs, diminishes the control and flexibility of resources and augments vulnerability to such partner “defections” as withholding or distorting information, failing to fulfill promises, appropriating a partner’s proprietary technology or key personnel, delivering substandard products and/or abruptly abandoning the alliance.

In this regard, the provisioning of collective goods for MNEs in emerging markets often bring together market and nonmarket actors because private firms frequently have to collaborate with whatever government agencies, community leaders and NGOs are available to obtain these collective goods. Such collaborations encounter special problems because for-profit organizations such as MNEs cannot own or control not-for-profit ones – a situation which precludes the merger with, or acquisition of, the latter by the former and, therefore, the use of hierarchy (King, 2007, p. 898).

Unfortunately, contractual exchanges among public agencies, community leaders, NGOs and MNEs face particular forms and amplitudes of the ex-post opportunistic hazards of cheating (i.e. inflating the price and/or reducing the quality of outputs), hold-up (e.g. demanding additional compensation after the MNE has made irreversible commitments), shirking (i.e. free-riding by partners who do not deliver the promised effort) and leakage (e.g. valuable intangible assets being put to unauthorized use by the partner). For instance, governments can use their coercive hold-up power to expropriate an MNE's assets, while NGOs, community leaders and public agencies may cheat or shirk on account of their non-profit motive as well as leak an MNE's intangible assets on account of their preference for freely disseminating intellectual property in emerging markets (Bhanji and Oxley, 2013). Consequently, these features turn any exchange between market and nonmarket actors into an organizational mode intrinsically different from one involving only market actors.

This negative perspective confirms Powell's (1990, pp. 296, 328) view that the familiar market-hierarchy continuum with hybrid forms of organizing in the middle must be replaced by a governance mode that is distinct from market contracting and hierarchy and can proceed with limited reliance on formal contracts and the legal system, on the one hand, and on administrative fiat and bureaucratic routines, on the other. A popular solution has been to dub such exchanges as varieties of "social contracting" (Gupta, 2011).

However, "relational contracting" still relies on an underlying "contract", and its "relational" component requires repeated exchanges on account of "the shadow of the future" – the promise of gain from future exchanges – which induces the parties to overcome opportunistic behavior and behave honestly through multiple interactions (King, 2007, p. 896). Consequently, King's reasoning left open the possibility of "non-contractual" governance modes that do not rely on transactions at all nor on the repeated exchanges necessary to generate trust.

The availability of non-contractual governance modes for the provisioning of collective goods in emerging economies

Non-contractual exchange systems

The traditional governance modes of "buy, make or ally" are contractual in nature because they involve transactions which can be challenged or remedied through litigation and/or arbitration. However, Houston and Gassenheimer (1987, pp. 12, 17) identified and classified ten cases of non-contractual exchanges which differ on the basis of:

- whether the partner or victim is a known party to the exchange; and
- he/she is engaged in mutual goal-seeking behavior.

For example, a victim is "blackmailed" only if he/she has needs that he/she perceives can be satisfied by the blackmailer. Table I classifies such positive and negative cases of non-contractual governance modes, which suggests that, apart from bribery, these modes have received little research attention.

This list is shocking to the extent that it includes several of the harmful and controversial behaviors that have long been associated with foreign investment in extractive projects located in emerging economies and other developing countries. However, in a more positive vein, Boddewyn and Buckley (2017) demonstrated that the concept and theory of reciprocity[8] can be used to establish that philanthropy and lobbying can be used to obtain many goods, including collective ones. To understand this role, we must realize that philanthropy and

Mutual goal-seeking behavior with matching contributions	Positive reciprocity
Mutual goal-seeking behaviors involving victims	Extortion Blackmailing Bullying Deception/Lying
One-sided redistribution schemes affecting victims	Theft Losses Fraud/Embezzlement Abuse of power/war
Victimless exchanges affecting third parties	Using the black market Bribery

Source: Adapted from Houston and Gassenheimer (1987, pp. 12-14)

Table I. Positive and negative non-contractual exchanges

lobbying are birds of the same conceptual feather because both involve donations of valuable resources such as money, information, technology and personnel time by market actors to nonmarket agents such as public decision makers (e.g. politicians, regulators and local leaders) in the case of lobbying and to organizations emanating from civil society such as NGOs as far as philanthropy is concerned.

Both of these nonmarket mechanisms are non-contractual in nature because there is no legal way of ensuring that these donations will be reciprocated by the recipients in a manner preferred by the donors. So, how can they be used to obtain something from "stranger" nonmarket actors? The following fictional situation illustrates how such a positive response can be obtained:

> You want to invest in a remote area where, you are told, it is very difficult to buy a steady supply of water – something essential for your operations. However, you are also told that if you offered a sizeable donation to a local tribe which has a surplus of water available, and if you lobbied nearby community leaders to help you obtain the necessary permits for your operations in light of the jobs and revenues which your new firm could create locally, you would most likely be able to start your plant without too much regulatory trouble or delay and with the essential water you need.

What happened or, rather, what did not happen in this case? What did not occur is that this firm managed to enter a new location and obtain the necessary intermediate product without having recourse to contractual "make, buy or ally". Instead, the combination of philanthropy and lobbying replaced these three traditional contractual modes at market entry, thereby establishing that alternative non-contractual mechanisms are available to obtain collective goods in exchanges between market and nonmarket actors.

How reciprocity works

Why would unsolicited donations of valuable resources to NGOs and political agents generate a "response" – whether positive or negative – from their recipients? The answer lies in the obligatory power of what has been called the "reciprocity rule" (Gouldner, 1960) – that is, when one party benefits another, an obligation to respond is generated and, between the time of a gift's provision and that of its repayment, falls "the shadow of indebtedness" (Gouldner, 1960, p. 174) which represents a long-term orientation geared to the preservation of a relationship on account of "the shadow of the future" (Macneil, 1980, p. 4).

Applying these interpretations, Fiske (1992) identified reciprocity as one of four elementary "relational models" which reflect how people and organizations develop and hold mental representations of their relationships with others. Thus, when firms transfer a good or service to a nonmarket social or political stakeholder, their action can be interpreted as either (Fiske, 1992, p. 690):

- making a communal gift to a member of one's group without expecting any specific return;
- paying a forced tribute to an authority;
- selling this good or service to an independent party at a market rate; or
- doing a balanced quid-pro-quo exchange with such a party.

The fourth disposition is labeled equality-matching (EM) because it is a relationship where participants seek to maximize the joint payoffs for self and other as long as the latter is perceived to be cooperative and fair (Fiske, 1992). People holding this EM disposition have been labeled "reciprocators" (Bridoux and Stoelhorst, 2016, p. 238), and reciprocity is precisely what philanthropy and lobbying aim at. In the EM relational mode, people prefer balanced contributions and are aware of the direction of any imbalance (e.g. whose "turn" is it to contribute?) as well as of the latter's size (i.e. how much do you owe me?) – a perspective emphasizing similar levels of satisfaction governed over time by positive expectations toward the future behavior of the fair and cooperative partner. In this matching mode, social influence dictates that a favor be always returned (Fiske, 1992, p. 695) so that there will be a "joint future" for the two sides. If the relationship becomes unbalanced, it has to be restored to its previous equilibrium to preclude exclusion and/or opportunistic behavior (Fiske, 1992, p. 705).

However, the frequency of interactions is not an important factor as in explanations of relational contracting that are based on trust because, under reciprocity, "the shadow of indebtedness" creates an obligation from the first favor on. As such, reciprocity is one of the most potent of the psychological weapons of influence (Cialdini, 2007, p. 18), and it is the future orientation inherent in a sense of obligation that is critical to its ability to produce results between individuals (Cialdini, 2007, p. 31) as well as among organizations, even though they may originally be "strangers" to each other. To be sure, NGOs and politicians do not always return the favors they have received, but their refusal to reciprocate activates the reduction or cessation of donations and/or triggers social sanctions in the form of poor reputation or even ostracism by the favor-giver and other organizations in the know of this breach of obligation. Besides, philanthropy and lobbying work differently as reciprocal modes of exchange.

Philanthropy

Gifts are not used between exclusively economic parties, but MNEs and NGOs often freely provide to the communities where they operate various infrastructural goods (water, electricity, etc.), social services (health, education, etc.) and institutional safeguards (e.g. protection against successive government intervention) (Matten and Crane, 2005) – and the recipients of these favors often reciprocate them. While philanthropy may require contractual agreements about the delivery and use of the gift, it does not depend on legally ordained reciprocation and is, therefore, not a market exchange of goods of equivalent value but rather a relationship-building process where the acts of giving and receiving a gift carries more weight than the value of the gift itself (Mauss, 1990; Rivera-Santos *et al.*, 2011).

According to Salamon (1987), philanthropy theoretically reflects the failure of the market system in the provisioning of public goods on account of the free-rider problem as well as the failings of governments which can only provide those public goods that command majority political support – whether in a democracy or dictatorship. Philanthropy also permits a degree of diversity and competition among its non-profit recipients, which improves their efficiency and reduces their transaction costs which are lower in any case than those required to mobilize government response to shortages of public goods.

Political influence

Lobbying as contributions of all sorts of valuable resources to politicians, regulators and local leaders are designed to influence decisions made by government officials as well as local leaders and to move public policy toward the development of a market economy and the building of government capability (North, 1990; Valente and Crane, 2010). Recourse to political action corresponds to Rugman *et al.*'s (2006, p. 153) shift from a firm's perception of government policy as being exogenous because this firm works within the rules set by the state toward the view that the content or process of government policy can actually be influenced and thereby endogenized. Lobbying is the primary influencing tool in corporate political action or activity (CPA) which constitutes a constant element of the nonmarket strategies which firms need to complement their market ones (Boddewyn and Doh, 2011; Salorio *et al.*, 2005). Altogether, both philanthropy and lobbying satisfy Williamson's (1996, p. 12) definition of a governance mode as "the means by which order is accomplished in a relation in which potential conflict threatens to undo or upset opportunities to realize mutual gains". They are sometimes the only means whereby cooperation can be initiated, facilitated and brought to completion (Macey, 1997, pp. 1141-1142).

Implications, further research and concluding remarks

That "infrastructure matters" in foreign direct investments located in underdeveloped economies is unquestionable, although very little attention has been paid to it in international-business research – possibly because it has been assumed that it is available at the local level. As this problem is significant and permanent, we proposed to demonstrate that the provision of collective goods in emerging markets can be scrutinized through the lenses of ordering systems, non-contractual exchanges, internalization and reciprocity theory.

Theoretical implications

Our study has extended the application of these concepts and theories to:

- collective goods beyond only private ones;
- relationships between market and nonmarket actors instead of only between economic ones;
- private and state ordering systems beyond the public-ordering one whose presence or absence has dominated prior international business research; and
- the governance mode of non-contractual reciprocity available to complement market contracting, alliance and hierarchy – particularly, when dealing with nonmarket actors.

These extensions have helped us unite the provision of intermediate "collective goods" to that of intermediate "private goods". Besides, our highlighting of ordering systems – public, private and state – has enriched the study of "institutional environments" usually left vague about which system of organizing exchanges underlies the choice of governance modes. Moreover, our analysis supports Powell's (1990, p. 296) argument that "the familiar market-hierarchy continuum does not do justice to the relationships relying on non-contractual reciprocity" (Powell, 1990, pp. 304-305). Furthermore, the viability of emerging markets relying on non-contractual relationships reveals that exchange systems other than the market are not corruptions of the latter (Biggart and Delbridge, 2004, p. 31).

Still, the application of internalization theory to the provision of collective goods by and for MNEs in emerging markets will require further research. In the first place, we should examine the impacts of (Chen, 2010):

- government restraints that prevent choosing the most efficient interface between MNEs and local suppliers of collective goods;
- the screening of partners under private-ordering systems and the use of hostages in partnerships between market and nonmarket actors;
- the pressures toward isomorphism with local practices in lieu of more optimal solutions; and
- the perceived legitimacy of the chosen governance modes.

Besides, further progress in understanding the nature of non-contractual governance modes will require investigating the theory of not-for-profit organizations – both governmental units and voluntary civil-society entities such as NGOs – which are the subjects of philanthropic action[9]. Moreover, because reciprocity also covers political-influence activities, it will help develop a theory of political action aimed at the transformation of economies in transition to a market economy (Peng, 2003).

In addition, the above issues could be studied in the light of other theories bearing on the provision of collective goods. For example, resource-dependence theory can help interpret the power relationships between MNEs and foreign non-profit partners, the resource-based view can help shed light on the MNE capabilities and competitive advantages necessary for effective nonmarket relationships and to best rivals in foreign nonmarket environments (Boddewyn and Doh, 2011), and the knowledge-based view (Kogut and Zander, 1993) can foster our understanding of MNEs' superior ability to transfer knowledge across borders and develop learning capabilities that become firm resources (Geyskens *et al.*, 2006, p. 532) – all organizational advantages which markets cannot create.

Finally, a topic worth investigating is the comparative advantages of MNEs from less-developed countries, which are familiar with institutional voids on account of their experiences at home (Cuervo-Cazurra and Genc, 2008). Fisman and Khanna (2004) also addressed this issue in their study of Indian conglomerates which know how to operate in underserviced areas at home, but we need comparisons of the approaches of MNEs coming from countries at different levels of political, social, cultural and economic development.

Managerial implications

Valente and Crane (2010) chose to distinguish between the "core" and "non-core" functions of a multinational investing in emerging markets as a key factor affecting the choice among their "substitute, supplement, support and stimulate strategies". This distinction offers us opportunities to study the roles of MNE foreign subsidiaries. Thus, the line functions of procurement, engineering and production would seem more likely to be involved in the governance modes of market contracting, internalization and alliance, while the staff units of public affairs, government relations and human resources would be prominent in reciprocity activities. Whether the subsidiaries' managers would make the major decisions regarding the choice of governance modes for the provision of collective goods or require the involvement of headquarters and other subsidiaries is also worth investigating.

Concluding remarks

Our project is related to the growing research interest in the "political role" of MNEs in host countries – particularly in emerging markets where the division of labor among governments, firms and civil-society organizations remains in flux (Scherer and Palazzo, 2011, p. 906). MNEs are asked to take responsibility for more externalities – negative or positive – to which they are connected in failing states, in weak ones and in strong but repressive regimes (Scherer and Palazzo, 2011, p. 922). For that matter, our focus on providing collective goods could be applied to the satisfaction of unfulfilled needs in developed countries. As Dhanaraj and Khanna (2011, p. 695) emphasized: "There are plenty of 'emerging markets' in the developed world. After all, the defining feature of emerging markets is that the intermediaries that facilitate exchange have not developed". This perspective applies to the needs of the inner-city poor as well as to the care of children during business hours in the USA where public policies are missing – with the goal being to provide what could be collective goods but with an eye toward profiting from it. Such extensions will help expand the important inquiry begun here.

Notes

1. According to the 2008 UNCTAD World Development Report (p. 87): "There is no commonly agreed usage of the term infrastructure, but the concept in its broadest sense comprises the physical facilities, institutions and organizational structures, or the social and economic foundations, for the operation of a society. Within this broad concept, social infrastructure (e.g. health and education) can be distinguished from economic infrastructure. The latter directly supports production activities of enterprises at various points of the value chain and is thus directly relevant to the competitiveness of firms and to economic development".
2. *Emerging markets* are fast-growing lower-income or middle-income countries that have undertaken substantial policy reform (e.g. trade and investment liberalization, and the privatization of state-owned enterprise) (Hoskisson *et al.*, 2000: 249; Khanna *et al.*, 2005; Peng, 2003).
3. Thus, an article by Bhanji and Oxley (2013) analyzed the use of "corporate-citizenship partnerships" between MNEs and non-governmental organizations (NGOs) to provide some public goods.
4. Khanna and Palepu (1997) developed the concept of "institutional voids" which refers to failures and imperfections in labor, capital and product markets as well as misguided government regulations and capricious law applications that prevent firms from capturing the full economic rents from their commercial enterprises in emerging markets. *Failure* refers to non- or sub-performance on account of natural factors (e.g. uncertainty and bounded rationality) that prevent institutions, organizations and individuals from fulfilling their functions, while *imperfections* apply to artificial man-made interferences with the functioning of markets (e.g. protectionism and cartels). All societal systems and organizations are prone to failures and imperfections (Hirschman, 1970, p. 1), but the ones we are interested in are particularly prominent in emerging markets.
5. A *public good* is a commodity or service whose benefits are not depleted by an additional user (that is, they are "non-rival") and from which it is generally difficult or impossible to exclude people (that is, they are "non-excludable") (Doering, 2007, p. 1126).
6. State enterprises may produce private goods, but, when they incur deficits, governments usually make up for the latter because these organizations are expected to serve the public interest even at a loss.
7. The *liability of privateness* refers to the peril that donations by private firms for health and educational purposes may be viewed with suspicion by local stakeholders because a private

firm's altruistic behavior is usually combined with the pursuit of pecuniary and reputational benefits. A way out of this predicament is to donate valuable resources to a local partner such as an NGO endowed with legitimacy arising from its not-for-profit mission and perceived independence.

8. Under *positive reciprocity*, an individual or organizational recipient responds to valuable resource donations with like acts (Smith, 1998, p. 3), while *negative reciprocity* applies to situations where a positive favor is met with neglect or attack (Cialdini, 2007, p. 33).
9. The research program dedicated to the study of the nonprofit sector at Johns Hopkins University deserves attention in view of its emphasis on studying the relationships among voluntary associations, governments and firms (Salamon and Dewees, 2002).

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