

## DOCTORAL THESIS

### Internationalisation through a network of relationships local perspectives from Dutch MNE subsidiaries in Indonesia

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Internationalisation through a network of relationships:  
Local perspectives from Dutch MBE subsidiaries in Indonesia

by

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Internationalisation through a network of relationships:  
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# Abstract

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This research investigates how Dutch multinational business enterprises (MBEs) have built a market position in Indonesia. Drawing on different bodies of literature, including internationalisation, global integration-national responsiveness, and subsidiary embeddedness, this thesis enhances our understanding of how MBE subsidiaries respond to host-country pressures in an emerging market, through developing a network of cooperative relationships with political, social and business actors. Guided by the overarching research question - *How do established Dutch MBE subsidiaries grow and develop in Indonesia?* - this thesis has not only examined how the different types of actors interact, but also the activities that are performed, and which critical resources are utilised in navigating regulatory complexities, cultural specificities and subnational heterogeneity. The case studies, involving interviews with subsidiary managers, combined with field observations and archival research demonstrate how four long-established Dutch consumer goods MBEs developed a supportive set of relations in a postcolonial setting. In so doing, this research offers three main contributions. Firstly, the research developed an enhanced understanding of the actors' lived experience in MBE subsidiaries in an emerging market. Secondly, the study contributes to several theoretical perspectives, including the literature on how MBEs adapt their strategies to compete in emerging markets, which involves building close ties with business and socio-political actors, and how firms navigate the liability of foreignness in a market where firms from their former colonial ruler are regarded with scepticism. Thirdly, extant literature is largely situated at a macro organisational level, although relationships in emerging markets are typically developed at the interpersonal level. Consequently, identifying and explicating key practices and strategies at the level of the people involved, rather than at the organisational level, has provided fresh and deep insights into the managerial activities required to respond to host-country pressures in the immediate temporal and spatial context of post-colonial Indonesia.

**Key words:** Multinational business enterprise (MBE), emerging market, internationalisation, global integration-national responsiveness, subsidiary embeddedness, liability of foreignness.

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# Contents

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FIGURES, TABLES AND APPENDICES	VIII
ABBREVIATIONS AND ACRONYMS	X
1. INTRODUCTION	1
1.1 The new world economic order	1
1.2 Contextual heterogeneity	1
1.3 Doing business in Indonesia	2
1.4 Research problem and positioning in the literature	4
1.5 Case study positioning	7
1.6 Research questions, aim and objective	8
1.7 Thesis structure	9
1.8 Chapter summary	10
2. MBES OPERATING IN EMERGING MARKETS	13
2.1 Internationalisation of firms	15
2.2 Extending the business network view	23
2.3 The MBE's strategy, structure, and subsidiary	27
2.4 Global integration-national responsiveness	31
2.5 MBE subsidiary embeddedness	39
2.6 A cooperative view towards managing the host country market	55
2.7 Postcolonialism	62
2.8 Chapter summary	69
3. METHODS	71
3.1 Research context and case selection	71
3.2 Methodology	77
3.3 Methods	84
3.4 Gathering evidence	86
3.5 Transcribing interviews	100
3.6 Analysing evidence	101
3.7 Conceptualisation approach	104
3.8 Ethical considerations	106
3.9 Chapter summary	106
4. WITHIN-CASE ANALYSIS	109
4.1 First Class Dairy	110
4.2 Holland Beer Company	132
4.3 Universal Global Goods	150
4.4 Primus Technics	171
4.5 Chapter summary	184

5. CROSS-CASE ANALYSIS	186
5.1 Similarities and differences in the approaches to business, social and political actors	189
5.2 Host-country pressure I. Responding to regulatory complexities	189
5.3 Host-country pressure II. Responding to cultural specificities	199
5.4 Host-country pressure III. Responding to subnational heterogeneity	203
5.5 Identification of higher-level conceptualisations	209
5.6 Chapter summary	209
6. SURVIVING AND THRIVING IN AN EMERGING MARKET	212
6.1 Discussion of aggregate dimensions	214
6.2 Legitimacy building	214
6.3 Internal political capabilities	226
6.4 Institutional knowledge acquisition	230
6.5 External networks	232
6.6 Resolving critical issues	235
6.7 Chapter summary	244
7. INTRODUCING AN ENHANCED UNDERSTANDING OF MANAGING MBE SUBSIDIARIES IN AN EMERGING MARKET	246
7.1 Developing an enhanced understanding of the actors' lived experiences	248
7.2 Host-country pressures	250
7.3 Responding to host-country pressures	254
7.4 The MBE's external actors	261
7.5 Chapter summary	266
8. CONCLUDING DISCUSSION	268
8.1 Recapitulation of the research questions	269
8.2 Empirical and theoretical contributions	271
8.3 Methodological contribution	283
8.4 Wider applicability	285
8.5 Limitations and future research	287
8.6 Managerial implications	288
8.7 Chapter summary	289
REFERENCES	290
APPENDICES	332



# Figures, tables and appendices

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## FIGURES

Fig. 1.1 Thesis outline

Fig. 2.1 The extended business network

Fig. 2.2 Host-country pressures emanating from the MBE's subsidiary environment

Fig. 2.3 Responding to pressures through embeddedness in networks at the subsidiary level

Fig. 2.4 A process of managing host-country pressures through cooperative relationships

Fig. 3.1 Map of Indonesia

Fig. 3.2 A multilevel approach to sampling

Fig. 3.3 Research dilemmas and implications

Fig. 4.1 Within-case studies leading into cross-case analysis and discussion chapter

Fig. 4.1.1 FCD's strategies for responding to regulatory complexities

Fig. 4.1.2 FCD's strategies for responding to cultural specificities

Fig. 4.1.3 FCD's strategies for responding to subnational heterogeneity

Fig. 4.1.4 FCD's strategies for responding to host-country pressures in Indonesia

Fig. 4.2.1 HBC's strategies for responding to regulatory complexities

Fig. 4.2.2 HBC's strategies for responding to cultural specificities

Fig. 4.2.3 HBC's strategies for responding to subnational heterogeneity

Fig. 4.2.4 HBC's strategies for responding to host-country pressures in Indonesia

Fig. 4.3.1 UGG's strategies for responding to regulatory complexities

Fig. 4.3.2 UGG's strategies for responding to cultural specificities

Fig. 4.3.3 UGG's strategies for responding to subnational heterogeneity

Fig. 4.3.4 UGG's strategies for responding to host-country pressures in Indonesia

Fig. 4.4.1 PT's strategies for responding to regulatory complexities

Fig. 4.4.2 PT's strategies for responding to cultural specificities

Fig. 4.4.3 PT's strategies for responding to subnational heterogeneity

Fig. 4.4.4 PT's strategies for responding to host-country pressures in Indonesia

Fig. 5.1 A process of developing stability in a host market through relief from structural pressures

Fig. 6.1 Visualisation of the aggregate dimension 'legitimacy building'

Fig. 6.2 Visualisation of the aggregate dimension 'internal political capabilities'

Fig. 6.3 Visualisation of the aggregate dimension 'institutional knowledge acquisition'

Fig. 6.4 Visualisation of the aggregate dimension 'external networks'

Fig. 6.5 Visualisation of the aggregate dimension 'resolving critical issues'

Fig. 7.1 The enhanced understanding of the actors' lived experience in subsidiaries in an emerging market

## **TABLES**

Table 2.1 Focused literature review of subsidiary embeddedness

Table 3.1 Summary of the profiles of the cases in the study

Table 3.2 Contrasting knowledge paradigms

Table 3.3 Interview evidence gathered

Table 3.4 Other evidence gathered

Table 3.5 Example of different ways of asking an interview question

Table 3.6 Examples of interview questions

Table 3.7 Extract evidence structure

Table 5.1 Evidence Structure

Table 6.1 A toolkit for operating in emerging markets

## **APPENDICES**

Appendix I. Research introduction letter

Appendix II. Participant consent form for participation interview

## Abbreviations and acronyms

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ASEAN: Association of Southeast Asian Nations  
B2B: Business to Business  
B2C: Business to Consumer  
B2G: Business to Government  
BRICS: Brazil, Russia, India, China and South Africa  
CEO: Chief Executive Officer  
CFO: Chief Financial Officer  
CPA: Corporate Political Activity  
CSR: Corporate Social Responsibility  
EODB: Ease of Doing Business  
EuroCham: European Business Chamber of Commerce in Indonesia  
FDI: Foreign Direct Investment  
GDP: Gross Domestic Product  
GHQ: Global headquarters  
HCN: Host Country National  
HR: Human Resources  
HQ: Headquarters  
IB: International Business  
IJV: International Joint Venture  
IMF: International Monetary Fund  
KOL: Key Opinion Leader  
MINT: Mexico, Indonesia, Nigeria and Turkey  
MBE: Multinational Business Enterprise  
NADFC: National Agency of Drug and Food Control of Republic of Indonesia  
NGO: Non-governmental Organisation  
PCN: Parent Country National  
R&D: Research & Development  
RHQ: Regional Headquarters  
RQ: Research Question  
SDG: Sustainable Development Goals  
SOE: State-owned Enterprise  
TCN: Third Country National  
UN: United Nations  
VP: Vice President  
VUCA: Volatility, Uncertainty, Complexity and Ambiguity  
WHO: World Health Organisation



# 1. Introduction

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Multinational business enterprises<sup>1</sup> (MBEs) are companies that are headquartered in one country but have operations in one or more other countries. The global environment in which the MBE - and thus, its subsidiaries – operate is in constant flux. This is particularly so in emerging markets. This research investigates two major issues that many MBEs face. The first issue concerns fast-growing and inherently challenging economic regions referred to as ‘emerging markets’. The second issue concerns a set of relationships that MBE subsidiaries need to develop with local actors to navigate external pressures in such markets. These two issues are explored in the context of Dutch consumer goods MBEs operating in Indonesia. The rest of this chapter sets out the background, context, research problem and positioning in the literature, and presents arguments as to why the topic is deemed important and timely to study. It also introduces the research questions, aims, objectives and a brief introduction to the thesis structure and chapters that follow.

## 1.1 The new world economic order

During most of the 20th century, advanced economies outgrew poorer ones. In terms of GDP, only 24 percent of the countries which are today classified as emerging markets by the IMF grew faster than America did across the 1980s. However, around the turn of the millennium, a dramatic shift occurred. In the decade starting in 2000, 76 percent of emerging markets grew faster than America. Poverty rates declined across emerging markets, and the world economic order was rewritten (Economist, 2019a). As a result of the rapid growth of these markets, new demands and consumption patterns have started to emerge. An increase in the middle-class in these countries is a major catalyst for this growing demand. Emerging markets have therefore become vital sources of future growth for MBEs, and their understanding of how these markets work will determine their success. However, while growth may be fast, it is often extraordinarily volatile, with regular crises knocking these markets off course. The opportunities resulting from rapid growth come with the complexities and risks of a challenging and unpredictable business environment. Rewards, as ever, are balanced by risks.

## 1.2 Contextual heterogeneity

International business literature tends to suggest that emerging markets have similar characteristics. For example, Cavusgil et al. (2015) define emerging markets as a subset of former developing countries that have achieved substantial industrialisation, modernisation and rapid economic growth since the 1980s. On a similar note, Xu and Meyer (2013) describe emerging markets as markets that have less institutional

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<sup>1</sup> The term Multinational Business Enterprise (MBE) was used instead of the conventional Multinational Enterprise (MNE) to introduce a “modern conception of the firm: process rather than structure; network rather than stand-alone unit; exchange rather than production; proactive and entrepreneurial than passively adjusting; heterarchical (decentralised) rather than hierarchical” (Vahlne, 2020:9).

support than North American and European markets and have middle-income status as well as rapid GDP growth. There is also evidence that many firms base their FDI strategies on country rankings, but on most lists, it is impossible to tell emerging markets apart (Khanna et al., 2005). For instance, the BRICS countries are often grouped together as if they are similar. However, contrary to what these definitions and country rankings suggest, the market infrastructure in each of these countries varies widely. Although emerging markets share a number of similarities as compared to their more developed counterparts, they are not a homogenous group, and MBEs need to adapt their strategies to navigate the challenges presented by the local context.

Pointing to globalisation and the convergence among cultures, there are scholars who argue that MBEs can generate superior performance by implementing highly centralised, truly global strategies (e.g. Friedman, 2005). At the same time, there is overwhelming evidence of the diversity that exists across emerging markets which differ in their regulations, politics, language, culture and ways of doing business. For this reason, the IB literature has moved towards recognising that differences between, amongst, and within regions, countries, cultures, and societies have not been greatly attenuated with globalisation, and in most cases, they continue to retain their local distinctiveness (Meyer et al., 2011). As Hoskisson et al. (2013:1316) argue, “it is time to move beyond a simple dichotomy that divides the world into emerging and developed economies. There is a need to consider more fine-grained notions of institutional context with varying degrees of institutional development and infrastructure and factor market development”. Even within the borders of a single country, MBEs may face substantial heterogeneity in its subnational regions (Hutzschenreuter et al., 2020), and firms are required to develop “contextual intelligence” (Khanna, 2014:2) to navigate environments that are “local, diverse, dynamic, complex, and unpredictable” (London & Hart, 2004:365).

### 1.3 Doing business in Indonesia

Indonesia is the fourth most populated country in the world and of critical importance for global MBEs. It is an emerging market and is generally accepted among the fast-growing BRIICS countries, which also includes Brazil, Russia, India, China and South Africa. After the investment bubble in China and India, investors have shifted their sights to ASEAN (Shehadi & Irwin-Hunt, 2020). Indonesia’s economy is the biggest in Southeast Asia by far, home to 273 million people, and includes a large proportion of people of productive age. Furthermore, it is estimated that between 2010 and 2035, Indonesia will experience substantial population growth – an increase of 67 million (Jones, 2010) – and no consumer goods MBE with global ambitions can afford to ignore such a huge market. However, many MBEs have found that Indonesia is a challenging market, typical of emerging markets in some ways (Sheth, 2011) but also unique due to strong economic nationalism and cultural traditions (Brandt, 1997; Castle, 2014; Economist, 2015).

As a result, MBEs need to develop a context-specific approach to serve local customers who have different preferences, living on an archipelago that consists of approximately 8000 inhabited islands.

Even within Indonesia, MBEs face vast regional and local differences, with different degrees of government intervention and hostility across regions. Inherent to Indonesia's "murky and sometimes wild business environment" (Borsuk & Chng, 2014:282) are its non-transparent regulations (Castle, 2016), "Kafkaesque bureaucracy" (Economist, 2015) and "rampant corruption" (Dieleman & Widjaja, 2018:63), creating a society with specific demands and needs. Indonesia also has the largest Muslim population in the world and is highly influenced by traditional and sometimes conservative cultural values (Brandt, 1997), and consumers are strongly influenced by their religious beliefs, which may present challenges to foreign firms. However, considering the pace of globalisation, the slowing growth of emerging market economies outside Asia (Economist, 2019a) and enormous size of the Indonesian market, consumer goods MBEs have to put considerable effort into finding ways of mastering this market.

Doing business in Indonesia has been described as "entirely relationship-driven" (Alford, 2013). Jansson (2007) suggests that to understand interrelationships, attention must be directed at the local context in which these relationships take place. The literature also reveals that firms in emerging markets rely more intensively on relationships and networks. In this vein, Jansson (2007:12) pinpoints the view that "relationships are always important, but they are even more so in emerging markets, which therefore can be characterised as network societies". However, effectively doing business appears to be difficult, given that an estimated 41 percent of international partnerships in emerging markets are dissolved within five years (Yan & Luo, 2016). Thus, for Western MBEs that operate in the unique context of emerging markets, the complexity of problems associated with establishing and maintaining a network of relationships could increase. In other words, when MBE subsidiaries establish themselves in local business networks of Indonesia, they have to consider differences in traditions, culture, and ways of doing business in this different environment.

Developing a unique and effective set of relationships can be seen as an innovative skill that may be difficult for competitors to imitate. This may be particularly important, although challenging, for Dutch firms operating in Indonesia due to the colonial history between the countries. When Dutch firms entered Indonesia during colonial times, political risk was low as the Dutch colonial administration treated Dutch firms favourably (Sluyterman & Bouwens, 2015). However, not long after Indonesia gained independence, Dutch assets were nationalised, and expats were sent home. After years of state-ownership, less FDI-averse president Suharto came to power in 1967, and some nationalised firms were sold back to their previous owners. This time, however, these firms had to overcome a new set of challenges and deal with actors who were "very sensitive to a possible colonial attitude of the Dutch" (Van Marrewijk, 2004:309).

Due to the sensitive nature of colonial history, Dutch MBEs have been subject to a high level of scrutiny from local socio-political actors, especially the regulator and the media. Accordingly, Dutch MBEs in Indonesia have to gain social acceptance and credibility in a market where they may be regarded with scepticism. In order to manage such pressures, it is expected that MBE subsidiary managers need

to build a set of relationships with different types of political actors, such as governments and policymakers, as well as business partners and NGOs to overcome the liability of foreignness (Elg et al., 2015; Caussat et al., 2019; Hadjikhani et al., 2019). This study explores how Dutch MBE subsidiaries have built a network of cooperative relationships with business, political and social actors in order to gain support for their strategic goals in an emerging market. The organisations selected for the study are (the only) four long-established Dutch consumer goods MBEs with colonial roots. There will be more on context in the literature chapter (sections 2.7.1–2.7.2) and in the methodology chapter (sections 3.1.1–3.1.3).

#### 1.4 Research problem and positioning in the literature

The ability to grow and develop a sustainable position in emerging markets is regarded as a key strategic factor for MBEs, while it is also recognised that host-country pressures present major challenges (Prahalad & Doz, 1987; Luo, 2001b, Luo, 2002; Peng & Lin, 2008a; Banerjee et al., 2019; Ma et al., 2019; Meyer et al., 2020). For this reason, knowledge of and embedding in local contexts remains critical for evaluating the kind of organisational practices and strategies required for MBE subsidiaries to survive and thrive (Ghemawat, 2007; Meyer et al., 2011). Cultural and contextual forces in emerging markets require unique capabilities from MBEs, while they often strive to pursue a global strategy (Ghauri et al., 2017). This raises an important challenge for MBE subsidiaries as they battle the dual pressures of global integration and national responsiveness. Accordingly, MBEs from advanced economies have to decide whether to adopt their established repertoire of strategies to compete in emerging markets, or to develop novel ways of navigating the idiosyncrasies and challenges presented by the local context.

The global integration-national responsiveness debate emphasises the importance an MBE gives to, respectively, global integration (or standardisation) and national responsiveness (or adaptation) of subsidiary operations. Even though Bartlett and Ghoshal (1998) argue that MBEs can achieve both, which they call the transnational solution, in reality, most firms are required to make critical choices between the two (Verbeke, 2013; Tian & Slocum, 2014; Meyer & Su, 2015). The pressure for a subsidiary to be locally responsive is particularly high in large emerging markets with underdeveloped political and social institutions (Tian & Slocum, 2014; Banerjee et al., 2019; Ma et al., 2019). Host-country pressures arise from institutional barriers, such as cultural differences (Elg et al., 2015; Li et al., 2017) or regulatory bias (Chaudhri & Samson, 2000) not only at the country level, but also at the subnational level (Hutzschenreuter et al., 2020). External pressures in the host country environment will require strategic adaptation on the part of the MBE subsidiary (Luo, 2003; Meyer & Peng, 2005; Xu & Meyer, 2013). Given that these considerations are emphasised in the literature, it is remarkable that we still know rather little about how MBE subsidiary managers respond to host-country pressures in emerging markets (Meyer et al., 2020).

Literature on the MBE has expanded in its analysis over recent decades, from countries to the MBE and eventually to the individual subsidiaries of MBEs (see Ma et al., 2019 for overview) but most extant



research generally assumes passivity of subsidiaries (Zeng et al., 2019), while disregarding the active role of managerial agency on the part of the individual subsidiary manager in establishing a position in a foreign market (Williams et al. 2017; Zeng et al., 2019). In addition, in a recent review of the internationalisation of firms, leading IB scholars note that there is too little emphasis on the individual and too much on the firm (Buckley & Casson, 2019; Meyer et al., 2020). Furthermore, many articles on business networks and relationships fail to make a distinction between the firm and the individual, or mix individuals and firms as actors ‘in confusing ways’, which makes it is hard to know what actors mean in many texts (Koporovic & Törnroos, 2019). This eliminates (or, at least, reduces) the human elements of business relationships, and suggests that firms interact with each other only on an organisational level. Thus, extant literature has largely remained situated at a macro-organisational level, while action typically takes place at the level of individuals within the organisation (Caussat et al., 2019). The strong emphasis on interaction and networking between individuals in this study is also justified by the notion that emerging markets are highly trust-based societies, generally based on personal and social relationships (Jansson, 2007). Consequently, this thesis aims at complementing this restrictive view through a qualitative study to explore the human (social) element and micro-level interactions of interrelationships, thereby developing an enhanced understanding of how subsidiaries navigate external pressures vis-à-vis host country actors (i.e. the government, policymakers, media, civil society and partners).

As MBEs in emerging markets pursue long-term strategic goals, such as gaining a sustained market share and seeking long-range investment opportunities, there is a need to build cooperative relationships with local actors in the host market. It is not surprising that Nell et al. (2011) note that larger, older or acquired subsidiaries are often deeply embedded in a network of specific formal and informal relationships in the host markets. The cooperation element becomes particularly important to MBEs, as the earlier conflict-adversary view is shifting towards a cooperative-complementary view of MBE-government relations (Luo, 2001a; Luo, 2002; Elg et al., 2015; Banerjee et al., 2019; Hadjikhani et al. 2019). In contrast to contractual risks resulting from the exposure of transaction-specific assets, which can be balanced through internalisation of intermediate markets (Dunning, 1981), foreign firms in emerging markets will face host-country pressures that require collaborative efforts with key actors (Luo, 2002). The cooperative view proposed in this thesis emphasises the importance of interaction and networking with key host country actors and how responsiveness to the social and political needs is required for establishing a sustainable position in emerging markets.

Extant literature also suggests that embeddedness in different and unique external local networks may enable subsidiaries to reduce host-country pressures and create more competitive opportunities (Ghoshal & Nohra, 1989; Elg et al., 2015; Meyer & Su, 2015; Banerjee et al., 2019). However, embeddedness literature has been dominated by quantitative descriptions, large samples and statistical analyses, and put the emphasis on interfirm relationships, rather than those in the socio-political sphere (e.g. Andersson et al., 2001; 2002; 2007). These studies have not helped us develop an in-depth,

comprehensive understanding of what is involved in relationships (e.g. the organisational practices and resources) in both the business and the socio-political market (Hardy et al., 2003). Even though substantial research has also been conducted on relations between MBEs and governments, NGOs, trade associations and local communities (Hardy et al., 2003; Santangelo, 2012; Klopff & Nell, 2018), few studies investigate how MBEs influence and interact with different business and non-business actors in order to gain support for their strategic goals in emerging markets. However, recent evidence suggests that in emerging markets, which are known for their close entanglement of government and the economy, leading non-business actors are of critical importance in the development of the market position of MBEs (Banerjee et al., 2019; Hadjikhani et al., 2019; Rodgers et al., 2019; Dang et al., 2020; Meyer et al., 2020).

Furthermore, given the importance of developing personal relations with government officials and other non-market actors in emerging markets, it is rather surprising that Johanson and Vahlne (2009), authors of one of the most-cited studies in internationalisation research, focus purely on business networks and business relationships, while disregarding the importance of interpersonal and political networks. In a retrospective note, the authors (Vahlne & Johanson, 2020) suggest that their guiding principle has been to remain as close as possible to the reality of practising managers, and that reality is always fraught with challenges of volatility, uncertainty, complexity, and ambiguity (VUCA), to explain managerial actions, “whether in the realm of internationalisation or other expressions of strategy, we need to take VUCA conditions into account, as well as context” (p.5). However, given the nature of emerging markets, which are characterised by their underdeveloped political and social institutions (Sheth, 2011), it is likely that the activity of business actors and business relationships are not the exclusive component in overcoming the liability of outsidership and liability of foreignness (Monaghan et al., 2014).

There is also literature addressing the non-market strategies of MBEs aiming to explain the early stages of the internationalisation (see Johanson & Kao, 2013 for overview). Yet, there is little known about the post-entry political strategies and tactics in the later phase of well-established, industry-leading MBEs in emerging markets. This study responds to recent calls for more research focusing on strategic activities of established MBEs and their ongoing business activities in emerging markets (Johanson & Kao, 2013; Salmi & Heikkilä, 2015; Hadjikhani et al., 2019). In addition, more research is needed to gain an understanding of the development of a firm’s position in a former colony, and how particular challenges of this situation are managed. Extant research indicates that relationships between the former colonial powers and their ex-colonies are mainly those of friendship, rather than rivalry and hostility (Brysk et al., 2002). Needless to say, ties must be friendly to have a positive influence on trade, and there are also cases where relations have been disrupted or become hostile because of war, territorial disputes, or other forms of interstate conflict (Witte et al., 2020). In the case of Indonesia, the end of colonialism had consequences for Dutch business, since independence involved war and violence, and the operations

of Dutch firms were disrupted, and, eventually nationalised. However, the mixed evidence about the consequences of a common colonial history suggests that each case is context-specific.

To conclude, this research aims to address the above identified research gaps by undertaking an in-depth, qualitative investigation of how subsidiary managers of long-established MBEs respond to host-country pressures in a former colony/emerging market context, through their embeddedness in a network of relationship with not only business actors, but also socio-political actors. Identifying and explicating key practices and strategies at the level of the people involved, rather than at the organisational level, provides fresh and deep insights into the managerial activities required to respond to environmental pressures in the immediate temporal and spatial context of post-colonial Indonesia.

### 1.5 Case study positioning

This section will outline several statements to enhance the clarity of the positioning of the research. The selected organisations are four long-established Dutch MBEs with colonial roots, and thus the *spatial setting* of the fieldwork is the post-colonial and emerging market setting of Indonesia. The *temporal setting* of the study is contemporary Indonesia, although the actors' views of the historical impact on current business operations are also considered in the analysis. Evidence is gathered at the *subsidiary level* of Dutch consumer goods MBEs. Like all good qualitative research, it uses *multiple sources* of evidence (archives, field observation) but at the heart of this study is the semi-structured interview as the chosen means through which the primary research was conducted. The *participants* in this research are mainly senior subsidiary managers, which were asked about what they and their subsidiaries had done in recent times (post-Suharto period, 1999-2019) with regard to interactions and networking with local actors and institutions, as well as how external pressures are managed in Indonesia.

This research investigates how (the only) four long-established Dutch consumer goods MBEs with colonial roots have built a market position in Indonesia. It applies a network approach and discusses how MBEs respond to host-country pressures through a unique set of relationships with local collaborating actors. The *consumer goods industry* was selected for two reasons. Firstly, as a result of the colonial history between Indonesia and the Netherlands, Dutch consumer goods MBEs have historically had a significant presence in the industry. However, Indonesia's relationship with its former colonial ruler has been delicate, which makes it an interesting market to study, primarily when observation leads to an understanding of the strategies used by firms to succeed in a market where firms from their former colonial ruler are regarded with scepticism. Secondly, it was chosen due to its importance to the Indonesian economy and its attractiveness to foreign investors. Indonesia is the world's fourth most populous country and most consumer goods MBEs have to put considerable effort into finding ways of mastering this market.

## 1.6 Research questions, aim and objective

The dearth of research on how the relationships between subsidiary managers of long-established MBEs and various types of actors can assist MBE subsidiaries in responding to host-country pressures in a former colony/emerging market constitutes the broad conceptual justification for this research. The research questions and its associated aim and objective are therefore framed to address aspects of these gaps. This research seeks to explore the question: *How do established Dutch MBE subsidiaries grow and develop in Indonesia?*

This is addressed by posing two sub-questions:

1. *How do MBEs respond to host-country pressures as they seek to survive and thrive?*
2. *How do MBEs collaborate and with whom, to respond to these pressures?*

This research explains the development of the market position of (the only) four long-established, Dutch MBEs in the consumer goods industry in Indonesia. The fact that these firms have been, despite the risks, operating in Indonesia for decades makes the case firms valuable learning examples. Therefore, the overarching aim is to reach a better understanding of how Dutch MBEs respond to host-country pressures in Indonesia and build a competitive market position there, through developing a set of relationships with business, social and political actors. The aim will be met by addressing the research questions and the following objective: to make a contribution to knowledge by developing an enhanced understanding of the actors' lived experience in MBE subsidiaries in an emerging market. More specifically, this thesis will develop a more nuanced understanding of a number of theoretical perspectives by:

- contributing to the global integration-national responsiveness debate as well as to the literature on how MBE subsidiaries compete in emerging markets;
- expanding the literature on subsidiary embeddedness by investigating how MBE subsidiaries develop relationships both in the business market and in the socio-political market;
- contributing to the internationalisation literature by exploring firms' expansion in an emerging market context;
- investigating how MBEs' navigate the liability of foreignness in a country with actors that regard foreign firms with scepticism;
- exploring the postcolonial influence on operations of MBEs with origins from the former colonial ruler.

### 1.7 Thesis structure

A summary of the chapters that follow is presented next (see Figure 1.1 for the thesis map). Building on the introduction chapter, chapter two follows with a discussion of up-to-date literature, including internationalisation, global integration-national responsiveness, subsidiary embeddedness, and post-colonialism, with the aim of reaching a better understanding of how MBE subsidiaries grow and develop in emerging market/former colony setting, through developing a network of cooperative relationships with political, social and business actors.

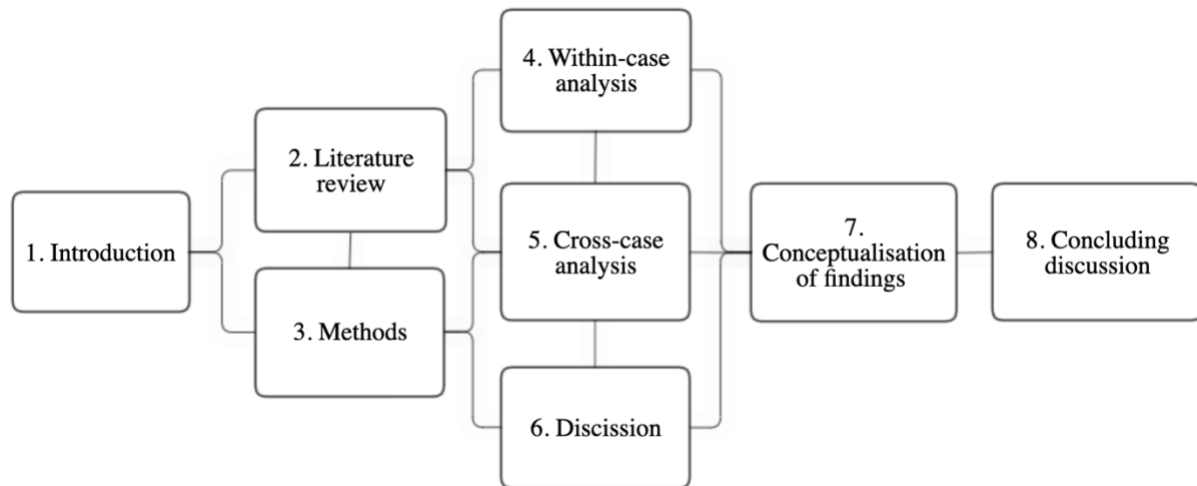


Figure 1.1. Thesis outline<sup>2</sup>

Chapter three explains the design and execution of the study and the step-by-step procedures used to collect and analyse evidence. It also provides a rationale for the research context and case study selection, set out the philosophical position as a social constructionist and discusses its implications for the gathering of evidence, analysis and write-up. Based on the underlying methodological assumptions of this study, an exploratory, qualitative, multi-case study approach to collect and analyse evidence was chosen. This thesis combines case research with in-depth, semi-structured interviews, observations and the interrogation of archival research, such as company archives, institutional archives and media reports. The identification of categories followed a qualitative content analysis approach (Gioia et al., 2013) which allowed making clear evidence-to-theory connections.

Chapter four contains the within-case analysis. In detail, the case studies explore the firms' relationships with different types of political actors, such as governments and policymakers, as well as the relationships with various types of business partners and social actors. Each of these relationship types, as well as the activities performed and resources involved, have been discussed with regard to how they assist the firms in approaching host-country pressures MBE subsidiaries face in the Indonesian

<sup>2</sup> Figure 1.1 visualises the flow of the thesis, starting from ideas, to inputs, to empirical analysis, to output, and finally conclusion.

market. In order to draw conclusions from the case-specific idiosyncrasies, chapter five includes a cross-case analysis and discusses the similarities and differences of the firms' approaches to social, business and political actors, and collaborations with diverse network partners. The Evidence Structure (Table 5.1) is also presented in chapter five, which includes the first-order descriptive codes, second-order themes and aggregate dimensions, as well as the instruments used, and actors involved in performing each activity. By doing so, the chapter visualises the analysis of evidence and ensures full transparency in the development of the emerging framework.

While chapter four and five focused on the firms' strategies and approaches, chapter six critically examines the case study findings in light of the previous state of the subject as outlined in the literature review. It builds on the previous chapter in a way that all the preceding work in reporting the findings and the development of the Evidence Structure is infused with meaning. It also discusses the aggregate dimensions and make clear all relevant evidence-to-theory connections, thus allaying the usual concern that qualitative research too often does not show how evidence relates to theory.

It is important to understand how the different tables/figures in chapters five, six and seven are connected. Based on the four in-depth case studies, the Evidence Structure was developed (in chapter five, table 5.1), which informed the development of the visualisation of the aggregate dimensions (in chapter six, figures 6.1-6.5), which in turn, amalgamated into the enhanced understanding of the participants' lived experiences in subsidiaries of MBEs in an emerging market (chapter seven, Figure 7.1). Finally, the conclusion chapter not only responds to the research questions but also presents the contributions to literature and managerial implications. The main contribution of this thesis is the new way of conceptualising how subsidiaries survive and thrive in an emerging market and respond to host-country pressures. The thesis also contributes to several theoretical perspectives, including the literature on how MBEs adapt their strategies to compete in emerging markets, which involves building close ties to socio-political actors, and how firms navigate the liability of foreignness in a market where firms from their former colonial ruler are regarded with scepticism. Limitations and future research avenues are also addressed.

## **1.8 Chapter summary**

Every chapter, including this one, ends with a summary of the key points that have been covered. This chapter set out the RQs, aim, objective and outlined arguments as to why the topic was deemed important and timely to study. It also introduced the research problem, statements about the positioning of the thesis and a description of the chapters that follow. The following chapter will not only critically review prior research and theory but also identify the main concepts that are necessary to analyse the subsidiary's relationships with local political, social and business actors. In this thesis, cooperative relationships are viewed from the perspective of the MBEs' legitimacy, combined with trust, knowledge and commitment. Furthermore, the study draws on different perspectives and theories, such as internationalisation, global integration-national responsiveness and subsidiary embeddedness, with an aim of reaching a better

understanding of how MBEs respond to environmental challenges of a major emerging market, through developing a network of cooperative relationships with political, social and business actors in a former colony/emerging market setting.





## 2. MBEs operating in emerging markets

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The introductory section of this thesis set out the background, research context and presented arguments as to why the topic is deemed important and timely to study. It argued that, although emerging markets share a number of similarities as compared to their more developed counterparts, they are not a homogenous group, and MBEs need to deploy very different strategies to succeed. Furthermore, Indonesia is the fourth most populated country in the world, and thus global consumer goods MBEs have to put considerable effort into finding ways of mastering this market<sup>3</sup>. However, many MBEs have found that Indonesia is a challenging market, typical of emerging markets in some ways but also unique due to strong economic nationalism and cultural traditions. This research will explore how long-established Dutch MBEs navigate environmental challenges at the subsidiary level in a postcolonial setting, through building a network of cooperative relationships with business and non-business actors (political and societal actors).

The introduction chapter outlined statements concerning the positioning of the thesis. Here they are recalled providing context for the discussion of literature that follows. Firstly, given the gaps in the literature, the selected organisations are long-established Dutch organisations with colonial roots. Secondly, the *spatial setting* of the fieldwork is the post-colonial setting of the emerging market of Indonesia. Thirdly, the *temporal setting* of the study is contemporary Indonesia, although the actors' views of the historical impact on current business operations are also considered in the analysis. Finally, evidence is gathered is at the *subsidiary level* of (the only) four Dutch consumer goods MBEs with colonial roots in Indonesia. Before moving on to the chapter outline, here the RQs are recalled providing context for the discussion of literature that follows. This research seeks to explore the question: How do established Dutch MBE subsidiaries grow and develop in Indonesia? This is addressed by posing two sub-questions: (1) How do MBEs respond to host-country pressures as they seek to survive and thrive? (2) How do MBEs collaborate and with whom, to respond to these pressures?

This chapter is organised into *five* parts. Following the introduction of the chapter, the *first* part reviews existing literature on the internationalisation of firms. Although the research focuses on the MBE's internationalisation (i.e. the expansion of business enterprises abroad), the emphasis is not on the firm's 'market entry', as is often assumed. Instead, this research is about the current activities of well-established MBEs. However, a review of the internationalisation literature is relevant as it provided the motivation for current interest. In line with recent versions of the internationalisation process theory (Johanson & Vahlne, 2009), which recognise that firms form relationships and that those relationships become networks, this study views the foreign business network as a market structure in which the internationalising firm is embedded. The business network approach to internationalisation

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<sup>3</sup> The four most populous countries are (1) China (1.393 billion), (2) India (1, 353 billion), (3) United States (326 million), (4), Indonesia (273 million).

stems from research conducted by the International Marketing and Purchasing group (IMP), which will also be reviewed in this part.

The *second* part of this chapter is about the different stakeholders MBE subsidiaries need to engage with in an emerging market. The external parties included in this study are not only business partners, but, also, the role of social and political actors is taken into consideration. In contrast to most research on networks and relationships, which puts the emphasis on business actors, such as suppliers and customers, this study constructs the assumption that MBEs in emerging markets are interwoven in a network containing business actors (buyers, suppliers, distributors, and competitors), political actors (governmental officials from the political government, industrial bureaus, or regulatory or support organisations) and social actors (NGOs, opinion leaders, media). As a result, subsidiaries have to balance and coordinate interests with multiple stakeholders both in the business market and in the socio-political market. Each of the actors in the extended business network will be reviewed in this section.

Given the temporal setting of this thesis, the current operations of well-established subsidiaries in a specific country context, the *third* part of this chapter explores relevant MBE subsidiary literature. After taking stock of the literature on the MBE's strategy, structure and subsidiary, two particularly relevant themes came to the fore, these being global integration - national responsiveness and external subsidiary embeddedness. First, the literature on the *global integration-national responsiveness* debate is reviewed, which emphasises the importance an MBE gives to, respectively, global integration (or standardisation) and national responsiveness (or adaptation) of subsidiary operations. The pressure for a subsidiary to be locally responsive is particularly high when the institutional environment of a host market is locally specific, although the need for adaptations is likely to vary depending on the environment. Environmental factors that arise from institutional barriers are often referred to as host-country pressures. Three host-country pressures were identified, namely regulatory complexities, cultural specificities and subnational heterogeneity. The literature on the nature of these pressures, and how firms respond to them in emerging markets is discussed here.

Second, the literature on *external subsidiary embeddedness* is reviewed, which suggests that embedding in different and unique external local networks may enable subsidiaries to reduce host-country pressures and/or create more competitive opportunities. Although there are many types of embeddedness with their own, sometimes confusing or overlapping definitions, it is essentially a measurement of how an entity interacts with other actors in its social environment. Given the vast and broad nature of the literature on external subsidiary embeddedness available, a focused literature review on subsidiary embeddedness was conducted (Table 2.1). It follows that the embeddedness literature has been dominated by quantitative descriptions, large samples and statistical analyses, and put the emphasis on interfirm relationships, while only limited attention has been given to embeddedness in the socio-political sphere. For this reason, additional research is required to develop an in-depth,

understanding of what is involved in subsidiary relationships (e.g. the activities and resources) in both the business and the socio-political market.

The *fourth* part of this chapter proposes a cooperative view towards building subsidiary relationships in the host market. Given the uncertainty and risk associated with operating in emerging markets, which are fast-growing and inherently challenging, and the MBE's intent to develop a long-term position in emerging markets, it is expected that they seek to build cooperative relationships to navigate the challenges presented by the local context. The cooperative activities are viewed in this thesis from the perspective of the MBEs' legitimacy, combined with trust, knowledge and commitment. This view emphasises the importance of interacting and networking with key actors and how responsiveness to the social and political needs is required for MBEs in emerging markets.

Finally, the *fifth* part reviews European post-colonial operations in former colonies in Africa, Asia and Latin America, as well as the specific case of Dutch firms during and after the time that Indonesia was a Dutch colony. Most extant research indicates that prior colony - coloniser relations are likely to strengthen the social relations between countries and play a significant role in facilitating bilateral trade and investment. Needless to say, ties must be friendly to have a positive influence on trade, and there are also cases where relations have been disrupted or become hostile because of war, territorial disputes, or other forms of interstate conflict. In the case of Indonesia, the end of colonialism had consequences for Dutch business, since independence involved war and violence, and the operations of Dutch firms were disrupted, and, eventually nationalised. Several years later, some of the nationalised firms were sold back to their previous owners. Their 'business re-establishment', however, required a different toolkit to navigate the now adverse institutional environment. Even though the common history has had negative influences on Dutch firms in the past, more recent evidence suggests that today, relations are largely free of post-colonial complexities.

## 2.1 Internationalisation of firms

International business (IB) has long been dominated by large, well-resourced, manufacturing MBEs, and despite the rise of 'born globals' and 'international new ventures' (Oviatt & McDougall, 1994; Madsen & Servais, 1997; Liesch et al., 2011; Knight & Liesch, 2016), these 'traditional' MBEs continue to be important players in the world economy. A century ago, only (or mainly) such large firms had the capability to participate in international trade and investments. Today, however, modern tech behemoths (e.g. Facebook, Alphabet and Alibaba) are taking the lead in the list of the 100 largest companies, although traditional MBEs (e.g. Nestlé, Procter & Gamble and Unilever) are not far behind (Statista, 2019). To survive and thrive, these MBEs have had to adapt to rapid technological change, growing international competition, new demands from customers and regulators, and overall more uncertainty (Egelhoff, 2010), and thus they can make for valuable learning examples. In fact, it was the observation of the ubiquitous presence and visibility of these MBEs and the effects they had on the

contexts in which they were operating that first captured the attention of scholars. The field of IB was established as a genuine empirical domain, in that scholars from various disciplines with an interest in understanding how these phenomena have come together with their toolkits to explain them, including economists, business historians, geopolitical specialists, sociologists and so on.

Academic debates on the internationalisation of firms through FDI and their strategies have explained ‘how’ and ‘why’ MBEs operate in foreign markets. For instance, the OLI paradigm (Ownership, Location, and Internalisation) has proven useful for analysing the reasons why firms internationalise (Dunning, 1988), while the internationalisation process theory offers insights into how investment strategies develop over time (Johanson & Vahlne, 1977). The former distinguishes three kinds of possible MBE advantages, the ownership-specific advantages of the incoming firm over the local firms, the location-specific advantages of home or host countries, and the internalisation advantages resulting from internalising markets inside the company (Dunning, 1988). The latter describes the expansion of firms to foreign markets as gradual increases in commitment to foreign markets over time (Johanson & Vahlne, 1977). The authors concluded that companies that moved abroad tended to start with exports, then set up local sales offices and finally take on local manufacturing.

Early internationalisation theories assume that an MBE’s internationalisation activities and decisions are based solely on their internal capabilities and resources controlled by the firm itself (Johanson & Vahlne, 1977). While these theories discuss the impact of firm-specific advantages (FSA) and country-specific advantages (CSA) (Dunning, 2000), they lack in the argument that CSA are not possessed by the MBE but by other actors in the country (Elg et al., 2015). For instance, although OLI and internalisation models recognise that foreign market entry requires the bundling of MBE and complimentary local assets, which are CSA, they implicitly assume that those assets are freely accessible to MBEs (Hennart, 2009). It follows that the focus has largely been on a focal firm in a neoclassical time environment and only recently has a network view perspective been argued (Hennart 2009; Johanson & Vahlne 2009). Leading IB scholars (Buckley & Casson, 2019: 342) have also noted that there is “too little emphasis on interactions between actors, such as networking between individuals”. However, for an MBE to be successful in its internationalisation efforts, it has to cooperate with outsiders who own country-specific advantages to combine their resources to succeed in a foreign market (Hennart, 2009; Johanson & Vahlne, 2009; Elg et al., 2015).

It must also be noted here that scholars have reported findings that have not been able to corroborate the stepwise increases of the internationalisation process theory (e.g. Knight & Cavusgil, 1996; Oviatt & McDougall, 1994). For instance, studies in international entrepreneurship have noted the importance of the external environment in influencing the internationalisation process, and that the paths of firms are rather stochastic and idiosyncratic (e.g. Jones & Coviello, 2005). It is evident that, although some firms have followed the process of ‘starting with exports, then setting up local sales

offices and finally taking on local manufacturing', the reality, in line with subsequent empirical studies that have not been able to corroborate the process of stepwise increases, is a lot "messier" (Benito et al, 2009:1455), as demonstrated by the nationalisation and subsequent re-establishment of Dutch firms in Indonesia (Sluyterman, 2017).

### 2.1.1 Business network view of internationalisation

While it is not the intent here to give a complete thesis on internationalisation process theory, some explanation is essential as it provided the motivation for current interest. Jan Johanson and Jan-Erik Vahlne, authors of one of the most-cited studies in internationalisation research, developed a model to describe the firm's internationalisation process. The model was launched in a paper by the scholars in 1977 and, ever since, has been used by different scholars as a platform for further studies of the internationalisation processes of firms. In several papers since, the authors made changes to the model (1990, 2003, 2006, 2009, 2013). In recent versions, the market development processes take place in a business network, which the authors define as a set of connected business relationships<sup>4</sup> (Johanson & Vahlne, 2009).

The business network view stands in contrast to the neoclassical economics view of markets as consisting of a large number of independent actors, an accepted theoretical construct when explaining and predicting macroeconomic events, but somewhat misleading when studying micro-economic phenomena. The authors observed that firms form relationships and that those relationships become networks, and consequently, the business macro-environment consists of networks of relationships between firms (Johanson & Vahlne, 2013). Subsequently, the 'business network view of internationalisation' has emerged as one of the dominant schools of thought, explaining how firms become international (see Johanson & Kao, 2013 for an overview). The original version (1977) focused on the focal firm only and assumed unilateral learning and commitment to foreign markets, while later versions (2003; 2009) assume bilateral or even multilateral knowledge development and commitment between relationship partners. To be successful in foreign markets, firms have to gain a position inside these networks, as they can find the potential for the necessary learning and possibilities of building trust and commitment within them. Furthermore, the original version assumed that 'liability of foreignness' (Hymer, 1967) was the main obstacle to foreign market entry and expansion, while the later versions assume that 'liability of outsidership' captures the uncertainty and difficulties associated with being an outsider in relation to a certain network (Johanson & Vahlne, 2009). The two concepts will be discussed next.

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<sup>4</sup> Like a seed growing into a plant that, in turn, delivers new seeds, a theoretical invention opens up new research opportunities. Johanson and Vahlne's (2009) paper has been used by researchers publishing on, among others, management, marketing, strategy, small business management, innovation management and entrepreneurship family business. In 2019, the authors were awarded the JIBS decade award (Verbeke, 2020)

Liability of foreignness refers to the for the competitive disadvantages that foreign-owned firms face due to their origins (Hymer, 1967; Zaheer, 1995). Described as a “stranger in a strange land” (Eden & Miller, 2001:4), the MBE may lack legitimacy, have an insufficient local network and lack understanding of local institutions and practices, which may cause unfamiliarity hazards (Klopf & Nell, 2018; Eden & Miller, 2001) and increases the risk they face in terms of government discrimination<sup>5</sup> (Eden & Miller, 2004; Witte et al., 2020). To overcome this obstacle, Johanson and Vahlne (2009) propose that relationships with critical network partners need to be established and maintained. Because within the network, there is plenty of potential for the necessary learning, and access to resources and customers. In this vein, Forsgren (2016) notes that the main difference between a domestic network and a foreign one is the liability of foreignness. Thus, Johanson and Vahlne (2009) implicitly acknowledged this by saying that the larger the psychic distance, the more difficult it is to build new relationships.

The concept of ‘outsidership’ (also called ‘insiderisation’) is closely related to Verbeke’s (2007) focus on the need to establish relationships with host country actors who control complementary resources, when some of the MBE’s FSA are location-bound, rather than being easily transferable across borders (Verbeke, 2020). The presence of outsidership is also consistent with Hennart’s (2009) perspective on the need to move away from MBE-centric theories of international entry. Hennart highlights the importance of complementary resources in host countries that may not be easily accessible in open markets. The process of overcoming outsidership reflects the resource recombination activities needed to become successful in foreign markets (Verbeke, 2020). In Verbeke’s (2020) comments on Johanson and Vahlne (2009) paper, he argues that the insiderisation process requires strong selectivity in identifying complementary resources needed for success, including reputation building, securing institutional support and bridging social capital.

Verbeke (2020) further argued that Johanson and Vahlne (2009) provide only a birds-eye view on the resource recombination challenges at stake, but more in-depth study is still required of interrelationships (formal and informal) between international business actors. In a retrospective note, Vahlne and Johanson (2020) suggest that their guiding principle has been to remain as close as possible to the reality of practising managers. For this reason, they argue that as reality is always fraught with challenges of volatility, uncertainty, complexity, and ambiguity (VUCA), to explain managerial actions, “whether in the realm of internationalisation or other expressions of strategy, we need to take VUCA conditions into account, as well as context” (p.5). However, given the nature of emerging markets, which are characterised by their underdeveloped political and social institutions (Sheth, 2011), it is likely that the activity of business actors and business relationships are not the exclusive component in overcoming the liability of outsidership and liability of foreignness (Monaghan et al., 2014). In other

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<sup>5</sup> Recent evidence also suggests that disruptions in the political sphere (e.g. US-China trade war) may considerably increase the liability of foreignness (Wan et al., 2020; Meyer et al., 2020).

words, the work of Johanson and Vahlne has failed to acknowledge the importance of interpersonal relationship, particularly with those in the socio-political sphere.

Although the internationalisation theory provided the motivation for current interest, given the temporal setting of this thesis (i.e. current operations of well-established subsidiaries), and the limitation with regards to interpersonal and institutional networks, it alone does not offer sufficient theoretical foundation for this research. Johanson and Vahlne (1977) original work derived from longitudinal studies of four Swedish-owned subsidiaries ‘moving abroad’, and similarly their 2009 perspective focuses on ‘market entrants’. Accordingly, further literature is needed to provide a ‘bridge’ to the focus and setting of this thesis, namely four long-established Dutch-owned subsidiaries in a contemporary setting. For this reason, the rest of the chapter reviews relevant literature on MBEs and subsidiaries management, but first, the actors-resources-activities model, as well as wider International Marketing and Purchasing (IMP) research will be discussed.

### 2.1.2 International Marketing and Purchasing group

As mentioned in the previous section, Johanson and Vahlne’s (2009) key insight was that business networks are found to constitute the context in which internationalisation should be explained. However, while their perspective focuses on ‘entering’ foreign markets, taking a broader view at the business network literature provides a more detailed explanation of the operationalisation of networks and relationships. The salient role of relationships resulted from Johanson (1966) dissertation as well as other studies of marketing and purchasing in industrial contexts (Håkansson & Östberg, 1975). In the 1960s, when young Uppsala researchers (Johanson, 1966; Forsgren & Kinch, 1970) asked how marketing executives of several Swedish firms compete in international markets, they said: “my overall task is to establish, develop and maintain relationships with the customers” (Johanson & Vahlne, 2011: 485). These findings stood in stark contrast to neoclassical economic theories available at the time and gave rise to a large-scale empirical study of international marketing and purchasing of industrial products (the IMP project) that was carried out in the late 1970s and early 1980s through the collaborations of a group of European researchers (Håkansson & Snehota, 1995). The primary objective of the IMP project was to investigate to what extent relationships were important in business markets.

Since then, IMP research has developed into a vast research stream, which can, according to Welch and Wilkinson (2004), be broadly categorised into three ‘generations’. The first ‘generation’ of IMP research focuses on dyadic buyer-seller business relationships (e.g. Håkansson, 1982), while the second ‘generation’ shifted its focus on the wider network of connected business relationships (e.g. Ford, 1990), and finally, the third ‘generation’ includes a broad range of business and non-business relationships (e.g. Halinen & Törnroos, 1998). Based on early observations, IMP scholars proposed an interaction model that, instead of assuming buyer-seller exchanges in industrial markets to be discrete transactions, focused on adaptation and exchange between suppliers and customers (Håkansson, 1982;

Ford, 1997). The second generation of IMP research found that single buyer-seller relationships cannot be understood in isolation from the pattern of relationships which surround it (Ford, 1990), which led to the business network view (Håkansson & Snehota, 1995). Researchers in this area suggest that the management of networks of connected relationships constitutes an important competitive advantage.

The actors-resources-activities (ARA) model originated from the second generation IMP research, in which networks are explained in terms of three types of connections: bonds between actors, links between activities and ties between resources (Håkansson & Snehota, 1995). An adapted version of the ARA conceptual frame will be used in this thesis and will receive further attention in the next chapter (section 3.6), but the framework will be explained and critiqued here first.

#### *Actors-resources-activities model*

The three elements of the model influence each other (1) actors perform activities through the deployment of resources, (2) activities transform resources and are used by actors to achieve their goals, and (3) resources give actors power and enable activities (Håkansson & Snehota, 1995; Ritter & Gemünden, 2003; Lenney & Easton, 2009). Each element will be discussed briefly.

First, actors can be firms, departments, or any individual who is relevant for understanding the network. Individuals act on behalf of their organisations and on their own behalf while making business decisions. Decisions include, for example, entering relationships, maintaining them, as well as ending them. When individuals interact with each other, their goal is to exchange information and ideas with each other, solve problems, or conduct business, or social exchanges (Kopocic & Törnroos, 2019). Bonds between actors connect actors and are primarily social in nature. They are created, maintained and sometimes destroyed through interaction with other actors (Lenney & Easton, 2009). Relationships built on strong social bonds emerge between individuals as a result of acting according to commonly accepted norms and rules (Jansson, 2007). Second, resources can be stable or unstable, valuable or worthless, depending on their configuration (Lenney & Easton, 2009). Resource ties connect various resource elements that can be either tangible (e.g. physical goods) or intangible (e.g. knowledge and relationships) (Crespin-Mazet & Dontenwill, 2012). Actors have control over some firm resources but may also have access to others and collaborate to combine or exchange resources (Håkansson & Snehota, 1995). Third, activities can be of any type and can take place at the individual or organisational level. Activity links provide the 'backbone' of any interorganisational relationship (Lenney & Easton, 2009).

Although this empirical perspective has allowed researchers to focus more clearly on the nature of inter-firm exchanges and the role of the wider business network, the lack of a deep theoretical structure has led to criticism. According to Medlin and Törnroos (2007), one major weakness is the lack of distinction between the firm and individuals as actors so that the role of humans has been downplayed. However, it are the individuals who act for firms, whereas the IMP framework often resorts to firms as



actors, or mixes individuals and firms as actors ‘in confusing ways’, which makes it is hard to know what actors mean in many texts. This eliminates (or, at least, reduces) the human elements of business relationships that provide an understanding of how business networks are operationalised (Koporcic & Törnroos, 2019). As Chatman et al. (1968:211) put it, “there is conceptually an overlap between individual and organisational behaviour that is seldom acknowledged [...] the individual not only acts on behalf of the organisation in the usual agency sense, but he also acts, more subtly, ‘as the organisation’ when he embodies the values, beliefs, and goals of the collectively”. Even through this was argued over half a century ago, more recently, leading IB scholars (Buckley & Casson, 2019) note that there is still too little emphasis on the individual and too much on the firm.

Backhaus and Büschken (1997) further criticised the ARA framework for being too descriptive, while Lenney and Easton (2009) argue that the generality of the framework is simply too great for potential users. However, perhaps due to its generality, several studies have adapted the ARA conceptual frame to fit the focus of enquiry (Welch & Wilkinson, 2004; Elg et al., 2008; Ghauri et al, 2008; Lee et al., 2012a; Crespín-Mazet & Dontenwill, 2012). Although the ARA framework has been predominantly used to study buyer-supplier relationships and their embeddedness in wider business networks (Håkansson & Snehota, 1995; Lenney & Easton, 2009), recent versions include multiple types of stakeholders, such as political actors (Welch & Wilkinson, 2004), and those from the civil society (Crespín-Mazet & Dontenwill, 2012). For instance, Crespín-Mazet and Dontenwill (2012) adopt a distinction between types of actors, referring to business and non-business actors (e.g. NGOs), using an adapted version of the ARA conceptual frame to explore the challenges of building legitimacy in supply networks. According to Welch and Wilkinson (2004), in the transition between the first and second generation of IMP research, the broader contextual setting of relationship systems is downplayed (Halinen & Törnroos, 1998). As a result, the AAR frame is “rather weak in the contextual structure around the focal network” (Hellgren et al., 1993:89). To address this limitation, Welch and Wilkinson (2004) propose a ‘third generation’ of IMP research which rectifies this discrepancy by extending the business network approach to networks involving a broad range of relationships with business and non-business actors.

Welch and Wilkinson (2004) propose an extended ARA framework for analysing the interconnection between political/policy and business actors. The ‘political AAR framework’ consists of political actors, political activities, political resources and political institutions, which they used to explore the depth and breadth of the political embeddedness of firms and their networks. The authors found that political actors may be involved in three types of interconnected networks, each with its own actors, activities and resources. First, in interfirm networks, governmental actors may have roles as buyers, suppliers or intermediaries. Second, in policy-business networks, government and business interact with each other through policy communities and issue networks in various ways to develop, influence and implement policy. Third, inter- and intra-governmental networks, which are formed by

the actors, activities and resources involved in the direct and indirect relations in the government domain, including ministries, departments, state and federal bodies and individuals within and across countries and multilateral agencies. However, the authors note here that the lines between a policy-business network and governmental networks may become blurred when political actors take economic positions in the business network, or when business actors take on policy-making roles.

It follows that relationships with non-business actors such as government, local authorities and trade unions represent important assets to the firm. Although they may be linked to the business relationship in different ways (Welch & Wilkinson, 2004), they may also form part of an ‘infrastructural networks’, which are the social ties of a particular organisation or person in a business network (Hallen, 1992). These networks often include political actors such as government officials, are not necessarily directly involved in business purchases but serve as a vehicle for information and influence. At Hallen (1992: 77-79) puts it, “by providing bridges to other networks, the infrastructural relationships can be crucial for securing long-term survival for firms [...] where regular paths are not so well-trodden [...] and may be as important as the business relationships”, especially in emerging markets where governments, religious institutions, NGOs and local communities often wield enormous influence (Jansson et al., 2007; Sheth, 2011; Elg et al., 2015)

Although IMP-Group studies focus on cross-border, business-to-business relationships, most of this research was conducted without explicit attention to the internationalisation process (Johanson & Vahlne, 2013). However, there are several notable exceptions (Elg et al., 2008; Ghauri et al., 2008; Lee et al., 2012a) which applied the ARA conceptual frame to internationalisation studies. For instance, Elg et al. (2008) argue that the internationalisation process is divided into three different phases: search, entry, and establishment. In each of these, the three network variables, actors, activities and resources are present. In the first phase of entering emerging markets use their network to gain political acceptance and legitimacy by interacting with international institutional actors. In the later phase, they suggest firms try to influence local political actors and gain support from the domestic institutional network.

It must be noted here that while Elg et al. (2008) include different phases of the firm’s internationalisation, this is an exception rather than the norm. In Johanson and Kao’s (2013) review on more than 20 years of research on networks and internationalisation, they conclude that a number of papers address the foreign market entry and business networking of MBEs in emerging markets, aiming to explain the early stages of the internationalisation process (e.g. Ghauri et al., 2008; Lee et al., 2012) and the importance of becoming an insider in local business networks (Johanson & Vahlne, 2009). However, despite the increasing research addressing the non-market strategies of MBEs aiming to explain the early stages of the internationalisation (e.g. Zhang et al., 2016), there is little known about the strategic activities of established MBEs and their ongoing business activities in emerging markets (Johanson & Kao, 2013; Salmi & Heikkilä, 2015; Hadjikhani et al., 2019), while this is “an important area that is worthy of more research attention, and may prove beneficial for network theory

development” (Johanson & Kao, 2013:18). Johanson and Kao (2013) further note that few articles include non-business actors, while the role of political relationships in the firm’s internationalisation efforts presents a “fruitful area for researchers to tackle” (p.18).

## 2.2 Extending the business network view

It has now become clear that firms have to collaborate not just with other firms but also actors outside the traditional business network. Determining the scope of the business network involves considering what is within the boundaries of the network and what is left outside (Thilenius et al., 2016). It involves determining what kind of relationships, and with whom, are included in the research. Although the majority of research on networks and relationships puts the emphasis on business actors, such as suppliers and customers (Håkansson & Snehota, 1995; Johanson & Vahlne, 2009), several notable exceptions have been discussed (e.g. Halinen & Törnroos, 1998; Welch & Wilkinson, 2004). For instance, Halinen and Törnroos (2005) recognise that business networks are often viewed as embedded in networks of specific business as well as institutional relationships, which makes each network somewhat unique and context-specific. One may ask the questions: if it is accepted that business networks include, at the same time, social, business and political actors, does it then make sense to study only one aspect of a network?

This research is based on the premise that socio-political actors play a critical role in the development of the market position of MBEs in emerging markets. There is much recent evidence to suggest that in emerging markets, which are known for their close entanglement of government and the economy, leading non-business actors are important in the firm’s business network (e.g. Banerjee et al., 2019; Hadjikhani et al., 2019; Rodgers et al., 2019; Dang et al., 2020). Furthermore, Elg et al. (2015) argue that given the importance of becoming an ‘insider’ (Johanson & Vahlne, 2009), developing a network of relationships with non-business actors might be even more important than with business actors, as these actors can support or alienate the MBE’s operations in emerging markets. Therefore, given the emerging market context in which the study takes place, the research goes beyond the traditional business network view and, in line with the perspective of recent scholars such as, Ghauri et al. (2012), Elg et al. (2015) and Hadjikhani et al. (2019) constructs the assumption that the strength of a subsidiary’s position in emerging markets is determined by its behaviour in three interrelated arenas: business, society and political (Figure 2.1).

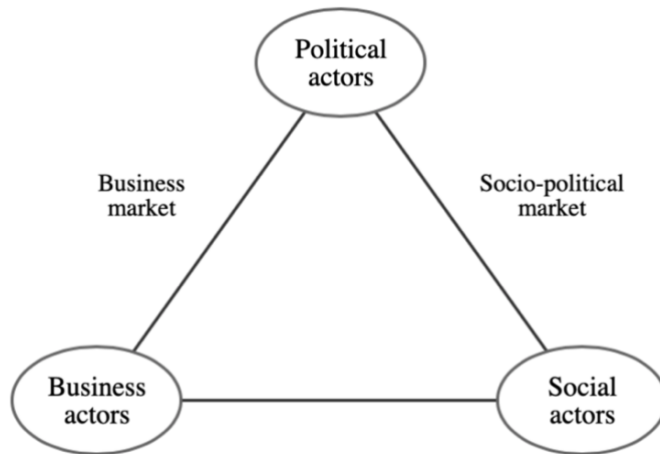


Figure 2.1. The extended business network<sup>6</sup> (adapted from Hadjikhani et al., 2008)

This research builds on the proposition that business networking in an emerging market includes personal and organisational ties with business actors (buyers, suppliers, distributors, and competitors), but also political actors and social actors. As explained by Hadjikhani et al. (2008:912), “firms need to manage their politico-social market as well as the business market”. In this study, ‘social actors’ refer to NGOs, media, religious groups and other associations or individuals that play an important role in society and form public opinion, while ‘political actors’ refer to policymakers, public officials, politicians as well as non-business actors functioning as intermediaries between the MBEs and the political units. As a result, subsidiary managers have to balance and coordinate interests with multiple stakeholders both in the business market and in the socio-political market (Hadjikhani et al., 2008). The strong emphasis on interaction and networking in this study is also justified by the notion that emerging markets are highly trust-based societies, generally based on personal and social relationships (Jansson, 2007; Elg et al., 2015).

Building on IMP research, Hadjikhani and colleagues (2001, 2005, 2008, 2019) highlight the importance of business, social and political actors in the MBE’s network. The three types of actors are interdependent for critical resources and form relationships of mutual interest. While MBEs implement strategic actions to gain support from socio-political actors for their business, socio-political actors also depend on MBEs as their investments affect the economy and welfare of the society (Ghauri et al., 2012). This means that foreign MBEs might get political support from the government in exchange for creating new jobs and more economic welfare that, in turn, create goodwill for politicians and other decision-makers in the society. Political actors cannot increase employment, social welfare and growth for the society without the success of business actors, while MBEs cannot thrive in emerging markets without the support of political actors (Hadjikhani et al. 2008; Hadjikhani et al., 2019). It is for this

<sup>6</sup> The triangle encapsulated by the three actors will play an important part in the conceptualisation of the findings (Figure 7.1).

reason that these different types of actors are depended on each other for critical resources and form relationships of mutual interest. Each of the actor types is discussed next.

### **2.2.1 Business actors**

Business networks and interfirm relationships have been extensively explored in international business studies (Forsgren et al., 2015, or see Johanson & Kao, 2013 for an overview). Recent studies on the internationalisation of MBEs suggest that no firm can develop sustainable competitive advantage on its own, but instead, it requires the assistance of other firms (e.g. distributors or suppliers) with sufficient knowledge and influence (Johanson & Vahlne, 2009; Hennart, 2009; Buckley & Ghauri, 2015; Elg et al., 2015). A number of benefits of interfirm relationships and networks are considered in the literature, for instance, gaining access to scarce local resources, acquiring market knowledge, cutting costs, increased reputation and connections to political actors. Furthermore, extant literature reveals that relationships and networks are potentially valuable resources for firms and a means of establishing and maintaining competitive advantage (e.g. Uzzi, 1996; Dyer & Singh, 1998). It is suggested that arms-length transactions over time become cooperative relationships as reciprocal investments are made by parties, and mutual trust and commitment gradually increase (Ford et al., 2003). The theoretical view of business network theory is that firms develop long-standing relationships with other actors in the market, such as suppliers and distributors (Anderson et al., 1994), thereby using each other's resources for a joint competitive position (Ford & Håkansson, 2013; Forsgren et al., 2015).

### **2.2.2 Political actors**

Earlier research has provided evidence that the MBE's business activities in emerging markets are highly dependent on how they manage their business relationships with different types of socio-political actors in their business networks (Elg et al., 2012; Ghauri et al., 2012). For example, it is often necessary, for MBEs operating in emerging markets to negotiate separately with governments and local authorities. Firms that fail to acknowledge the importance of this approach will run into difficulties in challenging emerging markets as local chiefs, religious and informal leaders hold power and may have access to critical resources. Local authorities can represent a significant source of uncertainty because they provide the licence to operate and also play an essential role in establishing the infrastructure that MBEs require for their operations (Luo, 2001; Hillman & Wan, 2005). Furthermore, states in emerging markets are driven to manifest that they are capable of controlling firms with regulations (Chaudhri & Samson, 2000).

Through their hierarchical power, authorities develop and implement policies to benefit society. However, efforts to steer government decisions in a favourable way are common practice for MBEs. In fact, the governments' sensitivity to these initiatives encourages MBEs to engage in efforts known as 'corporate political activities' (CPA) which are part of a firm's 'non-market strategy' (Baron, 1995). Many firms have increased their expenditure on CPA, in an attempt to increase the reputation and

influence perceptions of host country actors towards the MBE (Ornrod & Müller, 2020). Ornrod and Müller (2020) also found that proactive CPA strategies and constituency-building, whilst seen as risky, had a positive effect on firm reputation amongst the industry experts if adopted over the long-term. It is important to note that the non-market context also has a darker side, where corruption and immoral practices can dominate (e.g. Rodgers et al., 2019).

### 2.2.3 Social actors

Social actors, such as NGOs, the media and other associations or individuals that play an important role in society and form public opinion are important non-market actors as they have the ability to support or alienate the MBE's operations in a particular market (Ghauri et al., 2012). For this reason, firms associate themselves with, for instance, NGOs to bolster their company image and reputation, but also their status among the general public and the media. Extant research indicates that NGOs that serve societal interests through advocacy have played considerable roles in pushing behaviour and policies of MBEs to promote environmental or social change (Boddewyn, 2016). The overarching theme in the existing literature on MBE - NGO relationships is that it contributes to the legitimacy and performance of both MBEs and host country institutional development, for example by increasing environmental standards in emerging markets (London & Hart, 2004). Elg et al. (2008) demonstrate that close relationships with NGOs can help avoid scandals regarding pollution or employee conditions, which may damage their global reputation. However, gaining access and influence on social actors can turn out to be challenging, especially in emerging markets where religious institutions, NGOs and local communities often wield enormous influence (Elg et al., 2015; Sheth, 2011).

Although the core focus of the internationalisation process model, and most IMP research is limited to business actors, this research substantially extends the "web of relationships" (Johanson & Vahlne, 2009: 141) surrounding the MBE to include both business and non-business actors. In line with Monaghan et al. (2014) who demonstrate that the activity of business actors and business relationships, including the knowledge they offer, are not the exclusive component in overcoming the liability of outsidership and foreignness, this thesis acknowledges the capacity for non-business actors, such as authorities and NGOs to constitute a significant component of the "wide variety of interdependent relationships" (Johanson & Vahlne, 2009: 1423) that embody the internationalisation network model (Monaghan et al., 2014).

To conclude, previous sections have discussed the internationalisation of firms. The development of the internationalisation process theory to a view in which internationalisation is explained in a business network context led to further investigation of IMP research. However, it was the discrepancy between the temporal setting of this thesis (i.e. current operations of four long-established Dutch-owned subsidiaries) and the nature of the work of Johanson and Vahlne (i.e. longitudinal studies of four Swedish-owned subsidiaries moving abroad) that led to the investigation of further IMP and network

literature, which concluded that most studies focus on buyer-supplier relationships, although some more recent studies also include non-business actors. Subsequently, the extended business network view has been proposed, in which the strength of a subsidiary's position is determined by its behaviour in three interrelated arenas: business, society and political.

### 2.3 The MBE's strategy, structure, and subsidiary

Although it is not the intent here to provide a comprehensive review of the history of MBE research, this section will provide a brief background of the various streams on the MBE's strategy, structure and subsidiary before 'zooming in' on two key theoretical perspectives, these being, 'external subsidiary embeddedness' and 'global integration-national responsiveness'. Building on the reviews of (Birkinshaw, 1994; 2001; Ma et al., 2019) this section succinctly reviews six research streams on the MBE's structure, strategy and subsidiaries. The first three research streams can be broadly categorised under 'headquarters (HQ)-perspective streams' (i.e. strategy-structure, HQ-subsidary relationship and MBE-process), in which most early works view subsidiaries as merely the long-arm of HQ, while the 'subsidiary-perspective streams' (i.e. subsidiary-role, subsidiary-evolution and subsidiary-network) acknowledge the critical importance and challenges related to managing individual subsidiaries operating in distinct environments.

#### 2.3.1 MBE literature streams

The strategy-structure stream focuses on why MBEs adopt certain structures to organise their international activities (e.g. Chandler, 1962; Stopford & Wells, 1972; Prahalad, 1976; Bartlett, 1979; Egelhoff, 1982). In Chandler's (1962) landmark work, 'Strategy and Structure', he found that four large US firms internationalised through a strategy of product diversification and implemented a divisional organisational structure. The strategy-structure stream is largely built on the 'Chandlerian' perspective and highlights that an organisation's internationalisation influences the MBE's design and provides a critical contingency for structure. In the nearly six decades since, many conceptual and empirical advances have been made. For instance, Stopford and Wells (1972) developed a model on strategy-structure that recognised organisational structures that MBEs had developed as they internationalised, namely a geographic area division, international division, worldwide product divisions, and a matrix structure combining both product and area assignments. Work in this stream is based on the premise that there is a need for congruency between the firm's strategy and structure (Miles & Snow, 1984). This alignment, or fit, between strategy and structure is considered a prerequisite for a firm's performance.

The HQ-subsidary relationship stream focuses on how HQ controls its subsidiaries (e.g. Birkinshaw, 1994; Andersson & Forsgren, 1996; Birkinshaw et al., 2000; Andersson & Holm, 2010). Similar to the strategy-structure stream, most early studies in this stream stress the importance of HQ

when analysing the relationship with its subsidiaries and are primarily concerned with how geographically dispersed subsidiaries are coordinated and controlled (Kostova et al., 2016). Early work regards subsidiaries not so much as providing strategic opportunities for the MBE but more as causing management challenges, resulting from the differences between home and host-country contexts (Birkinshaw, 1994). This stream is often criticised for focusing on the strategies and structures of MBEs solely from a hierarchical approach, without acknowledging the importance of regional or subsidiary operations in achieving competitive advantage (Ma et al., 2019). However, as determined by Andersson and Holm (2010) the widely accepted view today is that subsidiaries are no longer passive receivers of HQ's strategy, but instead, foreign subsidiaries' unique capabilities are central to the HQ–subsidiary relationship and overall commercial success (Mudambi et al., 2014).

The MBE-process stream investigates how strategic decisions and organisational changes are made (e.g. Bower, 1972; Prahalad, 1976; Prahalad & Doz, 1987; Bartlett & Ghoshal, 1989; Doz and Prahalad, 1991). One of the key elements of this stream is the concept of structural context, which generates a system of decentralization and control (Bower, 1972). An example is Porter's (1986) coordination-configuration framework that emphasises the arrangement of global value-adding activities. Global strategy research, including the global integration - national responsiveness grid (Prahalad, 1976) is also associated to MBE processes (Ma et al., 2019). Although originally an MBE-level framework, a number of recent studies highlight subsidiary-level variations along these dimensions (Harzing, 2000; Meyer & Estrin, 2014). As a result of their dispersed operations, MBEs face a dual pressure of cross-border integration and coordination among the subsidiaries and exploiting comparative advantages across nations, while simultaneously having to respond to host-country pressures (Prahalad & Doz, 1987). The influential global integration-national responsiveness grid is grounded in a contingency framework and built in large part around Doz (1986) and Prahalad and Doz's (1987) multifocal organisation, and Bartlett and Ghoshal's (1989) transnational solution. This approach centres on the firm level and considers all factors that contribute to pressure for integration and responsiveness simultaneously.

The subsidiary-role stream is about the role and responsibility of national subsidiaries, which differ in terms of history, contexts, capabilities and organisational roles (Bartlett & Ghoshal, 1986; Roth & Morrison, 1992; Birkinshaw & Morrison, 1995, 1996). In this stream, the level of analysis shifted explicitly to the subsidiary. The roles of foreign subsidiaries have undergone significant changes in recent decades (see Kostova et al. 2016 for a review). Subsidiaries are (sometimes on their own initiative) believed to follow different strategies and obtain different roles in the MBE (Vahlne et al., 2012). Birkinshaw and Morrison (1996) note that subsidiaries may obtain different strategic roles in the organisation that go beyond the traditional role of exploiting the parent company's FSA. As explained by White and Poynter (1984), it is also possible for foreign subsidiaries to change strategies, which they categorise as market scope, product scope and value-added scope. Building on White and Poynter (1984), several publications described how subsidiary roles and responsibilities differ (Bartlett &



Ghoshal, 1986; Roth & Morrison, 1992; Birkinshaw & Morrison, 1995). For instance, Bartlett and Ghoshal (1986) identified four subsidiary roles (i.e. implementer, strategic leader, contributor and black hole) foreign subsidiaries can fulfil in contribution to the MBE's global ambitions.

The subsidiary-evolution stream focuses on how the role and strategy of subsidiaries might shift over time (e.g. Kogut, 1983; Chang, 1995; Birkinshaw, 1997; Birkinshaw & Hood, 1997; Birkinshaw & Pedersen, 2009). In this stream, Kogut (1983) and Chang (1995) noted that a subsidiary's role may change over time with the degree of the MBE's international expansion. The work of Malnight (1994; 1996) recognised that each phase of the MBE's international expansion requires a strategic response to the then-existing challenges and opportunities (Malnight, 1994; 1996). Birkinshaw and his colleagues have been particularly influential by defining role changes (Birkinshaw & Hood, 1998), in categorising the evolutionary process (Birkinshaw, 1997), and by identifying the driving forces behind a subsidiary's evolution (Birkinshaw & Hood, 1997). Furthermore, Birkinshaw (1997) argues that subsidiaries can have a significant influence their own strategies and operations through subsidiary initiatives, which are defined as "an entrepreneurial process, beginning with the identification of an opportunity and culminating in the commitment of resources to that opportunity" (p. 207). More recently, Birkinshaw and Pedersen (2009) argued that the subsidiary's evolution is influenced by external and internal forces. Subsidiaries operate as independent actors in the local business environment, which present them with strategic opportunities. At the same time, subsidiaries are also dependent on HQ when it comes to allocation of resources inside the MBE. In this vein, Mudambi and Navarra (2004) argued that a subsidiary's role in the MBE emanates from its bargaining with HQ, while Balogun et al. (2011) stress the significance of power and politics in the evolution of the subsidiary.

The subsidiary-network stream is about the subsidiary's internal and/or external network (e.g. Bartlett & Ghoshal, 1990; Andersson et al., 2001; 2002; 2007). Building on interorganisational theories such as social exchange (Emerson, 1962), resource dependency (Pfeffer & Salancik, 1978), and network analysis (Granovetter, 1985), Bartlett and Ghoshal (1990) developed a framework that conceptualises the MBE as a network of exchange relationships among different organisational units, including the HQ and its subsidiaries. In addition to intra-organisational networks, subsidiaries are embedded in external networks. Studies on a subsidiary's external networks focus on the MBE subsidiary's external linkages with, and embeddedness within, the local environment in the host country. This line of reasoning explicitly builds on social embeddedness and social network theories (Granovetter, 1985; Uzzi, 1996; Gulati et al., 2000), which highlight the importance of external networks comprised of relationships in the subsidiary's local market.

### **2.3.2 Managing MBE subsidiaries**

Given the temporal setting of this thesis, i.e. the current operations of well-established subsidiaries in a specific-country context, the following sections will further flesh out relevant MBE subsidiary literature.

As discussed before, there have been many attempts that tried to conceptualise what the contemporary MBE actually is. This thesis relies on the network view (Bartlett & Ghoshal, 1989), which conceptualises the MBE as a loosely coupled network of far-flung subsidiaries. How to ensure that these far-flung subsidiaries are managed successfully has been one of the central challenges for the research on MBEs, especially since MBEs will continue to face challenging competitive environments, characterised by rapid market change, growing international competition, new demands from customers and regulators, and overall more uncertainty (Egelhoff, 2010; Vahlne et al., 2012).

Pointing to globalisation and the convergence among cultures, some scholars have argued that MBEs can generate superior performance by implementing highly centralised, truly global strategies (Levitt, 1983; Ohmae, 1989; Fukuyama, 1992; Friedman, 2005). However, as mentioned in the introduction chapter, there is no shortage of evidence that local contexts continue to be critically important. As Meyer et al. (2011) point out, differences between, amongst, and within regions, countries, cultures, and societies have not been greatly attenuated with globalisation. For this reason, knowledge of and embedding in local context remains a key success factor (Ghemawat, 2007). This raises an important challenge for MBE subsidiaries as they battle the dual pressures of integration and local responsiveness. A critical challenge facing MBEs from advanced economies is whether they can adopt their established repertoire of strategies to compete in emerging markets or whether they need to adapt or develop completely novel ways of navigating the idiosyncrasies and challenges presented by the local context.

The global integration-national responsiveness debate suggests that MBEs face a dual pressure of cross-border integration and coordination among the subsidiaries, while simultaneously having to respond to host-country pressures (Prahalad & Doz, 1987). Global integration (of activities) is the MBE's response to pressures to maximise profits and reduce costs by exploiting the market imperfections inherent in the multilocation aspect of the operations. Local responsiveness draws on a philosophy of 'all business is local' (Quelch & Jocz, 2012) and suggests that to succeed in foreign markets, the MBE must respond to local market variations in consumer tastes, and different national standards and regulations imposed by autonomous governments and agencies (Bartlett & Ghosbal, 1989; Prahalad & Doz, 1987). However, the degree of integration and responsiveness may vary across subsidiaries of the same MBE.

The literature on global integration-national responsiveness suggests that a local responsiveness strategy of adaptation is required by subsidiaries when institutional environments of host markets are locally specific, although the need for local adaptations is likely to vary depending on the environment (Prahalad & Doz, 1987; Bartlett & Ghoshal, 1989; Luo, 2001). The pressure for a subsidiary to be locally responsive is particularly high in large emerging markets (Tian & Slocum, 2014; Ma et al., 2019). Environmental challenges that MBEs face in foreign markets are referred to as host-country pressures (Doz et al., 1981; Prahalad & Doz, 1987), which emanate from both the differences between home and

host country (Luo, 2001), the complexity and dynamism of market conditions, as well as the socio-political and regulatory environments in a host country (Prahalad & Doz, 1987; Morrison & Roth, 1992; Luo, 2001; Peng & Lin, 2008a; Sun et al., 2010; Banerjee et al., 2019). Accordingly, literature on the global integration-national responsiveness provides a relevant framework for discussing how MBEs adapt their operations in order to respond to host-country pressures in emerging markets.

The selected case organisations in this study are long-established subsidiaries, which are, according to Nell et al. (2011) often deeply embedded in a network of specific formal and informal relationships in the host markets. Literature on the embeddedness perspective suggest that embedding in different and unique external local networks may also enable subsidiaries to reduce host-country pressures and create more competitive opportunities (Ghoshal & Nohra, 1989; Elg et al., 2015; Meyer & Su, 2015; Banerjee et al., 2019). Accordingly, sections 2.4-2.4.1 will explore the literature on global integration-national responsiveness, and shed light on the host-country pressures MBEs face in emerging markets (2.4.2-2.4.5), while sections 2.5-2.5.5 will discuss the embeddedness perspective and explain how MBE subsidiaries interact with business, social and political actors to respond to host-country pressures and build a competitive market position.

## 2.4 Global integration-national responsiveness

The global integration-national responsiveness framework has “a standing among scholars as a kind of theory” (Haugland, 2010:95), and has become a standard analytical tool in international business (Peng & Meyer, 2016) and strategic management (Hill & Jones, 2013). The framework was developed based on the assumption that globalisation forces MBEs to integrate business activities across countries, while simultaneously cross-border diversity requires MBEs to respond to specific demands and needs of each national market. Accordingly, there is a need for cross-border integration and coordination among the subsidiaries to exploit comparative advantages across nations, as well as for local responsiveness to adapt to host-country pressures (Doz et al., 1981).

To meet integration and responsiveness requirements at the HQ level, four strategies may be adopted: international, multi-domestic, global and transnational (Bartlett & Ghoshal, 1998). Bartlett and Ghoshal (1998) further argue that MBEs can achieve high degrees of both integration and responsiveness, which they call the transnational solution. In reality, however, many of the firms they highlight as role models have since struggled and have reverted to more ‘global’ organisational structures (Meyer & Su, 2015). Furthermore, leading IB scholars (e.g. Verbeke, 2013) argue that the transnational strategy is rather ‘idealistic’, and most firms are required to make critical choices between global integration and national responsiveness. Meyer and Su (2015:149) further note that “solid empirical evidence regarding the merits of alternative types of strategy is surprisingly scarce”, and that although the transnational strategy is advocated by some gurus, it is considered unworkable by others.

Most studies that apply the IR framework to analyse the subsidiary strategy gives little discretion for subsidiary managers to take strategic initiatives in response to specific environmental circumstances in the host country (Tian and Slocum, 2014; Williams et al., 2017). However, no matter which strategy the subsidiary is mandated to adopt, it will have to continually take business-level decisions in response to the distinct, if not unique, opportunities and challenges in the host country in order to survive, remain profitable, or even grow and thrive (Tian & Slocum, 2014). In other words, when MBE subsidiaries are established in a foreign country, they increasingly become what Luo (2007) calls, 'strategic insiders', in that they face pressures and challenges similar to those faced by all business units, domestic or foreign. Accordingly, subsidiaries need the discretion to craft their own effective business strategy in light of the environmental pressures faced in the host country.

Extant research suggests that the pressure for subsidiaries to be locally responsive is particularly high in emerging markets with underdeveloped political and social institutions (Tian & Slocum, 2014). Consequently, subsidiaries that adopt an MBE's multi-domestic strategy are more likely to achieve high performance, whereas subsidiaries that adopt an MBE's global strategy are likely to suffer from comparatively poor performance in large emerging markets. Put differently, MBEs that adopt a transnational strategy, which put greater emphasis on local responsiveness, may outperform subsidiaries that pursue the same strategy but with a greater focus on global integration (Tian & Slocum, 2014). Furthermore, as an emerging market increases in importance to an MBE because of increasing sales and a large operational presence, MBEs are likely to shift from a strategy that emphasises global integration via a strong corporate HQ, to one emphasising the importance of the local context.

The global integration-national responsiveness debate also involves choices regarding subsidiary staffing. When making subsidiary staffing decisions, MBEs can choose between parent-country nationals (PCNs), host-country nationals (HCNs) and third-country nationals (TCNs) (Daniels, 1974). Several studies suggest that established MBEs may prefer to appoint PNCs, as they may be better in aligning the local working culture with the global strategy (Kobrin, 1988) and provide effective coordination and control in a subsidiary (O'Donnell, 2000). However, not only is relying on too many expatriates a recipe for failure (Johnson, 2011), local talent possesses 'contextual intelligence' (Khanna, 2014), and access to local networks, which are required for navigating the idiosyncrasies of emerging markets (Williams et al., 2017).

#### **2.4.1 Responding to host-country pressures**

Subsidiary management is a strategic issue for MBEs, and environmental factors play an important role in deciding on the way in which to manage foreign markets. Business practices suggests that a complex environment increases transaction costs of operating in a foreign market as well as the difficulty of integrating globally (Luo, 2001b). In contrast to contractual risks resulting from the exposure of transaction-specific assets, which can be balanced through internalisation of intermediate markets

(Dunning, 1981), host-country pressures are likely to require collaborative efforts with critical host country actors (Hennart, 2009). Based on preliminary findings and conversations with research participants, three host-country pressures were identified, namely *regulatory complexities*, *cultural specificities* and *subnational heterogeneity*. Figure 2.2 illustrates that the complex subsidiary environment in Indonesia poses three key challenges to MBE subsidiaries, which are referred to as host-country pressures (Luo, 2001). Each of the pressures in the host country environment requires strategic adaptation on the part of the MBE subsidiary.

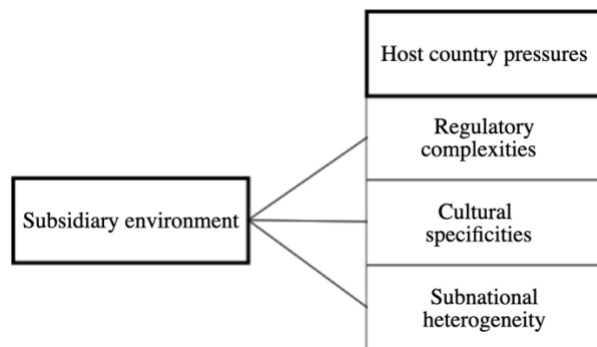


Figure 2.2. Host country pressures emanating from the MBE's subsidiary environment

The global integration-national responsiveness debate depicts the view that subsidiaries are required to adopt a local responsiveness strategy of adaptation when institutional environments of host markets are locally specific, although the need for adaptations is likely to vary depending on the environment (Prahalad & Doz, 1987). This view further suggests that when firms operate abroad, they face host-country pressures that emanate from the differences between home and host country, the complexity and dynamism of market conditions, and the socio-political and regulatory environment of the host country (Luo, 2001b; Banerjee et al., 2019). This research argues that to respond to host-country pressures in emerging markets, MBEs are required to develop cooperative relationships with not only business partners, but also those in the socio-political sphere.

The original global integration-national responsiveness framework is well-suited for investigating the MBE's market strategy (Prahalad & Doz, 1987; Taggart, 1998; Harzing, 2000; Meyer & Estrin, 2014; Peng, 2014; Peng & Meyer, 2011; Hill & Jones, 2013). However, while the MBE's market strategy research has expanded in its analysis over recent decades, from countries to the MBE and eventually to the individual subsidiaries of MBEs (Birkinshaw et al., 1998), research on the nonmarket strategies of MBE subsidiaries is relatively recent and rare (Banerjee et al., 2019), especially outside the advanced economy context (Rajwani & Liedong, 2015). Yet, recent evidence suggests that in emerging markets, which are known for their close entanglement of government and the economy, leading non-business actors are of critical importance to foreign MBEs (Banerjee et al., 2019; Hadjikhani et al., 2019; Rodgers et al., 2019; Dang et al., 2020). Given the importance of nonmarket

actors in emerging markets, this study builds on the of Banerjee et al. (2019), which adapts and extends the global integration-national responsiveness framework to incorporate a non-market subsidiary strategy dimension. Accordingly, the literature on *regulatory complexities*, *cultural specificities* and *subnational heterogeneity* is discussed, and how firms respond to them, through engaging in nonmarket subsidiary relationships.

#### 2.4.2 Regulatory complexities

Government regulations are regarded as one of the key pressures for local responsiveness (Prahalad & Doz, 1987; Luo, 2001; Banerjee et al., 2019), particularly in emerging markets which are characterised by greater informality, less developed political and regulatory infrastructures and fast-paced turbulent change (Marquis & Raynard, 2015). Governments in emerging markets are known often make sudden changes to the rules in ways that are difficult to predict or have policies with confusing, or even contradictory, articles and terms, which have been passed without sufficient time for discussion or scrutiny (Azalia & Fionna, 2015). Furthermore, states in emerging markets are driven to manifest that they are capable of controlling foreign firms with regulations (Chaudhri & Samson, 2000). Through their hierarchical power, authorities develop and implement policies to ‘benefit’ society.

For instance, emerging markets may adopt components localisation regulations to stimulate economic development, particularly in pillar sectors (Luo, 2001b). Accordingly, MBEs may not be able to take full advantage of a cross-border network, as they are required to produce locally. They will thus become more localised and, in turn, complex and fast-changing local regulations are a strategic issue they have to deal with. Furthermore, foreign MBEs tend to receive more scrutiny from organisations and politicians that are against international operations (Kostova & Zaheer, 1999) and may be stereotyped as an “exploiting consortium” (Luo, 2001a:404). Luo (2002) further adds that MBEs are often targeted by issues such as globalisation and protectionism, as well as tax manipulation and profit repatriation (Hillman & Wan, 2005). To address negative perceptions or fear among local authorities, and the general population, of foreign MBEs entering the market to exploit resources and hurt local jobs and profits, considerable time has to be spent managing regulations and interacting with authorities (Dang et al., 2020).

Banerjee et al. (2019) note that MBE subsidiaries seek, either directly, through public opinion or policy network, adjustments in host country regulations, primarily if they are unable to pursue their preferred strategic option or outcomes due to changes in regulations and policies. The advantages of economic activities associated with obtaining government support can be a powerful motivation for MBEs to make friends even in hostile regulated environments (Feinberg et al., 2015). As the regulatory environment can affect many aspects of the business, MBEs are inclined to engage in a local responsiveness strategy to gain a long-term regulatory advantage, such as favourable technical standards, foreign trade mission participation, trade petitions success, etc. (Schuler et al., 2002). While

MBEs attempt to develop a better relationship with the host government, in return, MBEs are expected to commit resources that are complementary to the host economy's needs. Luo (2001b) further argues that favourable policies and treatments will be given to socially accommodative MBEs that maintain a good reputation and image in the host country. For this reason, MBE subsidiaries not only lobby regulatory agencies, and back political actors they expect may introduce more favourable regulations (Meyer et al., 2020), but they also invest in socially desirable activities, such as the building of hospitals, infrastructure and sports clubs (Luo, 2002). Social responsiveness also strengthens the MBE's credibility and legitimacy in the eye of the host government, as well as in the society at large.

In emerging markets, informal social relationships and cultural norms often substitute for weak formal institutions (Villo et al., 2020). For this reason, practical benefits associated with close political ties include that "most rules and regulations are ambiguous, and their enforcement is subject to the personal interpretations of government officials" (Park & Luo 2001:465). This makes personal connections with these officials of critical importance to foreign MBEs. Moreover, personal relationships with officials can transform into organisation-level relational capital, strengthening an MBE's relation with government authorities (Luo, 2002). However, political ties are not without risk. When the tide turns, insiders can become outsiders and connections can become liabilities (Sun et al., 2010; Dieleman & Sachs, 2008). Advantages gained from years of relationship-building can disappear altogether and government regime change which may lead to negative discriminatory and regulatory bias (Dieleman & Boddewyn, 2012). To conclude, the complicated and unstructured nature of the regulations requires strategic adaptation on the part of the MBE.

### **2.4.3 Cultural specificities**

Previous studies suggested that heterogeneous market demand across nations leads to low integration or high responsiveness (Prahalad & Doz, 1987; Luo, 2001b). Foreign firms must respond to differing values, norms, behaviours, and consumer tastes when they operate in foreign markets (Elg et al., 2015). In particular, those businesses that thrive on satisfying a diverse set of customer needs, require a locally responsive strategy (Roth & Morrison, 1990; Luo, 2001b). The failure of well-established products in emerging markets is often attributed to a lack of sensitivity to local cultures (Sheth, 2011; Ghemawat, 2001). Johnson (2011:5) describes how firms have rushed in with "Western brands, Western package sizes, Western pricing, without understanding the nuances of the markets. Many of them have also been too impatient. They're ready to walk away too quickly". Nonetheless, successful firms understand how to adapt, strengthen their business, and maintain a long-term sustainable position, despite turbulent market conditions. However, more research is needed to explain the development of the market position of established, industry-leading firms, in culturally challenging markets.

There is huge potential for developing the consumer goods market in emerging markets, with a less-developed demand for different types of products that are already familiar in the MBE's home

country. However, it may be difficult for foreign firms to navigate local cultural landscapes without local partners to support the firm's understanding and consideration of cultural specificities. Local cultures and traditions are known to influence consumer decisions, and the regional origin of the product and brand plays an essential role in the buyer's perception (Meyer & Thu Tran, 2006). Brands associated with a particular country of origin (e.g. firms from a former colonial ruler or as a result of disruptions in the political sphere, e.g. Chinese firms in the US or vice versa) can be damaged by negative emotions towards that country (Antonetti et al., 2019; Witte et al., 2020). These are just some of the reasons why many MBEs have struggled with cultural obstacles and reaching the culture-based beliefs of consumers in emerging markets (London & Hart, 2004; Eyring et al., 2011; Elg et al., 2015).

Leading IB scholars propose how MBEs should adapt to culturally different and challenging emerging markets (London & Hart, 2004; Meyer & Tran, 2006; Sheth, 2011). As firms tailor their strategies to local contexts, MBEs may have to create product and brands that match their competencies with the local needs of consumers. In some cases, MBEs may have to innovate and develop entirely new products to attract customers (Eyring et al., 2011). However, innovation may also lie in how a firm develops supportive relationships in order to translate unique values into a new setting (Elg et al., 2015). Developing such a unique and effective set of local relationships can be seen as an innovative skill that may be difficult for competitors to imitate.

How an MBE deals with socio-cultural expectations can have a strong effect on an MBE's success in the host country. This holds especially true in emerging markets where MBEs have to deal with legitimacy pressure not only from customers, but also from host government and society at large (Wei et al., 2020). A good example here is a study by Elg et al. (2015) which demonstrates how two Swedish MBEs developed a position in a challenging and culturally different emerging market. The firms initially struggled with cultural obstacles and reaching the culture-based beliefs of individual households in India. However, instead of developing completely new products to attract local customers, the firms developed supportive relationships with socially and culturally respected actors, such as local government representatives, non-political NGOs and medical experts, in order to translate unique values into a new setting. Elg et al. (2015) describe how a chain of influencers had to be convinced before the firms finally achieved legitimacy on the market. However, gaining access and influence on socio-political actors was challenging, especially in India where the governments, NGO, religious institutions and local communities wield enormous influence. For the Swedish firms, one part of achieving legitimacy was through voluntary participation in social projects that generated values for the society as a whole. As a result, they were able to establish a role as a corporate citizen with social responsibilities and respect for cultural values. These activities also meant that the firms would become associated with influential local actors, which, in turn, helped their ability to influence customers as well as political actors in favour of the MBEs.



Several studies demonstrate that MBEs aim to educate consumers and exert an influence on their values, norms and behaviour so that they are more open to the firm's business offering (Ghauri et al., 2016; Elg et al., 2015; Carrillat et al., 2004; Jaworski et al., 2000; Kumar et al., 2000). However, inhabitants of emerging markets are known to distrust foreign firms and products, and thus seeking support from reputable local actors may be a complementary strategy to overcome the MBE's lack of social status and benefit from the status possessed by well-established domestic actors (Li & Filer, 2007). According to Ghauri et al. (2016) the likeliness of firms to succeed in influencing norms, beliefs and opinions in a society depend on the legitimacy and support that they can get from different socio-political stakeholders (Deephouse, 2000; Donaldson & Preston, 1995) as well as their embeddedness in the particular institutional and political environment (Oliver & Holzinger, 2008). To conclude, navigating the cultural specificities of emerging markets will require the support of other firms and actors.

#### 2.4.4 Subnational heterogeneity

The sheer number of consumers, even if they are on low incomes, make emerging markets attractive to consumer goods MBEs with global ambitions. However, MBEs need to be aware that emerging markets are not only fundamentally different from advanced economies and other emerging markets (Xu & Meyer, 2013), but MBEs may also face substantial heterogeneity within the borders of a single country (Hutzschenreuter et al., 2020). As Ma et al. (2013: 67) put it, "the local context of a large emerging economy can vary significantly across its subnational regions". In such markets, MBEs may be required to establish factories in, and distribute products to, areas that are difficult to reach in terms of logistics and are often inaccessible without the support of local business partners and authorities. As a result of the heterogeneity of subnational institutions, MBEs that seek to gain a nationwide presence in large emerging markets will face different degrees of government intervention and hostility across regions (Bardhan & Mookherjee, 2006). In order to secure the supply chain and gain access to critical resources, relations have to be established with different types of market and non-market actors. In other words, even within emerging markets, vast regional and local differences must be taken into account, especially when the MBE's value chain extends deep into the bottom of the pyramid (Sheth, 2011). Consequently, as firms adapt their strategies to subnational regions (rather than a single country), the need for local adaptation and responsiveness will increase.

There are a number of worthy reasons for focusing on the country as a whole, such as the availability of country data, and impact of national institutions on firm strategy (Beugelsdijk & Mudambi, 2013), and, not the least, in some countries, the institutional environment is homogeneous (Zhang et al., 2016). However, despite the untenable assumption of subnational spatial homogeneity, IB activities frequently do not take place at the national level, but at locational levels within different geographic units. In particular, decentralised nations may have a very large institutional variance

relative to the mean (Bardhan & Mookherjee, 2006). Obviously, MBE must take into account the national level, but they need as to consider the subnational environment. For example, several studies have demonstrated that areas across country borders often have more similarities than regions within the same country (Castellani et al., 2013; Beamish & Lupton, 2016). Furthermore, the World Bank (2006) reports that the time required to manage with public officials differs from one city in China to another (Li & Sun, 2017).

Recent IB literature has recognised the limitations of the nation as a level of analysis when examining the impact of location and geography on MBEs (Wan & Hoskisson, 2003; Meyer & Nguyen, 2005; Chan et al., 2010; Ma et al., 2013; Ma et al., 2019, or see Hutzschenreuter et al., 2020 for overview). Ma et al. (2013) explains that the local contexts of subnational regions are comprised of three dimensions, these being factors of production, institutions, and agglomeration. Firstly, MBE subsidiaries may adopt dissimilar strategies as a result of the differences in the location-specific advantages in these regions. Secondly, socio-political institutions determine the transaction and transformation costs of production and, thus, the strategies and performance of foreign subsidiaries are embedded within the local context (Makino et al., 2004). Thirdly, agglomeration may allow subsidiaries to access local market knowledge and resources and, as a result, gain legitimacy (Tan & Meyer, 2011).

In emerging markets, subnational regions may vary in their institutions as a result of administrative decentralisation, which means that local authorities have the power to implement policies set at the central-government level. As a result, subnational governments of large emerging markets are often heavily involved in and have considerable power over FDI-related policies (Ma & Delios, 2010). Bardhan and Mookherjee (2006) note that over the past three decades, many emerging markets including China, Brazil, India and Indonesia have seen increasing devolution of political and/or economic power to local governments. As a result, foreign firms have to negotiate separately with local leaders to obtain their business licenses at the regional level, where corrupt practices are widespread (Rodriguez et al., 2005). It is reasonable to expect that informal local institutions, such as corruption, tend to work against foreign investors, as it creates market access barriers or disrupts production activities if a firm chose not to engage in corrupt practices (Spencer & Gomez, 2011). However, Meyer and Nguyen (2005) note that foreign investors may also use local informal institutions to their advantage. Recent studies point to investors successfully establishing cooperative relationships with local authorities. Luo (2001a) suggests relations with authorities should be seen as potentially cooperative, and such relations can have a positive impact on subsidiary performance.

Institutions in subnational regions may also differ as a result of the interpretation of local officials (even if there is a unified economic and political system). Meyer and Nguyen (2005) note that although national governments may adopt favourable attitudes towards FDI, implementation of these policies often takes place locally. As a result, it may be possible that central, provincial, district and even city governments are taking responsibility for their own affairs through locally elected officials.

Consequently, foreign investors have to negotiate separately with local authorities over business licenses, real estate, access to public utilities, etc. This may, however, turn out to be challenging because in many emerging markets, more rural parts are still, in effect, independent fiefs run by big landowners, powerful local clans and religious leaders who hold power and may have access to critical resources (Economist, 2019g). The above discussion suggests that probing into the MBE's operations in subnational regions may help scholars to reach a better understand how they enter, compete, survive, remain profitable, or even grow and thrive in large emerging markets.

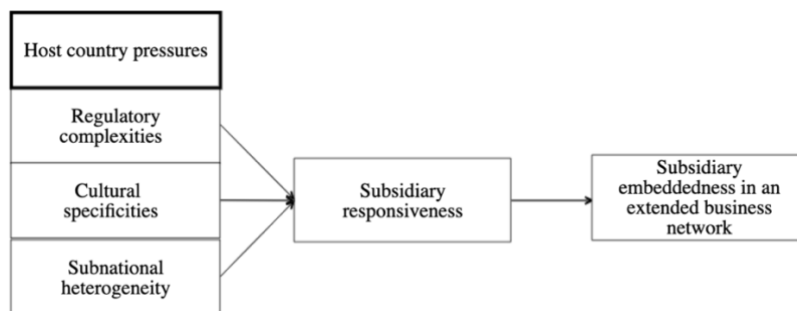


Figure 2.3. Responding to pressures through embeddedness in networks at the subsidiary level

MBE subsidiaries may face substantial host-country pressures in an emerging market, including regulatory complexities, cultural specificities and subnational heterogeneity. Accordingly, to respond to host-country pressures, MBE subsidiaries need be responsive to the local context, which is, based on the above review, expected to involve embedding in a network of relationships with political, social and business actors at the subsidiary level (Figure 2.3). The embeddedness literature is discussed next.

## 2.5 MBE subsidiary embeddedness

As MBEs in emerging markets are likely to pursue long-term strategic goals, such as gaining a sustained market share and seeking long-range investment opportunities, there is a need to establish close links with host country actors. It is not surprising that Nell et al. (2011) note that larger, older or acquired subsidiaries are often deeply embedded in a network of specific formal and informal relationships in the host market. It is assumed that a subsidiary develops relationships of varying strength and intensity with actors in its local environment. The degree, strength and quality of these relationships are referred to as 'embeddedness'. Although there are many types of embeddedness with their own, sometimes confusing or overlapping definitions, it is essentially about relationships, and thus this work overlaps with works in the business network view of internationalisation and IMP literatures. In fact, much of the work of the IMP group is focused on embeddedness but will receive limited attention here, as it has already been discussed in section 1.3.

Given the vast and broad nature of the literature on embeddedness available (Heidenreich, 2012), a focused literature review on subsidiary embeddedness was conducted. Table 2.1 summarises key

research related to *external subsidiary embeddedness*. The keyword, ‘*embeddedness*’, was used in the top (3, 4 and 4\* CABS) IB journals (i.e. IBR, JIBS, JWB, MIR, JBR and APJM) since 1990. Where other journal articles came to the author’s attention, for example as a result of citations, were also included. As a result, several papers in management (JMS, AMR) and strategy (SMJ, LRP, GSJ) were also included<sup>7</sup>. The review included 32 studies, categorised by (1) author, year and journal, (2) purpose (3) method, (4) concept, construct or variable used, (5) definition of embeddedness, (6) key findings, (7) level (i.e. home or host country), context (i.e. emerging market or advanced economy) and focal actors in the host country, and finally, (8) the key findings of the study.

The work on the embeddedness perspective has been dominated by studies using quantitative descriptions, statistical analyses, and focus on interfirm relationships. Of the, in total, 32 articles on subsidiary embeddedness, 22 are quantitative empirical studies, 5 are qualitative case studies, 2 use mixed methods and 3 are theoretical papers. While such quantitative studies have proved invaluable in furthering the understanding of precise, specific, individual effects of relationships to a host of other factors, additional research is required to develop a more comprehensive understanding of what is involved in relationships (e.g. the organisational practices and resources) in managing different types of relationships with a broad range of actors. Furthermore, 15 articles focused on emerging markets, 10 in advanced economies, 5 in both advanced economies and emerging markets and 2 did not specifically mention a context. None specifically focused on operations in former colonies. An interesting aspect is the increasing interest in the topic. Only 1 article was published during the 10-year period from 1990 to 1999. In the 10 years that followed (2000-2009), 11 articles were published. However, between 2010 and early 2020, 20 articles were published, which suggests that interest in the topic is growing significantly among IB scholars in recent years. Furthermore, the vast majority of articles focused on the subsidiary’s relationships with customers and suppliers in the host market only, whereas few studies focused relationships with non-business actors, such as host country governments, NGOs, universities, or policy networks.

A selection was made on the basis of the articles’ relevance. During the selection process, questions such as ‘If embeddedness is not the main focus of the study but only used as one of several variables, should it be included?’ emerged. Decisions on which article to include were made on a case by case basis and depended on their relevance to the focus of this study. In particular, if ‘embeddedness’ was not mentioned in the title of the article, or in its keywords, it had to play a significant role in the study, were it to be included in the study. What was particularly confusing was that in some cases, authors of articles (in leading journals) cite studies in the ‘embeddedness literature’, but when studying these

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<sup>7</sup> The journals are: International Business Review (IBR); Journal of International Business Studies (JIBS); Journal of World Business (JWB); Management International Review (MIR); Strategic Management Journal (SMJ); Journal of Business Research (JBS); Asia Pacific Journal of Management (APJM); Journal of Management Studies (JMS); Academy of Management Review (AMR); Strategic Management Journal (SMJ); Long Range Planning (LRP); Global Strategy Journal.

articles, the word ‘embeddedness’ was not or hardly mentioned. Instead, they refer to business network studies, internationalisation studies, or other works that focus on relationships. These studies are therefore not included in Table 2.1 but are included in the discussion (particularly if they haven’t been included in previous sections). Furthermore, studies were only included if they took place in an IB (i.e. multi-country) context. However, it is important to note here that there are many other relevant studies that provide a relevant investigations of embeddedness (e.g. Uzzi, 1996; Nahapiet & Ghoshal, 1998; Dacin et al., 1999; Okhmatovskiy, 2010), but as they took place in a single-country context, they were not included in Table 2.1. Nonetheless, they will be covered in the wider discussion that follows. Similarly, older, seminal works from scholars such as Karl Polanyi and Mark Granovetter are not included in Table 2.1 but will receive appropriate attention in the subsequent discussion.

The discussion will start by outlining the various forms of embeddedness and their definitions. Next, a brief review of the origins of the embeddedness concept will be provided. It follows that a distinction is made between embeddedness viewed as a firm’s link with its institutional context (from an institutional theory perspective, i.e. the cultural, cognitive, and normative context) and the firm’s relationships with external actors (e.g. politicians or business partners). In other words, embeddedness can be viewed not only as a matter of the institutional context in which a subsidiary interacts, but also the quality of the relations it develops with other organisations within the context. This study is primarily concerned with the way in which individuals and firms are linked to actors in the extended business network. Although host-country pressures arise from institutional barriers (i.e. regulatory complexities, cultural specificities and subnational heterogeneity), it is at the relational level (i.e. interpersonal and interorganisational ties) that firms cope with and respond to these pressures.

### 2.5.1 Types and definitions of embeddedness

Embeddedness in an IB context may assume multiple forms. Definitions are provided to explain different, sometimes confusing and often overlapping types of embeddedness, including *institutional embeddedness* (i.e. firms’ ties with its institutional context, Hung, 2005; Rizopoulo & Sergakis, 2010; Pinkse & Kolk, 2012), *political embeddedness* (i.e. firms’ linkages to political actors, Sun et al., 2010; Klopff & Nell, 2018), *internal embeddedness* (i.e. relationships within an organisation, Yamin & Andersson, 2011), *relational and technical embeddedness* (i.e. closeness of product and production development processes between firms, i.e., Andersson & Forsgren, 2000; Andersson et al., 2001; Andersson et al., 2002; Andersson et al., 2005), *structural embeddedness* (i.e. structural positions within their respective networks, Moran, 2005); localisation embeddedness (i.e. degree of localisation of inputs, production and sales in a foreign market, Halaszovich & Lundan, 2016), *dual embeddedness* (i.e. combination of a firm’s intra and interorganisational linkages, Figueiredo, 2011; Pu & Soh, 2018; Cheng & Huang, 2020), *regional embeddedness* (i.e. the extent to which regional-HQ have built linkages with the subsidiaries external environments, Hoenen et al., 2014), *informal embeddedness*

(also called institutional relatedness, i.e. the links with dominant institution, Peng et al., 2005; Sun et al., 2017), *social embeddedness* (i.e. the link between social ties, Luo et al., 2019; Dhanaraj et al., 2004), and *embeddedness overlap* (i.e. the simultaneous existence of linkages by parent and subsidiary to the same local actors, Nell et al., 2011).

While these studies will be covered in the discussion that follows, in this thesis, embeddedness is treated as a subsidiaries' external linkages, with reference to business, social and political actors. Even though subsidiary embeddedness resides both at the interpersonal level - managerial ties to external actors - and at the interorganisational level - organisational ties to, for instance, business partners, policy networks, politicians and NGOs, this thesis will focus primarily on the subsidiary manager's interpersonal ties.

### 2.5.2 Origins of the embeddedness concept

The concept of embeddedness can be traced to the seminal work of economic historian Karl Polanyi (1944; 1957), in which he distinguishes traditional, institutionally embedded societies from modern, disembedded market societies<sup>8</sup>. In relevant paragraphs, Polanyi contrasts the market economy with economic configurations based on reciprocity and redistribution. "Instead of economy being embedded in social relations, social relations are embedded in the economic system", Polanyi notes (1957:57). He continues by arguing that economic behaviour and social relationships are fundamentally intertwined through what he referred to as "institutional vestment" (Polanyi, 1957: 249). Building on Polanyi's work, Beckert (2003:769) proposes the following definition, "Embeddedness refers to the social, cultural, political, and cognitive structuration of decisions in economic contexts. It points to the indissoluble connection of the actor with his or her social surrounding".

Granovetter's (1985) classic essay centres around Polanyi's concept of embeddedness but serves as a more proximate and accessible stimulus for modern research on embeddedness (Dacin et al., 1999). While the embeddedness concept of Polanyi (1957) focuses on the structural relationship of economy and other societal subsystems, Granovetter (1985) puts the non-economic dimension of action at the centre stage. He argues that economic activity is "embedded in concrete, ongoing systems of social relations" (p. 487), in other words, in actors' social networks. In a way, Granovetter resurrected the term embeddedness to describe both the problems and opportunities that being embedded in a social network can bring: social capital, opportunities for advancement, and the general proliferation of trust. However, as social networks become more trusting and cohesive, they also become more closed and less susceptible to innovation. Next is presented Table 2.1, which includes a focused literature review of subsidiary embeddedness (5 pages).

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<sup>8</sup> Although Polanyi is viewed as the originator of the concept of embeddedness, it was used earlier by Thurnwald's (1932) work, 'Die menschliche Gesellschaft'.

Chapter 2. MBEs operating in emerging markets

Authors, year journal	Purpose	Method	Type and definition of embeddedness	Level, context, relationships	Key findings
Andersson, U. & Forsgren, M. (1996) IBR	The study hypothesizes that the higher the degree of embeddedness, the greater the likelihood of counterparts influencing the subsidiary's behaviour.	Empirical survey data was collected from 78 subsidiaries of 11 large Swedish MBEs.	<i>Subsidiary embeddedness</i> is defined as the total sum of interdependences a firm has as a consequence of its position in a business network.	<i>Level:</i> Host country (multiple subsidiaries) <i>Context:</i> Not mentioned <i>Actors:</i> Subsidiary business relationships with customers and suppliers	The test provides support for the opinion that the higher the degree of embeddedness in relation to external customers, suppliers and other counterparts, the lower the degree of HQ control, as perceived by the subsidiary and vice versa (i.e. it rather tends to increase the control perceived at the subsidiary level).
Andersson, U. & Forsgren, M. (2000) MIR	To explore the role of a subsidiary as a centre of excellence within the MBE.	Survey data of 208 business relationships to external suppliers and customers held by 98 Swedish subsidiaries located in Europe.	<i>Network embeddedness</i> is described as long-lasting exchange, co-operation and adaptation from both sides (focus is on technology).	<i>Level:</i> Host country <i>Context:</i> Advanced economy <i>Actors:</i> Subsidiary relationship with customers and suppliers	Findings show that productive relationships with external counterparts in the business environment can be used by the subsidiary to enhance its role as a centre of excellence. A subsidiary's external embeddedness is an important explanatory variable of the subsidiary's possibility to be considered important in the MBE and to influence the behaviour of the MBE.
Andersson, U., Forsgren, M., & Pedersen, T. (2001) IBR	To examine the causal link between subsidiary environment and subsidiary performance.	Hypotheses are tested in a LISREL model based on data of 98 subsidiaries belonging to 15 Swedish MBEs in North America and Europe.	<i>Technological embeddedness</i> is defined as the dependencies between firms in a business network related to, for example, product development or production process development.	<i>Level:</i> Host country, <i>Context:</i> Advanced economy <i>Actors:</i> subsidiary relationship with most important customers and suppliers	Authors propose a framework for measuring subsidiary performance. Results indicate that technology embeddedness has a positive, direct, impact on subsidiary market performance, and a positive, but indirect, impact on subsidiary organisational performance. Findings also stress the importance of close relationships with other actors in the network for interorganisational learning, competitive advantage and market performance.
Andersson, U., Forsgren, M. & Holm, U. (2002) SMJ	To explore the importance of relational embeddedness in external networks as a strategic resource for performance and competence development in MBEs.	Survey data collected from 97 Swedish MBE subsidiaries in Europe and North America.	<i>Technological embeddedness</i> is defined as the interdependencies between firms in terms of their product and production development processes. <i>Business embeddedness</i> or <i>relational embeddedness</i> is the degree of ties (strong ties vs weak ties) in relationships with customers and suppliers.	<i>Level:</i> Host country <i>Context:</i> Advanced economies <i>Actors:</i> Subsidiary relationships with customers and suppliers (authors note that relationships with other non-business actors, such as trade associations and authorities may influence performance)	Findings demonstrate that the business embeddedness of subsidiaries (i.e. the relations with customers and suppliers) and their technical embeddedness (i.e. the collaborative development of new products and processes) influence the subsidiary's market performance and competence development in the MBE.
Andersson, U., Björkman, I. & Forsgren, M. (2005) IBR	To examine if a subsidiary's local embeddedness is 1) influenced by headquarters' use of different control mechanisms, and 2) an antecedent to a subsidiary's level of knowledge creation.	Questionnaire data collected from 158 (89 Finnish, 69 Chinese) top managers of Finnish and Chinese subsidiaries of Western-owned MBEs.	<i>Subsidiary local embeddedness</i> (or relational embeddedness) is described as the closeness in relationships with specific customers, suppliers and other counterparts.	<i>Level:</i> Host country <i>Context:</i> Emerging market, advanced economy <i>Actors:</i> Subsidiary relationships with suppliers and customers	Results indicate that MBE HQ can indeed influence subsidiary local network embeddedness, which in turn enhances subsidiary knowledge creation. However, direct control in terms of use of expatriates have a negative impact on subsidiary embeddedness.
Andersson, U., Forsgren, M., & Holm, U. (2007) JIBS	To examine (1) the subsidiary's influence within the federative MBE, (2) the importance of the subsidiary's business network as the origin of such influence, and (3) the extent to which HQ's knowledge of the network can counteract subsidiary influence.	Model is developed and tested with data from 97 subsidiaries in 20 MBE divisions, including face-to-face interviews, using the LISREL technique.	<i>Network embeddedness</i> is the closeness of the subsidiary's business relationships.	<i>Level:</i> Host country <i>Context:</i> Advanced economies <i>Actors:</i> Subsidiary relationship with customers and suppliers, intra relationships with other subsidiaries and HQ	Findings indicate that the strength and influence of a subsidiary's local business network are determined by the extent to which the subsidiary provides technology within the MBE. A strong business network does not suffice to augment the intra-organisational power of a subsidiary but when HQ has a sound knowledge of the subsidiaries' business networks, it is better able to balance or moderate the influence of strong subsidiaries.

Chapter 2. MBEs operating in emerging markets

Cheng, H. & Huang, M. (2020) APJM	To explore subsidiary ambidexterity as a subsidiary's attempt to obtain a fit between its dual embeddedness (i.e. ambidextrous contexts) and its learning strategy (i.e. ambidextrous behaviours).	Dyadic survey data collected of 153 Taiwanese MBE and their Chinese subsidiaries.	By <i>dual embeddedness</i> , authors refer to external embeddedness in which a subsidiary will work with the host country parties and internal embeddedness in which a subsidiary will work with its MBE entity.	<i>Level:</i> HQ and subsidiary <i>Context:</i> Emerging markets <i>Actors:</i> Subsidiary relationship with local political actors.	Authors propose a three-step subsidiary ambidexterity mechanism, in which three different types of dual embeddedness (political, cultural and cognitive) will cause different legitimacy effects (resource or conformity effect). Findings show that subsidiaries (1) prefer maintaining higher external than internal political embeddedness; (2) develop both high external and high internal cultural embeddedness; (3) either prefer to maintain higher external than internal cognitive embeddedness or have higher internal cognitive than external cognitive embeddedness.
Dhanaraj, C, Lyles, M. A. Steensma, H. K. & Tihanyi, L. (2004) JIBS	To investigate the effect of relational embeddedness on knowledge transfer and the performance implications of knowledge transfer in young and mature IJVs.	Data collection included personal interviews using a structured and standardized interview process and Likert-type scales for responses from 140 IJVs in Hungary, using structural equation modelling, supplemented with in-depth interviews with five JV managers.	<i>Relational embeddedness</i> in JVs is defined as the degree to which 'commercial ties are embedded in social attachments' between the parent and the IJV (Uzzi & Lancaster, 2003). Authors define <i>social embeddedness</i> in IJVs based on the strength of the foreign parent-IJV ties, trust, and shared values and systems.	<i>Level:</i> Host country <i>Context:</i> Emerging market <i>Actors:</i> Intra-firm relationships between HQ and subsidiary	The results show the importance that tie strength, trust, and shared values and systems play in the transfer of tacit knowledge, especially for mature IJVs. Furthermore, tacit learning is accumulative, assists in explaining explicit knowledge, and is enhanced by social embeddedness. Authors also find that the influence of transferred tacit knowledge on IJV performance stems principally from its indirect effect on the learning of explicit knowledge.
Figueiredo, P. N. (2011) JMS	To explore variability across a set of subsidiaries operating in the ICT industry in Brazil in terms of innovative performance as an outcome of the manner and extent to which they are embedded within both internal and local counterparts over time.	Case studies on 7 subsidiaries operating in Brazil (1996–2007) and include 91 formal and 11 informal interviews, observations, archival records, and 109 follow-up questionnaires.	<i>(Dual) relational embeddedness</i> of a subsidiary is defined in terms of the multiple linkages (e.g. parent companies and sister subsidiaries) and external (e.g. universities, research institutes, consulting firms, suppliers, clients) used by the subsidiary to create capabilities to achieve innovative performance.	<i>Level:</i> Host country <i>Context:</i> Emerging market <i>Actors:</i> subsidiary relationships with internal (e.g. parent companies and sister subsidiaries) and external (e.g. universities, research institutes, consulting firms, suppliers, clients)	Findings conclude that subsidiaries were able to develop knowledge-intensive linkages with internal and external counterparts simultaneously achieved higher innovative performance levels than subsidiaries without such linkages.
Halaszovich, T. F. & Lundan, S. M. (2016) IBR	To examine the impact of the firm's degree of local embeddedness on its performance in emerging markets.	Authors make use of a dataset of 15,715 firms in 78 emerging markets drawn from the World Bank's Enterprise Survey Manufacturing Sector Module.	<i>Local embeddedness</i> is defined as the embeddedness of a firm in a given market as the degree of localisation of its inputs, production and sales. The highest degree of embeddedness is reached by firms that sell and source locally.	<i>Level:</i> Host country <i>Context:</i> Emerging markets <i>Actors:</i> Subsidiary relations with local suppliers and customers	Authors suggest that embeddedness brings a firm into closer interaction with local firms and institutions, and thus the costs of embeddedness should be lower for local firms than for MBE subsidiaries, since local firms can be assumed to be better able to decipher local institutions. Findings demonstrate that as a firm extends the degree of local sales and local sourcing up to a certain percentage, it can realise positive performance growth by becoming more embedded into the emerging market.
Hardy, C. Phillips, N. & Lawrence, T. (2003) JMS	To examine the relationship between the effects of interorganisational collaboration and the nature of the collaborations that produce them.	Exploratory case study on the collaborative activities of a small (NGO) in Palestine over a four-year period. Several interviews were conducted with employees.	<i>Embeddedness</i> in networks is the fact that facilitates and constrains action of network actors.	<i>Level:</i> Host country <i>Context:</i> Emerging markets <i>Actors:</i> NGO relationships with other NGOs, universities and	Study reveals that embeddedness is one differentiating characteristic of collaborations. It is positively correlated with political effects (influence) and under specific circumstances also with knowledge effects (creation of knowledge).
Hoenen, A. K. Nell, P. C. & Ambos, B. (2014) LRP	To explore if and how the entrepreneurial capabilities of RHQs are related to the external relationships and the extent to which those regions encompass dissimilar markets.	Survey data collected from top and middle management of 40 RHQs located in five European countries (Switzerland, the Netherlands, Germany, and Austria).	<i>Regional embeddedness</i> of RHQ units is defined as the extent to which they have built close linkages with the external environments of the local subsidiaries in their regions.	<i>Level:</i> Host country <i>Context:</i> Advanced economies <i>Actors:</i> MBE relationships with suppliers, customers, industry associations, administrative authorities, local governments	Findings show that RHQs' entrepreneurial capabilities depend on their external embeddedness and on the heterogeneous information that is generated through dissimilar markets within the region. Thus, RHQs can profit from building relationships with their subunits' networks to foster their entrepreneurial capabilities.
Hung, S.-C. (2005) JBR	To examine the plurality of institutional embeddedness as a source of organisational attention differences.	Data collected from 7 Taiwanese personal computer firms into China, using archival materials and 50 personal, unstructured interviews	<i>Institutional embeddedness</i> is characterised by the strength of an organisation's social ties with its immediate social context.	<i>Level:</i> Host country <i>Context:</i> Emerging markets <i>Actors:</i> Subsidiary relationships with state and supplier/buyer	Authors propose that the higher the degree of institutional embeddedness, the more the organisation will attend to, and be shaped by, the prevailing institutional environment. They further argue that the diversity of organisational attention is built into the plurality of institutions (i.e. how firms attend to, policy and business systems).



Chapter 2. MBEs operating in emerging markets

		with managers, journalists and industry experts.			
Isaac, V. R., Borini, F. M., Raziq, M. M., & Benito, G. R. (2019) IBR	To examine factors that influence the development of local innovations into global innovations from an emerging market subsidiary.	Survey data collected from 131 foreign subsidiaries operating in Brazil, using a Structural Equation Modelling.	A subsidiary's <i>external relational embeddedness</i> is configured as a quality relationship between a subsidiary and its external local network partners, based on trust and adaptation.	<i>Level:</i> Host country <i>Context:</i> Emerging market <i>Actors:</i> Subsidiary and its local partners (customers, suppliers, contractors, contractors) in host markets	Findings show that subsidiaries' relational embeddedness (based on trust and adaptation) with the external local network is positively associated with local innovation, which is transformed into global innovation, especially when innovation is developed in the subsidiary's functional areas with previous reverse knowledge transfers.
Klopf, P., & Nell, P. C. (2018) IBR	To investigate the independent and joint effects of country-level factors, namely the geographic and contextual distance between a subsidiary host and its headquarters' home country on subsidiary political embeddedness.	Using a sample of 124 European manufacturing subsidiaries.	<i>Subsidiary political embeddedness</i> is defined as the extent to which the subsidiary maintains linkages to local political actors such as governments, industry associations, and unions.	<i>Level:</i> Host country <i>Context:</i> Advanced economies <i>Actors:</i> Subsidiary relationships with domestic customers and suppliers, host country governments and industry associations	Findings show that distance and context matter jointly. Space and place have an independent as well as joint effects on subsidiary host country political embeddedness. Subsidiaries that are geographically distant from their headquarters are more politically embedded than closer ones. The positive association between geographic distance and subsidiary host country political embeddedness is weaker when governance quality is high or when the host country context is politically stable.
Kim, J. & Kim, K. (2017)	To explain that IJV survival may be affected by local partners' relation-specific assets within the local network.	125 IJV dyadic pairs of US MBEs operating in high-tech industries and their local partners in China.	<i>Positional network embeddedness</i> is measured by centrality, partner network status, and brokerage.	<i>Level:</i> Host country (China) <i>Context:</i> Emerging market <i>Actors:</i> Relationship with local partners	The study finds that local partner network embeddedness may increase the chances of IJV survival. Furthermore, the characteristics of the local partner's network embeddedness such as status and structural hole position have impact on the survival of IJVs, and that the structural hole position turns out to have less positive influence on IJV survival in Chinese regions with high subnational institutional development level.
Luo, J-D, Rong, K., Yang, K., Guo, R. & Zou, Y. (2019) APJM	To investigate the variety of co-investment behaviour of foreign VC, SOE and private-owned VC firms in China.	Mixed methods data analysis was conducted, using the Simuton database of 1,173 VC firms and snowball interviews were also conducted in the Chinese state-owned and private-owned VCs as well as foreign VCs.	<i>Social embeddedness</i> is used as a theoretical tool to investigate the link between social ties, transactional uncertainties and governance mechanisms.	<i>Level:</i> Host country (China) <i>Context:</i> Emerging market <i>Actors:</i> Relationships with local partners	Foreign investors are more willing to utilise a guanxi-based/relationship-based strategy than Chinese state-owned and private-owned VC firms. Thus, a guanxi-based strategy is not a Chinese culture-specific strategy, instead it may take place within a cross-cultural context, and with varying degrees of density. Due to the high institutional uncertainty and nature of long-term business, the authors suggest that the resource-dominant logic will gradually shift to relational-dominant logic, even for Western MBEs.
Li, X., Liu, X. & Thomas, H. Market (2013a) IBR	To examine the relationships between embeddedness, specialised resources, autonomy and performance.	This study is based on a LISREL survey conducted on 233 MBE subsidiaries in China, using structural equation modelling	MBE <i>external embeddedness</i> is defined as the extent to which a subsidiary is integrated into the resource and information flow of the MBE or the local environment.	<i>Level:</i> Subsidiary <i>Context:</i> Emerging market <i>Actors:</i> Subsidiary intra-firm relationships with sister companies and HQ, as well as external relationships with local firms	Findings show that external embeddedness enhances subsidiary autonomy and facilitates a subsidiary in gaining mainly location-bound knowledge in production, general management, R&D and marketing from local firms. Internal embeddedness enables the subsidiary to learn from the rest of the MBE, and to be equipped with the superior internal technology-based resources in order to successfully compete with local firms, but discourages the subsidiary to conduct its own innovation, develop specialized resources and reduces its degree of autonomy.
Li, Y. Wang, X. & Bai, L. H. (2013b)	To examine the underlying process about how shared cognition influences new business development.	158 valid questionnaires were collected from entrepreneurs in high-technology industry in Mainland China.	<i>Relational embeddedness</i> is described as the quality of relationship. <i>Social capital</i> is the aggregate of actual and potential resources embedded in social relationships.	<i>Level:</i> Home country <i>Context:</i> Emerging market <i>Actors:</i> Relationships with business partners	Authors caution that relational embeddedness, one facet of social capital, may exert negative impacts on obtaining scarce resources. Strong ties bring decision-making constraints for entrepreneurs, while trust helps to lessen such restriction. Relying on the intermediate role of tie strength engenders dark sides.
Moran, P. (2005) SMJ	To examine the impact of social capital (structural and relational embeddedness) on managerial performance.	Quantitative study using questionnaire data of 120 respondents of European subsidiaries in one large pharmaceutical MBE.	Using Nahapiet and Ghosal's definitions (1998:244), <i>structural embeddedness</i> as the impersonal configuration of linkages between people or units. <i>Relational embeddedness</i> is defined as the	<i>Level:</i> Host country <i>Context:</i> Advanced economy <i>Actors:</i> Relationships with others within their own immediate functional unit, but also outsiders	Findings show that both elements of social capital (structural and relational embeddedness) influence managerial performance, but in different ways. Structural embeddedness is more robust in explaining sales performance, relational embeddedness is more robust in explaining innovation performance. The study considers resource

Chapter 2. MBEs operating in emerging markets

			personal relationships people have developed with each other through a history of interactions.	to that unit (i.e., people in other parts of the firm or other firms)	exchanges within firms as essential to value creating behaviours and contributes a deeper understanding of how social capital influences productive resource exchanges.
Nell, P.C. Ambos, B. & Schlegelmilch, B.B. (2011) JBW	To examine the phenomenon of headquarters linkages to the local context which creates embeddedness overlap.	Survey data collected from 168 European subsidiaries of MBEs.	<i>Embeddedness overlap</i> is defined as the simultaneous existence of linkages by parent and subsidiary to the same local actors.	<i>Level: Host country</i> <i>Context: Advanced economies</i> <i>Actors: MBE relationship with host country customer and suppliers, subsidiary relationship with customers and suppliers</i>	Findings show that MBEs build and maintain more overlapping network ties when subsidiaries are high performers, hold important resources, operate in turbulent environments, and are closely connected to multinational actors as opposed to purely domestic firms.
Newbury, W. (2001) JIBS	To analyse the effect of local embeddedness on how employees in an MBE subsidiary judge global integration as beneficial for their career.	Survey data from collected from 477 employees in one MBE. Respondents come from North American offices, European offices and Asia-Pacific offices.	<i>Embeddedness</i> is defined as how the quality of relationships and the network structure relationships affect economic activity.	<i>Level: Host countries</i> <i>Context: Advanced economies and emerging market</i> <i>Actors: MBE employees</i>	Employees in MBE subsidiaries judge global integration of their subsidiary as negative if the subsidiary is locally embedded.
Peng, M. W., Lee, S.-H., & Wang, D. Y. (2005) AMR	To address the question ‘What determines the scope of the firm?’	Literature review and theorising.	<i>Institutional relatedness</i> is defined as the degree of informal embeddedness or interconnectedness with dominant institution.	<i>Level: N/A</i> <i>Context: Advanced economies and emerging market</i> <i>Actors: Firm ties to government officials and other institutions such as financial institutions, labour forces</i>	Authors highlight the importance of institutional relatedness to answer the question. The question is addressed both longitudinally (firms in developed and emerging economies over time) and cross-sectionally (developed versus emerging economies), thus contributing to an institution-based theory of corporate diversification. Institutional relatedness helps firms capitalize on economies of scope based on three nonmarket forms of capital: social capital, political capital, and reputational capital.
Pinkse, J., & Kolk, A. (2012) JIBS	To explore the MBEs in relation to climate change and its institutional failures, by exploring how MBEs may overcome liabilities and fill institutional voids related climate change.	Theorising using illustrative examples of MBE responses to climate-related components in stimulus packages.	No definition of institutional embeddedness given but being institutionally embedded in a country is, according to the authors, a result of longstanding relational ties with nonmarket actors, such as the government.	<i>Level: Home, host and supranational</i> <i>Context: Advanced economy and emerging market</i> <i>Actors: MBE, home and host government, supranational actors (e.g. United Nations)</i>	Authors main argument is that MBEs face a complex balancing act, concerning embeddedness (or lack thereof) in home, host and supranational contexts, as there are multiple institutional factors that play a role in developing a competitive advantage. As governments are highly involved in climate change, MBEs need to consider carefully their strategies to cope with non-market forces in different context.
Pu, M., & Soh, P.-H. (2018) APJM	To investigate how subsidiaries exploit the knowledge flows embedded in internal and external networks and support their development in terms of scope and competence.	Surveyed data of 81 foreign-owned subsidiaries operating in China in the manufacturing and service sector. MBEs are from North America, Europe and Asia.	<i>Dual embeddedness</i> is referred to as a set of business linkages between a focal subsidiary and other business entities, including partners from both internal and external networks of the subsidiary.	<i>Level: Subsidiary</i> <i>Context: Emerging market</i> <i>Actors: Intra- and inter organisational relationships between subsidiary and local business actors</i>	Findings show that internal embeddedness relates positively to subsidiary competence, whereas external embeddedness relates positively to subsidiary scope. Furthermore, subsidiary’s learning process fully mediates the relationship between internal embeddedness and subsidiary competence only, suggesting that subsidiary embeddedness has differential impact on subsidiary development. Subsidiaries must manage increased flows of distant knowledge within MBE networks while maintaining their location-specific advantage.
Rizopoulos, Y. A., & Sergakis, D. E. (2010) JWB	To explore the extent to which political influence depends on their insertion into policy networks, and to investigate the influence of political power at home on MBEs’ strategic approaches to the host countries.	Theorising based on existing policy network and MBE-government relationship literature.	Authors note that embeddedness illustrate links between economic activities and social structures (based on Granovetter’s work 1985), but suggest it is also relevant when applied to all non-market, including political relationships.	<i>Level: Home and host country</i> <i>Context: N/A</i> <i>Actors: MBE-home country and MBE-host country relationships through policy networks</i>	Authors developed a taxonomy regarding the differentiation of MBEs’ political leverage in various domains. Institutional embeddedness and relationship patterns with state/ government actors constitute a crucial factor as regards the MBE’s political leverage and strategic choices. Authors propose that the influence on political decision-making depends on their possibility to intervene in relevant policy networks, which define the institutional framework and interaction of business-government relations.
Santangelo, G. D. (2012)	To investigate the relationship between foreign subsidiary	Research method uses a quantitative approach (survey questionnaire)	<i>Subsidiary embeddedness</i> is that firm networks are characterised by a mixture of	<i>Level: Host country</i> <i>Context: Advanced economy</i>	The empirical evidence confirms that competition discourages foreign corporate units from establishing ties with domestic actors owing to the

Chapter 2. MBEs operating in emerging markets

IBR	competition and embeddedness in a peripheral area of an advanced country.	complemented by in-depth interview material/case studies as examples of MBE subsidiaries in Italy.	arm's-length (low embeddedness) and trust-based relationships (high embeddedness) (based on Forsgren et al., 2005).	<i>Actor:</i> Subsidiary relationships with customer, supplier, university, industrial/union institutions, public research institutions	risks of unintended private knowledge spill-overs to rivals. However, competing foreign units enter into relations with domestic actors to source distinctive valuable resources when entering the market with a competence-creating motivation, as a result of the pressure to innovate associated with competition.
Santangelo, G. D., Dellestrand, H., & Andersson, U. (2019)  LRP	To investigate the institutional antecedents to subsidiary external embeddedness and relate regulation constraining competition in local service sectors to subsidiary embeddedness with local partners in complementary sectors.	Collected data through a questionnaire (via face-to-face interviews) from 97 subsidiaries in Europa and North America of 13 Swedish MBEs in the manufacturing sector. A total of 291 interviews were conducted at the subsidiary level, as well as 20 interviews at HQ level.	Subsidiary external embeddedness is defined as the degree of adaptation of the subsidiary's business behaviour to external business partners; and the breadth of the subsidiary's contacts with such partners.	<i>Level:</i> Home country and host country <i>Context:</i> Advanced economy <i>Actors:</i> Subsidiary relationships with external suppliers and customers	The findings suggest that business networks are influenced by the immediate context (e.g. legal and regulatory systems) in which business actors operate.
Sun, P. Mellahi, K. & Thun, E. (2010)  JIBS	To examine the complex relationship between the embeddedness of MBEs in host-country political networks and their long-run competitive positions in host emerging markets	Three longitudinal case studies on Western car manufacturers in China, including 142 interviews (with foreign MBEs, Chinese firms, government officials, academics, lawyers and consultants).	<i>Political embeddedness</i> is treated as firms' social embeddedness, with special reference to political actors and institutions, i.e. institutional ties to the constituent parts of the state.	<i>Level:</i> Host country level <i>Context:</i> Emerging market <i>Actors:</i> JV relationship with key political stakeholders in the host country, inter-partner relationships (between foreign entrant and Chinese firm) and suppliers	Findings demonstrate the declining and negative value of deep political embeddedness by MBEs in China. The paper discusses the factors that result in the diminishing, and at times negative, value of excessive political activity by MBEs in a politically stable emerging economy.
Sun, S. L. Peng, M. W. & Tan, W. (2017)  APJM	To address the question 'how does institutional relatedness affect the scope of the firm during institutional transitions?'	Secondary data using a sample of 11,992 firm-year observations in 11 years, as well as manually collected CEO background data from the annual reports.	<i>Institutional relatedness</i> is defined as the degree of informal embeddedness with the dominant institutions in the environment that confer resources and legitimacy (Peng, Lee, and Wang, 2005: 623)	<i>Level:</i> Home country <i>Context:</i> Emerging market <i>Actors:</i> CEO' political ties	Two types of institutional relatedness (political ties and international experience) link firms to political institutions and market institutions. CEOs' political ties may help firms access critical resources, sense new market entry opportunities, and gain board support to increase firms' product diversification. CEOs' international experience may help firms leverage different market-based capabilities, engage in international competition, and then lead firms to grow on a different path by expanding internationally.
Wei, Z. & Nguyen, Q.T.K., (2017)  IBR	To examine the effects of home country institutional factors (home country government support, domestic institutional weaknesses, state ownership) on the subsidiary-level strategy of global integration and local responsiveness of EMBEs.	Survey data collected from Chinese multinational subsidiary managers.	<i>Dual relational embeddedness</i> is defined as the multiple linkages (internal, e.g. parent companies and sister subsidiaries and external, e.g. universities, research institutes, consulting firms, suppliers, clients) used by the subsidiary to create capabilities to achieve innovative performance.	<i>Level:</i> host country <i>Context:</i> emerging markets and advanced economies <i>Actors:</i> intra- MBE with internal, e.g. parent companies and sister subsidiaries and external, e.g. universities, research institutes, consulting firms, suppliers, clients	Findings show (1) that home country government support and domestic institutional weaknesses have significant and negative effects on global integration strategy of Chinese MBE subsidiaries; (2) domestic institutional weaknesses push foreign subsidiaries to pursue local responsiveness strategy.
Zeng, J. Glaister, K. W. & Darwish, T. (2019)  MIR	To understand the processes of absorptive capacity in the external embeddedness role of subsidiaries.	Inductive case study of 12 MBEs in China, India, Brazil and Kenya, including 62 interviews.	No definition of external embeddedness is given but authors point to the closeness of network relationships and that subsidiaries are able to create strong connections with corporate and local external stakeholders such as suppliers, customers and governments.	<i>Level:</i> Host country <i>Context:</i> Emerging markets <i>Actors:</i> Subsidiaries, relationships not specified.	A model was developed to understand the key actions and practices understanding of the micro-processes of absorptive capacity. The study emphasises the subsidiary's external embeddedness and its ability to generate local knowledge assets in the host country. Authors conclude that the subsidiary is no longer a passive recipient of knowledge from MBE headquarters, but rather act as an 'active guide' for localised knowledge search, and should build relationships with suppliers, customers and governments).

Two main features of Granovetter's (1985) seminal study are, firstly, that firms are embedded in networks of interpersonal relationships, and secondly, that these social relationships form ongoing structures which have their own histories. Embeddedness thus implies that business firms, and the networks which they are part of, are both socially and historically constructed (Halinen & Törnroos, 1998). Such networks encompass a firm's set of relationships with other organisations - be they customers or suppliers or other actors. This relational concept of social embeddedness is relevant for studying MBEs, as these organisations are "transnational social spaces" (Morgan, 2011: 417).

In the literature review (Table 2.1), several articles use the concept of 'institutional embeddedness' (Hung, 2005; Rizopoulo & Sergakis, 2010; Pinkse & Kolk, 2012). However, it is important to differentiate here between Rizopoulo and Sergakis (2010) and Pinkse & Kolk (2012), who refer to a firm's relationships with institutional actors (e.g. policy-makers and politicians), and Hung (2005), who refers to an actor's relationships to an institutional context, that is, from an institutional theory perspective, i.e. rules, routines, conventions, and normative pressures, based on the work of Scott (1987) and Oliver (1996). In the former, Rizopoulo and Sergakis (2010) built on Granovetter's (1985) embeddedness concept, and notes that it is also relevant when applied to all non-market, including political, relationships. This type of 'institutional embeddedness' is, in effect, similar to what Sun et al. (2010) refer to as political embeddedness. In the latter view, institutional environments are fragmented and composed of different domains reflecting three institutional forces (regulative, normative and cognitive pillars) that influence the institutional frameworks in which they are embedded (Meyer & Rowan, 1977; Scott, 1994).

Departing from institutional theory, Hung (2005) characterises embeddedness by the extent of a relationship to an institutional context, which highlights the role of networks of beliefs, values, and norms in causing embedded firms to incorporate environmentally preferred recipes and to play by the rules of the game. In a similar vein, Oliver (1996:167) defines this type of institutional embeddedness as "the nesting of firm and market behaviour in a social and normative context". The social context includes a whole array of elements that can be classified as institutional, cognitive, cultural, and structural (Zukin & DiMaggio, 1990). Furthermore, Cheng and Huang (2020) adds that embeddedness is a multidimensional (e.g., political, cultural and cognitive) construct that reflects the subsidiary's linkages with various types of stakeholders. This type of embeddedness can be categorised as part of the institutional theory perspective, which will be discussed in more detail next.

### **2.5.3 Institutional embeddedness**

In the context of the MBE, a major insight into the debate on embeddedness is that they have to deal with heterogeneous social institutions in multiple national environments (Heidenreich, 2012). In an increasingly complex and integrated global economy, a major challenge for MBEs is navigating institutionally diverse contexts - each posing a different set of opportunities and challenges (Marquis & Raynard, 2015). As MBEs undertake operations in multiple countries which vary in their institutional

environments, they become exposed to multiple sources of authority (Sundaram & Black, 1992). For this reason, Dang et al. (2020) argue that a sound understanding of the institutional environment is vital for MBEs to navigate through the rules and regulations in the host country.

While there is a broad agreement among scholars that organisations are embedded in formal institutions (i.e. laws and regulations in the country and written contracts) and informal institutions (i.e. networks and unwritten rules of behaviour), also referred to as the ‘rules of the game’ and that these institutions affect the MBEs activities (Peng et al., 2008b), there are multiple literature streams that investigate this phenomenon. Within the management literature, Doh et al. (2012) describe three dominant approaches. Firstly, neo-institutionalism explores the mechanisms through which institutions constrain firms (e.g. DiMaggio & Powell, 1983). Secondly, new institutional economics concentrates on the effect of institutions on firms (e.g. Hillman et al., 1999; Bonardi et al., 2006) and vice versa (e.g. Kostova et al., 2008; Regnér & Edman, 2014), and thirdly, national business systems emphasise comparisons between institutional systems and their effects on firms and firm strategies (e.g. Whitley, 1999; Sun et al., 2010; see also Hotho & Pedersen, 2012 for a review on institutional theory perspectives).

Scholars have articulated the multifaceted influence of institutions on firms and competition. For instance, North (1991:87) defined institutions as “humanly devised constraints that structure political, economic and social interaction”, while for Scott (2014:56), institutions are the “regulative, normative, and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life”. Despite the different viewpoints, there is a general consensus among institutional theory scholars that an organisation’s structure and actions affect and are affected by its social environment. Traditionally, the main assumption has been that institutions are structures that shape the behaviour of firms and drive them to adapt in similar ways, eventually leading to isomorphism (DiMaggio & Powell, 1983; Scott, 1987). When firms and managers adapt to different expectations, rules and values in the society, they become institutionalised. Furthermore, the concept of the organisational field was developed as a group of firms that belong to the same environment and are shaped by the same institutional forces (DiMaggio & Powell, 1983). An organisational field can be a sector of society or a certain type of industry. In the context of the MBE, Kostova and Zaheer (1999) suggest that firms must conform to the rules and requirements of the local social environments in which they operate (i.e. the host countries) to be perceived as legitimate.

There are also scholars who have questioned the emphasis put on stability and compliance of MBEs with institutional norms and expectations (Kostova et al., 2008). One argument is that MBEs act in a number of markets that are quite different in terms of their institutional environment and that it will not be possible to adapt completely to local variations while applying a global core strategy (Peng, 2012). They can therefore not be treated as units that belong to a certain organisational field. Instead, the issue is rather to see to what extent they will comply with a set of varying local conditions and institutional

pressures. It is due to the unique position of global MBEs that allow them to engage in behaviour deviating from standard practice in a host environment.

The MBEs' embeddedness in – sometimes over a hundred countries – provides them with a multitude of templates or scripts to follow, and thus are aware of different approaches to solving common coordination problems. As Kostova et al. (2008:1001) put it, “MBEs have an important agency role [...] they must make sense of, manipulate, negotiate, and partially construct their institutional environments”. In a similar vein, Khanna et al. (2005:16) argue that “many MBEs are powerful enough to alter the contexts in which they operate [and the] products or services these companies offer can force dramatic changes in local markets”. In a way, MBEs may act as ‘institutional entrepreneurs’ to promote new institutional norms and redefine socially acceptable behaviours (Kostova et al., 2008; Phillips & Tracey, 2009). Thus, while institutional environments certainly pose some constraints on MBEs, institutional contexts should not be seen as deterministic (Fortwengel, 2017).

As mentioned earlier, embeddedness is not only a matter of the context in which a subsidiary interacts but also the quality of the relations it develops within the context (Granovetter 1985; Uzzi 1996; Forsgren et al. 2005). Furthermore, relationships are found to be particularly important in emerging markets, arguably as a consequence of the nature of institutional frameworks (Xu & Meyer, 2013). This study is primarily concerned with the way in which individuals are linked in their environments through interpersonal relations in the extended business network.

#### **2.5.4 External subsidiary embeddedness with business actors**

We have now established that the concept of analysis originates from Polanyi (1944) which emphasises that economic exchanges are ‘embedded’ in social and cultural exchanges. Institutional scholars have since expanded the conceptualisation of embeddedness and proposed how organisations are embedded in formal and informal institutions (e.g. Scott, 1994). However, most articles on embeddedness (Table 2.1) explicitly built on the work of Granovetter (1985), which may be, according to Dacin et al. (1999), because he proposed a more accessible stimulus for modern research on embeddedness. Building on Table 2.1, this section will further review the external subsidiary embeddedness literature.

In an IB/strategy context, the embeddedness perspective focuses on the workings of networks and relations in foreign markets, and their implications for strategy. MBEs can adopt ‘footloose’, global strategies in order to take advantage of a cross-border, value-creating network or ‘embedded’ strategies to avoid the liability of being an outsider (Johanson & Vahlne, 2009) and to exploit the advantages of strategic involvement in the policies, business associations, networks and institutions of distinct host countries (Heidenreich, 2012). Granovetter’s (1985) approach has been further developed by several scholars who studied interorganisational relationships (e.g. Uzzi, 1996; Dacin et al., 1999). Building on social network theory (Burt, 1992; Uzzi, 1996; Dyer & Singh, 1998), modern conceptualisations view the subsidiary as an organisation connected to external networks in multiple ways and on multiple levels

(Ghoshal & Bartlett, 1990; Dacin et al., 1999; Nell et al., 2011). It is assumed that each subsidiary develops direct relationships of varying strength and intensity to actors in its local environment.

The work of Andersson and his colleagues (1996; 2000; 2001; 2002; 2005; 2007) ‘set the scene’ for network research, demonstrating that firstly, business embeddedness (technical and relational) at the subsidiary level leads to higher achievement in terms of competence development and market performance, relationship development with suppliers and customers, and external knowledge accumulation; secondly, external business embeddedness enhances the product and process development; and thirdly, externally embedded subsidiaries can better provide access to a variety of competencies in the federative MBE, including investments into new product lines. These studies are based on the reasoning that knowledge and capability development is facilitated through strong, trustful ties of mutual commitment (Uzzi, 1996; Gulati, 1998; Dacin et al., 1999). It follows from the discussion that the more critical the external actors are to the subsidiary, the more the subsidiary’s behaviour and activities are likely to be influenced by these actors. The more dependent the subsidiary is on an actor, for the pursuit of its activities, the more likely it is to adapt to the other and hence the more embedded it will be (Andersson & Forsgren, 2000). High embeddedness underlies partners’ mutual trust and, hence, is the opposite of arm’s-length relationships (i.e. low embeddedness).

Developments in the network perspective suggest that strategic networks can be an important competitive advantage at both the network level and the firm level (Gulati et al., 2000). However, the evidence of the benefits related to embedding in interfirm networks and relationships remains inconclusive. Increases in firms’ embeddedness may also generate decreasing returns to the firms involved (Hagedoorn & Frankfort, 2008). Despite a great deal of contributions that demonstrate that embeddedness positively affects interfirm relationships, as it provides firms with, for instance, access to scarce local resources, acquiring market knowledge and cutting costs, there is a ‘gloomy side’ to firms’ embeddedness in their partnership network as it may lead to lock-in problems (Dosi & Malerba, 1996). The findings of Hagedoorn and Frankort (2008) propose two types of over-embeddedness, these being dyadic over-embeddedness (i.e. over-dependence on specific partners which results in declining useful information exchanges and decreasing opportunities for learning from these partners) and interorganisational over-embeddedness (i.e. networks of partnering firms when they become locked-in within densely connected sub-networks), which may lead to organisational failure (Uzzi, 1996).

The MBE’s internal network consists of HQs and all its subsidiaries, whereas its external network includes customers, suppliers, and competitors in the host country (Ghoshal & Bartlett, 1990). In addition to being a member of the subsidiary’s network, the HQ has a formal authority, which it can use to control the subsidiary’s behaviour (Yamin & Andersson, 2011). However, Andersson and Forsgren (2000) found that HQ is not always very familiar with the subsidiary’s external business relationships, which in turn, tends to weaken its control over the foreign subsidiary. From a local perspective, MBE subsidiaries are foreign-owned companies that compete with local firms (Meyer et al., 2020). They are distinguished, however, through their multiple embeddedness in both the MBE and the host economy.

By dual embeddedness, Cheng and Huang (2020, *in press*) refer to “external embeddedness in which a subsidiary will work with the host country parties and internal embeddedness in which a subsidiary will work with its MBE entity”. Figueiredo (2011) further explains that subsidiaries that are able to develop knowledge-intensive linkages with internal and external counterparts simultaneously achieved higher innovative performance levels than subsidiaries without such linkages.

As a result of the dispersed operations of MBEs, it is difficult for HQ to strongly embed themselves in each host country. For this reason, they must, to some extent, rely on the embeddedness, representation and local expertise of their subsidiaries (Birkinshaw et al., 1998). However, Ma et al. (2019) note that corporate HQ may lack a connection with a subsidiary’s local networks and to add value to the corporation. However, it is important for HQ to be knowledgeable about their subsidiaries and their local networks and work to build trust and commitment to those subsidiaries and important external parties. There is also evidence that demonstrates that HQ may continue to exert an influence on relationships of key partners, especially if subsidiaries are high performers in turbulent environments, which is referred to as an ‘embeddedness overlap’ (Nell et al., 2011).

Other ways to manage the disconnect between corporate HQ and subsidiary operations may involve establishing a regional headquarters (RHQ) and/or a host country headquarters (HCHQ). For instance, to manage the Asia-pacific region, MBEs often establish an RHQ in Singapore. As of 2016, Singapore was home to the RHQ of 4,200 firms. Google, Facebook, and Twitter are among some prominent firms to have their Asia Pacific RHQ in Singapore (OPKO Finance, 2019). RHQ are located between the corporate and the local subsidiary-level (Frost et al., 2002), and act as agents for corporate HQ and as parents to a group of subsidiaries (Hoenen et al., 2014). RHQ are better positioned to compensate for the disconnect between HQ and far-flung subsidiaries. As subsidiaries encounter challenges in their local markets, RHQ can provide support to the subsidiaries in responding to challenges, through their experience gained in the region. Similarly, subsidiaries that encounter opportunities with potential for exploitation beyond the subsidiary context, that is within the region or the MBE as a whole, may also receive support from RHQ. Accordingly, regional embeddedness refers to the extent to which regional-HQ have built linkages with the subsidiaries external environments (Hoenen et al., 2014). Furthermore, there is also evidence that in large emerging markets, MBEs establish HCHQ to manage multiple subnational subsidiaries, including factories and sales offices which are located in different regions (Ma et al., 2019).

MBEs may also decide to rely on the embeddedness of a local partner. In this case, they are, in effect, indirectly embedded (or disembedded from the local market). For instance, some firms develop an indirect sales model, which means that they are not in direct contact with customers and other stakeholders but base their operations on close collaboration with different partners, founded on trust and cooperation (Elg et al., 2015). A foreign firm may decide to stay in the background if their local partner has a better understanding of or influence upon local actors (Elg et al., 2012). Emerging markets with underdeveloped political and social institutions may enable indigenous firms to enjoy some



location-bound advantages (e.g. local market knowledge, access to distribution channels, strong relations with government agencies) which are not readily available to foreign MBEs (Li et al., 2013a). It is a common way for MBEs to adapt to local environments by establishing links with local firms (Hennart, 2009). However, firms need to compromise between getting things done through other actors versus having long-term control and influence on business as well as political processes because if the firm were to remain in the background (i.e. disembodied), it would become increasingly dependent on local partners (Elg et al., 2015), which would prevent firms from developing a long-term sustainable position (Luo, 2002).

### 2.5.5 External subsidiary embeddedness with non-market actors<sup>9</sup>

By now it has become clear that MBEs are acting in different markets with differentiated needs and aims, and firms need to manage their relationships with business as well as socio-political actors to achieve their strategic goals (Ghauri et al., 2012; Hadjikhani et al., 2008). Evident from Table 2.1 is that most literature on external subsidiary embeddedness is on subsidiary relationships with business actors, while in this thesis the focus is on the entire host market, i.e. each different type of actor. One notable exception is a study by Rizopoulo and Sergakis (2010), who built on Granovetter's (1985) embeddedness concept, but suggest that is also relevant when applied to all non-market, including political, relationships. According to Rizopoulo and Sergakis (2010), MBE nonmarket success depends on their ability to embed and intervene in relevant policy networks, which shape the institutional framework and the interaction of business-government relations. Nonetheless, few studies applied this perspective to analyse ties to nonmarket actors such as the state and, in particular, how firms are affected by such embeddedness (Okhmatovskiy, 2010).

Socio-political actors are important non-market actors as they have the ability to support or alienate the MBE's operations in a particular market (Ghauri et al., 2012). For instance, firms associate themselves with, for instance, politicians or NGOs to bolster their company reputation, and provide access to critical resources. However, scandals related to, for instance, corruption or employee conditions can significantly damage the MBEs status among the general public and the media, not only in the host country, but also in the firms home market. Furthermore, Pinkse and Kolk (2012) note that most governments are now highly involved in climate change, and thus MBEs need to consider carefully their strategies to cope with non-market forces in a different context. Climate change is also becoming an increasing concern for policy makers (Kolk & Pinkse, 2008), and may prompt new national regulation (Meyer et al., 2020) and hence, may become strategically important for MBEs. A proactive approach towards, aspects such as recycling and plastic, may provide the MBE with credibility and praise, while

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<sup>9</sup> The term institutional embeddedness was avoided here to avoid confusion with section 2.5.3 on institutional theory. This section focuses on the relationships subsidiaries develop with non-market actors, such as governments and authorities.

a late (or lack of) a response may lead to criticism from NGOs, pressure groups, governments and the customers on which they depend.

The MBE's ability to respond to host-country pressures depends greatly on the quality of their relationships with foreign governments (Hadjikhani et al., 2018; Elsahn & Benson-Rea, 2018; Curchod et al., 2020). Potential benefits of nonmarket embeddedness include gaining legitimacy vis-à-vis the host country's government (Banerjee & Venaik, 2018) influencing regulations (Okhmatovskiy, 2010), and improved market visibility (Puck et al., 2013). However, as a degree of embeddedness increases, potential costs also become noticeable (Ganovetter, 1985; Uzzi, 1996; Sun et al., 2010). For instance, Okhmatovskiy (2010) notes that although close relationships with government officials may be associated with opportunities to influence regulation, it also comes with an implicit obligation to support policies implemented by these same officials. For this reason, based on the embeddedness perspective, it can be expected that nonmarket embeddedness (associated with a high degree of embeddedness) can bring about both benefits and costs for the MBE (Okhmatovskiy, 2010; Sun et al., 2010).

Extant research on the benefits of MBE-government relations is inconclusive. For example, political connections are associated with easier access to valuable resources, but under conditions of high political embeddedness, the probability of government intervention in corporate governance significantly increases, thus increasing costs associated with these ties (Sun et al., 2010). Sun et al. (2010) demonstrate the declining and negative value of deep political embeddedness by MBEs in China. The authors suggest that over-embeddedness of an early entrant in the local political system may become a liability after market liberalisation has taken place.

Other nonmarket benefits may result from a firm's institutional relatedness, which is the degree of informal embeddedness, or a manager's social ties, with institutional actors (Peng et al., 2005; Sun et al., 2017). For instance, Sun et al. (2017) find that CEOs' political ties may help firms access critical resources, sense new market entry opportunities, and gain board support to increase firms' product diversification. Furthermore, Peng et al. (2005) note that informal embeddedness may help a manager obtain three nonmarket forms of capital: reputational capital, political capital, and social capital. Each of these types of capital is discussed next.

Firstly, reputational capital (an actor's reputational value in a context) is critical for firms in emerging markets to reduce information asymmetry between firms and their stakeholders (Peng, 2003). Secondly, firms can accumulate political capital by establishing stable and close relationships in political networks (Wu & Chen, 2020). Since it is uncertain when and where opportunities from political connections arise, firms tend to spend significant portions of time and energy in establishing contacts and cultivating conterminous relationships with political actors. The political capital of firms may also emanate from appointing former or current politicians to their board of directors (Okhmatovskiy, 2010). Appointing politicians to a firm's boards of directors can be a source of legitimacy, provide valuable advice regarding government policies, and create opportunities to influence these policies by facilitating communication with policymakers (Hillman, 2005). Being associated with politicians may increase the

firm's standing among local firms as well as the general public, which may be particularly important in emerging markets where foreign firms are sometimes stereotyped as 'foreign exploiters' (Luo, 2001). Third, social capital is defined by Nahapiet and Ghoshal (1998:243) as "the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit". Particularly in emerging markets, the uncertain environment often results in a great deal of uncertainty, which may lead to opportunism when dealing with unknown parties. Accordingly, as powerful politicians may hold the information required to fill this gap, it becomes strategically important to develop cooperative relations with them (Peng & Heath, 1996).

In the existing literature on Western countries, the terms 'nonmarket strategy' and 'corporate political strategy' are used almost interchangeably, reflecting the reality of formal political institutions being by far the most important wielders of nonmarket power (Demirbag & Wood, 2018). It is important to note that most studies in Table 2.1 analysing MBEs' relationships with non-market actors treat the non-market environment as if it were limited to only governmental institutions. However, political institutions are frequently not sufficiently interested in listening to corporate interest groups and thinking about non-market strategy purely in terms of exchanges with politicians becomes seriously limiting (Demirbag & Wood, 2018). It is, therefore, entirely rational for firms to search for alternative ways of seeking a non-market advantage (Ghauri & Hadjikhani, 2012). The nonmarket environment is not a one-dimensional actor, and governments are far from being homogeneous actors; they are collections of individuals with whom managers interact and trade with various currencies (mostly non-financial ones). Managers in emerging markets have to deal with, among others, officials of government agencies, industrial bureaus, regulatory and supporting organisations such as SOE, tax bureaus, commercial administration bureaus and other governmental agencies (Wu & Chen, 2020). In addition, firms have to deal with religious institutions, NGOs and local communities, who may wield enormous influence in emerging markets (Elg et al., 2015; Sheth, 2011). It is for this reason that the extended business network approach is not only justified but, in fact, necessary to understand the complexities and challenges presented by the local context.

## **2.6 A cooperative view towards managing the host country market**

Earlier research on cross-border activities demonstrates that if MBEs from advanced economies develop cooperative networks of relationships with local actors in emerging markets, they may be able to better cope with host-country pressures (Luo, 2002; Elg et al., 2015) and strengthen their competitive market position (Banerjee et al., 2019; Hadjikhani et al., 2019). Given the uncertainty and risk associated with operating in emerging markets, and the MBEs' intent to pursue long-term strategic goals, such as gaining a sustained market share and seeking long-range investment opportunities (Luo, 2002), it is not surprising that MBEs aim to build a set of cooperative relationships in the host market. Managing relationships with socio-political actors becomes particularly relevant for large, resourceful manufacturing MBEs that operate in sensitive settings (e.g. former colonies) or sensitive industries (e.g.

industries that are under government control) (Jansson et al., 2007). However, what is rather surprising is that, as noted by Ghauri et al. (2012:4), there is “limited previous knowledge on interaction between business firms and socio-political units in emerging markets”.

Luo (2002) further explains that the cooperation element becomes increasingly important to MBEs, as the earlier conflict-adversary view is shifting towards a cooperative-complementary view of MBE-government relations. It follows that MBE should view relations with authorities as potentially cooperative, and such relations can have a positive impact on subsidiary success. This cooperative view emphasises the importance of interacting and networking with officials and how responsiveness to the social and political needs is required for MBEs in emerging markets (Luo, 2001a). The cooperative view is also in line with Johanson and Vahle’s (2009) view of the strategic importance of becoming an insider in local networks. In addition, the setting in which this research takes place may have a negative influence on current business operations of Dutch firms (post-colonial influences will be discussed sections 2.7-2.7.1). For this reason, it is likely that an MBE will seek to deal with environmental contingencies to reduce uncertainties (Miller, 1992), through building cooperative relations with key host country actors.

Luo (2002) differentiates cooperation from control responses in that cooperative responses involve multilateral relationships, rather than unilateral control, as the means for achieving uncertainty reduction. Examples of cooperative responses by definition include more than one actor. For instance, an MBE may decide to include long-term contractual agreements with suppliers or buyers, alliances, joint ventures, or establish close personal ties with political actors directly (Miller, 1992). It is important to note here that cooperative relationships are seen as a goal rather than a given, but, extant literature suggests that it will require legitimacy on the part of the MBE, for which knowledge, trust and commitment are required (Johanson & Vahlne, 1977; Hadjikhani et al., 2008; Johanson & Vahlne, 2009; Elg et al., 2015; Hadjikhani et al., 2019).

The interrelated constructs of (a) knowledge, (b) trust, (c), commitment and (d) legitimacy are likely to be required for successful cooperation. There is a considerable body of research that discusses and investigates the constructs in other settings. In addition to receiving much attention individually, Hadjikhani et al. (2008) suggest that trust, commitment and legitimacy are the main concepts required in analysing and understanding the interorganisational relationships through which the MBE is connected to socio-political actors as well as business actors. Furthermore, Elg et al. (2012) analysed the proactive collaboration between MBEs and local firms, and how they influence political actors, acknowledging the central role of trust, commitment and legitimacy. Johanson and Vahlne (1977) and Lee et al. (2012) discuss the concept – and importance of – knowledge in the internationalisation process. More recently, Hadjikhani et al. (2019) propose that cooperation, legitimacy, commitment and knowledge are required to establish cooperative relationships in a loose network structure. However, despite receiving considerable attention in other settings, the interrelated constructs of knowledge, trust, commitment, legitimacy and cooperation have not been combined in one single context before.

Nonetheless, there are strong clues that each of them is likely to play an important role in developing cooperative relationships with key host country actors. The constructs of knowledge, trust, commitment and legitimacy are discussed next.

### 2.6.1 Knowledge

Market expansion is a consequence of a learning process, where knowledge plays a pivotal role in the MBE's ability to achieve its strategic goals (Johanson & Vahlne, 1990; Lee et al., 2012; Hadjikhani et al., 2019). Knowledge can be explained in terms of the information available not only concerning a particular market, but also about the needs of the specific counterparts and of connected actors. While the subsidiary's knowledge with connected actors affects the level of cooperation, a lack of knowledge, misunderstandings or lack of ability to manage demands from external stakeholders may harm relationships, with cooperation turning into conflict (Hadjikhani et al., 2019).

It has now been established that actors in the political sphere may present the foreign MBE with both opportunities and treats (Sun et al., 2010; Okhmatovskiy, 2010). For this reason, MBEs may be required to devote significant time and effort to find out information about politicians, their positions, and about the social needs of the people (i.e. the voters on which they depend) (Luo, 2002). If the MBE is knowledgeable about these actors, their needs and desires, it is more likely to achieve the cooperation required for successful relationships. On the other hand, political actors can also support the MBE with knowledge about norms and regulations, as well as acceptance into the local network and positive image in the society (Elg et al. 2015). In addition, the MBE's knowledge contains knowledge that it accumulates from others in the network (Johanson & Vahlne, 1990, 2009). For instance, a foreign firm may partner-up with a local player with the understanding and knowledge required for operating successfully and dealing with local cultural and political specificities (Elg et al., 2012; 2015).

Penrose (1959) distinguishes between two types of knowledge: objective knowledge which can be taught, and experiential knowledge which can only be acquired through personal experience. It is assumed that market knowledge, including perceptions of market opportunities and challenges, is acquired primarily through experience from operating in the market (Johanson & Vahlne, 1990). Market knowledge refers to "knowledge about its characteristics and structure, business climate, cultural patterns, and characteristics of the individual customers" (Schuster & Holtbrügge, 2012:818). A lack of experiential knowledge is a critical obstacle for operating in a country with actors that regard foreign firms with scepticism. Since experiential knowledge is unique and market-specific, it can only be gained through experience from operating in the market and has to be gradually learned by the firm. Accordingly, the more experience the MBE gains in a market, the more it will learn to manage environmental challenges and subsequently reduce risk. In other words, knowledge plays not only a role in building cooperative relations, but it may also enable MBEs to respond to host-country pressures presented by the local situation.

As emerging markets contain large internal diversity, market-specific knowledge is unlikely to be transferred without losses. However, when market conditions are stable and homogeneous, relevant market knowledge can be gained in ways other than through experience (Johanson & Vahlne, 1990). For instance, when the MBE has considerable experience from markets with similar conditions it may be able to generalise some of its experience to a specific market. Even though political knowledge is likely to be characterised under experimental, market-specific knowledge, Henisz (2003) and Elsahn and Benson-Rea (2018) demonstrate that some political knowledge on managing MBE - government interactions can be transferred across borders. Especially critical is knowing how to bargain effectively with or obtain the support of pivotal decision-makers (Krehbiel, 1998; Holburn & Vanden Bergh, 2004). In other words, although market-specific knowledge is difficult to transfer, it is likely that there are some useful lessons that may benefit subsidiaries in other markets. This is also likely to be the reason why many MBEs employ a mix of local and expatriate managers in their subsidiaries, to gain 'contextual intelligence' (Khanna, 2014) as well leverage experiences gained in other markets.

### 2.6.2 Trust

Trust has been characterised as the confidence that relationship partners have in the reliability and integrity of each other (Morgan & Hunt, 1994) or, as Luo (2001a:242) states "the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party". Without trust, established institutions of law and order have to do all the work of governing organisational cooperation (Cook, 2005). In other words, trust-building and establishing trusting relationships is a necessary aspect of successful cooperation (Morgan & Hunt, 1994), especially if the environment is characterised by weak institutions, or uncertain and unclear institutional rules and arrangements (Jansson, 2007; Elg et al., 2015).

Whereas Western institutions are generally built on the basis of trust in the government, regulatory agencies, and a reliable justice system, these institutions are not fully developed in emerging markets (Mietzner, 2015). One of the characteristics of trust in emerging markets is that people demonstrate a high level of trust when it comes to family members, friends and colleagues, whereas they tend to distrust people or firms that fall outside their personal relations, which naturally creates challenges for MBEs operating in the country (Jansson, 2007). This is particularly challenging in markets where foreign firms are known to exploit local resources (Luo, 2001a). It is the MBE's task to achieve recognition as an insider in the host country's business network by demonstrating trustworthiness among its members (Johanson & Vahlne, 2009; Forsgren, 2016). Furthermore, as trust in institutions is low in emerging markets, it is hard to conduct purely market transactions with strangers (Nguyen, 2005). To substitute for the lack of trust in institutions, firms may rely extensively on trust in their business partners (Redding, 1990).

Although trust is often treated as a dyadic concept, actors can also gain a higher level of trust from society through having a good reputation (Andersson et al., 1994), or by establishing relationships with a third-party that indirectly increases the MBE's legitimacy (Ferrin et al., 2006). As distrust often exists towards newcomers (Zucker, 1986), partnering with reputable local actors may be an attractive solution to overcome the MBE's lack of social status and benefit from the status possessed by well-established domestic actors (Li & Filer, 2007; Elg et al., 2015). Besides relations with business actors, MBEs may overcome such distrust by establishing relations with recognised political and social actors that may help the firm's reputation (Boddewyn & Doh, 2011). For instance, Yin and Jamali (2016) demonstrate that MBEs in emerging markets seek to achieve a trustworthy position by initiating and participating in social development activities through collaborations with governments or NGOs. Furthermore, according to Elg et al. (2015), firms may develop relationships with NGOs in order to increase trust in their brands and to stress that they are not involved in ethically questionable working practices.

Hadjikhani et al. (2008) differentiate between social trust, which embodies the trust of the public (i.e. consumers) and trade unions, and political trust, which relates to political actors. Social trust can be gained through investments in, for instance, hospitals or a football league, and political trust by the promise of a firm's statement for employment. To build political trust, MBEs engage in lobbying and seek political accommodation through the cultivation and maintenance of relevant personal relations (Eden et al., 2005). In a study of government-MBE relationships in India, Jansson et al. (1995) find that contact is frequent, dominated by information exchange, and marked by high levels of social interaction and trust which are built over the long term. Political and social trust is believed to be essential for business relationship trust and finally, commercial activities (Hadjikhani et al., 2008).

### **2.6.3 Commitment**

Successful cooperation requires reciprocal commitment between counterparts (Hadjikhani et al., 2008; Johanson & Vahlne, 2009; Elg et al., 2012; Elg et al., 2015). Conversely, failing to attend to the other's expectations may result in a lack of willingness that is required for cooperative relationships. Furthermore, commitment is likely to reduce the level of uncertainty for the actors involved in a relationship (Morgan & Hunt, 1994). Commitment refers to the enduring desire to maintain a valued relationship (Ruyter et al., 2001), or as Cook and Emerson (1987) note, to an actor's propensity to make repeated exchanges with a certain partner. Commitment can be demonstrated in terms of size of investment or actions towards the counterpart alone or towards the connected political and/or business actors (Johanson & Vahlne, 1990; Scott, 1994; Denekamp, 1995; Elg et al., 2015). For instance, foreign firms may signal commitment by publicly communicating their taxes paid to the to the host country, thus demonstrating how much revenue they generated and how they are contributing to the local economy (Mullins & Rhodes, 2011). Examples of commitment actions may also include the establishment of a political unit in the MBE, or investment in lobbying organisations (Hadjikhani et al.,

2008). Demonstrating commitment to socio-political actors aims to build social and political trust, which consequently spreads to the firm's business relationships.

Luo (2001a) focuses on the after-entry stage in the internationalisation process and explains (p. 403), "From the government's viewpoint, the MBE's on-going contribution after entry (e.g. re-investment, input localisation, and R&D) is increasingly crucial to the host economy. From an MBE's perspective, its foreign operations increasingly depend on educational, technological, and industrial infrastructures built by host governments". For this reason, Luo (2001a) argues that the relationship between host governments and MBEs are shifting from conflicting to becoming more cooperative, as they are interdependent on each other for critical resources. Firms may also demonstrate commitment to the emerging market's host society by investing in, for example, local production facilities that generate employment for locals or initiating social development activities (Boddewyn & Doh, 2011). Several studies have demonstrated how a firm's commitment in CSR activities like health care or school-building affected the trust between the firm and the government, the society and other firm's (Elg et al., 2008; Hahjikhani et al., 2008; Elg & Hultman, 2011; Lee et al., 2012a; Elg et al., 2015). Commitments made in the host country not only strengthen the firm's attractiveness as a business partner but also increase the firm's legitimacy in society in general (Marquis & Raynard, 2015). However, Luo (2002) asserts that to signify commitment to a host country, a foreign subsidiary has to spend years operating in the country through its boom and bust.

#### **2.6.4 legitimacy**

Achieving legitimacy as a respected member of society is considered a prerequisite for cooperation with socio-political actors (Hadjikhani et al., 2008; Elg et al., 2015), and an important step towards counterbalancing the liability of outsidership (Johanson & Vahlne, 2009). Similarly, a shortage of legitimacy can become a liability of outsidership and have a negative impact on the MBE's ability to develop cooperative relationships. The concept of legitimacy emphasises that, in order to survive, firms need to comply with the rules and belief systems of the environment in which they operate (Hillman & Wan, 2005). They need to create a "generalised perception or assumption that the actions of [their] entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995:574). Suchman (1995:575) further adds that "Legitimacy affects not only how people act toward organisations but also how they understand them. Thus audiences perceive the legitimate organisation not only as more worthy but also as more meaningful, more predictable and more trustworthy".

For subsidiaries, building legitimacy requires obtaining approval and recognition from stakeholders (Kostova & Zaheer, 1999). As suggested by Suchman (1995), gaining legitimacy can bring valuable resources from stakeholders but it also means complying with stakeholder demands (Raaijmakers et al., 2015), which makes it a 'double-edged sword' (Meyer & Rowan, 1977; Deephouse et al., 2017; Gao et al., 2017). In networking relationships, legitimacy is the position recognised by the surrounding actors,



and relies on the types and strength of values and beliefs developed by interrelated actors towards an actor (Hadjikhani et al., 2008; Elg et al., 2015; Hadjikhani et al., 2019). For the MBE subsidiary, the audience refers to connected suppliers, customers and other actors within the exchange network, as well as social and political actors, and society in general. In this sense, legitimacy is externally supplied and thus a critical aspect for the MBE's interorganisational approach to emerging markets.

Extant research demonstrates that in situations of high government discretions, trust and legitimacy become more important mechanisms in the market, which in turn increases the value of developing deep strong connections with political leaders (Sun et al., 2010; Sun et al., 2012). However, emerging markets represent difficult terrains for foreign MBEs, and building legitimacy in these regions may not come easy (Luo, 2002). In fact, without the support conferred by legitimacy, the MBEs ability to grow and develop can be substantially hampered. Hillman and Wan (2005) add that there typically is no such thing as automatic acceptance by local stakeholders. Luo (2002) provides insights into how being foreign can pose challenges to MBEs in emerging markets, e.g. the use of MBEs as targets for attacks by interest groups in the host country. Foreign firms tend to receive more scrutiny from organisations and politicians that are against international operations (Kostova & Zaheer, 1999) and may be stereotyped as an "exploiting consortium" (Luo, 2001:404). Luo (2002) further adds that MBEs are often targeted by issues such as globalisation and protectionism, as well as tax manipulation and profit repatriation (Hillman & Wan, 2005). On the other hand, political actors may gain legitimacy when they manifest cooperation with MBEs that have created new jobs and economic welfare. That, consequently, affects groups like the media and the society as a whole, on which the socio-political actors depend (Hadjikhani & Ghauri, 2001). Thus, the MBE will seek to build relationships with socio-political actors because they, with their legitimate position in the society, can determine the success of the MBE.

It is possible for MBEs to prevent stereotyping by engaging in activities that are justified, such as, generating income and employment, pollution control, providing education, or other contributions which help the development of the country in the long run (Peng & Luo, 2000). There is an increasing number of studies on how firms deal with general social responsibilities and relationships in society (Elg & Hultman, 2011; Nomden et al., 2003). Political accommodation refers to the degree to which the MBE contributes to the social needs of the host country (Luo, 2002). It is likely that social commitments influence the firm's possibilities to have a positive dialogue with government representatives. For instance, Rodgers et al. (2019) demonstrate that when MBEs operate in emerging markets, managers need to carefully align both their corporate political activities (CPA) and corporate social responsibility (CSR) in order to develop legitimacy during the post-entry stage. Without such activities, MBEs may lack business credibility, i.e. the degree of an MBE's trustworthiness as perceived by the host country's public as well as political and social actors. It is thus more difficult for MBEs to initiate, build, and maintain relations with the local business community without this credibility.

It is proposed that MBEs are able to manage host-country pressures at the subsidiary level, through building a network of cooperative relationships with business and non-business actors (political and

societal actors). The cooperative activities are viewed in this thesis from the perspective of the MBEs' legitimacy, combined with trust, knowledge and commitment (Figure 2.4). However, extant research offers a limited understanding of how the main constructs work together, and how they can be linked to business, social and political actors in a post-colonial setting. It must be noted here that cooperative relationships are seen as an objective rather than a given, as the jury is often out on foreign firms (Khanna, 2014). However, the MBE is likely to seek to build such cooperative relationships in the extended business network to reduce host country pressures presented by the local context.

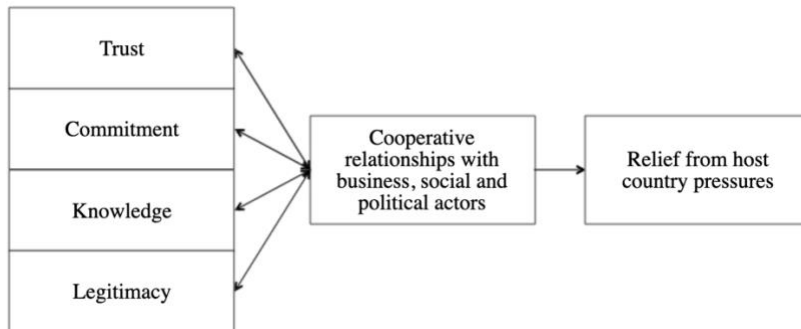


Figure 2.4. A process of managing host-country pressures through cooperative relationships

## 2.7 Postcolonialism

Postcolonialism refers to the point after which colonial nations relinquish their authority over the territories, resources and governance of people (Nayak & Jeffrey, 2011). Although this may suggest a clean break between the former colony-coloniser country, in reality, many newly established states find it difficult to escape the shadow of the colonial past as they negotiate forms of neo-imperialism. Indeed, there is overwhelming evidence that after decolonialisation, economic ties between former colonies and colonisers have to a largely extent been maintained (Brysk et al., 2002; Frankel & Rose, 2002; Makino & Tsang, 2011; Torres et al., 2012). This section will review European post-colonial operations in former colonies in Africa, Asia and Latin America, while section 2.7.1 will explore the specific case of Dutch firms during and post-colonial times in Indonesia.

Most evidence of colonial ties resulted from the imperialist efforts of Britain, Portugal, Germany, France, Spain, Belgium and the Netherlands between the 15th and the early 20th century (Witte et al., 2020). The majority of studies seem to suggest that the shared history between countries has at least some explanatory power to explain why Europeans sustain special economic, political, cultural and institutional relations with their former colonies (Frankel & Rose, 2002; Torres et al., 2012; Makino & Tsang, 2011; Brysk et al., 2002). Relationships between the former colonial masters and their ex-colonies are, according to Brysk et al. (2002), mainly those of friendship, rather than rivalry and hostility. In their study on post-colonial ties between Spain, France and Britain and their former colonies, Brysk et al. (2002) describe this type of friendship as 'family-like'. This notion of family suggests

relations of loyalty and solidarity, not just arm's-length exchange, and thus of particular obligations, which is in line with the embeddedness perspective (e.g. Granovetter, 1985).

Colonial ties may significantly reduce the uncertainty in ongoing and future economic exchanges for both foreign investors and host country stakeholders (i.e. indigenous firms and government bodies). Foreign investors may benefit from reduced environmental uncertainty, because of decreased psychological barriers and perceived transactional costs, while host country stakeholders benefit from reduced uncertainty about the incoming firms' home country, which increases receptivity to investment (Makino & Tsang, 2011). Another explanatory factor of the increased trade between colony-coloniser countries may be that the former colonies share similar administration and institutions, as these were, to some extent, recreated by the coloniser (Ghemawat, 2001). In this vein, Jones (1996:39) explains that "colonial governments established similar legal and administrative structures to those in the home country, thereby greatly reducing the risks of FDI. Colonial administrators often favoured firms of their own nationality, granting them contracts and concessions, and supporting them against foreign firms and sometimes even indigenous firms".

As colonial governments imposed Western laws, it became much safer for Western firms to invest in the colonies. Jones (2010) notes that in the age of imperialism, Western MBEs experienced little of the alleged liability of foreignness in their colonies; instead, they could be considered to have captured many of the benefits of being 'insiders' in their business systems, which considerably decreases political risks. Furthermore, MBEs were, at times, awarded huge concessions as incentives to invest in underdeveloped terrains. One notable example was when the Belgian colonial government offered the British soap manufacturer Lever Brothers an exclusive concession over a vast area of the Belgian Congo in 1911, which was planned to be used as palm-oil plantations (Jones, 2010).

Prior studies thus indicate that prior colony - coloniser relations strengthen the social relations between countries and play a significant role in facilitating bilateral trade and investment. Ghemawat (2001) found that a firm is likely to trade ten times as much with a former colony, compared with a country to which it has no such ties. According to Lundan and Jones (2001), the increased trade and investment within the Commonwealth of Nations can be attributed to the widespread use of the English language and the similar institutional structures, legal systems, and business practices of the member countries. Besides Britain's continuing ties with its former colonies in the commonwealth, colony-coloniser relations between countries can be seen in, for instance, Spain's with Latin America, Portugal's with Angola and Brazil and France's with the franc zone of West Africa. For instance, Torres et al. (2012) report that emerging markets such as Angola or Brazil are major recipients of Portuguese direct investments, despite the challenging local conditions. Obviously, such relations must be on good terms in order for firms to expand their business in the post-colonial territories.

Makino and Tsang (2011) differentiate between formal and informal ties, that develop between countries. Formal ties are purposefully created agreements, alliances and treaties that stimulate shared interests, such as free trade agreements (FTA) and inter-governmental organisations (IGO), while the

latter evolve naturally and take the form of cultural, ethnic, and social relations between individuals and nations. Frankel and Rose (2002) found that the positive effects of prior colony - coloniser relationships on trade were even stronger than the positive effects due to FTAs, IGOs, or geographic proximity. Examples include intergovernmental organisations such as the Organisation Internationale de la Francophonie and the Commonwealth, which stimulate economic relations within the former French and British empire respectively. Furthermore, colonial ties remain important for the distribution of development assistance (Witte et al., 2020).

Informal ties or social ties are path-dependent and based on a shared cultural heritage in the form of shared “language, religion, or social norms, practices, and conventions” (Witte et al., 2020: 546). A shared colonial history also enhances the social relations between parties (e.g. government bodies, organisations and individuals) across countries, and may facilitate economic exchanges. This notion is in line with the afore discussion that economic exchanges are embedded in social relations (Granovetter, 1985; Uzzi, 1996). However, it is not difficult to find real-life examples where the distance measure fails to capture the effect of relation specific attributes on FDI. For example, despite the great cultural and administrative distance between France and Vietnam, French businesses continue to invest heavily in Vietnam, as a result of the ongoing ties between the two countries. Historical ties can thus provide additional explanatory power concerning firms’ FDI activities beyond what has been captured by the effect of conventional distance variables (Makino & Tsang, 2011).

There is also evidence to suggest that the historical ties may not have a positive effect on trade. Interstate conflicts can have a detrimental effect on cross-border exchanges, which may continue to persist long after the conflict has been resolved (Li & Vashchilko, 2010). For instance, relations can be interrupted or may turn hostile as a result of interstate conflict. Trade may be restricted or disrupted completely between countries that have recently experienced conflict or war. It is thus possible that historical links may either have positive or negative effects on the operations of MBEs (Alfaro et al., 2008; Jensen & Young, 2008), depending on the way the colonial relationship ended (Witte et al., 2020). Furthermore, firms from coloniser countries may receive preferential treatment only as long as the regime supporting them remains in office (Fisman, 2001). On the other hand, being associated with such actors makes the foreign firms vulnerable to creeping expropriation or nationalisation, in the case of regime change. When the tide turns and institutions change, insiders can become outsiders and connections can become liabilities (Dieleman & Sachs, 2008). Furthermore, firms from a colonial power may face another type of threat: Lubinski and Wadhvani (2020) describe how German firms capitalised on rising nationalism of newly established government in India and positioned themselves as outsiders to colonialism. The German firms partnered with nationalists and developed educational programs for Indians, not only to develop trust but also to delegitimise their British rivals, which Lubinski and Wadhvani (2020) term “geopolitical jockeying” (p.400).

Political conflict can be defined as “a contested incompatibility that concerns government and/or territory whereby the use of armed force occurs between two parties, of which at least one is the

government of a state” (Witte et al., 2020:3). During or after political conflict, the host government is more likely to change existing regulations or unexpectedly impose new ones, such as limits on the repatriation of profits, exchange controls, embargoes, and other restrictive trade policies, which may also lead to asset expropriation, asset destruction, and nationalisation. Furthermore, during, as well as after interstate conflict, host country consumers may be reluctant to purchase products from a colonising country due to nationalistic sentiments (Antonetti et al., 2019). Animosity may also reduce product quality perceptions and can become hard to cope with.

Based on the above discussion, it is not surprising that Jones and Khanna (2006: 453) note that “the field of international business should evolve its rhetoric from the relatively uncontroversial idea that ‘history matters’ to exploring how it matters”. Although scholars have begun exploring this line of enquiry (Rangan & Drummond, 2004; Rangan & Sengul, 2009; Li & Vashchilko, 2010; Makino & Tsang, 2011; Brysk et al., 2002; Sluyterman & Bouwens, 2015; Witte et al., 2020), cross-country exchanges between coloniser-colony countries remains a relatively unexplored area of research. Furthermore, the mixed evidence about the consequences of a common colonial history suggests that it is likely that each case is context-specific. For this reason, the next section will review the specific case of Indonesia.

### **2.7.1 Crossing colonial borders: the case of Dutch firms in Indonesia**

The Netherlands has a long relationship with Indonesia, a former colony, which dates back to the end of the 16th century. Indonesia (then called Netherlands East Indies) was under Dutch colonisation for almost 350 years, and the Dutch East India Company (VOC) ruled most of the nation’s economy. The VOC acquired the total production and distribution of spices in the Indonesian archipelago and, as a consequence, transformed itself from a trading company into a political power. The absence of a central power and the dependency of local elites on trading with the Dutch made it possible for the Dutch traders to become the rulers of the Indonesian archipelago (Van Goor, 1987).

The Indonesian empire was an inheritance from the VOC, which controlled the production and distribution of spices, which defunct in 1800. The nationalisation of Indonesia by the Dutch crown hardly ended the embrace of capitalism and empire (Harari, 2014). Until World War II, the Indonesian archipelago was the most important overseas Dutch possession. After the German occupation of the Netherlands in 1940, followed by the Japanese invasion in 1942, all of the formal ties between Indonesia and the Netherlands were cut. At the end of the Japanese occupation in 1945, nationalist leader Sukarno declared independence (Van de Kerkhof, 2005). However, the restoration of colonial rule and reasserting control over their resource-rich colony was widely considered essential for the revival of the Dutch economy. Wesseling (1980:126) notes that “the future of the Netherlands without the Indies was therefore not even considered except as a state of disaster which had to be prevented”.

The Dutch fought their most intense war ever in which 170,000 personnel saw military service (Wesseling, 1980, cited in White, 1999). During the war, approximately 5000 Dutch soldiers died, while

at least 100,000 Indonesians died (Trouw, 2020). According to Witte et al. (2020), the number of deaths that follow the end of colonialism matters. Small political conflicts (100 - 1000 battle-related deaths), do not deter MBE investments, irrespective of the existence of colonial ties, whereas full-fledged wars (i.e. political conflicts with more than 1000 deaths) diminish the positive effect of colonial ties on the probability that an MBE will invest in a country. The armed conflict between the Republic of Indonesia and the Netherlands went on until 1949 (Borsuk & Chng, 2014), when the Dutch finally bowed to international pressure and signed what was called the Roem-Royen Agreement, ending efforts to reclaim their colony (White, 1999). In 1958, the Indonesian parliament enacted the nationalisation of Dutch corporate assets in the archipelago, and expats were sent home<sup>10</sup> (Van de Kerkhof, 2005). However, some companies continued to operate in Netherlands New Guinea, which remained a Dutch colony until the withdrawal by the Netherlands from West-Irian in 1963 (Van Marrewijk, 2004), when the nationalists finally claimed victory and savoured real independence.

President Sukarno nationalised the Dutch interests and placed almost all aspects of the economy under direct state control. Soon after, hyperinflation set, foreign exchange reserves dwindled, external borrowing ballooned, which resulted in a stagnated economy and poverty increased (SyCip, 1996). Following an attempted coup, former army general Suharto established the New Order Government in 1967. The newly established government started an economic recovery programme, including a more favourable stance on foreign investment. Furthermore, the Foreign Investment Law provided a 30-year guarantee of non-nationalisation to investors (SyCip, 1996). After years of state-ownership, some Dutch firms were sold back to their previous owners. However, the Dutch firms' 'business re-establishment' required a different toolkit to navigate the now adverse institutional environment.

Since 1967, when Suharto came to power, the Dutch hosted Inter-Governmental Group in Indonesia (IGGI) meetings, where billions of dollars in aid were pledged by foreign governments. However, since 1992, the World Bank had been convening the annual meeting of Indonesia's donors, after an irritated Suharto told the Dutch to "go to hell" with their aid after a Dutch minister mentioned Indonesia's human right record and 1991 massacre in East Timor (Borsok & Chng, 2014:310). Dutch aid did not recommence until President Habibbi took office in 1998 (Brummelman, 1999). In this vein, Marrewijk (2004) notes that, although Indonesia is trying to leave its colonial past behind, relations with the Netherlands remain sensitive (Marrewijk, 2004; Scherpen, 2016).

Sluyterman and Bouwens (2015) write about the foreign expansion of a Dutch MBE in countries that were successively seen as 'colonies' (in the interwar period), 'developing countries' (from the 1960s through the 1980s), and 'emerging markets' (since the 1990s). When Indonesia was a colony, geographical distance complicated management, as well as climates, cultures, and with labour relations that were different from those of the home country. Furthermore, Dutch firms were confronted with the

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<sup>10</sup> Some firms continued to operate in Indonesia until the mid-1960s as they transferred shares to sister companies outside the Netherlands and claimed to be international rather than Dutch (Sluyterman & Bouwens, 2015).

enormous ethnic diversity in the Indonesian archipelago (Marrewijk, 2004). They could, however, expect a “politically sympathetic environment” (Sluyterman & Bouwens, 2015:105) from a predictable colonial government, as they were made dependent on the mother country, which, partially, recreated its own administration and institutions.

After Indonesian independence in 1949, the process of decolonisation or ‘Indonesianisation’ started gathering speed (Van de Kerkhof, 2005). As pressure on Dutch people mounted, Dutch managers were replaced by managers from other European countries, and Dutch HQ started to formally withdraw from the companies (Van de Kerkhof, 2005), although some remained involved behind the scenes (Sluyterman & Bouwens, 2015). Those who returned, after 1967, faced newly imposed ways of operating in Indonesia. The changing environment for Dutch private business in Indonesia was a result of policies aimed at wresting control from Dutch firms and encouraging the development of indigenous firms (Van de Kerkhof, 2005). For instance, the newly established government demanded more involvement of local managers, were tough on the transfer of profits, and raised import duties (Sluyterman & Bouwens, 2015; Sluyterman, 2017). For this reason, Dutch MBEs with colonial roots were required to be more flexible if it were to continue operating, and adjust to new requirements, such as training local management and giving them higher positions within the subsidiaries, and accepting local shareholders (Sluyterman & Bouwens, 2015).

Sluyterman (2017) notes that the Indonesian government blamed Dutch companies for being too slow to replace expatriates with indigenous staff. However, Dutch firms argued that the use of expatriates was essential for creating a social network that enables knowledge transfer and control. One firm, in particular, stressed the importance of a pool of expatriates to create coherence in the company. In line with Eström and Galbraith (1977), the Dutch MBE used ‘socialisation’ as a way of controlling the organisation and creating a verbal network for knowledge transfer. This notion is in line with the ‘global integration-national responsiveness’ debate, which suggests that parent country nationals (PCN) facilitate effective coordination and control in a subsidiary, while host-country pressures, may include policies that require staff to be host country nationals (HCN).

Some scholars have suggested that a common colonial past may result in a commonality in cultural attitudes. La Porta et al. (1998), for instance, suggest that commonalities between such countries may include language, religion and the legal system. However, such similarity are not assured (Buckley & Ghauri, 2015); although Dutch was taught at schools during the colonial era (at least, for those who could afford it), following the independence in 1945, Suharto no longer allowed the Dutch language to be taught in schools in Indonesia, and, as a result, there are few Indonesians alive today still speak Dutch. With regards to religion, unlike the dominance of Christianity (as well as atheism and agnosticism) in the Netherlands, Indonesia has since become the largest Muslim country in the world. However, Dutch presence and subsequent occupation of Indonesia for 350 years has left a legacy of Dutch colonial law. Even though Indonesia has been developing its own modern law since independence, it did not develop it from scratch but modified precepts of Dutch law (Brandt, 1997).

### 2.7.2 The challenges faced by a Dutch firm entering post-colonial Indonesia

Marrewijk (2004) provides a gripping account of the pertinent role of the shared history in the internationalisation of a (formerly state-owned) Dutch telecom provider in post-colonial Indonesia. The Dutch firm considered the “strong cultural, technological, financial and educational links” with Indonesia as an advantage in doing business (Marrewijk, 2004: 306). Marrewijk describes how the opening of the Indonesian market to foreign investments fuelled the fear among Indonesians that Western culture would overrule the Indonesian identity. For this reason, the Dutch firm carefully built a relationship with Indonesian journalists and invited them to visit to the Netherlands. Furthermore, although Dutch employees received cultural awareness training, the awareness of cultural diversity was not sufficient for the Indonesian counterparts. Marrewijk describes how “The Indonesian government and the Indonesian strategic partners were very sensitive to a possible colonial attitude of the Dutch operator” (p. 309).

The Dutch firm understood the need for cultural awareness and strong personal relations in the former colony, and used a JV company to establish and maintain relations and to settle conflicts. However, the cooperation of the Dutch firm in Indonesia was preceded by a long colonial history, which led key host country actors to use the sensitive Indonesian-Dutch relationship of the past to their advantage. The Indonesian government and the Indonesian partners adopted different cultural strategies to redress the dominant attitude of the Dutch and manage power imbalances in the post-colonial relationship. For instance, the Indonesians emphasised the colonial history as “soon as any behaviour was noted that could be classified as domineering” (p.310). Consequently, the Dutch managers ‘felt guilt’ with regard to the Dutch role in the colonial history made the Dutch weak opponents in negotiations and conflicts. Furthermore, the Indonesian counterpart isolated Dutch managers from informal personal networks, and they used Dutch employees to deliver difficult messages to create a negative image of the Dutch. Furthermore, the Dutch were aware of the need to develop close contacts with the regulatory body of the Indonesian government. However, establishing a good relationship with the minister of telecommunications was not an easy task. In “various speeches the minister referred to the small size of the Netherlands and the postcolonial relationship” (p. 310).

It must be noted that these accounts are from the 1990s, while it is possible that attitudes of Indonesians towards the Dutch have changed since, especially since most Indonesians alive today are likely to have been born well after independence. In 1999, a Dutch newspaper described relations between the Netherlands and Indonesia seem to be ‘more normal than ever’ and ‘largely free from post-colonial complexities’ (Brummelman, 1999). Furthermore, a recent Dutch state visit to Indonesia signalled an apparent rapprochement between the two countries. Dutch King Willem-Alexander of the Netherlands offered an apology over ‘excessive violence’ suffered by Indonesians during the early years of Indonesian independence (Jakarta Post, 2020a). Dutch investments have, again, been welcomed by the current President, Joko Widodo. The Netherlands is currently the largest European investor, and Indonesia’s fifth-largest foreign investor, with US\$2.59 billion invested in the former colony in 2019,



according to Indonesia's Coordinating Investment Board (BKPM) (Jakarta Post, 2020a). Thus, even though the end of colonialism had serious consequences for Dutch business in Indonesia, as independence involved war and violence, relationships have since improved, and Dutch firms are less likely to face retribution as a result of the colonial past.

## **2.8 Chapter summary**

Drawing on the literatures discussed in this chapter, including internationalisation, global integration-national responsiveness, and subsidiary embeddedness, this thesis explores how MBE subsidiaries respond to host-country pressures (i.e. regulatory complexities, cultural specificities and subnational heterogeneity), through developing a network of cooperative relationships with political, social and business actors in an emerging market/former colony. Even though the literature on the MBE has expanded in its analysis over recent decades, from countries to the MBE and eventually to the individual subsidiaries of MBEs, the majority of studies ignore the important active role of managerial agency on the part of the individual subsidiary manager in establishing a position in a foreign market. Despite this restrictive view, this thesis argues that subsidiary managers occupy critical boundary-spanning roles at the interface of the MBE and key host country actors (i.e., the government, policymakers, media, civil society, and partners). For this reason, identifying and explicating key practices and strategies on the level of the people involved provides fresh and deep insights into the managerial activities required to respond to host-country pressures in the immediate temporal and spatial context of post-colonial Indonesia. The next chapter will explain the design and execution of the study and the step-by-step procedures used to collect and analyse evidence.



## 3. Methods

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The introductory section of the thesis set out the research questions (RQ) and outlined arguments as to why the topic was deemed important and timely to study. Chapter two provided an extensive review on existing literature and theory, drawing on different perspectives and theories such as internationalisation, global integration-national responsiveness and subsidiary embeddedness, focusing on the MBE's inter-organisational relationships with host country stakeholders. It is proposed that MBEs respond to host-country pressures that arise from institutional barriers (i.e. regulatory complexities, cultural specificities and subnational heterogeneity), through building a network of cooperative relationships with business and non-business actors (political and societal actors). Here the RQs are recalled providing context for the description of the research approach that follows. This research seeks to explore the question: *How do established Dutch MBE subsidiaries grow and develop in Indonesia?* This is addressed by posing two sub-questions:

- 1) *How do MBEs respond to host-country pressures as they seek to survive and thrive?*
- 2) *How do MBEs collaborate and with whom, to respond to these pressures?*

This chapter sets out the elements that make up the research. It lays a foundation for the chapters that follow by articulating the process of choosing the methodology and methods, in addition to a step-by-step description of the collection and analysis of the evidence. The research was launched following a period of reflection, familiarisation of the literature and consequently problematisation through which the RQ were developed. In practice, this was an iterative process spread over a period of a year, as the RQ were continually refined based on learning from the literature review and growing appreciation of the subject. At the same time, the ontological and epistemological approaches were developed, choosing to adopt a social constructivist position that influenced the structure and nature of the RQ, the research philosophy, selection of methodology and selection of methods.

### 3.1 Research context and case selection

This section includes a brief description of the context of Indonesia from a social, political and economic perspective (3.1.1), a justification for investigating Dutch MBE subsidiaries in Indonesia (3.1.2), the selection of the Indonesian consumer goods industry (3.1.3), followed by the process of selecting the case firms (3.1.4), a description of the four case firms, (3.1.5) and similarities between the firms (3.1.6).

#### 3.1.1 Country context

The country requires a brief overall description from a social, political and economic perspective. The Indonesian economy has been booming in recent years. Political transformation, accompanied by years of remarkable economic growth, has attracted unprecedented international attention to Indonesia (Azalia

& Fionna, 2015). Indonesia's economic and social progress in the last 20 years has resulted in enormous gains in poverty reduction, cutting the poverty rate to more than half since 1999, to 9.8 percent in 2018. At the same time, the country's Gross Domestic Product (GDP) per capita has increased almost nine-fold, from \$464 in the year 1998 to \$4,130 in 2018. Indonesia is also the world's fourth most populous country, the world's 10<sup>th</sup> largest economy in terms of purchasing power parity, and a member of the G20 (World Bank, 2018).

Lee Kuan Yew (2013) described the decentralisation of Indonesia as the biggest achievement since the end of the Suharto era (1998), as it relieved secessionist pressures and allowed the archipelago to hold together as one (see map of Indonesia on the next page, figure 3.1). Since the enactments of the decentralisation law in 1999, when President Habibie signed into a law the devolution of powers from Jakarta to the country's provinces and regencies (roughly equivalent to counties) are now taking responsibility for their own affairs through locally elected officials. The devolution of regulatory and revenue-raising functions has allowed district governments (that is, below the provincial level) to issue business licensing requirements. There are now 34 provincial governments and 416 regency governments, and all of these institutions can (and do) make their own rules. However, as a result of the decentralisation, Bardhan and Mookherjee (2006) note that doing business in these districts involves money politics (*politik uang*), local heads acting like little kings (*raja kecil*), cigarette money (*uang rokok*), pervasive petty corruption (*pungli* meaning 'extra-legal charge') and poor bureaucratic governance.

Research focusing on emerging markets describes how such markets tend to be (i) highly complex in terms of their socio-political system (Ghauri et al., 2012), (ii) unpredictable (Meyer, 2001), (iii) highly volatile (Meyer & Tran, 2006), and (iv) may have xenophobic tendencies (i.e. they regard foreign firms with scepticism) (Jones, 2017). Indeed, turbulence in the Indonesian market is a given and has always been present in the business environment. Despite the positive Indonesian context, it is important to highlight the unexpected economic, social, and political changes the country continues to face. While economic growth may be high, crises are frequent, as the Asian crisis demonstrated (Meyer & Tran, 2006). In 1998, the Asian financial crisis sparked social and political chaos, culminating in the downfall of authoritarian President Suharto (1965-1998) and the birth of a reformed democracy. Such a dramatic change and the country's current overall context depict quite well why Hadjikhani and Johanson (1996) define an emerging economy as being a 'turbulent market'.

Since then, a series of short-lived, weak governments followed, resulting in a long period of increasingly inward-looking legal and regulatory reforms that have narrowed the space for private-sector activity and discouraged investment (Castle, 2016). Dean (2013) describes the culture of the Indonesian government as predacious and xenophobic, in which the average Indonesian bureaucrat cares little about foreign investment and, in fact, views it with suspicion. Furthermore, the parliament regularly introduces protectionist policies, which are, according to an article by the Economist (2015) "driven by the widespread belief that foreigners have long plundered Indonesia's resources and left locals none the

wealthier”. Despite significant improvements since 2014, when President Joko Widodo took office, especially with regards to the general investment climate and the deregulation process, investors still point at red tape, corruption and an uncertain regulatory environment as the main challenges for conducting business in the country (Economist, 2015; 2018). However, in such a complex context, Indonesia has become an even more interesting market to study, primarily when observation leads to an understanding of the strategies used by firms to succeed in such an ‘unstable’ business environment.



Figure 3.1 Map of Indonesia

### 3.1.2 Dutch MBEs in Indonesia

This research project will focus specifically on Dutch MBE subsidiaries in Indonesia. There are several reasons for this decision. Indonesia is the largest economy in Southeast Asia and is a growing market for Dutch exports and investments (Government, 2016; Jakarta Post, 2020a). The Netherlands is currently the largest European investor, and Indonesia’s fifth-largest foreign investor, with US\$2.59 billion invested in the former colony in 2019, according to Indonesia’s Coordinating Investment Board (BKPM) (Jakarta Post, 2020a). However, many countries are desperate to overtake the Dutch; they have ambitious targets for bilateral trade and firms are announcing one large investment after the other. For Dutch MBEs with roots in colonial times, it means increased competition. Furthermore, despite their long history of bilateral ties, Indonesia’s relationship with its former colonial ruler remains delicate (Marrewijk, 2004; Scherpen, 2016). However, recent Dutch trade missions in 2016 and 2020 to Indonesia have signalled an apparent rapprochement between the two countries. Nevertheless, given the colonial history between the countries, narratives of Dutch MBEs which managed to survive and thrive in the turbulent market provide an exciting context of study.

### 3.1.3 Consumer goods industry

The consumer goods industry was selected due to its importance to the Indonesian economy and its attractiveness to foreign investors. Furthermore, as a result of the long history between Indonesia and

the Netherlands, Dutch consumer goods MBEs have historically had a significant presence in the country (Sluyterman, 2017). Indonesia is home to 273 million people, with a huge, fast-urbanising domestic market and a rising consumer class. Private consumption has been a major contributor to the country's growth (58 percent of GDP in 2018) in which the consumer goods industry played a central role (Ceicdata, 2018). Euromonitor (2018b) reports that the consumer goods industry has attractive prospects: consumer expenditure was projected to grow in 2018, with approximately five percent in line with the growth of its middle-class consumers. It is not surprising that many of the major consumer goods companies are starting or expanding their operations in Indonesia (Schouten, 2012; Jakarta Post, 2020b), because it is estimated that between 2010 and 2035, Indonesia will experience substantial population growth – an increase of 67 million (Jones, 2010) - and no consumer goods MBE with global ambitions can afford to ignore such a huge market.

### 3.1.4 Selecting cases

It was deemed essential that the cases corresponded to the focus of enquiry. Case firms were therefore selected on the basis of criterion sampling, which is a strategy of purposeful sampling (Fletcher & Plakoyiannaki, 2011). Criterion sampling involves the selection of cases that meet a set of predetermined criteria important to the study (Patton, 2015; Sandelowski, 1995). The researcher purposefully chose subsidiaries that are deeply embedded into the local external network. Furthermore, in this research, case firms had to be: (i) subsidiaries of Dutch MBEs; (ii) operating in the consumer goods industry; (iii) of significant size (>500 local employees) and; (iv) have extensive experience in Indonesia (>20 years of operating in Indonesia) as the focus is on investigating companies that are familiar with the idiosyncrasies associated with international activities as well as with Indonesia's changing social, economic and political landscape in recent decades. This research employed Fletcher and Plakoyiannaki's (2011) 'multilevel approach' to case sampling in which sampling decisions span multiple levels, which range from the national (i.e. selection of the country), industrial (i.e. selection of the industry) and organisational levels (i.e. selection of the case), to the level within the case (i.e. the selection of sources of evidence). Identification of the unit of analysis occurs at levels 1-3 (Figure 3.2).

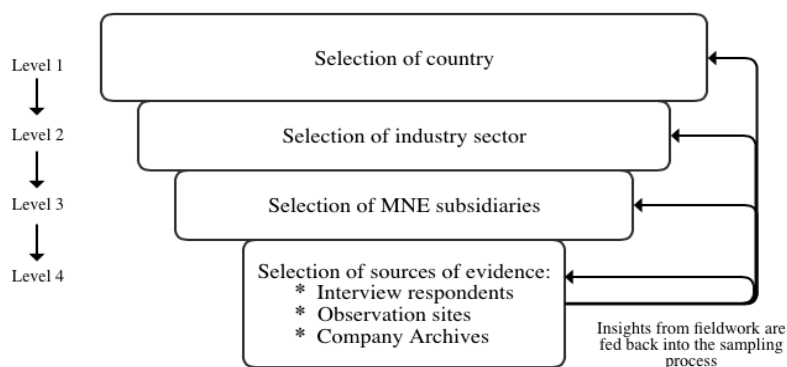


Figure 3.2. A multilevel approach to sampling (adapted from Fletcher and Plakoyiannaki, 2011)

This approach required sampling decisions at different levels rather than as a single decision at the start. Sampling decisions were based on insights gained during the fieldwork in Indonesia. The relevance of the focus of enquiry was continuously questioned with regards to the identified themes, firms, industry and country. In this vein, Ragin (1992) notes that the evolving nature of the iterative choices may include the reconsideration of the focus of the study. It was during the fieldwork that what mattered ‘on the ground’ emerged. For instance, while the initial focus of the investigation was mainly on business-to-business relationships (i.e. market strategies), the use of an exploratory qualitative methodological approach allowed the examination of firms’ non-market strategies and MBE relationships with socio-political actors.

According to Dubois and Gadde (2002), the sample size in case research is relative and dependent on the purpose of the study and has to do with the ‘depth versus breadth’ dilemma. However, the time available for the study, financial resources for travelling, personal contacts and other practical issues are also of great importance here (Ghauri, 2004)<sup>11</sup>. After analysing the consumer goods market, four companies matched the selection criteria. The four companies are the *only* four long-established Dutch consumer goods MBEs with a significant presence that operate in Indonesia. All four firms agreed to participate in the research. Thus, a bioanalysis based on the selection criteria led to the selection of four Dutch MBEs as the final sample for the research (see Table 3.1). To supplement the bio-data in Table 3.1, section 3.1.5 presents the cases in some more detail.

Table 3.1 Summary of the profiles of the cases in the study

<b>Firm</b>	<b>First Class Dairy</b>	<b>Holland Beer Company</b>	<b>Universal Global Goods</b>	<b>Primus Technics</b>
<b>Industry</b>	Dairy products	Beverages	Branded consumer products	Consumer electronics, medical equipment
<b>Employees global (2017)</b>	50,000-100,000	50,000-100,000	>100,000	>100,000
<b>Employees Indonesia (2017)</b>	2,000-5,000	500-1000	5,000-10,000	2,000-5,000
<b>Year of establishment</b>	1970s (exporting since 1920s)	1930s	1930s	1940s (exporting since 1890s)
<b>Ownership mode</b>	Joint venture	Wholly-owned subsidiary	Wholly-owned subsidiary	Wholly-owned subsidiary

<sup>11</sup> Funding was secured through the Santander scholarship fund, which allowed the purchase of airline tickets.

### 3.1.5 Description of the cases<sup>12</sup>

**First Class Dairy (FCD)** is a joint venture between a Dutch dairy company and an Indonesian conglomerate since the early 1970s. The company benefits from a long-standing reputation (its parent company started selling milk in Indonesia nearly a century ago), which helped gain the trust of local consumers. Investment laws at the time required foreign firms to have a local partner; the Dutch company owned less than half of the shares, although they have since become the majority owner. The company has positioned itself as a market leader in dairy in Indonesia, not only by targeting low-to-middle income households but also by importing premium brands to expand its consumer base.

**Holland Beer Company (HBC)** has a long history in Indonesia. HBC's first brewery began commercial operations in the early 1930s and controls a large part of the Indonesian beer market with its alcoholic beverages. The company is listed on the Indonesia Stock Exchange but is majority-owned by its Dutch parent company. HBC's produces and markets its premium beer brand as well as local brands and alcohol-free beverages. In recent years, the company has also been expanding its product portfolio in the soft drink category and built a plant for non-alcoholic beverages.

**Universal Global Goods (UGG)** was founded in the 1930s during the Dutch colonial era with its first manufacturing facility. Since then, UGG has successfully expanded into manufacturing a number of branded consumer products. UGG, which is majority-owned by its Dutch holding company, was among the ten largest companies in terms of market capitalisation on the Indonesia Stock Exchange. Virtually all the organisation's members of staff are Indonesian, as well as more than half of its board members. The business is deeply integrated into the Indonesian economy. The company estimates that virtually all Indonesians use one or more of its products each year.

**Primus Technics (PT)** has had a presence in Indonesia since the late 1890s. Once famous for selling light bulbs and televisions, PT now concentrates on the market for medical equipment (e.g. MRI machines, PET-CT scanners), as well as consumer electronics (e.g. hairdryers and shaving machines). The lighting division was spun off as a separate company. Besides its consumer electronics business, PT also operates in the B2B and B2G markets with its medical equipment.

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<sup>12</sup> Pseudonyms are used to anonymise the case firms. The study involves agents of considerable prominence and power in Indonesia. The nature of the discoveries made raised a debate over whether to disclose the real company and actor names. After considering various arguments, it was decided to protect the identities of the participants, and to disguise the names of the companies involved.



### 3.1.6 Similarities between firms

Despite differences in their historical presence, size and product categories, MBEs share a number of characteristics. Firstly, three firms have wholly-owned operations and, although one operates as a JV company, it is for 95 percent owned by the Dutch and its local partner is not involved in the daily management of the operations. Secondly, the firms all have colonial roots, are involved in well-diversified activities and sell products in multiple categories. Thirdly, all firms have reached a large presence in the country, spanning all densely-populated islands, and collaborate with numerous distributors and retailers in local networks. Finally, they are all deeply embedded in the same institutional and regulatory framework. The Indonesian government has been wary of foreign entities and parliament regularly imposes restrictive policies, which has led to high administrative pressure. In this respect, it is a prerequisite for foreign companies to embed themselves into local institutional networks and manage the challenges presented by the local context.

## 3.2 Methodology

Before the discussion on the adopted research methods, i.e. the techniques and tools for the collection of evidence, the next sections will discuss the methodology, which has a more philosophical meaning related to the paradigm that underpins the research. First, two predominant philosophies of social science will be introduced (3.2.1), followed by the chosen philosophical paradigm (3.2.2) and its implications for this study (3.2.3). Then the adopted case study approach (3.2.3), the alternative approaches considered (3.2.4) and finally, the suitability of the researcher's background to the study (3.2.5) will be discussed.

### 3.2.1 The contrasting traditions of social science

The overarching research approach adopted within this thesis is qualitative. Qualitative methods traditions assume that systematic enquiry must occur in a natural setting rather than artificially constrained experiments (Marshall et al., 1995). Qualitative methods are described as 'thick' (Geertz, 1973), 'deep' (Sieber, 1973), and 'holistic' (Rist, 1977). By contrast, quantitative approaches can be characterised as 'thin' (Geertz, 1973), 'narrow' (Rist, 1977), but 'generalisable' (Sieber, 1973). These distinctions often extend to fundamental methodological differences resulting in the mutual denial of validity to the data of the other approach. Morgan and Smircich (1980) suggest that, in terms of research practice, the choice of research methods must be accompanied by awareness and understanding of the ontological and epistemological assumptions which underlie the adoption of particular research methods. Both meta-theoretical concepts are concerned with knowledge and the production of knowledge; to produce robust research outputs, this must be a conscious and reflective process (Gill & Johnson, 2010).

The literature discussing ontology and epistemology distinguishes between the knowledge acquired by subjectivist traditions and the knowledge acquired by objectivist traditions, respectively (Easterby-

Smith et al., 2012; Morgan & Smircich, 1980). Objectivist approaches, associated with positivism, focus on observable behaviours, systems or structures in a ‘real’ world, typically seeking to identify cause and effect relationships, predictabilities and regularities (Creswell, 2016). On the other hand, subjectivist approaches, associated with interpretivism, are concerned with exploring how humans experience and interpret the world, and focus more on analysing how social realities are shaped or given shape (Gill & Johnson, 2010). In that regard, subjectivists challenge the bedrock assumption of positivism and claim that the perceptions and interpretations we perceive are filtered through a web of values, expectations and vocabularies that influence our understanding. These contrasting traditions have evolved along trajectories that reflect divergent ontological, epistemological, axiological, rhetorical, and methodological assumptions (see Table 3.2).

Table 3.2 Contrasting knowledge paradigms (adapted from Creswell, 1994 and Blaikie, 2007)

<b>Knowledge paradigm</b>	<b>Positivist</b>	<b>Interpretivist</b>
<b>Ontology</b> (nature and form of reality)	Shallow (or naive) realist - reality is objective and singular	Perspective idealist - reality is subjective and multiple
<b>Epistemology</b> (relationship of the researcher to what is being researched)	Researcher is independent from that being researched	Researcher is part of that being researched
<b>Axiological</b> (role of the researcher’s values)	Value-free. Research decisions are not influenced by values	Value-laden. Research decisions are influenced by values
<b>Rhetorical</b> (role of the language)	Formal Impersonal voice	Informal Personal voice
<b>Methodological</b> (process of research)	Deductive process Context-free Cause and effect Static design Generalisations leading to predictions, explanation and understanding Accurate and reliable through validity and reliability	Inductive process Context-bound Sense making based on interpretation Emerging design Theoretical abstraction based on patterns and themes Accurate and reliable through verification

### 3.2.2 Philosophical approach

Concerning the categorisations in the Table (3.2) above, this research falls within the interpretivist paradigm of knowledge. Delving down further as to where, along the continuum between the more objectivist and subjectivist approaches, the research fits within Morgan and Smircich’s (1980) classification in which reality is assumed to be a social construction, created by human interaction

“through the medium of language, labels, actions, and routines, which constitute symbolic modes of being in the world” (p.494).

Morgan and Smircich (1980) argue that social reality is embedded in nature and use these modes of symbolic action, which may result in the development of shared but multiple realities. In other words, reality is neither objective nor exterior but determined by people through sharing their experiences with others via the medium of language and symbols (Easterby-Smith et al., 2012). The focus of the research was on how participants go about constructing and understanding their experience, rather than on the number or frequency of measurable occurrences (Gioia et al., 2013). In addition to the belief that reality is socially constructed, another crucial assumption was made: that participants creating their organisational realities are knowledgeable, namely that participants knew what they were doing and could explain their thoughts, intentions, and actions. Much of the world with which we deal is socially constructed; studying this world requires an approach that captures the organisational experience in terms that are adequate at the levels of meaning for the people living that experience and social scientific theorising about that experience (Gehman et al., 2017). Consequently, it is the researcher’s role to give an adequate account of the participants’ experience and to represent their voices.

### **3.2.3 Implications for research**

Based on the underlying methodological assumptions of this study, an exploratory, qualitative, multi-case study approach to collect and analyse evidence was chosen, by combining case research (Eisenhardt, 1989) with in-depth, semi-structured interviews, observations and the interrogation of archival research, such as company archives, institutional archives and media reports (Miles et al., 2014). This is generally considered a prudent strategy for research in its infancy (Eisenhardt, 1989; Yin, 2009). An important justification for the qualitative approach was that its interpretivist character allowed sense to be made of an otherwise hidden reality and to access deeper levels of situational complexity (Miles & Huberman, 1994; Hammersley & Atkinson, 2007).

The researcher followed the methods as described by Gioia et al. (2013) to collect and analyse the evidence, in which the process starts as inductive, but as the collection and analysis of evidence progresses, transitions into a form of abductive analysis. Patton (2002) explains that inductive analysis involves discovering patterns, themes and categories in one’s evidence. In an inductive approach, the propositions are built and revised as the research progressed, rather than starting with hypotheses rooted in reductionist assumptions. In turn, the emphasis was on the analysis of subjective accounts generated by the researcher being immersed in the everyday life of the research setting. However, coincident with the evidence gathering and after initial stages of analysis, the researcher was “cycling between emergent data, themes, concepts, and dimensions and the relevant literature” (Gioia et al., 2013:21), not only to see if the findings have precedents, but also whether new concepts emerge. Upon consulting the literature, the research process might be viewed as transitioning from inductive to a form of ‘abductive research’, in that the empirical evidence and existing theory are now considered in tandem (Alvesson &

Kärreman, 2007). This method is increasingly popular in the IB field and provides transparency in the collection and presentation of evidence (Elsahn & Benson-Rea, 2018; Zeng et al., 2019). The Gioia approach, and its different steps to create the Evidence Structure (Table 5.1), will be discussed in detail in sections 2.6.1-3.6.5.

An important consideration was the notion of reflexivity, which implied self-monitoring the impact as a researcher on the social situation under investigation (Johnson & Gill, 2010). In more general terms, the underlying philosophy rests on the ontological view that social reality is not independent of the researcher and therefore cannot be approached as an abstraction. To make sense of reality by being an active participant in the socio-cultural context of the study (Hammersley & Atkinson, 2007; Charmaz, 2006), while not crudely biasing the outcome through unchecked and unwarranted researcher impact was important. In fact, the researcher's own life history may have influenced certain positions while interpreting evidence. The implications from the adopted philosophical position and key influences on the study are illustrated in figure 3.3. The knowledge about reality is assumed not to be absolute, separated from researcher and value-free, but rather is an evolving co-creation of researcher and participant, or as Miles and Huberman (1994:8) suggest a "co-elaborated act".

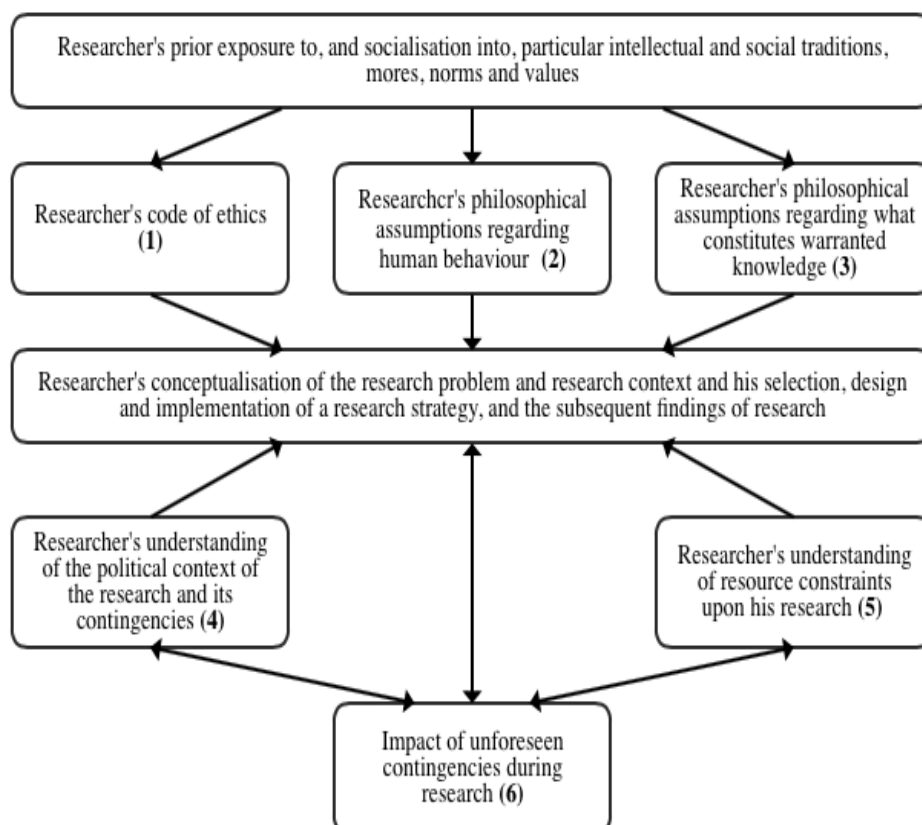


Figure 3.3. Research dilemmas and implications (Adapted from Gill & Johnson, 2010)

**Notes:**

- 1) Researcher's interpretation of the University of Roehampton (UOR) Code of Good Research Practice (2010) and UOR Ethics Guidelines.
- 2) Researcher's Dutch upbringing and years spent working and studying in Indonesia and how this influenced the fieldwork experiences in Indonesia.
- 3) Previous engagement of the researcher in a management and business context may have had some influence in shaping the conception of knowledge and its creation.
- 4) Researcher's understanding of political perspectives of the context of the consumer goods industry in Indonesia.
- 5) Researcher's ability to make the best use of limited resources and timeframe of the research project.
- 6) Researcher's ability to manage strict timekeeping, constant planning and re-planning and deal with ambiguity.

**3.2.4 Case study approach**

The qualitative approach adopted was in keeping with the highlighting by scholars of the need for in-depth qualitative studies in the IB field (Birkinshaw et al., 2011; Doz, 2011; Welch & Piekkari, 2017; Rodgers et al., 2019; Pereira et al., 2019), and enabled participants to articulate how they perceived the institutional environment and their firms' strategies to manage host-country pressures. Following the well-documented single-country multiple case study methodology (Ghauri, 2004; Yin, 2009) created opportunities to triangulate information collected and to augment external validity and allowed for replication logic (Eisenhardt, 1989; Miles & Huberman 1994; Yin, 2009). Furthermore, the study applied the contextual explanation technique (Fletcher & Plakoyiannaki, 2011). The study takes place in an open system, i.e., MBEs and their cross-border activities were deeply embedded in their surrounding context. Arguably, by exploring the in-depth description, the causal connections between constructs may become less obvious (Dang et al., 2020). However, following the tenets of contextual explanation, the researcher explored not only how long-established Dutch MBE subsidiaries have built a market position, but the effects of the country-specific setting are also included in the study.

Context matters, particularly in IB. Reporting on context grounds research on what is happening currently: where and for whom. Simon (1991) describes how a mythical visitor from Mars, approaching Earth from space, might find the situation rather astonishing. Not having been apprised of the centrality of markets and contracts, its telescope (to avoid the question of its sex) reveals the world's social structures, seeing firms, say, as solid green areas, and market transactions show as red lines connecting firms, forming a network in the spaces between them. No matter at which country our visitor looks at, may it be in the Netherlands or the Indonesian archipelago, green spaces (organisations) with red lines (market transactions) would be the dominant feature of the landscape. Yet were one Marsian to land on one of the Indonesian's Islands, and yet another in the Netherlands, the message sent back home,

describing the scene in both places, would be very different. Although from afar, the intensity of trade may seem like the major difference, up close, the differences would be astonishing. Accordingly, the contextual explanation adopted in this research allows for an explanation of the political and cultural specificities that subsidiary managers encounter in the context of Indonesia. For this reason, this thesis sought to undertake an in-depth interpretation instead of quantification of data to allow for the identification of contextual factors that affect MBEs in their endeavour to successfully establish in an emerging market (Pereira et al., 2019).

The practices and standards management researchers should follow are context-dependent rather than universally applicable, and depend on the researcher's own paradigmatic stance, the aims of the research and the cultural practices of the research setting (Maxwell, 2012). The emerging-market setting in this study represents an element of novelty, and the different cultural and unstable institutional characteristics as compared to advanced economies, represent a complexity that validates the context-sensitive methodological approach (Welch et al., 2011). In this regard, Ghauri (2004) argues that case studies are particularly suitable for exploring complex and sometimes sensitive issues in emerging markets.

Case studies are most often undertaken to understand complex social phenomena, and as Yin (1994:9) notes, "case studies have a distinct advantage over other research methodologies when 'how' or 'why' questions are being asked". Especially for researchers interested in 'how' questions, case studies allow them to tease out how certain processes occur under a particular set of circumstances. Even though there are some different opinions of what a case study really is, a general starting point of a definition is a contemporary study of a complex unit in its real-life context (Yin, 2009). Yin further adds that case studies are suitable when the phenomenon is hard to separate from its context, which is undoubtedly the case here since relationships between MBE subsidiaries and their local authorities and business partners are studied in the 'real' context of Indonesia. A critique from more positivist-oriented researchers is that case studies do not provide a good basis to form generalised conclusions. However, in case studies, whether it is single or multiple case studies, the purpose is not to represent the world, but to represent the case (Stake, 2005). In this vein, Yin, (1994:10) notes that "case studies, like experiments, are generalisable to theoretical propositions and not to populations or universes". Nevertheless, a rigorous qualitative case study can produce a detailed "motion picture" of the studied phenomenon within the country and industry studied (Gioia et al., 2013:22).

Given the nascent nature of research in this area, especially in an emerging market context, and the need to attain an initial exploratory perception of the situation, multiple cases within a single industry can provide revelatory insights about the investigated subject. However, several researchers claim that multiple cases distract from exploring the richness of a single case, thereby luring the researcher into an overly contrasting mode (Dyer & Wilkins, 1991; Easterby-Smith et al., 2008). In that regard, the intensity of the analysis of the evidence was born in mind here. To help ensure a rich analysis, a case study can employ an embedded design, including numerous levels of analysis within a single case, e.g.

firm and industry level (Eisenhardt, 1989). This study was conducted at two levels of analysis. The primary level of analysis explores the MBEs strategies, as well as how they, and their representatives build relationships with different actors and partners in Indonesia. However, the level of analysis that links the MBEs to the broader consumer good industry and the institutional and political situation in Indonesia is also an important contributory factor to a holistic understanding of reality. Indeed, these other institutions and actors play an important role in shaping the culture of the research context and have implications for policy and regulatory frameworks in which the MBEs operate.

### **3.2.5 Alternative approaches considered**

The selection of a multiple case study approach was based on the belief that this would provide an optimal approach to generate rich evidence and would also lead to a deeper understanding of the operationalisation of MBE relationships in an emerging market context. In arriving at this view, other methods were considered. For instance, grounded theory (Glaser & Strauss, 1967) was initially considered, but practical concerns such as time and complexity made this approach unrealistic. Early career researchers, especially doctoral students, are likely to be overwhelmed by the evidence gathered, making it almost impossible to execute their project within a three-year time frame. Finally, although there are many obvious reasons why a quantitative, positivistic approach would not answer the research questions, it was mainly because it would standardise and simplify a complex reality and leave out a comprehensive elucidation of the interplay between strategy, history, and circumstances (Schoenberger, 1991). Besides, it felt necessary to be immersed in the local culture and environment to understand better the complexities associated with the research problem.

### **3.2.6 Suitability of researcher's background**

Most of the evidence was collected during the five months (April - August 2018) spent in Jakarta (capital of Indonesia), immersed in the local culture to better make sense of the participants' narratives, to get access to the selected firms and discuss with their representatives complex and sometimes sensitive issues related to this study. The case study approach maximised the advantage of the researcher's background within the area of interest, helping provide access to key informants, and provide an understanding of culture, language and environment. Five years before the fieldwork, the researcher had spent 1.5 years living in Indonesia, first at Dhyana Pura University, and later working in the marketing department of a Dutch logistics firm, learning to speak the local language, Bahasa Indonesia. The researcher's language skills were brushed up by participating in weekly language classes at the Indonesian embassy in London, starting six months before the fieldwork commenced. Furthermore, the local experience had led to several local contacts who helped secure 'gatekeepers' for access to local directors. Finally, work experience in Indonesia makes a qualitative methodology appropriate in producing narratives of the lived reality of MBE subsidiaries in their natural settings.

Several authors have demonstrated that context sensitivity is critical to producing quality evidence and analysis (Caprar, 2011; Gao et al., 2014) and that the experience of the researcher and his ability to understand the phenomena studied can be an important advantage in capturing relevant evidence and making sense of it. In their view, the personal knowledge of the research context, which derives from the background and experiences of the researcher, should be in keeping with the research tradition in which he is operating (Welch & Piekkari, 2017). In that regard, an ability to speak the local language, familiarity with both Dutch and Indonesian cultures, and prior experiences of working and living in both countries helped make sense of the participants' narratives in a way that preserved the authenticity of their perspectives.

### **3.3 Methods**

The focus of this study is on the MBE, its managers, and their relationships, which are difficult to access and complex in structure (Easton, 2010). In addition to the suitability of the researcher's background, a 'boots on the ground' approach was required to capture the firm's approaches to navigating the environmental complexities in Indonesia. The case study approach facilitated the collection of rich evidence, which was necessary to gain an in-depth understanding of such complex phenomena. Evidence-gathering techniques, therefore, included interviews (3.3.1), observations (3.3.2) and archival materials (3.3.3). The method combination was deemed appropriate for an exploratory qualitative study of the nature of this research. It allowed the research to benefit from the combined impact of the methods, including the mitigation of individual validity threats (Johnson & Gill, 2010; Hammersley & Atkinson, 2007).

#### **3.3.1 Interviewing**

Organisations are represented by individuals such as managers, or directors who operate in boundary-spanning roles with some responsibilities, formal or informal, in the management of specific relations with network partners and authorities. To capture the experiences and interpretations of these individuals, a combination of open and semi-structured interview questions was used (Miles et al., 2014), which were particularly suitable for interviewing busy corporate directors who cannot be reached on many separate occasions (Bernard, 2000). It was assumed that participants with these job positions and levels of seniority have been working in the industry for a long time and that their experience has allowed them to enter the upper echelons of management hierarchy, learning valuable insights about their organisation, partners, and the industry along the way. Moreover, compared to their junior colleagues, senior managers are likely to be the more reliable source of information, because they generally have a better overview of the whole organisation and are involved in strategy formulation (Macdonald & Hellgren, 2004).

A firm's relationships and dealings with business partners and authorities are often hidden 'below the line' so that understanding them requires extraordinary access to information that may only be



available through interviews (Boddeyn, 2007). This study involved phenomena that are sensitive in nature and only after the right introduction, and after establishing trust, relevant evidence could be gathered. Nevertheless, critics raise the argument of the ‘interviewer effect’ or ‘bias’ on the research process, i.e. the influence that produces a distortion in the study’s results (Bryman & Bell, 2014). The view taken, however, was that there is no objective or opinion-free research, and subjectivity is the very strength of interpretive work. Besides, experience in Indonesia showed that researchers must be concerned not only about what MBEs are about but also about how managers and directors feel and think.

### **3.3.2 Observations**

Most field research involves at least some form of engagement with a locality (Kapiszewski et al., 2015). A number of qualitative researchers suggest that field observations can offer a suitable supplementary role alongside other methods, such as interviews (Hammersley & Atkinson, 2007; Gill & Johnson, 2010). The more frequent interactions with participants can help generate more evidence about how those participants think and understand their social world (Shehata, 2006). One particular advantage of observations, described by DeMunck and Sobo (1998), is that they may provide opportunities for viewing or participating in unscheduled events and allow access to the “backstage culture” (p. 43). In this vein, Kapiszewski et al. (2015) note that in some settings, it may be impossible to obtain valid evidence without using observations. For more sensitive ‘below the line’ topics, it may be required to build ties of trust and familiarity with the research subjects and the institutions in which they are embedded (Boddeyn, 2007).

Werner and Schoepfle (1987) describe three types of observations: descriptive, focused and selective. Descriptive observations occur early in the study and are the least systematic. Every attempt is made to observe as much as possible. Focused observations emphasise observation supported by interviews, in which the participants’ insights guide the researcher’s decisions about what to observe and ask questions about. Selective observations are more focused and enable the researcher to compare the attributes of various categories or activities (Angrosino & Mays De Perez, 2000). The three levels of observations can be thought of as a funnel, in which each level has a narrower focus (Spradley, 1980).

Even though critics of the observation method may question their supposed lack of objectivity, researchers using this approach are systematically cross-checking, comparing evidence gained from different sources, and reading between the lines. When deployed with care, observations can provide particularly rich opportunities to engage in triangulation. However, in order to improve the use of observations, Kapiszewski et al. (2015) suggest that it is necessary for researchers to be well-prepared, to consider how other researchers used this method, and to reflect their position in the field site.

### **3.3.3 Archival materials**

According to Charmaz (2006), all qualitative research entails analysing some form of texts as part of the evidence collection process. He further distinguishes texts as elicited and extant; the former entails requesting the research participants to actively generate written data, for instance by using diaries or other types of ongoing journals, while the latter concerns various documents on whose shaping the researcher had no influence. The latter interpretation of ‘text’, or documents, was used in this research. Given the usefulness of text in understanding the subsidiary evolution of the case firms in Indonesia, from a historical-evolutionary perspective, archives stood out as an important research method to supplement the interview method, especially in informing the former perspective. At the same time, archives were also important in illuminating contemporary perspectives, informed by company annual reports, parliamentary proceedings, news media reports and broader documents covering more recent periods.

Ghauri (2004) notes that texts may be rich and can have a lot to offer to the researcher both in pre-interview and post-interview situations. The former may help in preparing sharp and to-the-point interview questions, while the latter may help in verifying the information mentioned during interviews. Hammersley and Atkinson (2007) suggest that documents should not be taken at face value and need to be studied critically as they may uncover key “themes, images or metaphors” (p. 125), which ultimately increase the researcher’s understanding and explanation of the research situation. When it comes to analysing firms’ self-reports, however, a level of prudence is necessary given their inclination to report good performance and understate problems (Blaxter et al., 2010).

## **3.4 Gathering evidence**

Perhaps the most challenging part of this study was getting access to, and collect evidence from, the case firms and their representatives. This section outlines a detailed description of the gathering of evidence, starting with an overview of the sources included in the research (3.4.1). Next, how access to the case firms was gained (3.4.2), how interviews through piloting interviews were prepared (3.4.3) and the important role gatekeepers played in securing interviews (3.4.4) is discussed. The strategies adopted to manage power differences between the participants and the researcher are considered (3.4.5), followed by a detailed description of the questioning techniques (3.4.6), the field observation (3.4.7) and the use of archival methods (3.4.8). Finally, the fieldwork challenges (3.4.9) are discussed followed by a critical reflection on the fieldwork (3.4.10).

### **3.4.1 Sources of evidence**

For the methods of evidence collection, interviews and observations were the primary sources, with documents and archives serving as important supplementary sources for triangulation and to enhance validity and reliability (Eisenhardt, 1989; Yin, 2009). In total, 31 formal interviews were conducted, 28 of which were recorded and transcribed (see Table 3.3 and 3.4 for sources of evidence). The interviews

lasted on average one hour and a half, and, in several cases, follow-up interviews were conducted with the same participant during the course of the fieldwork to gain a deeper understanding of the situation. The interviews were formally scheduled with selected participants from different organisational levels and functional areas within the Indonesian subsidiaries of the four case firms, while another 45 were shorter, more informal conversations with suitable parties, such as representatives of embassies, industry and trade experts, consultants and academics, e.g. at conferences, seminars or networking events. All participants were briefed in non-academic jargon what the nature of the research was and whether evidence can be attributed or whether they preferred to be anonymous. They were in some cases as short as 5-10 mins and were mostly recorded by hand-written notes. Eight pocket-sized notebooks were filled throughout the study, with five of them during the main fieldwork period in Indonesia alone. When possible, the firm's business partners, competitors or former employees were also interviewed for cross-checking purposes and to get a more holistic understanding of reality<sup>13</sup>.

For each case, interviews were with employees from different positions and, if possible, one-on-one interviews, rather than a group interview. It was aimed to interview at least five respondents within each firm to confirm evidence across enough sources and hence increase the internal validity of each case, except for one firm where only three interviews were possible, although one of them was with both the Head of Marketing and the Communication Manager. The interview evidence of this case was rich (50 pages of text), and was supplemented by external documents, so it is included in the analysis.

Compared to most studies on MBEs that use interviews at headquarters as the primary source, this research draws extensively on local sources. The majority of interviews were conducted in Indonesia between April and August 2018. The five-month fieldwork period allowed the researcher to position the study within the local political and institutional context and to obtain in-depth insights into the management of the studied firms. The whole process allowed the researcher to understand the perceptions and thinking processes of the participants. However, during the analysis in London, a number of new questions emerged and were posed to current or former directors of the studied firms. Therefore, a subsequent trip was made to interview former Dutch subsidiary directors of the Indonesian subsidiaries, who have since returned to the Netherlands. Furthermore, the third round of evidence collection was conducted in April and May 2019 via Skype.

The aim was to interview participants with a lengthy tenure (to ensure familiarity with subsidiary development) and a high-level of seniority (to ensure familiarity with strategy formation). The majority of the participants held senior positions, such as directors and vice presidents. However, while this selection was started before developing the interview schedule, it was within the MBEs themselves that recommendations were gradually made to various knowledgeable people as part of a snow-balling

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<sup>13</sup> In all but one case, the researcher was able to interview at least one former employee. Former employees were often former CEO's who had since returned to their home country. In line with the temporal setting of the study - contemporary Indonesia - former employees had to have worked in Indonesia in the last two decades.

pattern. As a result, interviews were also conducted with several mid-level managers. Compared to Indonesian directors, it was easier to get in touch with expatriates, during seminars, networking events or other social occasions. However, as expatriates were usually on a three to five-year international assignment, it could not be assumed that these relatively new (usually director-level) participants knew everything about the challenges their firms faced (especially about the years before they arrived). The layer below, however, were usually Indonesian managers, who often had been working at the organisation for a decade or longer and could also say a great deal about their organisations and their challenges. Where possible, interviews included both Indonesian and Dutch or other expatriate participants to get the ‘local’ and ‘foreign’ perspective on the issues studied. Nine out of twenty participants from the case firms were Indonesian.

Table 3.3 Interview evidence gathered

<b>Cases</b>	<b>Number of interviews</b>	<b>Participants positions</b>	<b>Indonesian (I), Dutch (D) or other (O)</b>	<b>Tenure (years at subsidiary)</b>	<b>Length interview (hrs)</b>
<b>First Class Dairy<sup>14</sup></b>	5	· Operations Director	O	3-5	1.5
		· HR Director	I	>10	1.5
		· Corporate Affairs Director	I	5-10	1
		· Finance Manager	D	1-2	1.5
		· Former Country Leader	D	5-10	3
<b>Universal global Goods</b>	5	· Head of External Affairs	I	5-10	1
		· Head of Communication	I	5-10	1
		· Head of Foundation	I	>10	1.5
		· Import Export Manager	I	3-5	1
		· Finance Director	D	2	1
<b>Holland Beer Company</b>	6	· Country leader	O	3-5	1
		· Finance Director	D	1-2	1
		· Supply Chain Director	O	3-5	0.5
		· Marketing Director	D	1-2	1
		· Former Commissioner	I	>10	1.5
		· Former Country Leader	D	5-10	1.5
<b>Primus Technics</b>	4	· Head of Marketing & Corporate Comm. Manager	I	3-5	2
		· Former Sales Manager	D	1-5	
		· Former Sales Manager	D	5-10	1
		· Former Country Leader	O	5-10	5

<sup>14</sup> The case study on First Class Dairy was conducted first and has the richest evidence (82 pages of transcribed text). The case was explored in detail to affirm the initial focus of enquiry. Accordingly, the following case studies (2, 3, and 4) have a more focused nature.

Table 3.4 Other evidence gathered

<b>Outsiders</b>	<b>Number</b>	<b>Participants</b>
<b>Formally scheduled interview</b>	11	· Lawyers, consultants and corporate managers from MBEs
<b>Informal shorter conversations</b>	45	· Academics, lawyers, consultants, embassy representatives and corporate managers representing local and international firms
<b>Reports</b>		
<b>Public</b>	20	· Annual reports from (approx. five per case)
	17	· Parliamentary proceedings
	100	· Media articles (approx. 25 per case)
<b>Internal</b>	4	· Strategic documents (received from interviewees)
	40 <sup>15</sup>	· Press releases (approx. 10 per case)
<b>Seminars, working groups and other events</b>	35	· Events attended

### 3.4.2 Getting access to firms

The success of gathering evidence depends directly on how easy or difficult it is to access the site and how well the researcher can build and maintain relationships with the participants. Initially, only one firm agreed to participate in the research while the rest of the selected firms rejected or ignored the researcher's requests. However, through innovative networking, access to all of the selected firms was gained; the main contributor to this success was the researcher's 'intern position' at the European Business Chamber of Commerce in Indonesia (EuroCham). The researcher had lived and worked in Indonesia for several years and contacted EuroCham and other business associations. There was a natural fit between the research and EuroCham, whose main objectives are to facilitate communication within the European business community in Indonesia as well as to establish a dialogue with the Indonesian authorities (EuroCham, 2020). As the research is about how Dutch firms grow and develop in Indonesia, as well as about their relationship with the Indonesian government, there were many questions about Indonesian regulations, the relationship between MBEs and the Indonesian government

<sup>15</sup> Media articles were systematically retrieved from the electronic databases of local news websites based on searches of the firms' names as well as the names of associated people. The researcher also obtained documentation related to the economic and legal environments in the forms of industry studies, policy papers and relevant regulations.

and the working of Indonesian bureaucracy, which later turned in to more fruitful discussions on how things are really done in Indonesia.

Through personal networks, contacts with one of EuroCham's board members helped secure this position. As a result, during the course of the fieldwork in Indonesia, EuroCham's office facilities were used. Access included a workspace in a network-rich environment, thus enhancing the chances of getting access to the selected case firms. EuroCham offered a new lifeline to access the selected firms, and their contacts were crucial to opening doors and gaining access to some otherwise unreachable local executives. As a result, EuroCham's extensive relations helped secure access to all of the firms which initially rejected or ignored the requests, as well as many other knowledgeable outsiders who helped provide valuable information. In return, research findings are to be shared during a presentation to EuroCham's board members and plans for a joint-publication were made.

### **3.4.3 Piloting interviews**

The key to getting good evidence from interviewing is asking good questions (Yin, 2009). Merriam and Tisdell (2015) suggest that a ruthless review of the interview questions is needed to weed out poor ones before the actual interview. They further argue that this review, followed by one or more pilot interviews, will go a long way to ensure that you are asking good questions. To get this feedback, two volunteers were recruited who shared similar characteristics to those recruited for the actual study (Castillo-Montoya, 2016). Initial interview topics and questions were discussed with and reviewed by supervisors before being tested in the two pilot interviews with acquaintances working at MBEs in Indonesia (Yin, 2009). Receiving feedback from the participants in the pilot and reading transcriptions helped assess and develop interview techniques and review the order and relevance of the interview questions, which in turn improved the practicability of the interview protocol. More importantly, piloting interviews helped develop interview skills and confidence for the 'real' interviews that followed.

### **3.4.4 Gatekeeper's role**

Once contacts at the case firms were made, it was essential to build and maintain good relationships with them to arrange and prepare the interviews. These 'gatekeepers' were usually the first point of contact within the firms who had been convinced about the importance of the research and consequently helped secure interviews with their colleagues. For instance, at three of the case firms, there was an opportunity to discuss the relevance and sensitivity of the interview questions with the gatekeepers. They helped identify which potential participants within the organisations would be best able to answer the questions. However, despite the support of the gatekeeper, no interview was set in stone. One of the gatekeepers mentioned it was uncommon for staff to be interviewed by researchers, so even though gatekeepers were excited about the project, that did not mean the identified members of staff would cooperate. Each possible participant needed to be carefully approached. The gatekeepers' help was invaluable in this process. They would usually 'test the waters' first, for example by, after a meeting,

mentioning the study. If they seemed willing to participate, the gatekeeper would forward an introduction letter, including interview questions and participant consent form.

### 3.4.5 Managing power differences during interviews

Given the colonial history of Indonesia and the perception by local participants of a Dutchman almost two meters tall, reflexivity and adaptivity were required to tackle potential power differences (Davies, 2007). Further power differences resulted from the participants' status; they were often powerful members of the business elite, such as a country director or senior manager (Welch et al., 1999). In this vein, Harvey (2011) recommends that interviewers need to adjust their style and make the participant feel as comfortable as possible.

Four strategies were adopted that helped manage power differences. First, although it is common for Indonesians to converse in English, especially for those working at MBEs, experiences in Indonesia showed that an ability to converse in Indonesian would be well-appreciated and would demonstrate commitment. The aim was to demonstrate that the researcher was not just there to collect evidence, but to really understand their world and to produce meaningful research about it. Generally, the interview started with an informal conversation in Indonesian, although the more formal part of the interview was for the most part conducted in English. Second, concerning dress code, when interviewing local directors, wearing a traditional Indonesian 'batik' shirt seemed to be well-appreciated. For comparison, a long-sleeved batik shirt in Indonesia is as formal as wearing a suit and tie in Western countries. Indonesian authorities and (expatriate and Indonesian) business elites often wore batik shirts at the many events attended in Indonesia.

Third, before the interviews, case firms were studied in detail to develop sharp interview questions. Zuckerman (1972) suggests that researchers must show they have done their homework as elites might "consciously or subconsciously challenge them on their subject and its relevance" (p. 34). In other words, researchers must be able to demonstrate that they are worthy of the time and support of busy corporate directors (Welsch et al., 2011). Yeager and Kram (1995) further add that researchers need to package their research in a way that it appears not only relevant but also non-threatening in the eyes of the elite. In addition, they need to prepare the interviews (e.g. rehearsing questions) and they need to study the annual reports and press releases of the firms. Further, interview questions were discussed with the gatekeepers or supervisors to ensure their relevance and to avoid being refused by elites due to their sensitivity.

Fourth, during the interviews, the wording was adapted to make the participants feel comfortable. For instance, some participants avoided certain terms introduced to them during the interviews. Once noticed, their words and terms were used, in order to better understand their lived experience in line with the advice of Gioia et al. (2013:5) for "research as engagement" aiming to stay close to the participants, up to a certain point, without lacking rigour in the qualitative research. Even though the most important aspect of building trust with elite participants were giving respect, being well-prepared

and asking sharp questions, an understanding of their local language, wearing suitable clothing, and using participant terms played its part in tackling power differences.

### 3.4.6 Questioning techniques

The researcher has much flexibility during the interviews since the interviewing process is itself a social process (Hammersley & Atkinson, 2007). There are many ways of asking questions. For instance, researchers may pose questions in a standard manner and flow across all cases or ask the same questions in a different manner and order (Yeung, 1995). During interviews, questions and probing were varied according to the interview context. With more keen and friendly participants, greater detail was pursued. An open and discursive discussion felt like the most effective form of gathering information. The pre-set list of questions was never strictly followed, and in fact, it was common to divert from questions when the participants raised interesting topics. One of the key elements to interview success was being sharp but also preparing to adjust on the spot. As a result, many interviews became much like a form of communicative interaction, rather than a rigid adherence to the researcher-researched dualism.

To capture the participants' experiences, they were asked to elaborate on principal facilitators and inhibitors in their market presence in Indonesia. Where possible, open questions starting with 'what', 'how' and 'why' were used, to allow the participants to explain their answers, and to express their own opinions and experiences (Rubin & Rubin, 1995). "Elites especially - but other highly educated people as well - do not like being put in the straitjacket of close-ended questions. They prefer to articulate their views, explaining why they think what they think" (Aberbach & Rockman, 2002: 674). Open questions allowed participants to elaborate freely on aspects of the theme under consideration (Oppenheim, 1992), while at the same time avoiding suggesting possible answers and being influenced by the researcher's opinion. Following the advice of Gioia et al. (2013), extra attention was paid to the initial interview protocol, making sure that the questions were focused and did not contain leading-the-witness questions such as "Wouldn't you agree that?" (p.19).

Formally scheduled interviews usually lasted between one and one and a half hours, and questions had a broad scope, covering the firms' strategies and marketing activities in general, as well as how they build relationships with different key actors and partners. From the start, semi-structured interviews were designed to identify challenges the firms faced as well as their approaches to business, political and social actors, with trust, commitment, and legitimacy as central constructs. A number of questioning techniques were used to gain valuable information. For instance, in line with Marshall's (1984) suggestions, encouraging phrases were used, such as 'Really?' or 'Interesting!' to stimulate greater responses.

Asking questions about critical events increases the likelihood that the response of the participant will be lengthy and detailed. The study of documents was tremendously useful to identify events in which the participants may have been involved. For instance, questions such as, 'Last year a press release reported that you started a partnership with firm X, or your firm publicly disagreed with government



policy Y, or introduced product Z'. This was followed by 'Could you please tell me a bit more about this?' Or, 'Do you think you could have done anything differently?' This questioning technique was intended to give better insights into the firms' strategies as well as about how participants feel and think.

In most cases (90 percent), the researcher was allowed to record the interview. Given that this study is concerned with the firm's relationships with their Indonesian stakeholders, verbatim quotes were used to illustrate arguments. Being able to record was a significant advantage because it allowed a focus on engaging with the respondents, rather than having to make notes. Moreover, without a recording device, it is inevitable some evidence would get lost regardless of how fast the researcher can write.

The researcher attempted to build a good rapport with the participants and obtain their trust (Yin, 2009). Therefore, at the beginning of each interview, the nature of the research was explained, and permission for recording the interview was obtained to prevent any misunderstanding. After transcribing the interviews, the text was sent to participants, and they were given the opportunity to comment on and redact the transcript. Participants were asked to sign a consent form to assure them of their rights to anonymity and to withdraw from the process at any time. The interviews were typically arranged in advance and planned to last an hour, and interviews were usually conducted in an area of the workplace, although some interviews were conducted in bars, restaurants or during conferences or networking events. For instance, interviews with former managers were carried out at a location that was convenient for both. Where possible, prior to the interviews, the researcher visited the interview locations to respond to potential health and safety risks.

### **3.4.7 Interview questions**

The interviews with subsidiary managers revolved around Indonesia's business environment, the demands and needs affecting their operations in the country in general and as a Dutch firm in particular, their relations with key stakeholders, and the activities and resources employed in order to survive and thrive. Given the relatively new and unexplored nature of the research, mixing open questions with more in-depth ones was considered appropriate. Each interview started with several open questions, in early interviews to identify challenges inherent to doing business in Indonesia, as well as the firm's strategies, while in later interviews, to assure the relevance of the topics, while also including more focused questions pushing for concrete illustrations to increase the trustworthiness of evidence (Eisenhardt & Graebner, 2007). Early interviews with the gatekeeper, were useful to identify themes, while later interviews with, for instance, the government relations director included more focused questions. For example, in conversations with the gatekeeper, open-ended questions such as 'What are the biggest challenges your organisation faces in Indonesia?' from which the regulatory environment was identified as a major challenge, which was then followed up by more focused questions to the government affairs director, such as 'How would you describe the interaction between your firm and the Indonesian government?'

One technique to get more focused answers, was by giving examples of how a certain topic is described in the literature (with limited academic jargon), followed by asking, ‘How does this work at your firm?’ (see table 3.5 below). It thus felt necessary to mix open questions - that allow the participants to elaborate freely on aspects of the topic raised (Q1) - and to ask more specific questions, in case the participant did not cover the themes under consideration (Q2)

Table 3.5 Example of different ways of asking an interview question

<b>Q1)</b>	‘How would you describe the interaction between your firm and the Indonesian government?’
<b>Q2)</b>	‘In the literature, when I read about the interactions between multinationals and foreign governments, scholars discuss two types of interaction: episodic and systematic, the former is where firms engage with the government only when there is an incident or issue affecting their organisation, the latter is where the firm’s directors regularly meet with government officials to discuss all sorts of issues ranging from public policy development to the government’s sustainable development goals. Please explain in which one of the types of interaction more accurately describes the interaction between your firm and the Indonesian government?’

Interview questions derived from the researcher’s understanding of the literature, but also from texts about the case organisations and participants (e.g. news articles and annual reports), and as a result of interviews that came before. To develop interview questions, coding of transcripts started after the first interview, which led to the formulation of other questions, and subsequent interviews pursued subjects that were increasingly focused on concepts emerging from earlier interviews. However, although each interview included a different set of question, Table 3.6 shows some of the example interview questions for MBE participants ranging from more open questions (e.g. question 2), to a combination of an open question followed by several more focused, follow-up questions (e.g. questions 3-10).

Table 3.6 Examples of interview questions

<b>Examples of interview question for MBE managers</b>
1. Please tell me about yourself, your professional background and your experience at [name organisation and name subsidiary]?
2. What are the main challenges in growing and developing your business in Indonesia? Please explain why.
3. What are the daily tasks related to managing a subsidiary? Considering a typical week, how do you allocate your time to key activities? What are the most important capabilities required to manage the Indonesian market?
4. How would you describe your strategy to manage the Indonesian market? To what extent is this strategy 'unique' to Indonesia? What are the differences in customer demands? How have you adapted your strategy in terms of products, management and staffing?
5. How do you manage Indonesian rules and regulations? How would you describe your relationship with the regulator? How do you approach it? Do you resort to diplomatic networks to interact with local political and regulatory spheres? Does corporate headquarters assist? Can you provide an example of the activities you engaged in to prevent an unfavourable law to be implemented? How do you go about changing current laws?
6. What challenges do you face with regards to dispersed and decentralised nature of the country? What are the challenges you face concerning (1) logistics, (2) collaborating with distributors, (3) dealing with local authorities? How different is doing business in Jakarta compared to far-flung islands?
7. How do you collaborate with business partners in the value chain in Indonesia? What challenges and issues were critical for these collaborations?
8. How do you build a good reputation in the eyes of its stakeholders (i.e. government, business partners and community)?
9. Please describe your relationship with 1) Indonesian government, 2) NGOs and 3) key business partners? (separate questions) How do you interact with them? What resources are involved?
10. What sort of CSR activities do you develop specifically in Indonesia? Who is in charge of communication and CSR? Are such activities necessary to get the appropriate support from key stakeholders in Indonesia (i.e. the government, policymakers, media, civil society, and clients)?

Based on these interviews, different host-country pressures were identified, which can be categorised under three themes, these being, regulatory complexities, cultural specificities and subnational heterogeneity, and accordingly a set of subthemes for each (25 combined), which are the activities that the firms undertook to manage their Indonesian operations. The process of identifying the themes and subthemes is discussed, in detail, in the analysis sections (3.6.1-3.6.5).

The participants also included many knowledgeable outsiders who helped provide valuable information (see Table 2.4), which were asked different questions than the ones illustrated in Table 3.6. Outsiders played various roles, including for triangulation, but also for providing context about the industry and general workings of the government and how business is done in Indonesia. It was particularly useful in developing a more holistic understanding of the country's cultural and political specificities. More importantly, they proved to be exceptionally useful in gaining both access to and trust from some otherwise unreachable local executives.

#### **3.4.8** Collecting evidence using observation methods

One of the objectives was to be immersed in the Indonesian culture to make better sense of the participants' narratives in a way that preserved the authenticity of their perspectives. Observations allowed for a more nuanced understanding and interpretation of interview evidence and insight into the social context in which the participants operate. Appropriate settings and strategies to enter the settings were identified (Lincoln & Guba, 1985). First, during field visits to the premises of the investigated firms, detailed observations were made. For example, at one of the case firm's Indonesian headquarters (HQ), not only the global logo but also the country logo was prominently displayed with the text 'celebrating 95 years in Indonesia' (own translation). During the interviews, the researcher brought up the text, and a local manager proudly mentioned how his firm had helped create a strong citizenry for nearly a hundred years, and that this had helped develop their relationship with the government.

Second, the researcher attended and observed many seminars and working groups organised by EuroCham. In these meetings and events, specific horizontal (industry) and vertical issues (e.g. regulations) were discussed with industry players and government officials. This provided a unique opportunity to ask questions to industry experts about the topics raised and more. Attending these events provided valuable information about industry-specific issues, usually related to the regulatory challenges they faced. More importantly, they proved to be exceptionally useful in gaining both access to and trust from some otherwise unreachable local executives. Compared to the orthodox researcher-researched dualism, the emphasis shifted to building relationships and rapport, while observing and listening, becoming more focused, and writing extensive observation notes. In that regard, Blumenthal and DiClemente (2004) note that effective observers are not silent partners, but rather engage in many informal conversations with relevant participants.

To prepare, in the year leading up to the start of fieldwork several workshops about observation techniques and transcribing observations were attended. Two types of observations were employed: descriptive and focused (Werner & Schoepfle, 1987). Observations were made at the general work environment at the investigated firms' headquarters in Jakarta, to grasp the setting of the investigated firm and build a rapport with the participants. Focused observations were employed during the working groups and seminars organised by EuroCham. This included keeping detailed field notes during the

events. In many cases there was an opportunity to introduce the research to firm representatives and ask questions about their perspective on challenges inherent in doing business in Indonesia.

Following the advice of Hammersley and Atkinson (2007), a journal was kept throughout the research. First, to record the concrete details of what was seen and heard during events and interviews, concentrating on particular events, actions, behaviour and irregular activities (Sekaran & Bougie, 2010). Second, to articulate the evidence collection process, and third to connect what had been seen and heard with professional reading. Finally, to record the raw feelings and emotions experienced as a researcher (Hammersley & Atkinson, 2007). As recommended by Eisenhardt and Bourgeois's (1988) 24-hour rule, impressions were translated into detailed field notes on the same day of the visit to the research setting. Along with the interview transcripts, these field notes were included in the analysis.

#### **3.4.9 Collecting evidence using archival materials**

Douglas (1976) cautions against wholly relying on research participants to honestly and accurately convey their experiences. The use of archival data as part of a triangulated methodical framework helped counteract this problem (Ghauri, 2004). For instance, from two firms, the researcher received strategic documents. The number of files on each of the main cases ranged between 35 and 45 and incorporated material such as internal documents, annual reports, press releases, media accounts and parliamentary proceedings, which helped a great deal in corroborating evidence from the interviews.

Archives provided valuable information on the wider research context and clarified issues surrounding key persons, events and organisations (Hammersley & Atkinson, 2007). All case firms are well-established MBEs and have a significant presence in Indonesia, which makes investigating their history through archival research necessary for an understanding of how they have built their position in Indonesia (Ghauri, 2004). To collect company and industry information, a number of databases were accessed, such as Euromonitor and Frost & Sullivan, through many trips to the British Library in London. To access other relevant information on the case firms while in Indonesia, a subscription was made to the Indonesian newspaper 'The Jakarta Post' containing public media articles that helped build a context-sensitive picture of the firms' challenges as well as cross-checking things that participants had brought up during interviews.

#### **3.4.10 Fieldwork challenges**

The process of collecting evidence depended on strict timekeeping and constant planning and re-planning, always looking ahead anticipating possible diversions. However, diversions do emerge, and no matter how well prepared, events often do not develop according to plan. Interviews were on many occasions postponed or cancelled at the last moment and required strategies to use time in the best possible way, for instance, by sending reminder text messages and emails to the participants the day before, as well as a few hours before the interview. It was also important to plan to arrive early, and not plan more than two interviews a day since traffic is painstakingly slow in Jakarta. Finally, scheduling at

least two full days at EuroCham's office left three days for interviews and events, while evenings and weekends were used for transcribing and analysing the interviews.

Challenges faced during the interviews. For instance, in one interview, after explaining what it was about, one director bluntly responded by saying, 'Just check the internet, there's no need to ask me about that'. To the next question, he replied, 'If you had done your research, you would know that...'. It felt like he was constantly questioning the subject and its relevance, and it was necessary to convince him that it was worthy of his time. Here it was crucial to ask sharp and to-the-point questions, and only after demonstrating subject knowledge (a five-minute monologue about the topic and research experience so far), he opened up.

Every participant was unique; some were chatty, and with few questions, could easily fill a two-hour interview, while others were less chatty, provided shorter answers, and it was best to prepare enough questions to keep the conversation going. With the CEO of one of the case firms, the interview took place two months after the first approach, so there had been plenty of time to prepare and do extensive research on his organisation. Even though the discussion felt like an open, and discursive dialogue getting the answers hoped for, after an hour, his next appointment walked in, not even halfway through the questions. Fortunately (after half a dozen emails) he introduced two of his director-colleagues to get the remaining information required (and more). Since the CEO already knew what the research was about, and some trust had been established, he was able and willing to introduce knowledgeable colleagues who could help answer the remaining questions. Although managers often felt cold (when they initially ignored or rejected my request for an interview), in reality they were overworked but once some trust had been established, friendly, and happy to help out.

Another challenge concerned the difficulty in assessing the reliability of participants' opinions. For instance, in several cases, the participants seemed suspicious (as if the interviewer were sent by headquarters (HQ) to audit them). At the beginning of the interviews, they said things along the lines of 'of course we are compliant and follow HQ code of conduct.' Furthermore, Hadjikhani et al. (2008) note how during interviews the subject of a firm's relationship with socio-political actors can be a sensitive area and interviewees may be unwilling to disclose all their information for public scrutiny and for competitors who could counter-act. It is also likely that for sensitive topics, research participants tend to provide only positive answers. Some scholars term this behaviour the social desirability bias (Fisher, 1993), which occurs when participants misrepresent their true beliefs or preferences as they are aware their actions are being recorded (Crowne & Marlow, 1960). It is not surprising that they do not wish to publicise sensitive topics such as the instrumental use of CSR to build relationships with authorities.

Building trust is necessary for the participants to believe the researcher will not betray them, abuse their power, or misuse their words (Limerick et al., 1996). A number of strategies were used to build trust before and during the interviews. Firstly, before the interview, business cards were exchanged with the EuroCham logo on the researcher's business card, establishing trust, as it is a credible organisation. As most participants were high-ranking directors, a business card is also an easy way to raise one's

status and hence reduce potential ‘power differences’ between the researcher and the research participant (Yeung, 1995). Moreover, as most case firms were members of EuroCham, it helped not to be seen as an outsider so much when they saw a familiar logo on the business card compared to the first contact with these firms.

Mention of the names of common acquaintances, e.g. colleagues or other participants already met or interviewed helped not only to create a friendly informal chat but also to legitimise credibility and intentions. Secondly, in line with Harvey’s (2011) suggestions, being as transparent as possible and providing respondents with personal information: who the researcher is, in non-academic jargon what the nature of the research is, how the data will be used, how it will be disseminated, as well as asking whether data can be attributed or whether they preferred to be anonymous.

Thirdly, another way to deal with this problem was by using evidence triangulation. For example, at all but one firm, answers were cross-checked with several directors and external stakeholders such as partners, competitors or former employees who were likely to provide insights without any significant concerns for potential subsequent consequences. Even though they were not direct interviewees, they provided useful insights into the identification of key participants and played a more informal role as a third-party for the interview. In other cases, answers were cross-checked with documents such as organisational documents, company annual reports, or news media reports. Hence, in all cases, the information was triangulated across these different sources.

### **3.4.11 Critical reflection on fieldwork<sup>16</sup>**

In retrospect, the success of my field research was a result of professionalism, pragmatism and opportunism, quite different from standard methodological texts. Firstly, professionalism underscored my entire fieldwork. My goal during each interview was to collect as much information from the participant as possible, to make sure that every interview was conducted in a mutually beneficial manner and there was always room for further discussion. I also dealt with ethical issues with strict professionalism (see section 3.7 for more details on my ethical approach). My research was conducted in compliance with the University of Roehampton (UOR) Code of Good Research Practice and conducted under the UOR Ethics Guidelines. Before the interview, I wrote to interviewees in advance of the interviews to explain my research and describe the proposed topic and themes of the interview<sup>17</sup>. In these letters, I included detailed project summaries and an interview protocol with the proposed interview questions. The letter stated that the interview will be recorded with the interviewee’s prior consent and that all evidence will be anonymised. Also, I promised to send them, upon request, copies of the executive summary of my PhD.

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<sup>16</sup> Due to reflexivity, this section is written in the first-person narrative.

<sup>17</sup> The research introduction and participant consent form letter can be found in appendix II and III.

Second, I seized on every possible opportunity to secure interviews and information. I took advantage of my local expertise and acquaintance with Indonesia. Through my local connections, I was able to construct detailed case studies of four consumer goods MBEs and their Indonesian operations. Finally, pragmatism underscored my entire fieldwork. The formal way of approaching firms did not secure me the access I needed. In most cases, emails were either rejected or simply ignored. However, I followed the old saying, if at first, you don't succeed, try, try again. Even though some claim that negotiating access is a game of chance, not of skill (Buchanan et al., 1988), forming personal networks was essential for gaining access to participants in Indonesia's relationship-based culture. There was a need to build one and take advantage of it.

### 3.5 Transcribing interviews

Eisenhardt and Bourgeois's (1988) 24-hour rule was followed for transcribing interviews, field notes and observations. Interviews were generally conducted in Dutch or English, although in several cases, participants used expressions in their native language (Indonesian) to better explain certain topics. The six months of Indonesian classes were of significant help here. As a result, however, the transcribing of texts which included three languages became a time-consuming process; it required special effort to switch from one language to another.

In standard textbooks on research methodology (e.g. Bryman & Bell, 2014; Yin, 2014), there is little help available on how to deal with transcribing interviews from multiple languages. Some authors (Strauss & Corbin, 1998) acknowledge the difficulty of translating interviews, but other than advising to minimise undertaking translations, do not offer suggestions on how to achieve accuracy. In this vein, Rossman and Rallis (1998) note that the workload may double if the researcher chooses to translate and transcribe the full interviews separately. The authors raised some critical questions: 'When you translate interview texts, what constitutes a direct quote?' 'And how do you know that a translation captures the subtle meaning of the original language?' In this study, the issues were dealt with as they came along on a case by case basis. It was the goal to translate the interview as accurately as possible, and where necessary, ask for a second opinion from a native English or native Indonesian speaker. While translating one may ask, is this (translated text) what they (the participants) were trying to say?

One website was particularly useful in translating texts<sup>18</sup>. This website shows how phrases were translated in multiple professionally-translated texts. Halai (2007) describes how some words carry a world of meaning within them and cannot be easily conveyed in another language and to another culture. Translated words are used as direct quotes, and inevitably, a part of the richness, some meaning, and cultural flavour was possibly lost in translation.

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<sup>18</sup> <http://context.reverso.net>



### **3.6 Analysing evidence**

Since qualitative research has been critiqued as too often lacking in scholarly rigour, a systematic approach was followed to new concept development to provide clear evidence-to-theory connections in the presentation of research findings. This section outlines how the analysis of evidence was carried out (3.6.1), followed by a step-by-step description of the coding strategy (3.6.2 - 3.6.5). The analysis was carried out in two phases: within-case and across-cases. First, each of the four cases was analysed separately (chapter four), and then the cross-case analysis (chapter five) was carried out (Miles et al., 2014; Ghauri, 2004). The cross-comparison included a search for cross-case patterns and was employed to strengthen the conclusions drawn from each case (Yin, 2009). Differences and similarities were identified in the case firms' approaches to business, social and political actors, and collaborations with diverse network partners as well as how these firms manage host-country pressures inherent in doing business in the Indonesian market.

The extensive in-case analysis included multiple interviews transcripts (up to six a case), field notes, company archives, institutional archives and media reports, which made it possible to triangulate and corroborate the evidence. It proved useful, even after finalising the within-case analysis, to regularly revisit the stand-alone cases to verify that original evidence indeed corroborated the higher-level conceptualisation. All of this enhanced the quality of making sense of the findings (Miles & Huberman, 1994). Furthermore, this strategy of moving between across- and within-case comparisons facilitated the process of intuiting (Ayres et al., 2003). Intuiting is the critical reflection on and identification of themes during the evidence analysis process, guided by the research questions.

Many interpretive researchers have noted that it is somewhat artificial to parse the interviewing and the analysis, as they tend to proceed together (e.g. Lincoln & Guba, 1985; Langley, 1999). In this thesis, there was no strict distinction between the collection of evidence and analysis. To develop interview questions and identify themes, analysing and coding of transcripts started after the first interview, which led to the formulation of other questions, and subsequent interviews pursued subjects that were increasingly focused on concepts emerging from earlier interviews. Thus, the researcher iterated back and forth between interpretation and evidence gathering and continuously tried to triangulate the sources to see where convergence and divergence of opinion occurred. Once a comprehensive picture of the firms' operations and their strategies had emerged from the evidence, and no substantial new information became available, it became clear that the many initial nodes could fit into the key themes, which form the core of the findings chapters (chapters four and five). The identification of categories followed a qualitative content analysis approach (Gioia et al., 2013), with the help of the qualitative data management software NVivo (version 10.2.1) to manage the large volume of evidence and to systematically structure the coding of the emerging themes.

### 3.6.1 Gioia method to analysing evidence

The method described by Gioia et al. (2013) was used to collect and analyse the evidence, focusing on the contextual interrelationships at the managerial level to address existing theory. Their paper (Gioia et al., 2013), titled “Seeking qualitative rigour in inductive research: Notes on the Gioia methodology” has been cited 3893 times (20/5/20) and an increasing number of studies in the IB context are following their methodology in leading journals in the IB field (e.g. Elsahn & Benson-Rea, 2018; Zeng et al., 2019). The main reason for its popularity is that it allows qualitative researchers to convince reviewers, by presenting clear evidence-to-theory connections, in that the interpretations of findings and conclusions are plausible and defensible (Gehman et al., 2018)

In response to scholars who argue that qualitative approaches do not meet the high standards usually held for demonstrating scientific advancement (see, for instance, Campbell, 1975; Bryman, 1988; Goldthorpe, 2000), Gioia et al. (2013) demonstrate how their approach can enhance qualitative rigour by; firstly, performing initial coding, while maintaining the integrity of 1st-order (participant-centric) terms, including developing a comprehensive compendium of 1st-order terms, (section 3.6.2); secondly, organising first-order codes into second-order (theory-centric) themes (section 3.6.3); thirdly, distilling second-order themes into overarching theoretical dimensions (section 3.6.4), and; fourthly, assembling terms, themes, and dimensions into a structure (section 3.6.5), which was used to visualise the evidence analysis and to ensure full transparency on the basis and development of the results. The operationalisation of these steps is discussed next.

### 3.6.2 Creating provisional categories and first-order codes

The analysis commenced using an open coding approach, systematically breaking down lengthy transcripts, which allowed the evidence to ‘speak to the researcher’ (Strauss & Corbin, 1998; Suddaby, 2006). Sentence by sentence, each interview was broken down to document and gauge the significance of support for particular themes across participants. Differing or contrasting opinions invariably took the researcher back to the interview script for clarification of the text. Patterns of codes that emerged were grouped into first-order categories. This continued until no further codes could be identified (Glaser, 2004). The initial codes subsequently influenced follow-up interview questions as the researcher sought to further clarify observed themes. Furthermore, evidence was carefully studied, several times, according to the researcher’s evolving understanding following a recursive process (Lincoln & Guba 1985), which lead to an initial classification system to reflect the participant-centric codes.

As a result of the plethora of evidence, a myriad of informant terms, codes, and categories emerged early in the evidence collection period. The number of codes soon exploded to 254. However, it seems that it is normal to get lost at this stage, and, according to Gioia (2004:103), “You need to get lost before you can get found”. As the open coding progressed, a number of concepts were repeatedly present in, or significantly absent from, the evidence (Strauss & Corbin 1998). Accordingly, the researcher was

able to reduce the initial codes, as many overlapped or were not relevant to answering the research questions, to a more manageable number of three major themes (i.e. the three host-country pressures MBEs face in Indonesia) and accordingly a set of subthemes for each (25 combined). The researcher started noticing differences and similarities in how participants explained different activities to manage these pressures. With the help of Nvivo, themes and subthemes found across cases were arranged into a table, which the row represented the codes and the columns represented the subsidiary. The similarities found across cases is visible in the outer left column in the Evidence Structure (Table 5.1).

### 3.6.3 Creating theoretical categories

After developing the 25 first-order categories, relationships were identified across categories and consolidated into 12 higher-order themes to develop, relate, and separate categories (Strauss and Corbin 1998). Following the advice of Gioia et al. (2013), to develop the second-order themes, a deeper structure was found by asking the critical question “What is going on here? (theoretically)”, with particular attention on nascent concepts or concepts that “leap out” (p.20). In an effort to enhance construct validity, the researcher triangulated primary evidence by asking multiple participants within one company similar questions, as well as through secondary data (e.g. annual reports, company websites). During this process, going back and forth between emerging theoretical themes and the evidence was critical, and continued until all the evidence were accounted for and no new categories were produced.

### 3.6.4 Aggregating theoretical dimensions

After the initial themes were aggregated into 12 second-order concepts, they were further distilled into five overarching theoretical dimensions. At this stage, the linkages and processes between different constructs started to emerge, which enabled the researcher to further develop the Evidence Structure. Once the Evidence Structure was developed, the evidence’s fit was re-examined with the emergent theoretical understanding (Zeng et al., 2019). To further bolster the validity of the analysis, the findings were discussed with colleagues, as well as several participants with the intention to generate alternative explanations. It is important to note here that coincident with the evidence gathering and the analysis, the researcher was “cycling between emergent data, themes, concepts, and dimensions and the relevant literature” (Gioia et al., 2013:21), not only to see if the findings have precedents, but also whether new concepts emerge. Upon consulting the literature, the research process might be viewed as transitioning from inductive to a form of abductive research, in that the empirical evidence and existing theory are now considered in ‘tandem’ (Alvesson & Kärreman, 2007).

### 3.6.5 Assembling evidence into a structure

To sum up the previous steps, based on the interview transcripts, the researcher identified first-order codes, which subsequently developed into second-order codes and finally into aggregate dimensions

(Strauss & Corbin, 1999), which formed the basis for building the Evidence Structure, which is “perhaps the pivotal step” in Gioia et al.’s (2013:20) approach. The Evidence Structure is presented in chapter five and visualises the evidence analysis and ensures full transparency on the basis and development of the results. It includes the (i) first-order descriptive codes, (ii) second-order themes and (iii) aggregate dimensions, as well as the (iv) instruments used, and (v) actors involved in performing each activity.

For instance, ‘aiming to build personal relationships with host governmental actors’ is a first-order descriptive code; the second-order dimension became ‘relational approach to managing the non-market environment’; the aggregate dimension became ‘legitimacy building’. The instruments for this theme are ‘meetings with host government actors (formal and casual dinners)’, and the actors involved are ‘top subsidiary management, corporate affairs department and host country governmental actors’. To support the theme, the discussion in the cross-case analysis chapter includes verbatim quotes from different participants on, for instance, how and why they aim to build personal, long-term relationships with host governmental actors. Incorporating these verbatim quotes, as well as the actors involved and the instruments used, the Evidence Structure provides a detailed “motion picture” (Gioia et al., 2013:22) of the studied phenomenon (i.e. the case firms) within the country (i.e. Indonesia) and industry (i.e. consumer goods) studied. See also Table 3.7 ‘Extract of evidence structure’. The full Evidence Structure (Table 5.1) can be found on pp. 187-188.

Table 3.7 Extract of evidence structure

Evidence from	First-order descriptive terms	Second-order themes	Aggregate dimensions	Instruments	Actors involved
Name organisations	Aiming to build personal, long-terms relationships with host governmental actors	Relational approach to managing the non-market environment	Legitimacy building	Meetings with host government actors (formal and casual dinners),	Top subsidiary management Subsidiary corporate affairs department Host country governmental actors

### 3.7 Conceptualisation approach

The previous chapter (section 2.2.3) included a review of studies that adopted the actors, resources and activities (ARA) conceptual frame, which showed that, despite the justified criticism, it can be a useful tool to conceptualise the approach to fieldwork and inform the development of concepts and constructs from the evidence. The ARA frame consists of three major elements (1) bonds between actors, (2) links between activities, and (3) ties between resources. Even though some argue that the generality of the framework is simply too great for potential users (Lenney & Easton, 2009), many scholars have used an adapted version of the model to suit the focus of their study. Therefore, rather than looking exclusively to the original IMP work (e.g. Håkansson & Snehota, 1995), this thesis follows studies that, to suit the focus of enquiry, have used an adapted version to approach concept development (Welch & Wilkinson, 2004; Elg et al., 2008; Ghauri et al, 2008; Crespín-Mazet & Döntenwill, 2012). This study suggests that in each of the 25 activities (i.e. second-order themes) the three network variables, actors, activities and resources are present. In this study, the three network variables are:

- Actors are characterised by their identity (i.e. individual or organisation) and type (i.e. business, social, political actor).
- Activities can be of any type and can take place at the individual or organisational level to fulfil their objectives; their level of commitment to these actions.
- Resources are controlled by actors to fulfil their objectives and implement their strategy, which include (1) tangible resources (technical and physical resources); and (2) intangible resources (e.g. information, knowledge and relationships).

To strengthen the approach, the research followed recent suggestions of leading IB scholars (Buckley & Casson 2019) on the standards that IB researchers should uphold. The authors note that it is important to make clear the (1) unit of analysis (i.e. the type of actor, which is the subsidiary manager); (2) the number of actors should be specified (i.e. multiple subsidiary managers in four subsidiaries of Dutch MBEs); (3) the objectives of the actor should be specified (i.e. the need to develop cooperative relations to manage host-country pressures), and (4) exogenous factors which govern the environment should be itemised, i.e. the key factors to which actors respond (e.g. regulatory complexities, cultural specificities and subnational heterogeneity).

### 3.7.1 Challenges in network research

There are a number of challenges associated with undertaking network case research. According to Halinen and Törnroos (2005), network researchers must consider problems related to network boundaries, complexity and case comparisons. The first two problems have to do with defining and delimiting the network. As the network setting extends without limits through connected relationships, any network boundary becomes arbitrary. However, it is recognised that business networks are often viewed as embedded in networks of specific business as well as institutional relationships, which makes each network somewhat unique and context-specific (Halinen & Törnroos, 1998).

Although it is clear that one can never study the entire industrial network, if it is accepted that business networks include, at the same time, social, business and political actors, does it then make sense to study only one aspect of a network? This study suggests that simply studying business-to-business relationships lacks complexity of the network and must include the connection with business actors (e.g. business partners, clients, distributors) and socio-political actors (i.e. the government, policymakers, media, civil society). Needless to say, it is not simple to describe a network, with all its actors and all the characteristics of the links between them. But is the researcher's task to manage the potentially overwhelming volume of evidence and not lose sight of the most important dimensions and issues (Halinen & Törnroos, 2005). For this reason, the complex networks as described in the four within-case studies are abundant and lengthy (sections 4.1 - 4.4).

The problem of case comparisons is relevant because this study aims to generate theory. Making cross-case comparisons is generally considered to be crucial in theory-generating research (Eisenhardt, 1989; Yin, 2009) as multiple case studies have greater explanatory power than a single-case study. Halinen and Törnroos (2005) note that not only are multi-case studies laborious for individual researchers, but also, due to the context-specificity and historical background, each network is somewhat unique and thereby difficult to compare with others. However, with the help of Nvivo, themes and subthemes found across cases were arranged into a table, which the row represented the codes and the columns represented the subsidiary. As a result, the researcher was able to develop the Evidence Structure (Table 5.1)

### **3.8 Ethical considerations**

That research should be conducted ethically is regarded as unequivocal. However, as a range of different philosophies can be applied to ethical judgements, different choices may result. For instance, Israel (2015) identified different views on ethical guidance: while utilitarians follow the maxim that ‘the end justifies the means’; deontologists emphasise truth, behaviours and conduct, and followers of principlism, virtuisim and casuistry seek to assert their own doctrinal positions. For unequivocal ethical direction, the range of theories and the positions that result, present problems to researchers. It is therefore up to the researcher to navigate the moral path through the ensuing ethical uncertainty.

To help achieve good academic practice for ethical governance of the research the University of Roehampton (UOR) Code of Good Research Practice and UOR Ethics Guidelines (UOR, 2010) was followed. To operationalise the ethical guidelines, first, a research risk assessment was conducted and approved by the UOR ethics committee before the start of data collection in Indonesia. Second, all participants involved in the research did so under the principle of informed consent. They were made aware that at any stage before publication, they retained the right to withdraw. Third, even though confidentiality (which literally would preclude most reporting) was not promised, all participants were offered (automatically granted) anonymity unless they waive their right to this in writing. Thus, comments made by participants were not attributed or linked to them in any manner such that the individual could be identified. Finally, after completing the thesis write-up, all records will be deleted and, paper copies will be destroyed.

### **3.9 Chapter summary**

This chapter explained the design and execution of the study and the step-by-step procedures used to collect and analyse evidence. It provided a rationale for the research context of Dutch MBE subsidiaries operating in the consumer goods industry in Indonesia, set out the philosophical position as a social constructionist and discussed implications for the research. It provided a basis and rationale for the case study approach, in keeping with the researcher’s background, the sensitive nature of the study and the

emerging market setting of Indonesia. Like all good qualitative research, it used multiple sources of evidence (archives, field observation) but at the heart of this study is the semi-structured interview as the chosen means through which the primary research was conducted. Finally, the approach followed allowed for a systematic presentation of both first-order analysis, derived from ‘informant-centric terms or codes, and second-order analysis, derived from researcher centric concepts, themes, and dimensions of first-order codes (Gehman et al., 2017). As a result, the Evidence Structure illustrates the evidence-to-theory connections that “reviewers so badly want to see these days” (Gehman et al., 2017: 286). Within-case findings are presented next.





## 4. Within-case analysis

This chapter explores the operations of First Class Dairy (4.1-4.1.4), Holland Beer Company (4.2-4.2.4), Universal Global Goods (4.3-4.3.4), and Primus Technics (4.4-4.4.4) in Indonesia<sup>19</sup>. The aim of the case studies is to gain a better understanding of how these long-established Dutch MBEs manage host-country pressures in post-colonial Indonesia, through developing a set of relationships with political (e.g. governments and policymakers), social (e.g., NGOs and opinion leaders) and business actors (e.g. various network partners). In detail, each of these relationship types, as well as the strategies and resources deployed, are discussed with regard to how they can assist the firm in approaching the three host-country pressures inherent to the Indonesian market, namely *regulatory complexities*, *cultural specificities* and *subnational heterogeneity*.

As a result of the extensive fieldwork in Indonesia, a plethora of evidence was gathered, including interviews with subsidiary managers, former employees and industry experts, and the case studies were strengthened and triangulated with observations and archives. Halinen and Törnroos (2005) note that case descriptions tend to be abundant and long, and that it is easy to become overwhelmed by the volume of evidence and to lose sight of the most important dimensions and issues. In this thesis, the case studies are lengthy and written up with great detail, reflecting the large amount of evidence collected. Each case study follows a similar structure, and includes figures that summarise the firms' strategies, making the lengthy case studies easy to follow. Following the within-case analysis (4.1-4.4), the cross-case analysis chapter (5) discusses the differences and similarities between the four cases (see Figure 4.1 below). Accordingly, the discussion chapter (6) will consider the case studies' findings in light of different bodies of literature, including global integration - national responsiveness and subsidiary embeddedness, as well as other IB and strategy research related to managing subsidiaries in emerging markets.

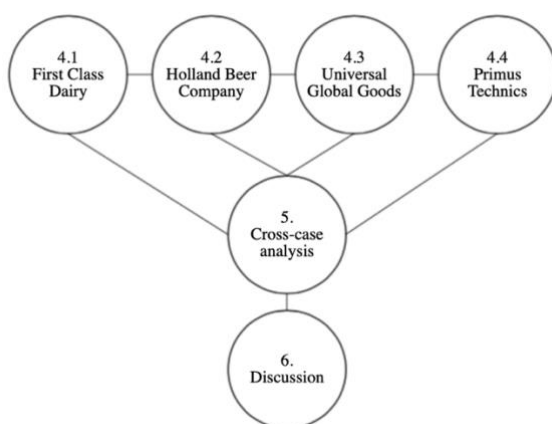


Figure 4.1 Within-case studies leading into cross-case analysis and discussion chapter

<sup>19</sup> The nature of the discoveries made raised a debate about whether to disclose company names. After considering various arguments, it was decided that pseudonyms were used to protect the identities of the participants and companies.

## 4.1 First Class Dairy

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First Class Dairy (FCD) is a multinational dairy cooperative headquartered in the Netherlands. With nearly 150 years of experience in the dairy industry and an annual revenue in excess of 12 billion euros, FCD is the world's leading dairy cooperative and part of the top ten largest dairy companies. The firm produces and sells consumer products such as dairy-based beverages and infant nutrition in many European countries, Asia and Africa via subsidiaries. FCD operates in more than 100 countries, employing nearly 25,000 people worldwide.

- *First Class Dairy's operations in Indonesia*

FCD's Indonesian subsidiary is a central pillar of their global operation and represents the firm's largest business outside the home market. Out of 34 subsidiaries, FCD was selected by HQ as their 'best-managed subsidiary' (Former CEO). The return on investment has been good, according to senior managers, although they feel that the integration into the market took a long time and required strong local relationships with government and business partners. The firm started exporting milk during the colonial period, in the 1920s, to supply the Dutch inhabitants with milk products. Nearly half a century later, in the 1970s, the firm established itself through a joint venture with a local conglomerate, when the Indonesian government required foreign dairy firms to set up a local condensed milk industry. Investment laws at the time required foreign firms to have a local partner; the Dutch were allowed to own 49 percent, which they since then increased to 95 percent<sup>20</sup> (FCD Annual Report, 2017).

FCD Indonesia operates as a subsidiary of FCD and has four strategic business areas: liquid milk, powdered milk, sweetened condensed milk and infant nutrition. Products are locally produced in two milk-production plants and sold through 22 sales offices to retail outlets in the archipelago. Headquartered in Jakarta, FCD Indonesia has a large market organisation. It employs over 2000 staff directly (and nearly 7,000 indirectly via distributors), and the senior management noted that they are planning to build a third, state-of-the-art production plant to keep up with increasing consumer demand. For years, the firm has been successful at maintaining their number one position in dairy, as a result of its strong footprint in the two largest dairy categories in Indonesia: drinking milk products and sweetened condensed milk (Euromonitor, 2017; 2018c). However, FCD's competitors are investing heavily in new dairy production facilities to anticipate further local consumer demand (Global Business Guide Indonesia, 2012). FCD is one of a number of competitors with significant market shares. However, despite increasing competition from both domestic companies and foreign MBEs, FCD is expected to maintain a leader position due to a positive brand image, wide-reaching distribution network and long-standing history in Indonesia (Euromonitor, 2017; 2018c).

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<sup>20</sup> Franko (1971) notes that foreign firms typically entered into such arrangements because localisation policies, as well as to manage risks associated with operating in challenging business environments.

- *The First Class Dairy Indonesia brand*

The company benefits from a long-standing reputation, its parent company Royal First Class Dairy started selling milk in Indonesia in the 1920s, which helps gain the trust of local stakeholder. The aim has been to create a consistent and recognisable image that represents the vision and values that FCD stands for. A major goal with this has been to align employees as well as business partners to the brand and to make them committed to support building the FCD brand and the values it represents. The firm was honoured by several awards, including the best foreign investment company in 2008, and the Green Industry Award from the Ministry of Industry of the Republic of Indonesia (2017 and 2018).

At the firm's Indonesian headquarters in Jakarta, both logos (from the holding company and subsidiary) are prominently displayed with the text 'Rayakan 95 tahun FCD' which translates to 'Celebrating 95 years FCD'. Local staff is proud of the firm's heritage of supplying milk to Indonesian consumers for nearly a century. The business is deeply integrated into the Indonesian society and has a high brand recognition, ranked at number four in the country with an 89.3 percent penetration<sup>21</sup> (Kantarworldpanel, 2017). Virtually all the organisation's members of staff are Indonesian, as well as seven out of nine directors. In 2015, the firm appointed its first native Indonesian country director since the firm was founded, which demonstrates not only the maturity of the Indonesian market but also their commitment to the market.

On the corporate level, FCD also works with CSR issues and in presenting the brand as socially responsible and ethical. This is done, for example, by relationships to non-governmental organisations (NGOs) and interest groups, such as the Global Dairy Platform (GDP), the Dairy Sustainability Framework (DSF) and the National Basketball Association (NBA). FCD also aligned its corporate social responsibility (CSR) agenda to support the realisation of several Sustainable Development Goals (SDGs) of the United Nations, which were unanimously adopted by countries in 2015. FCD this way is also a support in developing government relationships.

- *First Class Dairy's challenges in Indonesia*

The Indonesian market provides an example of the challenges that FCD can expect when developing the business in an emerging market. Indonesia can be characterised as having a progressive culture while at the same time highly, influenced by traditional and sometimes conservative cultural values. As a result, the Dutch firm needs to carefully manage interactions with critical stakeholders to gain trust and legitimacy on the local market. However, according to local directors in Indonesia, the main challenge for FCD is to influence the culture-based beliefs of individual households in the diverse archipelago. At 14 litres per capita, Indonesia's milk consumption is very low, not only compared to the firm's home market (the Dutch drink, on average, 150 litres of milk a year), but also low compared to consumption

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<sup>21</sup> The survey included 5700 households representing 28 million Indonesians.

in neighbouring countries; it's half of the consumption in Malaysia and only a quarter that of Singapore. However, given the sheer size of its population (273 million), Indonesia's low dairy per capita consumption of dairy implies a vast untapped pool of consumers.

According to local management, changing attitudes on how consumers perceive the importance of milk and how much they consume will be the main catalyst for growth. For this reason, a central part of driving the firm's business has been to educate consumers on the health benefits of dairy consumption. It should be noted here that the firm's operations are directly linked to food and health issues which are under government influence, stressing the importance of having strong ties to political actors. These are countrywide matters that underlie national government regulations and also sensitive issues. Overall, it can be quite complicated for a foreign MBE to navigate the Indonesian market. As explained by FCD's Operations Director, "*you have to be seen as a local player playing to the global standards because the xenophobic tendencies are quite high in this part of the world*". Consequently, relationships with leading non-business actors in the market are essential for gaining the support to achieve legitimacy in the Indonesian society - in the eyes of business partners, as well as political and social actors.

- *First Class Dairy's approach to managing interactions with social, political and business actors*

This case study investigates the firm's relationships with different types of political actors, such as governments and policymakers, as well as the relationships with various types of business partners and social actors. Each of the firm's strategies is discussed with regard to how they can assist the firm in approaching the three host-country pressures, namely the (I) *regulatory complexities* (4.1.1), (II) *cultural specificities* (4.1.2) and other (III) *subnational heterogeneity* (4.1.3).

#### **4.1.1 Host-country pressure I. Responding to regulatory complexities**

Indonesia is perceived to be complicated in several ways. First, there are several political decision levels which require multiple contacts with central as well as regional and local authorities. Second, Indonesia is considered to have a particularly complicated, complex and opaque regulatory structure. National policymakers also have a strong influence since FCD operations are directly linked to food and health issues in society. A number of decisions and regulations touch upon sensitive topics with country-wide implications. FCD obtained a strong foothold in the dairy industry, which according to its Operations Director, requires a proactive approach to negotiating regulations and industry standards,

*"FCD has always been at the forefront of the dairy industry in terms of helping them [policymakers] prepare the standards on how to grow the dairy industry. Our corporate affairs director and our legal director spent most of their time interacting with the various ministries telling them our position and the industry's position to guide this whole [regulatory] process".*

This shows how the company has positioned itself as an expert in dairy in Indonesia. As a result, they are able to present a strong voice to the national ministries directly or via different industry associations and interest groups, as well as to the country's National Agency of Drug and Food Control (NADFC), which is responsible for protecting public health through the control and supervision of food safety. When regulations are being developed, FCD directors can discuss and give feedback about its implications to the industry with NADFC representatives directly. At the same time, it can be a problem if FCD is too critical and offensive in questioning established norms. This may jeopardise the relationships the firm is trying to build.

During the interviews with local managers, one national regulation was stressed as being especially challenging: The Sugar Law, which was planned to come into effect in 2017, would influence FCD and the entire industry immensely. The Indonesian government tried to regulate the sugar trade by acting as an auctioneer between sugar suppliers and the industry-buyers. Many of FCD's products, including their best-selling product, sweetened condensed milk, require a significant amount of sugar. FCD tried to influence the political decisions based upon the consumer's point of view while pursuing the business interests of the firm.

The sugar price was expected to increase as "*a state-owned enterprise would be in the middle, and we would have to pay commission*" (Corporate Affairs Director). An increase in the price of sugar would directly increase the price for consumers, while milk consumption is already low in Indonesia. It is interesting to note that this view is very similar to a report from Euromonitor (2017), that discusses how firms need to recognise and saturate critical lower price points that will attract Indonesian mass consumers. In such cases, FCD would generally act in collaboration with other firms through industry associations. As a result of their combined lobbying efforts, the government eventually postponed the law until further notice (Ribka, 2017). Each of FCD's strategies that help manage regulatory challenges in Indonesia is shown in Figure 4.1.1

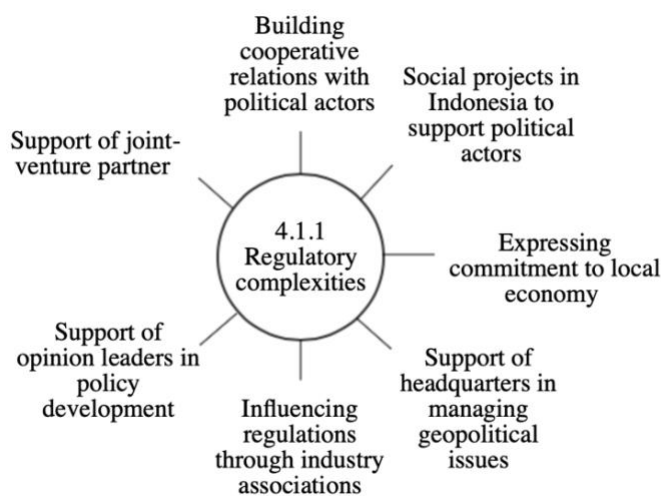


Figure 4.1.1 FCD's strategies for responding to regulatory complexities

- *Building cooperative relationships with political actors*

In Indonesia, considerable time has to be spent managing regulations and interacting with authorities. Local managers (i.e. host country nationals, hereafter HCN) understood not only how to establish relationships with government officials but also the way in which these relationships were altered with changes in the government or the ‘mood’ of the government officials. Participants further stressed the critical importance of establishing strong personal relationships with key decision-makers to navigating regulatory complexities because,

*“Without good relationships you may be unaware of what they [the government] require, in terms of documentation and compliance issues and you can get yourself a situation where you don’t want to be in. The rules are not always clear, there might be clear rules, but the way these rules are interpreted can be different, so it is important to understand these things. We spent so much time navigating and understanding the local rules and requirements”.*  
(Former Country Director).

The Corporate Affairs Director further notes,

*“In Indonesia, it is really essential to have this kind of relationship both informally and formally with government officials because when you have issues, you can ask them for support directly, you can WhatsApp the official and ask them how to best approach this. You need to build up such relationships over time; it doesn’t happen overnight*

Indonesia has a complicated political climate, which requires a relational approach to navigate. The appointment of the firm’s first HCN country director further strengthened FCD’s commitment to the market. However, until 2015, the firm’s directors have generally been Dutch expatriates, on a three-to-five-year assignment. According to several HCN managers, expatriate directors frequently changed, which made it difficult to build trustful relationships with key political actors that are required for a long-term approach. The Former Country Director recalled critical aspects of how the firm built relationships with government officials in Indonesia,

*“First, you need to build a relationship where you can discuss not only what you are doing, but also where they tell you what they want. You need to build these relationships with local [HCN] directors. Even though they [government officials] can speak English, they prefer to work with local people”.*

Several managers also stressed that given the preference of the firm's political actors to interact with Indonesian representatives, the subsidiary's country director, as well as the layer below, notably the Corporate Affairs director, need to have the right links with key political decision-makers. Currently, seven out of nine directors are HCN. Hiring HCN directors was crucial to understanding the local situation, as explained by the firm's Operations Director,

*“Indonesia is an umbrella for so many diverse cultures and belief systems. So, we have to ensure that we don't do anything which is against any religion or anything that can go wrong in this country... and that's the challenge. So, we use a lot of senior directors who are from Indonesia to help us with this”.*

Thus, although some Dutch expatriates were working at the Indonesian subsidiary (three, to be exact, during the researcher's time in Indonesia), the majority (99 percent) of employees were host country nationals (HCN), although there were also several third-country nationals (TCN) with specific skills to solve bottlenecks.

- *Expressing commitment to the local economy*

Local managers understood the conditions upon which the Indonesian government accord legitimacy, and therefore, they expressed their commitment to the market in their communication with governmental actors. It was, necessary, during meetings with political actors, to emphasise the firm's contributions to the local economy. FCD's former CEO interviewed for this study recalled

*“We contribute a lot to the Indonesian economy, in terms of tax, income for people and farmers, and buying local products. We are also the forerunner in terms of circular economy and safety, miles ahead of all the other firms. A country like Indonesia has a lot to gain from that. So, when you sit down with the government, these things help and will work to your advantage”.*

This also shows how a firm can adopt advanced CSR standards to manage relationships with political actors better. It further demonstrates how FCD can develop a status as an actor with expertise in socially relevant matters. At times, stressing FCD's contributions to the Indonesian economy was also a support on the firm's communications regarding potentially restrictive regulations.

- *Social projects in Indonesia to support political actors*

Food, its supply and nutritional value is a major issue for any government, but especially in Indonesia where the population is growing at an incredible speed. This makes the firm's knowledge about dairy and farming very relevant to the government's aim to improve food security. The local situation in

Indonesia gives FCD a lot of opportunities to draw the government's attention and interest to collaborate. A complementary strategy to influence political actors is by demonstrating how the firm may assist in managing important social problems, and in taking part in collaborative projects with social and political actors. These efforts are also regarded as valuable by FCD management due to the need to build legitimacy in society. As expressed by the firm's local Sales Manager,

*“One of the most important things for a multinational is that you're not seen as a company that is only here to profit from Indonesia, but that you also come to bring something. Milk is quite expensive here. Despite our milk coming from abroad, it's still cheaper compared to the milk here. But we feel like we have some sort of obligation to support the local population. And because not many private sector firms want to collaborate with local farmers in Indonesia, [FCD] has a unique opportunity to do good”.*

For emerging market governments, one of the significant benefits of foreign firms is to transfer their technology and knowledge to local firms. With the support of HQ, FCD Indonesia makes significant investments in developing the local farming industry in Indonesia, through a number of projects together with different social and political actors. One example mentioned by local management is the support of the firm's parent company in improving the efficiency and milk quality of Indonesian farmers. The Dairy Development Program is part of FCD's 2020 CSR policy, which calls for greater local involvement, in line with pressure from many governments to increase the domestic supply of milk<sup>22</sup>.

*“About 80 percent of milk is imported. There is a bit of local milk which we are helping develop, but we grow much faster than that the local supply of milk increases. It is important for us to develop the local farming industry. If you want to develop a country, the development of local milk industry is very important for several reasons. You create income for farmers, you reduce the foreign exchange that is necessary for buying milk. Locally you have Rupiahs who go to the farmers, but otherwise, the money goes to other countries, which is not good for the country's trade balance. Governments also find that important”.* (Former Country Director)

Approximately 80 percent of milk products are imported to Indonesia. Expanding domestic milk output has, therefore, become one of Indonesia's national objectives as it seeks to reduce its dependence

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<sup>22</sup> The Indonesian government targets to reach 40 percent of domestic milk needs by 2025 (currently approximately 20 percent); increasing milk consumption from 10 litres per capita in 2009 to 30 litres per capita in 2025; increasing the population of dairy cows to a minimum of eight per dairy farmer; increasing milk production to 20 litres / head / day, and; ultimately, increasing the welfare of local dairy farmers (USDA, 2014)



on imports (DBS, 2016). FCD collaborated with political and social actors to build up local farming through several initiatives. For instance, the firm built a modernised farm in which Indonesian farmers share the farm facilities and receive training from Dutch farmers to improve efficiency and boost milk quality and productivity. Political actors from home and host governments were involved in these projects. This may, in turn, provide FCD with increased power when dealing with political actors and trying to influence standards and regulations. In a way, the firm is driving the development of the commercial market in Indonesia as well as their own value chain. According to a former FCD Country Director, the collaboration in this programme was the basis for a good relationship with the local government<sup>23</sup>.

The firm also implemented several automated milk collection points in Indonesia, which enabled the firm's milk suppliers to raise the quality and quantity of their dairy production<sup>24</sup>. Here the firm collaborated with a university and business partners and also received financial support from the firm's home country (Dutch) government. By supporting the setting up of the collection points, FCD not only demonstrates their commitment to the dairy cooperatives but also increases the firm's general legitimacy in the society. As expressed by the local Operations Director,

*“The dairy cooperatives have member farmers in that region, which can be very political. The chairmen of these cooperatives are politically linked to the ministry of agriculture. It's a complete net like that. So, when we work with them [dairy cooperatives], immediately we inform the ministries. The ministers always come and see what we are doing. This helps our relationships with them. Every month I get about 40-60 articles where our name is mentioned, saying that we have been supporting in this region and that region. And that is the goodwill that will keep you sustained”.*

Again, building a set of supportive relationships with both the local dairy cooperatives and different layers of government helped to build trust to the FCD brand in the eyes of different societal actors. One other initiative mentioned by local managers was the firm's support to the country's ageing farmer population. The government recently drew attention to the ageing farmer population and how it is affecting their aim to increase milk self-sufficiency. The majority of dairy farmers in Indonesia only have small pieces of land with two or three cows. It is also hard work, scalability is also an issue, and the financial rewards are not highly perceived (FCD, CSR report, 2017). The firm's Young Farmers

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<sup>23</sup> FCD's efforts to improve dairy farming supports the government in several ways: apart from a higher level of self-sufficiency, building up local consumption and production are: better nutrition, particularly of young children, creation of income generating activities with a higher added value and a more regular income than food crop production, and creation of additional employment opportunities (Wouters, 2009).

<sup>24</sup> FCD collects milk from 17,000 farmers through 14 dairy cooperatives in Indonesia.

Programme is a dairy farming training programme for young people (i.e. farmers' children or livestock students), in which FCD provides training, counselling, and intensive supervision for three years. This is another initiative FCD management regards as especially valuable in the development of good relations with local governments.

*“The director-general of the Ministry of Industry came to one of our programs, it's called Young Farmers Academy because one of the government's challenges is the ageing population of the farmers. We invited the Ministry of Industry as a keynote speaker, they really appreciate our initiative, and they continue to visit our program in Bandung [Java]. They are very impressed because not many of the private sector firms want to collaborate with local farmers in Indonesia. Of course, we sell this program to the Ministry of Agriculture, and we say that we have worked with the local farmers. Now we are involved with the ministry in a discussion to create a regulation on the fresh milk”.* (Corporate Affairs Director)

This may, in turn, provide FCD with increased power when dealing with political actors and trying to influence standards and regulations. This example further illustrates how FCD can appear as an actor with expertise in socially relevant matters, and to augment their influence on certain political processes. These activities increase the firm's general legitimacy in the Indonesian society, as well as in the eyes of business partners and the government. The fact that FCD is willing to invest money as well as expertise can also be a source of power when negotiating with government representatives.

- *Support of headquarters in managing geopolitical issues*

Although most contacts with political actors are operationalised at the subsidiary level, HQ assists in managing local challenges in the different host countries in which they operate. HQ support, however, has varied significantly since FCD established themselves in the 1970s. A former country director took the helm of the Indonesian subsidiary in the late 1980s noted that, in those days, the local management team acted almost entirely autonomously. The management team consisted of a number of Dutch people who operated very entrepreneurial. HQ' strategies were discussed at the subsidiary level but just as easily dismissed by local management. However, when the same director headed the company once again, this time 20 years later, subsidiaries in Asia were controlled much more centrally, via the regional headquarters in Singapore, with assistance from the Dutch headquarters.

It was only when FCD appointed their new CEO, a former Unilever director, the company implemented a more centralised organisational structure. In this structure, strategies were often designed by headquarters rather than by the individual subsidiaries. During these years, most organisational areas including marketing, sales and finance, were directed from the firm's regional HQ in Singapore. However, despite this HQ assignment perspective, where HQ determine the strategy of the subsidiary, it is at the subsidiary level that the relationships with local actors are operationalised. Consequently, this

proved to be challenging as local directors were used to managing their subsidiaries relatively autonomous, which according to a Former Country Director made sense because “*countries like Indonesia, China, Thailand and the Philippines have very little in common*”. More recently, some of these divisions were again decentralised, except for some areas such as specialised nutrition, purchasing and IT. Today, most interaction goes directly to the Dutch HQ. To some extent, the Singapore office is today much more about coordinating rather than controlling. For instance, if challenges occur at the subsidiary level, Singapore assists by disseminating ‘lessons learned’ from other host market subsidiaries.

The firm’s Dutch HQ and regional HQ in Singapore assisted in managing the regulatory environment in the different host market subsidiaries in Asia. For instance, HQ provided specific guidelines or organisational values for subsidiaries to follow when dealing with foreign governments. The firm also relied on several instruments to enable practices of political knowledge transfer between their regional HQ and host market subsidiaries. Political knowledge was disseminated from subsidiaries in Asia through the regional HQ in Singapore on how to deal with major regulatory challenges. As expressed by one local director,

*“Let’s say Indonesia wants to impose a tax for sugar, how to deal with this? How we create a strategic stakeholder approach? We just contact Singapore and they already have best practices from let’s say Philippines and Thailand, and from that we can use their experience on how to approach these issues, about what works and what doesn’t work”.*

In terms of managing geopolitical issues, the firm’s Singapore office played an important role as a coordinator between the different subsidiaries operating in the region. In other words, by developing the subsidiaries’ political skills, the Singapore team assisted in managing interactions with foreign host market governments and increase their knowledge about local institutional conditions, which then fed back to other subsidiaries in the region.

- *Influencing regulations through industry associations*

The firm takes a proactive approach to collaborate with other firms to influence national policymakers. Lobbying to change national regulations is usually done through trade associations or interest groups involving other firms as well as FCD. According to local management, lobbying in collaboration with other firms gives more strength than to go and discuss policy matters as a single firm. In fact, without coordination between potentially affected firms, national policymakers are more easily able to impose regulations that can create disadvantages to FCD.

*“Importantly, it also depends on how many people are putting a coalition together. If the industry groups together we stand much stronger. Even if one [firm] is countering the government with different information, then we have a larger debate, and there are specialists in Indonesia who will also come forward and obviously everyone has an opinion... and the whole process takes much more time. But we are very active in those associations”*. Operations Director.

Through these associations, member firms provide their story to different members of the government and give input to potentially restrictive regulations. Together with other dairy companies, FCD would lobby against regulations that may, for instance, increase the price of packaging or raw materials, with the argument that it would increase the cost of consumers and limit the ability of the Indonesian consumer to buy products that are essential for their health. As a result, they might have to stop buying a certain product, e.g. milk, which the firm considers essential for a healthy diet. This way, FCD opposes the government’s activities by outlining the consumer’s point of view but at the same time supporting the industry’s interests.

One strategy to influence regulations is by taking an active role in the associations via FCD’s top management. As the Operations Director informed explained, it is common for directors to take a head position for their lobbying activities in relevant industry associations. For instance, FCD’s Country Director is the president of the Indonesian Dairy Association, while the firm is also an active member of several other industry associations and interest groups. The influence in these association gives the firm visibility as a committed and leading player in local business networks, as well as in the eyes of political actors.

Firms need to compromise between getting things done through other actors versus having long-term control and influence on business as well as political processes. While in the years after FCD established themselves, the firm first partnered with an influential local player, and the Dutch would remain in the background in terms of dealing with governmental actors. However, if the firm were to remain in the background, it would become increasingly dependent on local partners. Through the firm’s proactive approach to managing the regulatory environment, it seeks to achieve visibility and recognition as a corporate citizen that is desired from a long-term perspective. These trade-offs require increased consideration from a business as well as from a societal perspective when considering the roles and influence of the firm in local networks in Indonesia.

- *Support of opinion leaders in policy development*

The firm attempts to generate support from different opinion leaders who influence policymakers. According to local management in Indonesia, key opinion leaders (or more commonly ‘KOL’) play an important role in policy-shaping the regulatory environment in Indonesia. In the process of developing regulations, policymakers involve KOLs to help shape their regulations and to make sure it benefits the

right parties. Accordingly, FCD tries to influence the political decisions based upon the industry's and KOL's point of view, while pursuing the business interests of the firm. For instance, for regulations on milk, FCD involved dairy cooperatives (FCD's suppliers), as well other influential actors with expertise on dairy and farming when lobbying against specific government regulations that create competitive disadvantages.

*“We cannot influence policies directly because in Indonesia, the way they develop new regulations, they only invite experts, also called key opinion leaders, not industry players. Only after they have the first draft [of the regulation], they will have the first public hearing. During those private-public hearing, we can give feedback. In our [agriculture] sector, the KOLs are, of course, the head of the [dairy] cooperatives. We have a very close relationship with them, we can inform them about what the best practises are. We also engage some of the dairy farming experts from local universities, they are also KOLs; they are in direct contact with the Ministry of Agriculture. Ok, then we write our feedback and channel it through the association”.* Corporate Affairs Director.

The firm makes significant investments in their relationship with the cooperatives and the member farmers. An advantage here is that FCD's milk suppliers become more committed and thus a more loyal force in influencing public decision-makers. In turn, the long-standing partnership FCD has with their suppliers (dairy cooperatives), and other experts helped in managing potentially damaging regulations. Not only the firm's political capabilities, supported by HQ, but also the coordination with other firms, and the support of KOL's are critical in managing the regulatory environment in Indonesia.

- *Support from local joint-venture partner*

When FCD established itself in Indonesia in the late 1960s, foreign investment laws required FCD to have a local partner. The Dutch were allowed to have 49 percent of the shares. However, in 2003, FCD bought up the shares of one of owner's son's, boosting their ownership to 87 percent and more recently, they increased their ownership in FCD Indonesia to 95 percent. While in recent years, the local partner firm is no longer involved in the management of FCD, during Suharto's authoritarian regime (1965-1998) it was necessary to have an influential local partner with links to the government.

*“FCD is one of the companies that know how to do business in countries like Indonesia, in which a local partner can be a big asset. We have done that in many countries, in which the local partner has an important role, especially in terms of government relationships, lobbying, and understanding what is possible and what isn't. That was also the case with FCD when I first came there in the late 1980s. The partner played an important role in those things. They had direct links with president Suharto”.* Former Country Director.

The continued involvement of the former majority owner may be advantageous for foreign firms. As the influential local conglomerate shared the risks as well as the profits of the business, they also enhanced the firm's credibility as well as help alleviate potential adverse interference by local actors in Indonesia. According to the local Sales Manager,

*“They [local partner] are not involved in the daily operations. They have a conglomerate of other businesses, this [FCD] is something they invested in once, and it's quite profitable and they don't have to do much for it. But for us, it is very important that they are there. I know they are in the top ten of the richest families in Indonesia. They have the right connections and because of that things run a lot smoother. You have more credibility at certain parties, and they have an interest to protect the business and make sure certain things don't get out of hand... because then they will also have a problem, every quarter we transfer them a substantial amount of dividend”.*

Ownership arrangements are inherently unstable, and potential conflicts between the parent companies need to be managed carefully. Even though the local partner is not involved in the daily operations of the firm, they still have significant influence over some issues. Managing relations can be challenging, however, according to a former country director,

*“He [local partner] has the right to appoint directors and he has the veto right in a number of other matters. You can't ignore that. For people like him, it is not money that drives them, they have plenty. Influence and power are much more important. At the moment you cause trouble, in countries like Indonesia, other forces come to play. It is about emotions, if he feels betrayed, the value of a company can significantly decrease, he doesn't like that, but that's the price he is willing to pay. But he knows, for the Dutch that has much bigger impact”.* Former Country Director.

At the same time, power is fragile in an authoritarian regime. A Former Director notes that during the time of establishment, the local partner had direct links to President Suharto. However, after the Asian financial crisis, which culminated in the downfall of Suharto, the partner's once critical links to the government were tarnished. Since then, the local partner is no longer welcomed by important political actors. Currently, the firm's corporate affairs department handles all administrative and regulatory complexities and interactions with political actors.

#### 4.1.2 Host-country pressure II. Responding to cultural specificities

Indonesia is an interesting example of how milk was introduced first during the colonial era to supply the Dutch inhabitants, and later by the activities of MBEs. As far as the place of milk in the diet is concerned, a distinction can be made between traditionally dairying populations and populations without a dairy tradition (Harris, 1985). Marvin Harris (1985) even goes so far as to divide the world into lactophile (milk loving) and lactophobe (milk hating) populations, the latter mainly being found in Southeast Asia. Milk is considered as an essential element of the Dutch food culture, and where the Dutch established themselves, they wanted to maintain their milk-consuming habit. In the early twenties, canned milk products were first exported by FCD to Indonesia (then called The Netherlands East Indies).

Traditionally, Indonesia is not a dairy consuming region as a significant amount of the population is believed to be lactose intolerant<sup>25</sup> (Den Hartog, 2002). However, consuming milk products obtained a place in the diet of Indonesians. FCD has played a significant role in developing the market through their marketing efforts. Despite low consumption, milk remains highly valued by different societal actors in Indonesia for one crucial reason: drinking milk is believed to impact height and health, and having taller, healthier children and adults together make up a physically strong citizenry and a strong nation. As a result, Indonesia now represents the largest market outside FCD's home market. According to local management, relationships with local actors need to be established to shift attitudes on how consumers perceive the importance of milk and how much they consume, which is expected to be the primary catalyst for company growth. FCD's strategies to manage cultural specificities are shown in Figure 4.1.2.



Figure 4.1.2. FCD's strategies for responding to cultural specificities

- *Indonesia: a long-term approach to influencing cultural factors*

FCD established in Indonesia in the 1970s, but still struggles with cultural obstacles of local consumers. There are a number of factors that contribute to the low rate of milk consumption in Indonesia. Local managers in Indonesia suggest that this is due to the ingrained misperceptions consumers have about milk and dairy. For instance, many believe that drinking milk is only for babies or toddlers. A former director adds that lactose intolerance usually occurs when people stop drinking milk at a young age. As a result, the body is no longer able to digest dairy products easily. Accordingly, local management aims

<sup>25</sup> Even though Indonesia belongs largely to those regions where there was no milk-using tradition, there are exceptions. For instance, in Sumatra, people are known to consume buffalo milk.

to ensure the continuance of milk consumption among Indonesians. However, according to participants, it is difficult to reach and influence the culture-based beliefs of individual households. Therefore, FCD needs to influence their view of healthy nutrition more directly. Educational programmes that are in collaboration with political and social actors are part of this.

FCD was the first to introduce growing-up milk in Indonesia in 1988. In 2011, the firm reintroduced their growing-up milk with a new formula, based on a study conducted together with doctors from the University of Indonesia. Partnering with well-known medical experts helps to increase the legitimacy of the FCD brand and products. In the same year, FCD conducted a scientific study together with the Indonesian Nutritionists Association, which were translated into nutrition and lifestyle programs and school milk programs. For example, in Indonesia and several other Southeast markets, FCD partnered with the Junior National Basketball Association (NBA). In these countries, the firm created sports events for children, who together with parents and teachers received information about healthy nutrition patterns and an active lifestyle. The company also cooperated with NGOs and political actors in creating awareness for the FCD brand, while at the same time driving the demand for milk products. These activities have strengthened the firm's trustworthiness and their position in the market. Again, it shows how the firm may increase its legitimacy in the Indonesian context by taking part in social activities, as well as being associated with social actors such as NGOs. The firm may also enhance the legitimacy and prestige for those political actors associated with these projects. Again, these examples show that a firm needs to interact with different types of actors in order to achieve its strategic goals in an emerging market.

- *Building relationships with opinion leaders to educate consumers*

FCD strives to influence opinions about dairy consumption as well as the FCD brand through educational programmes with the support of different opinion leaders, while children and parents are involved as consumers. Influential health and nutrition experts can play an important role as opinion leaders and can thus assist the firm in influencing the general norms, values and behaviour of the society. FCD assumes that by communicating through opinion leaders, with their own respective networks and audiences, consumer preferences may be influenced in favour of the FCD brand. Through such efforts, FCD aims to improve the value proposition of their products through support from opinion leaders who will add trust to the FCD brand.

Opinion leaders provide the scientific data they present and provide trust to the efficacy of products they promote, which in turn legitimises the FCD brand. For example, the firm collaborated with medical experts to promote their products and initiated a school milk programme together with nutritionists to increase their awareness of the health advantages of dairy consumption.



*“Usually, we start by approaching nutritional experts to make a programme to roll out at schools, targeting children and teachers, and then we measure the changed behaviour of the children. In these programmes, we teach them about the importance of consuming milk and dairy on a daily basis. So, we educate consumers not only via television, but also via nutritional experts and the school programme, and through workshops with midwives and doctors”.* HR Director

Thus, FCD collaborates with a range of locally respected non-market actors in order to influence the behaviour of consumers. Developing important social projects will also increase the legitimacy of FCD in the eyes of different societal actors. In a way, FCD strived to gain legitimacy and be supported by actors who were considered to be independent. By initiating this type of dialogue, the firm can also gain increased commitment from political actors. The management in Indonesia assumed that a chain of influencers has to be convinced before gaining legitimacy on the market. One specific strategy of FCD is to approach opinion leaders such as nutritionists, midwives, paediatricians and medical doctors to help create awareness about the importance of dairy in a healthy diet. As expressed by the firm’s HR director,

*“We work with paediatricians, because there is a lot of baby food, so we train them in terms of how our milk is a replacer for when babies come off breast milk [...]. And they share their knowledge with their audience... through seminars, writing articles and blogs”.* FCD Director.

Such initiatives are attempts to generate support from different opinion leaders to add trust to the FCD brand, while at the same time increasing consumers’ awareness of the health advantages for milk products. Again, the firm aims to communicate its values through recognised opinion leaders (i.e. health experts), who with their own respective networks and audiences, may influence consumer preferences in favour of the FCD brand.

#### **4.1.3 Host-country pressure III. Responding to subnational heterogeneity**

Drinking milk in Indonesia used to be an urban middle-class phenomenon. However, consuming milk products is now ubiquitous among Indonesians as these products have found their way not only into the urban and peri-urban markets but also into the tokos<sup>26</sup> and warungs<sup>27</sup> in all corners across the archipelago. FCD’s operations extend deep into the bottom of the pyramid. To supply the entire population, however, FCD has to gain the support of local business partners and authorities. As a result of the heterogeneity in Indonesia’s regional institutions, business cannot be conducted in the same way

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<sup>26</sup> Shop in Indonesia of differing size with a great range of articles for sale.

<sup>27</sup> Small road-side wooden shacks in Indonesia with a varying range of the primary necessities of life.

throughout the country, and FCD faces different degrees of government intervention and hostility across regions. For instance, to prevent social upheaval near its production plants, FCD was required to build cooperative relations with local leaders and residents. Furthermore, FCD has to negotiate separately with local leaders to obtain its business licenses, at the regional level, where corruption is widespread. Finally, to supply the dispersed population with their products, FCD had to establish relationships with the right partners, who have the right connections, to reach end-users. FCD's strategies to manage challenges related to operating throughout the diverse archipelago are illustrated in Figure 4.1.3.

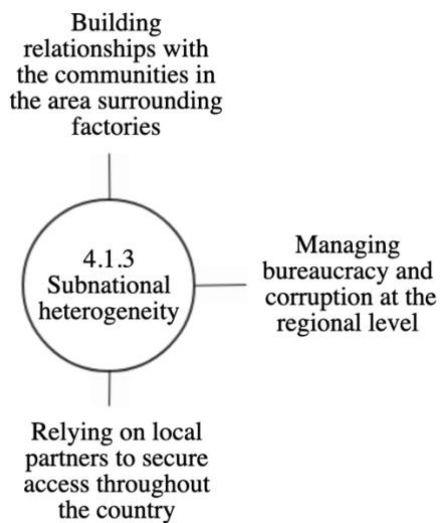


Figure 4.1.3 FCD's strategies for responding to subnational heterogeneity

- *Building relationships with communities in the areas surrounding factories*

In Indonesia, FCD established its factories and distributed its products in or to areas that are difficult to reach in terms of logistics and are often inaccessible without the support of local business partners and authorities. FCD has two production plants and is considering opening a third, state-of-the-art production plant, to manage increasing consumer demand, as well as to strengthen their attractiveness as a business partner and commitment to the Indonesian society. One regional challenge stressed by FCD managers concerned managing relationships with the local communities and their authorities surrounding their production plants. Especially for, but not limited to foreign MBEs, it is necessary to develop and maintain relationships with the communities near their factory premises. While most MBEs have moved their factories to an industrial estate, FCD's factories - who were once located in peri-rural areas - are today in the middle of crowded residential areas. The local Corporate Affairs Director notes that managing relations with local governments and communities can be challenging:

*“First, about the employment, for example, they ask ‘why do you not accept all of our people to your company?’ We do hire from the area surrounding our factory, but they have to follow the steps, we can’t hire everyone. But if you don’t have a relationship with the local district, then you will have some issues. For instance, they can organise a rally or protest near the factory. Second, about the waste management, this is the dairy industry, sometimes there is bad smell coming from factory, you know dairy, right? So, if you do not manage the community well, there will be rallies; they will storm right through the gate. Managing the community is especially important in this high-density area”.*

Since 2009, FCD professionalised its efforts by appointing a team to manage relations with the local governments and communities in the areas surrounding their factories. Regular meetings with the local governments are held to identify the issues residents have.

*“But if you talk about how we manage the local communities, for both of our plants, we are in the residential area. So how we manage that? Indeed, complaints from the locals [residents] will rise. We have a team that regularly engages with the head of the local kelurahan [district]. We, therefore, developed a programme with the district [government], through which our team regularly meets with the district head to map what the issues in this area are and then we try to solve it together. It is very important to have this relationship with the locals”.* Corporate Affairs Director.

Again, this demonstrates that relationships are crucial in FCD’s effort to grow and develop in the country. Therefore, the firm has devoted considerable resources to managing their relationship with neighbouring communities. For instance, residential children received nutritional support in the form of milk products. To do so, the firm partnered with Indonesian Nutritionists Association for local health workers. Besides offering work for local labour, training is given, especially to house-wives to generate extra income, e.g. by making handicrafts. The FCD team also assists in developing their marketing skills. Such programmes FCD management regards as especially valuable in the development of good relations with local governments and residents.

- *Managing bureaucracy and corruption at the regional level*

Particularly in rural and less institutionally developed parts of the country, MBEs face rampant corruption and bureaucracy and inhabitants that are suspicious of foreign firms. According to local management in Indonesia, one particular advantage of FCD’s well-connected joint venture partner *used to be* that obtaining licenses and permits for the factories was handled quickly. Especially in the years after establishment, the network and influence of FCD’s local partner played an important role. However, the local partner lost its influence after the downfall of Suharto (1998), and in recent years all

licences are arranged through FCD own team. Nevertheless, at the regional level, corruption is widespread, and its managers pointed to the firm's compass (code of conduct). The firm's Operations Director further explains,

*“Persistence. Persistence finally pays off. Government officials also don't want to be seen as stalling these multinationals for no reason. It's only a question of time, and then the patience wins. We try to create a healthy culture. We keep telling them our position, but we never diluted for the sake of getting any paper approved”.*

Obtaining licences from local bureaucrats was challenging at time but persistence eventually allowed the firm to succeed. It is also evident that, despite the advantages of a local partner, when the tide turns, insiders can become outsiders and connections can become liabilities.

- *Relying on local partners to secure access throughout the country*

To supply the dispersed population with their products, FCD established relationships with the right partners and actors in the local market to reach end-users. Since FCD first exported tinned milk products to Indonesia in the early twenties, the firm required the assistance of local partners with sufficient knowledge and influence in the local market. In 1930, the director of FCD undertook a five months market-research trip to Asia, where he travelled extensively in Indonesia. Interviews were held with Chinese wholesalers and keepers of the tokos and warungs, the link between FCD and the Indonesian consumer. The director quickly learned that relationships needed to be established with the Chinese wholesalers, who played a crucial role in distributing the products further into the various tokos and warungs in the towns and rural areas (Den Hartog, 1986). During the Suharto era (1965-1998), foreign firms were not allowed to have their own distribution company; instead, they were required to partner with local distributors. One of the advantages of FCD's joint-venture partner, a local conglomerate, was their distribution business.

*“There were a lot of things we couldn't do in those days. We could only have 49 percent of the shares, and we were not allowed to distribute our own products, but our partner had their own distribution company. They played a very important role”.* Former Country Director.

Even though today, foreign firms are allowed to have a majority stake in distribution and warehouse companies (Maulia, 2016), FCD focuses on its core business, i.e. producing and selling milk products, while outsourcing non-core activities, such as distribution, to third parties. However, transportation is dominated by smaller firms of limited capacity, and small traditional stores dominate retailing. Making products available to a dispersed (273 million) population requires FCD to supply the country's myriad retailers, which operate a combined 4.1 million stores (Magni, 2015). Even though modern trade

(hypermarkets, supermarkets and minimarkets) is increasing, 85 percent of consumer goods are still bought in traditional trade (toko, warung and traditional markets). FCD's network of partners includes distributors, logistic providers and retailers that reach the consumers. In total, the firm works with approximately 180 different distributors and three logistics providers, who assist in moving FCD products to over a million retail outlets across the archipelago. Interactions and dealings with local governments are managed through the distributors. The local HR Director noted that,

*“in each region, we work together with our business partner distributor; they arrange all the nitty-gritty, all the licenses and dealings with authorities. Of country, to do this, they need to have the right connections locally”.*

This shows how the firm needs to cooperate with locally well-connected partners to effectively supply the entire population. Indonesian consumers are spread out over thousands of islands in areas where FCD does not have the understanding, influence or connections to manage interactions with political actors, and therefore the firm has to rely on local partners.

#### 4.1.4 Case summary First Class Dairy

Figure 4.1.4 illustrates FCD's organisational practices and strategies with regard to how they link to the three host-country pressures.

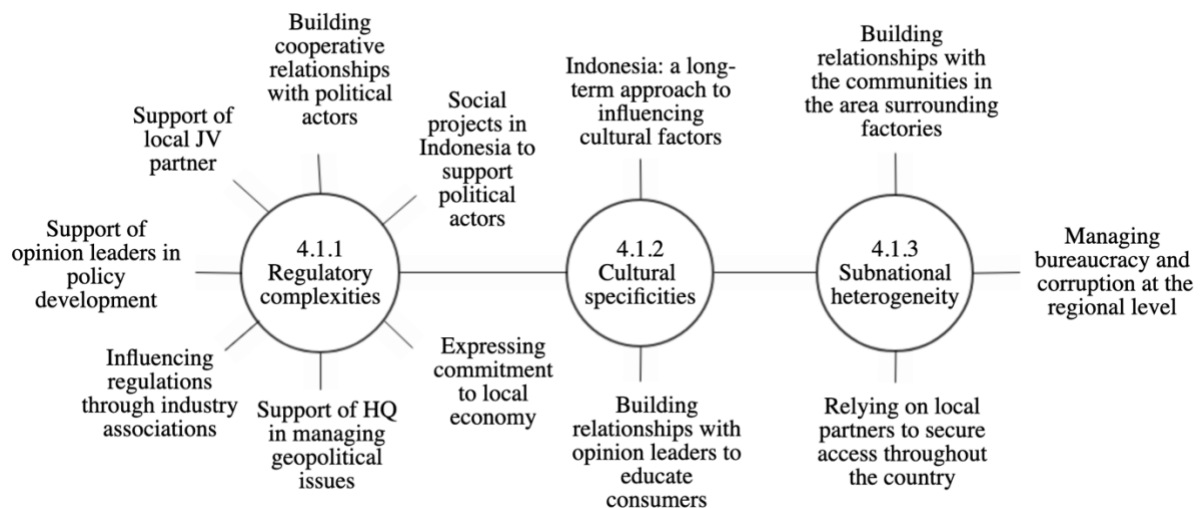


Figure 4.1.4 FCD's strategies for responding to host-country pressures in Indonesia

Findings of the case on FCD are summarised next. Firstly; it demonstrates how successful integration in the market required building legitimacy in the Indonesian society - in the eyes of business partners, as well as political and social actors. One part of achieving this was through development projects to build up local farming, which was seen as the basis for a good relationship with the host market's government. An advantage here is that the firm's partners became more committed and thus a

more loyal force in influencing public decision-makers. Seeking support and endorsement from local governments and NGOs in different social projects was a way of influencing perceptions regarding the firm's market offering. FCD's strategy to involve the government actively in, for example, CSR projects (aligned with the United Nation's SDGs) that concern local dairy farming and public health, illustrates this. FCD management regards such initiatives as valuable for demonstrating a commitment to developing the country, which helps built relationships based on trust and build legitimacy in the eyes of local stakeholders.

When the Dutch firm established itself as a joint venture in the early 1970s, the political network and influence of the firm's local partner played an important role. However, after the downfall of former President Suharto in 1998, all administrative and regulatory challenges are handled through the firm's internal political resources. Regional headquarters plays an important role in disseminating knowledge and best practices, which in turn fed back to other subsidiaries in the region.

Secondly, even though Indonesia is traditionally a region without a milk-consuming culture, the case study reveals how medical experts such as doctors, nutritionists and midwives have an important role as more general opinion leaders, and they can thus assist the firm in influencing the prevailing norms, values and behaviour of the society. By educating consumers and developing relationships with opinion leaders, the firm was able to change customer perceptions and behaviour in a way that makes the market more receptive to the firm's products and overall market offer. Thirdly, FCD established its factories and distributed its products in or to areas that are difficult to reach in terms of logistics and are often inaccessible without the support of local business partners and authorities. Therefore, offering work for local labour and setting up of different social projects helped FCD in managing relations with the communities in areas surrounding their factories.

To conclude, the case study described how the firm interacted with a variety of actors, namely political actors (e.g. such as governments, policymakers, district heads), as well as with business partners (e.g. joint venture partner and distributors) and social actors (e.g. NGOs, opinion leaders, schools, doctors, nutritionists and midwives) to gain support for its strategic goals in Indonesia. In detail, each of the firm's organisational practices and strategies, as well as the relationship with different types of actors have been discussed with regard to how they can assist the firm in navigating regulatory complexities, cultural specificities and subnational heterogeneity.



## 4.2 Holland Beer Company

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Holland Beer Company (HBC) was founded in the 1860s and has become one of the leading global beer brewers. Its products are sold in 150 countries, and the firm has established a significant presence in emerging markets. About one-quarter of its sales comes from the Asia Pacific and African regions (Annual report, 2018), which are its most rapidly growing markets. HBC's Indonesian subsidiary was founded when Indonesia was under the colonial rule of the Netherlands. The first brewery in Indonesia began commercial operations in the early 1930s and HBC has since controlled the majority of the Indonesian beer market. HBC produces and markets its premium beer brand as well as local brands, including its market-leading 'Indonesia bir' and a number of light and alcohol-free beers and ciders. The company is listed on the Indonesia Stock Exchange but is majority-owned by its Dutch parent company. HBC Indonesia also brews beer for a British alcoholic beverages company<sup>28</sup>. In recent years, the company has also been expanding its product portfolio in the soft drink category.

Indonesia is a central pillar of the firm's global business and is regarded as an attractive market. However, more than 90 percent of the population describe themselves as Muslim, and drinking alcohol is against Islamic dietary laws. According to local management, Indonesians drink less than one litre of beer a year. For comparison, the average Dutch person drinks about 70 litres per year (Statista, 2018). The sheer number of people, however, make Indonesia a lucrative market. The company had net sales of US\$255 million in 2018 and has a market capitalisation of more than US\$2 billion (Annual Report, 2018). An extensive sales and marketing footprint have been established across all major Indonesian cities, spanning from Sumatra to Papua (Euromonitor, 2018a). HBC's local market organisation has approximately 500 employees, and the brewer recently opened a third, state-of-the-art, US\$15 million production plant for non-alcoholic beverages (Internal presentation, attended 13-08-2018 at HBC's Indonesian HQ).

- *Holland Beer Company's operations in Indonesia*

Although this thesis is about how firms manage challenges in contemporary Indonesia, a brief description of HBC's history in Indonesia will provide context to the story that follows. Sluyterman and Bouwens (2015) describe a number of motives for HBC's internationalisation to Indonesia. Firstly, HBC's brewing expertise constituted ownership advantages in emerging markets only and not in advanced economies, where its competitors were equally knowledgeable. Secondly, as beer sales on the Dutch market were stagnating, the company looked for expansion outside the home market. HBC already exported to Indonesia for decades to supply Dutch expatriates, but the quality was affected, and

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<sup>28</sup> An interview with the Corporate Affairs Director of HBC's partner, an alcohol company from the UK, was conducted to investigate the firms' joint non-market efforts.



brewing locally would reduce costs. An Indonesian brewery offered the opportunity to serve the expatriate community with its premium beer brewed locally. Thirdly, the strong cultural, financial and educational links with Indonesia were considered as an advantage of doing business in Indonesia. The authors argue that the colony's administration and institutions were, to some extent, recreated by the mother country. Political risk was therefore low as the Dutch colonial administration treated Dutch firms favourably. In fact, Dutch firms benefitted from a "politically sympathetic environment" (p.105). Finally, they could rely on a network of personal relationships between the colony and its mother country. In other words, the liability of foreignness was relatively low, despite the major differences between the countries in terms of, for instance, climate and infrastructure development.

During World War II, the brewery was occupied by the Japanese army in 1942. HBC was able to regain control in 1946. Almost two decades later, in 1965, the brewery was again occupied, this time under Indonesian control, after the end of Dutch colonial rule. Indonesia's first president, Soekarno, was very averse to foreign investment, and HBC's operations were nationalised. However, when President Suharto took office in 1967, foreign investors were encouraged to invest in Indonesia, and HBC was one of the first to return<sup>29</sup>. The brewery was returned to its original owners in 1967 (HBC company website, 2018). It was soon after HBC management took back control over its brewery, a second brewery was built near the country's capital, which started operations in the early 1970s. This time, however, a different toolkit was needed to gain legitimacy in the eyes of host market actors that regard firms from their former colonial ruler with scepticism.

- *Indonesia's alcoholic beverages sector*

A short description of the sector in which HBC operates is relevant because it demonstrates the impact regulations can have on a particular industry. Even though alcohol has been produced and consumed in the archipelago for centuries<sup>30</sup> (Economist, 2017), it was during the Dutch colonial period (16th century-1942) when the Dutch brought their European drinking culture to Indonesia, most prominently with beer. Initially, to serve the expatriate community, HBC was the first to establish a brewery in Indonesia and can be considered to be one of the main contributors to developing the Indonesian beer market (Sluyterman & Bouwens, 2017). Delta Djakarta is another large brewer of the traditional Anker beer and currently majority-owned by San Miguel, although partly owned by the Indonesian government. However, as a result of rising conservatism vis-à-vis alcohol, Jakarta's governor announced to sell the

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<sup>29</sup> The agreement HBC reached with the government in 1967 stipulated that the board of directors of the Indonesian brewery should include at least two members of Indonesian nationality and two members of foreign nationality. A number of expatriates were allowed for a limited time for the rehabilitation and re-organisation of the brewery. However, daily management had to be executed by native Indonesians (Sluyterman & Bouwens, 2015).

<sup>30</sup> Alcohol has been consumed in Indonesia for centuries, and it is an integral part of cultural and religious ceremonies among several traditional communities in Bali, Sulawesi Flores and even in parts of Java are still producing their unique beverages. The Batak people, for example, consume tuak liquor in rituals related to birth and death (Putri, 2017).

government's stake in beer brewery Delta Djakarta (Indonesia investment, 2018b). The locally owned and Bali-based Bali Hai brewery is the third significant player on the market (Euromonitor, 2018a).

It is important to note that the alcohol market in Indonesia is protected from outside players. Firstly, the alcoholic beverages sector is on a government blacklist of products and services, including gambling that is deemed detrimental to society, which means that no new licenses to produce alcohol are given. Secondly, Indonesia is among the countries that apply high taxes on imported alcoholic beverages; in 2015, the import tax on alcohol jumped to 150 percent. Indonesia is likely to remain closed to overseas investment as changes to the law would spark strong protests from the country's Muslims (Lewis & Morales, 2010). Reflecting the Muslim-majority population, regulations on alcoholic drinks is tighter compared with many other countries in Southeast Asia. Therefore, the future performance of the alcoholic drinks market is heavily influenced by and relies on the decisions of policymakers. Furthermore, unique to Indonesia, are low-and non-alcoholic drinks, which have gained popularity as a result of the limitations by the government's restrictive regulations on selling alcohol in convenience stores (Euromonitor, 2018a).

- *The Holland Beer Company brand*

HBC owns a product portfolio which ranges across beers, cider and soft drinks and has nationwide distribution. According to Euromonitor (2019:1), HBC's brand is "*top-of-mind*" for many local and international consumers with its flagship brand 'Indonesia bir'. The brewer's premium beer that reflect its ownership is also attractive in Indonesia, where status and prestige are highly valued. HBC Indonesia has received a number of awards in recent years, including one of Indonesia's 'Best Public Companies', Indonesian 'Employer of Choice', and its iconic 'Indonesia bir' was awarded as the 'Most Valuable Indonesian Brand' in Indonesia and its local brand won a gold medal in an international beer competition.

- Holland Beer Company's challenges in Indonesia

Indonesia's cultural and political specificities pose significant challenges with regards to gaining acceptance of HBC's most central product area. A number of implications arise from selling alcoholic beverages in the country with the world's largest population of Muslims. Firstly, to appease the Islamic parties and pressure groups, the government applied restrictive measures on alcohol, including alcohol bans and restrictions. Secondly, Indonesians have a negative attitude towards alcohol, as many Muslims share Islamic dietary laws that prohibit consuming alcoholic beverages. As a result, Indonesians are very abstemious: they consume less than one litre of alcohol per head annually. Marketing activities are also highly regulated, and most forms of advertisement for alcohol are banned. Nevertheless, less-religious members of society, the non-Muslim community, as well as many of the foreign tourists consume alcoholic beverages. According to the firm's management, changing attitudes of local consumers

towards beer, and maintaining acceptance of key political actors will determine HBC's ability to survive and thrive in Indonesia.

- *HBC's approach to managing interactions with social, political and business actors*

The case study explores HBC's interactions with different types of political actors, such as the governments (central, provincial and district) as well as with business partners and opinion leaders. It also outlines the role business partners with influence can play in mitigating restrictive decisions by policymakers. Different relationship types, as well as the strategies and resources involved are discussed with regard to how they can assist HBC in approaching the three host-country pressures, namely the *regulatory complexities* (4.2.1), *cultural specificities* (4.2.2) and *subnational heterogeneity* (4.2.3).

#### **4.2.1 Host-country pressure I. Responding to regulatory complexities**

Political actors have a strong influence on HBC's operations due to their central product category, alcoholic beverages, which touches upon sensitive issues in society. The alcohol industry faces strong opposition from Islamic parties and pressure groups. Although Indonesia has traditionally been remarkably permissive, conservative Muslim groups have become more assertive in pushing an Islamist agenda since the rebirth of democracy in 1998 (Cochrane, 2016). This rising conservatism is evident in law-making and decision-making related to the sales, marketing, distribution, and import of alcoholic beverages (Indonesia Investment, 2019). HBC has been rather unsuccessful in preventing damaging policies. Despite continuous efforts of the firm to prevent harmful policies, significant alcohol restrictions were promulgated in 2015, and in the same year, parliament proposed a bill to completely ban the sale of alcohol in the Muslim majority country.

Specifically, one national regulation influences HBC and the entire industry immensely. Permendag No 06/M-DAG/PER/1/2015 came into effect on the 16th of April 2015, which prohibits the sale of drinks that have an alcohol content ranging between 1 to 5 percent in the nation's convenience stores (approximately 70,000) where most Indonesians buy their groceries<sup>31</sup> (Indonesia Investment, 2016), in an effort to "protect the morals and culture of Indonesian society" (Indonesia Investments, 2018b). Although the government minister who issued the decree has since been sacked, his ban remains in place. Alcoholic beverages can still be bought in big supermarkets and hypermarkets, but the restriction amounted to prohibition in smaller towns where such outlets are scarce (The Guardian, 2015). HBC's Finance Director described the decision as a "*bolt in the blue*", and the Country Director adds that the chance of getting the law reversed in the current political 'mood' is unlikely<sup>32</sup>.

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<sup>31</sup> Previously, sales of beverages with an alcohol content higher than five percent had already been banned from minimarkets and kiosks.

<sup>32</sup> In this vein, Bouchies and Hadiz (2015) note that regulations must be consistent, so that what is done with the right hand is not undone with the left. Inconsistent legislation will in the long-term turn the country into a 'leaking ship', and the benefits of development will drain away.

According to HBC's annual report (2015), the subsidiary's net income decreased by 37 percent compared to the year before. However, Muslim parties in parliament are still not satisfied. Politicians are now pushing for a "total ban on the production, distribution and consumption of all alcoholic beverages"<sup>33</sup> (Economist, 2015). It is therefore not surprising that the growth of HBC Indonesia will be heavily influenced by lawmakers (Euromonitor, 2018a). Preventing further restrictive policies will require new ways of interacting with business partners and authorities, and HBC is required to develop capabilities that are more suited to dealing with the specific context. Put differently, legitimacy is hard-earned and requires a thought-through non-market strategy involving HBC's partners, as well as social and political actors. In detail, each of the firm's organisational practices and strategies, as well as the relationship with different types of actors will be discussed with regard to how they can assist the firm in approaching HBC's challenging regulatory environment (see Figure 4.2.1).

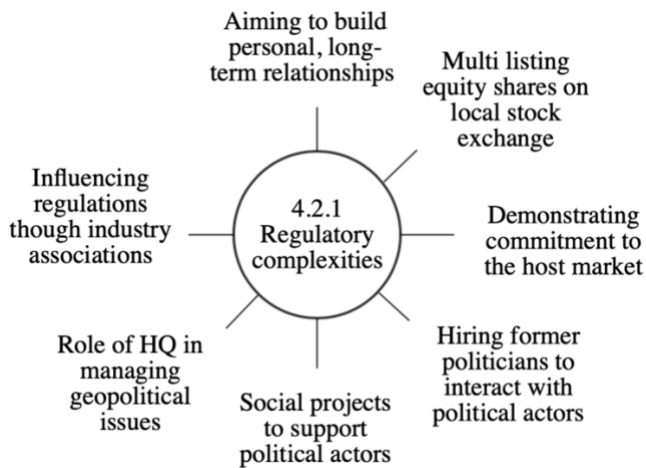


Figure 4.2.1 HBC's strategies for responding to regulatory complexities

- *Aiming to build personal, long-term relationships with political actors*

As is customary in many emerging markets, the participants were required to develop personal, long-term relationships with host governmental actors. One phrase, in particular, demonstrates the importance of political relationships accurately, "In the end, everything boils down to government relations" (Former CEO). To develop personal relationships, participants noted that it is essential to have an awareness of the political, cultural, educational or religious background of the counterpart. HBC's Finance Director stated,

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<sup>33</sup> The alcohol prohibition bill was put forward by two Islamist parties – the United Development Party and the Prosperous Justice Party. The House of Representatives (DPR) had included the bill in their top priorities for endorsement in 2016. In time of writing (November 2019) the bill is still being debated by the House of Representatives.

*“It helps if you know someone who is at the same political party, from the same university, or from the same city, that’s the way it works here”.*

The Supply Chain Director further added,

*“They [government officials] prefer in most instances that there is a local director. And actually, if there is a local director who is a Muslim, it is even better”.*

The participants explained that Indonesian tend to make decisions on a personal basis, and a similar background could benefit the establishment of a cooperative relationship.

- *Multi-listing equity shares on host market stock exchange*

Participants acknowledged that HBC, and foreign firms in general, are often regarded with scepticism by political actors. The government often engages in target-specific policy interventions, and participants emphasised the need to gain social acceptance and credibility in the market. For this reason, among others, HBC listed equity shares on the Jakarta Stock Exchange, which helped the firm in becoming ‘localised’, in the eyes of political actors, media and the general public.

*“HBC has about 80 percent of the shares, the other 20 percent are listed on the Jakarta Stock Exchange. We have a different logo; the whole company is a standalone organisation. That is important to realise, yes [HBC] is the majority shareholder, but it is also an Indonesian company with Indonesian shareholders. Of course, these things help us in our relationship with the government and the media”.*

Thus, listing shares on the local stock exchange was likely to have sped up HBC’s localisation strategy after their re-establishment. Given that the firm was once nationalised, it understood the importance of gaining public acceptance.

- *Demonstrating commitment to the host market*

HBC’s directors understood the criteria upon which the Indonesian government accord legitimacy, and thus, they expressed their commitment to the market in their communication with governmental actors. For example, since a law that prevents HBC from selling beer in convenience stores came into effect in 2015, HBC has invested heavily in a new factory producing non-alcoholic beverages. Local management in Indonesia explained that future investments in line with widely accepted values helped HBC demonstrate commitment and build trust in the eyes of political actors.

An unexpected but noteworthy example of demonstrating commitment to the government’s national goals relates to HBC’s publicising of its export-activities. In recent years, HBC started

exporting its locally produced ‘Indonesia bir’ to several new markets, which helped create ‘goodwill’ in the eyes of political actors. As expressed by HBC’s Marketing Director:

*“It is also interesting how we create a sort of goodwill. Look, for Indonesians it is very important that Indonesia is put on the map globally. One of the government’s national goals is increasing exports, which is currently still very limited. Indonesia also tries to attract foreign currency through exports. We create goodwill because we penetrated two new markets this year. We create huge events for this at our brewery. Of course, we invited the ministers and ambassadors of both countries and also the press. There was an article with a picture in the Jakarta Post with ministers and ambassadors of both countries. They are very happy with that because we also create awareness for Indonesia abroad. Is that really the biggest business opportunity for us? I wouldn’t say that... This is for our PR and for our relationship with the government - this is really important”.*

This example shows how a firm can build its relationship with local politicians, the media and the public through, for instance, PR and events. By inviting political actors to take part, the firms also generated increased legitimacy.

- *Hiring former politicians to manage interactions with political actors*

HBC’s management is cautious and aware of how their operations could be affected by political changes in power that could affect their license to operate. As a result, HBC appointed a former Indonesian minister on its board of commissionaires to function as business advisers in the matter of socio-political activities. It is HBC’s supervisory boards’ political experience that provides the firm with the insights and connections to navigate the socio-political landscape. As expressed by the Indonesian Country Director,

*“to give us insights about the culture, political dynamics and their perspectives of why things are [...] they have their network of contacts that would basically do the introductions, and sometimes because they write the letter as an introduction for a meeting will help us to get the meeting”.*

The opaque nature of Indonesia’s political environment can be better understood by directors with ministerial experience. A quote from HBC’s Supply Chain Director further illustrates the necessity of having political connections,

*“you should know the structure of government; you have the echelon one and echelon two leadership, those are basically the think tanks for the ministers. You must also have access to these layers. The more you know, the more doors you can open. You must know how they debate how they do things, so you are feeding in the right information to the right layers”.*

Thus, given the country’s relationship-based culture and the need for political connections, HBC was able to benefit from its board political capital. As a result, the firm is more likely to realise access to local politicians, which helped prevent restrictive regulations.

- *Social projects in Indonesia to support political actors*

HBC aims to establish a role as a corporate citizen with social responsibilities and respect for cultural values. It, therefore, collaborates with two ministries in a programme that raises environmental awareness in schools. Other efforts include reducing its corporate footprint; the brewer aims to run its factories entirely on renewable energy by 2020. As a complement, the firm collaborates with NGOs and invites political actors to take part in programmes that help to change behaviours and reduce negative impacts on the environment, including planting trees and building bio pores to promote surface water infiltration (CSR report, 2017). Such efforts are actively communicated to, for instance, the media and NGOs who track its practices. HBC’s management in Indonesia suggests that direct collaborations on projects that support the country’s SDGs strengthens the relationship with the government, improves the credibility of HBC and increases the chance to be heard when HBC presents an opposition against the government’s regulatory decision-makers.

- *Support of headquarters in managing geopolitical issues*

Global HQ (Amsterdam) assessed the political environment in the operating countries and tasked subsidiaries to build a cooperative relationship with the host government. As part of the firm’s yearly update, the political risk will be assessed by the individual subsidiaries first, before being presented to HQ. As HBC’s CEO stated,

*“Globally, when we look at it, we have a better overview of what happens in different regions, because everywhere it is different right? [...] and obviously in terms of geopolitics in Asia, you always look at what happens in Indonesia, what happens in Malaysia, what is the latest in the election in Cambodia. Those are the things that you look at, and how does that impact on our business or the potential risk that we see. [...] in every country we do our geopolitical updates, because country directors know things best. Then, as part of our strategic planning process, every year we do it for the next three years horizon, that covers a whole lot of different areas, it covers geopolitics, it talks about currency trends, etc. Less operational issues, more strategic issues”.*

The political environment was one part of the yearly assessment. Furthermore, despite the uniqueness of the Indonesian market, HBC leveraged knowledge and experience gained in other emerging markets. For instance, as HBC's former CEO recalled, subsidiaries could call upon directors who had previously worked in or had experience with similar conditions in other emerging markets,

*“A finance manager who worked in Congo flew directly to Jakarta and helped our team out. For these things, large multinationals are very useful. Corporate guidelines don't tell you about how to deal with these issues”.*

As a result of the MBE's global operations, HBC Indonesia was able to benefit from its employees' extensive experience. Previous experiences gained in other emerging markets thus allowed the firm to tackle issues in Indonesia.

- *Influencing regulations through industry associations*

HBC is a member of multiple industry associations, and the firm's top management takes a leading role by serving as board members. For instance, together with its competitors, HBC formed the Indonesian Malt Beverage Producers Association to voice out concerns and interact as a unified body with political actors. A concerted position was deemed necessary when lobbying against regulations in Indonesia. For instance, after the sales of beer in convenience stores came into effect, the Indonesian Malt Beverage Association was able to lobby an exception for Indonesia's holiday destinations, Bali, which depends on tourism<sup>34</sup>.

#### **4.2.2 Host-country pressure II. Responding to cultural specificities**

Indonesia's cultural specificities pose significant challenges with regards to gaining acceptance of HBC's most central product area, alcoholic beverages. Like other food products, beer is influenced by local cultures and traditions, and the regional origin of the product plays an important role in the buyer's perception (Meyer & Thu Tran, 2006). Even though alcohol has been produced and consumed in the archipelago for centuries (The Economist, 2017), it was during the colonial period when the Dutch brought its drinking culture to Indonesia, most prominently with beer. Initially, to serve the expatriate community, HBC was the first to establish a brewery in Indonesia and can be considered to be one of the main contributors to developing the Indonesian beer market. However, many Indonesians have a negative attitude towards alcohol as Muslims share Islamic dietary laws that prohibit consuming

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<sup>34</sup> The minister who proposed the law faced strong opposition from the local business association in Bali, whose revenue depends heavily on tourists and the sale of beer. According to the firm's CEO, when the minister travelled to Bali to defend his proposed regulation, *“there were a few hundred Balinese businessman who dressed up in traditional warrior outfit. And they were scolding him”.*



alcoholic beverages. As a result, Indonesians are very abstemious and consume less than one litre of alcohol per head annually (compared to 77 litres Dutch people drink, on average, each year). Marketing activities are also highly regulated, and most forms of advertisement for alcohol are banned. According to the firm's Finance Director, "*drinking beer is frowned upon by most of the country's Muslims*", which undermines sales of alcoholic beverages in Indonesia.

At the same time, there are millions of Muslims do not follow Islamic principles strictly, and evidence shows that beer consumption has risen in recent years, especially in the urban regions as it had become part of the urban lifestyle. According to a report by Euromonitor (2018a:2), "The rapid urbanisation in larger cities, which associate moderate drinking with one's lifestyle and social standards, public acceptance of drinking in public has increased, and the negative stigma has faded, especially in major cities and tourist areas". To survive and thrive, HBC must, therefore, engage in a balancing act of tapping into the rising consumer demand and developing the market further, while at the same time appeasing lawmakers and developing a status as a responsible alcohol company. Therefore, HBC engages in educational efforts, involving business actors as well as those from the social and political sphere, and builds relationships with opinion leaders, to help legitimise HBC's brand and products. Figure 4.2.2 illustrates HBC's strategies with regard to how they link to managing cultural specificities.



Figure 4.2.2 HBC's strategies for responding to cultural specificities

- *Building relationships with opinion leaders to influence consumers*

HBC operates in a market where marketing activities are highly regulated, and most forms of advertisement for alcohol are banned. As the firm is not allowed to openly advertise for its alcoholic beverages, through for instance television commercials or billboards, HBC needs to be creative in its efforts to develop the beer market. One approach includes seeking the support of recognised opinion-leaders. The firm's Marketing Director describes the role of KOLs,

*KOLs have an important role. For our alcoholic drinks we are not allowed advertise on television, or billboards. The role of KOLs is very important because it's not a direct expression of a brand but a KOL who tells about your brand, is your brand ambassador, that is something we do quite often and what works well. Because through the network of the KOLs, who have their own audiences, can reach their own target market but in a sort of natural and personal way. We use KOLs for events, that they come to events and later write about it. That's what we do regularly".*

HBC engages with an audience, including a community of beer enthusiasts, culinary experts, bloggers, who share positive stories and facts about HBC's product category. One specific strategy of HBC is to approach and support beer enthusiast and culinary experts through resources such as knowledge and investments. For instance, the firm sponsored a book by a renowned Indonesian food critic to strengthen the concept of pairing beer with food (Annual report, 2018). HBC also sends its brewers to speak at events organised by consumer groups. As a result, the firm was able to reach a higher number of customers and influence consumer attitudes in favour of HBC's brand and products.

Again, these activities demonstrate that different types of actors need to be convinced before getting legitimacy in the market. However, the firm's management understands that their ability to influence norms, beliefs and opinions in a society depends on the legitimacy and support that they can get from different socio-political stakeholders. It is also favourable for HBC when consumer attitudes are more open towards beer consumption because socio-political actors, who depend on groups like the media and the public at large, are likely to reflect consumers attitudes. To appease those in the political sphere, HBC engages in educational efforts to change their opinions towards consuming alcohol, which will be discussed next.

- *Educating partners and authorities to gain acceptance of HBC's product offering*

Acceptance of HBC's product offering is vital for the company to grow and develop in Indonesia. For this reason, HBC invests significant resources in educating different stakeholders, involving business actors as well as those from the social and political sphere. For instance, HBC's initiatives include educational programmes with the support of various network partners to ensure that alcohol is not served to underage consumers. This includes promoting the legal drinking age through the firm's '21-awareness' campaigns. The firm's management suggests that their efforts to educate partners to manage the country's underage drinking problem help gain acceptance in the eyes of political actors and pressure groups. Being seen as a responsible alcohol company is essential in gaining acceptance from different legitimisers.

As the future performance of HBC is heavily influenced by and relies on the decisions of lawmakers, HBC also takes an educating role towards political actors. For instance, by involving medical experts to provide an evidence-based approach about the dangers of methanol poisoning of alcohol distilled at home, while at the same time stressing the firm's commitment to be a responsible alcohol company. Due to recent alcohol restrictions, deaths resulting from black market alcohol have risen more than 200 percent since the ban took effect (Jakarta Post, 2016). As expressed by HBC's Marketing Director:

*“Our president director and corporate affairs director do a lot in terms of building relationships politically. There are a lot of people dying or getting sick due to the fact that they drink locally distilled alcohol. We have an educating and informing role towards not only the government, but also the police. We also involve the medical community to explain to them what the facts are, the damage comes from the methanol, not the ethanol”.*

The example also illustrates how HBC can appear as an actor with expertise in socially relevant matters. Given that HBC’s development in Indonesia depends heavily on the government, it is critical to collaborate with experts and present their story to different members of the government. Anti-alcohol politicians often blame alcohol companies for deaths related to drinking illegal alcohol. To convey the message that locally distilled alcohol causes deaths, not beer, HBC involves universities and medical professionals. Involving social actors (i.e. universities and medical professionals) helps HBC to present a strong force in changing attitudes towards the consumption of beer. It also shows that by driving projects with a social interest and by inviting political actors to take part, HBC can increase its legitimacy.

**4.2.3 Host-country pressure III.** Responding to subnational heterogeneity in the diverse archipelago Since the enactments of the decentralisation law in 1999, each of the 416 regencies are taking responsibility for their own affairs through locally elected officials. As a result, HBC has to negotiate separately with local leaders for critical resources in the areas in which its factories are located. For instance, factory licences are no longer obtained at the central government level, but in the region where the factory is located. However, in Indonesia, business cannot be conducted in the same way throughout the country, and HBCs faces different degrees of government intervention and hostility across regions. For instance, one critical challenge concerns developing and maintaining harmonious relationships with local communities and their authorities surrounding the MBEs production plants. Another consequence of the decentralisation coupled with rising conservatism is that in some regions, local alcohol bans are imposed, based on the presumption that they are contrary to religious norms and social wellbeing. Whereas HBC gained influence at the central-government level, in far-flung parts of the country the firm does not have the understanding of or influence upon local leaders. In remote regions, HBC has to collaborate with well-connected local distributors to reduce the harmful effects of political decisions, but also to secure new business. Figure 4.2.3 shows three of HBC’s strategies to managing subnational heterogeneity in the diverse archipelago.

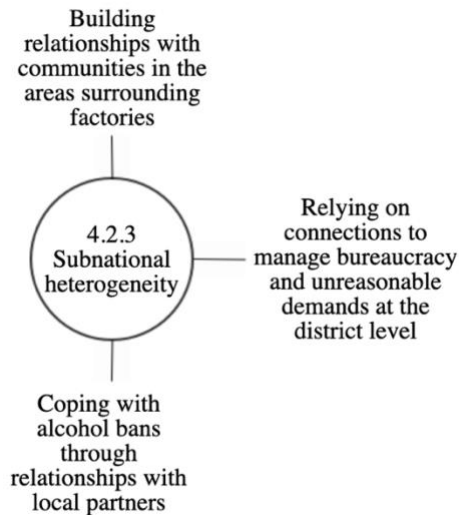


Figure 4.2.3 HBC’s strategies for responding to subnational heterogeneity

- *Building relationships with communities in the areas surrounding factories*

HBC’s Indonesian operations comprise two breweries to make alcoholic beverages, one near Jakarta and in East Java and a factory to produce non-alcoholic drinks in East Java. According to HBC’s management, it is necessary to engage with local communities surrounding the MBEs factories and gain the support of local authorities. Due to previous experiences, HBC devoted considerable resources to building and maintaining these relations. As recalled by HBC’s Former CEO,

*“After our offices were plundered during the riots and things calmed down, we initiated a number of social initiatives to build good relations with the community”.*

Without such efforts, participants explained that foreign MBEs might face problems with residents. As explained by HBC’s Supply Chain Director,

*“They protest, outside your gate and stop your business. That’s what you get - they will sit outside your gate. And you cannot touch them. And when they sit outside your gate, you better make sure water and food are provided. If they are not taken care of, you are blamed. When the police come, you can start the negotiation. Normally, when they have some cash problem, they will always give some excuse to say if you don’t pay, they will protest. Then you have to sit down with the head of the community”.*

HBC’s social contributions include distributing meat for national events and religious festivities as well as financial donations to families, orphans and senior citizens, facilitated with the support of the local government and military. The firm also supported the construction and renovation of schools and Muslim prayer spaces and provided milk and nutrition supplements for children through local health

clinics (Annual report, 2018). These are the type of programmes the MBEs regard as especially valuable in the development of cooperative relations with local governments and residents. As expressed by HBC's Finance Director,

*“Our sustainability agenda is very important, we try to build a relationship with the local communities, for example in the local communities where we have our breweries, where we organise buka puasa dinners [first meal after fasting during Ramadan] with the local villages, or we organise a water day or a run. We are a producer, but we organise this so that people see us as a positive contributor to society, not only negative”.*

Thus, as a result of HBC's social initiatives, it was able to build a better relationship with the local communities surrounding factory premises. Again, HBC's management stressed that without an engagement with the community, factory operations might be substantially hampered.

- *Relying on connections to manage bureaucracy and unreasonable demands at the district level*

As is customary in many emerging markets, issuing permits and other bureaucratic processes may take a long time. After the country's decentralisation, local governments have become in charge of business licensing, which made corruption and bureaucracy widespread at the regional level. Although the MBEs stressed that persistence is essential in securing licenses, HBC was able to leverage its connections to speed up the process. As HBC's Former CEO recalled,

*“Having the right connections was invaluable in getting the permits and licences required. Without the connections that would have taken years”.*

Through HBC's directors' network, the firm was usually able to protect itself from unreasonable demands and, at times, leveraging their connections to deal with “*undesirable interference*” (Former CEO). However, when HBC applied to extend licenses for its factory in the early 2000s, the firm faced an unreasonable demand of a local mayor. According to the firm's Former CEO, the local mayor demanded,

*“millions in sponsorship money to set up a football team. Of course, we couldn't pay that. We got the Dutch ambassador here as well as Dutch Ministers involved, who helped lobby the government and eventually, we got the licenses”.*

Resolving such issues was mostly handled by the firms' top management who relied on their personal connections with home governmental actors to help them access key foreign governmental

actors. Eventually, with the support of the Dutch government, the firm was able to settle the matter without engaging in corrupt practices.

- *Coping with alcohol bans through relationships with network partners*

Since the decentralisation of power in Indonesia, several regional governments have promulgated alcohol bans on issues of religion and morality. These ‘Islamising regulations’, also referred to as ‘Perda Syariah’, seek to regulate a range of issues, including the sale or consumption of alcohol in a public place, based on the presumption that the use of alcohol is contrary to religious norms and social well-being (Lindsey & Pausacker, 2016). In response, HBC mobilises its network partners to respond to subnational heterogeneity in remote parts of the country where the firm does not have the understanding of or influence upon local leaders. To cope with Islamising regulations that ban the sale and consumption of alcohol entirely in a number of districts, HBC supports its network partners by, for instance, the setting up of a business association and offering legal support to lobby local authorities against potentially harmful regulations. As described by the firm’s Finance Director,

*“What we do is, for that sort of issues, through our local sales team there, or local distributor, who should also have a lot of connections, try to influence. Or do a sort of local activation, because we, ourselves are not able to influence much there. For example, if a local government tries to ban alcohol, that’s not only a problem for us, we are only the supplier of alcohol, but also for the local restaurants, bars, distributors and associations. So, what we do is try to help them by telling them you have to organise yourself, you have to establish an industry association, then you have to lobby and talk with such and such or organise a small demonstration. These are the arguments you should use”.*

Thus, HBC offered background support to local distributors, bars and restaurants. Although HBC realises that local actors have more influence upon local leaders, the company proactively collaborates and supports its partners to be able to influence the decision-making of local authorities. In some cases, HBC takes a joint-approach together with its partner – an alcohol company from the UK. The partner’s Corporate Affairs Director added,

*“So, we engage with them [local authorities] directly, as well as via the hotel and restaurant association. They often have the contacts to lobby the local government. And we support them. In some areas we succeed, in others, we don’t”.* (Corporate Affairs Director of a UK alcoholic beverages company)

Rather than being merely reactive, HBC also collaborates with well-connected distributors to reverse bans that were already in place. Through their political network, it was not only possible to

reduce the harmful effects of political decisions, but also to secure new business. In other words, the firm takes a proactive approach and tries to influence policymakers and regulators, rather than reactive and simply following to and adapting to local regulations and policies. As explained by HBC’s Marketing Director,

*“Before we used to work with a distributor who was not well connected locally, and did not have a good relationship with the local police and the local politicians, so it was very difficult for that person, while now we have a new distributor who has built a very good network. And what you also see is that we have a lot of cafes who initially did not have a license and did not serve alcohol, but the new distributor, because he has the right relationships, now we can get a license for those coffee shops and sell alcohol. This is very bottom-up. It is allowed because there is trust between those people and they trust that things are kept under control by the distributor. We do this through third parties we collaborate with. It is crucial that they have the right relationships at the local level”.*

It is interesting to see how HBC tried to mobilise network partners as a support in interactions with political actors at the local level. Due to the distributor’s relationship with the local government, built on trust, HBC was able to expand its market in areas it was previously not allowed. Again, this shows that there is a need to collaborate with other firms to succeed in the Indonesian market.

#### 4.2.4 Case summary Holland Beer Company

Figure 4.2.4 illustrates HBC’s strategies with regard to how they link to the three host-country pressures.

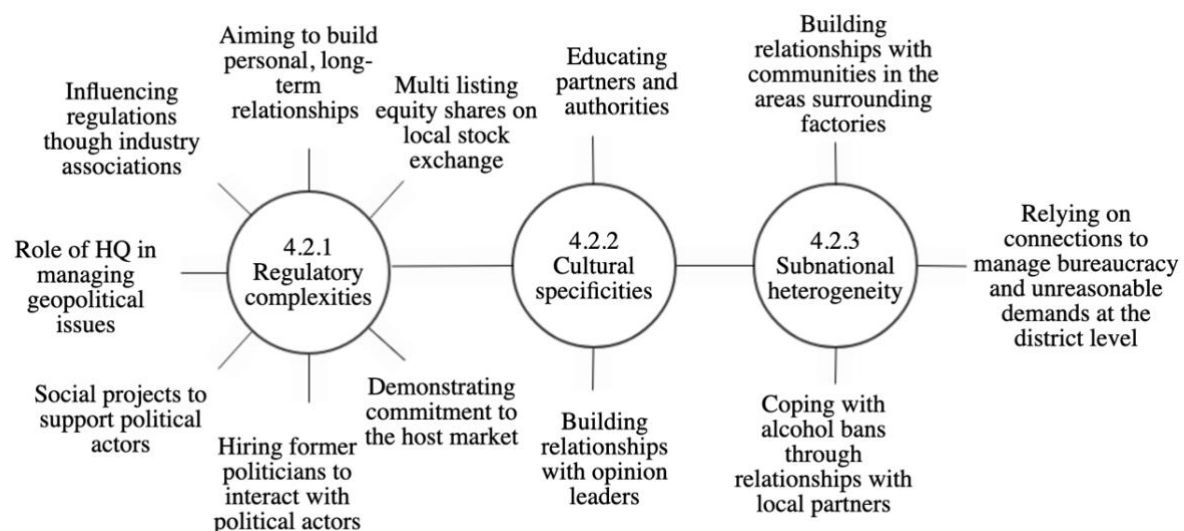


Figure 4.2.4. HBC’s strategies for responding to host-country pressures in Indonesia

Cultural and political specificities pose a significant threat with regards to HBC’s development in the Indonesian market. For instance, rising conservatism is evident in recently introduced restrictive

policies, including alcohol bans and restrictions. The future performance of HBC is therefore heavily influenced by and relies on the decisions of policymakers. For this reason, HBC takes a proactive approach towards managing the regulatory environment and aims to build cooperative relations with government and policymakers. This is done through, for instance, hiring former politicians and collaborating with two ministries on a number of social projects. If HBC succeeds, Indonesia will continue to be an attractive market for HBC, as beer consumption has been rising in recent years, especially in the urban regions where it is becoming part of the modern lifestyle. Nevertheless, the threat of a complete alcohol ban continues to loom as Muslim fundamentalist parties remain in parliament.

Even though Indonesia is traditionally a region without a beer-consuming culture, the case study reveals how relationships with opinion leaders played an essential role in changing attitudes towards alcohol in Indonesia. For instance, HBC developed relationships with beer enthusiasts and culinary experts to shift consumer opinions and develop the market further, while in the political sphere, relationships with medical experts and universities were developed; both assist the firm in influencing the prevailing norms, values and behaviour of the society. Accordingly, the firm was able to change the perceptions and behaviour of consumers and those in the political sphere in a way that makes the market more receptive to the firm's products and overall market offer.

HBC established its factories and distributed its products in or to areas that are difficult to reach in terms of logistics and are often inaccessible without the support of local business partners and authorities. At the regional level, the firm's distribution partners play an important role in securing access. Through the well-connected distributors, it was not only possible to reduce the harmful effects of political decisions, but also to secure new business in areas it was previously not allowed. Furthermore, setting up different social projects helped the firm in managing relations with the communities in areas surrounding their factories.





## 4.3 Universal Global Goods

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Universal Global Goods (UGG) engages in the manufacturing, marketing, and distribution of branded consumer products. Globally, UGG's brands can be found in 190 countries, and in one of every two households, reaching 2.5 billion consumers each day. Universal Global Goods Indonesia was established in the country in the early 1930s. Since then, the firm has grown to become one of the leading suppliers of FMCG across foods, home and personal care categories. It has a large market operation in Indonesia, including nine factories, employing over 6,000 employees, and products are marketed through a network of more than 800 independent distributors. Although majority-owned by its Dutch holding company, UGG cross-listed some of its shares of its Indonesian subsidiary on the Indonesia Stock Exchange and ranks consistently among the ten largest companies in terms of market capitalisation. The firm is deeply embedded into the Indonesian society; its management estimates that every Indonesian household uses one or more of its products each year.

- *UGG's subsidiary in Indonesia*

MBEs in emerging markets broadly do one of three things: they extract or grow commodities; they manufacture for a world market, or they manufacture for a local market. UGG Indonesia is primarily concerned with the first and third of these. In Indonesia, its primary function is to manufacture consumer goods for local consumption, although much of the oil it extracts for its products, as well as some consumer goods, are exported to other countries, primarily to other UGG subsidiaries.

The Indonesian subsidiary enjoys a significant degree of autonomy in its day-to-day operations; in fact, every effort is made to encourage the subsidiary to be self-supporting in management, employees and resources. Unnecessary direction and support from HQ are uneconomic. HQ reserves itself to a limited range of decision: the general direction of the business, agreements to forward plans, top appointments, major investments; but these too are made in full consultation with the subsidiary (Geoffrey, 2005). It prefers its employees, including senior managers, to be HCN - in Indonesia, over 99 percent of employees are native Indonesian, as well as more than half of the board of directors (UGG, annual report, 2018). This policy provides an understanding of the local situation and sympathy for national aims that is impossible to achieve otherwise.

Since the firm was founded in the 1930s, its operations were interrupted twice. First, during World War II, between 1942 and 1946, by the Japanese army. The second time was at the end of the colonial rule when Indonesia's first president took office. President Soekarno was very averse to foreign investment, and eventually, UGG's assets came under government supervision and trade union control<sup>35</sup>

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<sup>35</sup> UGG had tried to avoid the nationalisation by transferring the shares of their Indonesian subsidiary outside of the Netherlands, arguing that the firm was not Dutch but international (Sluyterman, 2017).

(1965-1967). However, soon after President Suharto succeeded President Soekarno in 1967, foreign investors were encouraged to invest in Indonesia, and UGG was one of the first to return<sup>36</sup>.

UGG Indonesia produces and sells a wide range of products, including home and personal care (e.g. detergents, soaps, shampoos, toothpaste, deodorants), food and refreshments (e.g. ice creams, teabags, soy sauce, fruit juice, seasonings and margarine). Over the decades, the firm has built a massive market operation through investments but also joint ventures, acquisitions and relationships with hundreds of distributors. For instance, UGG partnered with a state-owned enterprise (SOE), an Indonesian government-owned palm oil plantation company to produce sustainable palm oil (Annual report, 2018) and in 2012, UGG built the largest warehouse in Indonesia (Indonesia Investment, 2018).

During the country's financial crisis of 1998, UGG adapted and strengthened its business rather than withdrawing from Indonesia, as many other MBEs did. Instead, it expanded sales of products in smaller packages by discarded unnecessary packaging, switched to local suppliers in response to currency devaluation, prioritising the retention of highly motivated employees, expanded distribution in traditional outlets and acquired local firms affected by the crisis. While the overall FMCG market fell by 22 per cent (between 1998-2002), UGG managed to grow its operations significantly (Maitland, 2005). Despite strong competition from both domestic companies and foreign ones, UGG remains an industry leader in many of the categories in which it operates, due to a positive brand image, wide-reaching distribution network and long-standing history in Indonesia.

- *Universal Global Goods' brand*

UGG Indonesia benefits from a long-standing reputation for conducting its operations with integrity and with respect for people, organisations, and the environment (Urip, 2015), which helped gained the trust of local stakeholder. Over the years, UGG has won many awards for its sustainable business practices, attractiveness as an employer, and tax contributions. Furthermore, through the UGG Indonesia foundation, the firm has invested major resources to improving health, hygiene, and nutrition, reaching millions of Indonesians each year in suburban and rural areas that have a great need for this type of programme. Consequently, UGG gained a strong foothold throughout the country and gained trust and legitimacy among the general public. On the corporate level, UGG has developed relationships with major NGOs, such as Oxfam Novib. It has also become a member of the United Nations Global Compact and the Roundtable on Sustainable Palm Oil to increase trust in its brand and to stress that the firm, or its suppliers, are not involved in ethically questionable working practices. This positioning versus the government as well as NGOs and the media is essential for increasing legitimacy and trustworthiness.

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<sup>36</sup> Sluyterman (2017) noted how UGG was considering giving up the whole business. Furthermore, the firm's management was surprised it was not required to form a joint venture with an Indonesian partner. However, by the early 1970s, UGG Indonesia was fully operating again.

- *Universal Global Goods' challenges in Indonesia*

The Indonesian market provides an example of the challenges that UGG can expect when conducting its operations in an emerging market. One major challenge the firm faces concerns the regular policy interventions of regulatory bodies, ministries and parliament. As a result of its broad product range, the firm is particularly susceptible to changes in regulations. For this reason, developing relationships with various non-market actors to manage the complicated political and regulatory situation has become an integral part of UGG's business. The firm also faces increasing scrutiny and criticism from NGOs and the media who track its practices. This, in turn, increases the pressure for the firm to achieve and maintain legitimacy in the eyes of not only those in the political sphere, but also the general public and the media.

There is potential for developing the consumer goods market in Indonesia, with a less-developed demand for products that are already familiar in UGG's home country. However, Indonesian consumers live on more than 8000 inhabited islands, which makes it challenging to create, drive and expand local markets for UGG's products. To fully tap into the sheer number of consumers, who have different habits and are on low incomes, UGG has to not only adapt its products to consumers' needs but also educate and influence their behaviours. To do so, however, requires support from different types of social actors and authorities, which has proven challenging. One part of the UGG strategy has been to develop specially tailored education programmes that demonstrate the firm's commitment to socially relevant matters, while at the same time developing the market for its products.

A further pressure arises from the heterogeneity in Indonesia's regional institutions, which means that UGG cannot conduct business in the same way throughout the country. Corrupt practise, for instance, are prevalent particularly in more rural parts, and far-flung islands in the archipelago. Consequently, as UGG seeks to gain a country-wide presence, specific strategies and resources need to be deployed, and relationships have to be established with different types of market and non-market actors who hold power and have access to critical resources.

- *UGG's approach to managing interactions with social, political and business actors*

This case study explores the firm's interactions with different types of socio-political actors, such as governments and NGOs, as well as the relationships with various types of network partners. The relationship types are discussed with regard to how they can assist the firm in approaching the three host-country pressures: (I) *regulatory complexities* (4.3.1), (II) *cultural specificities* (4.3.2) and (III) *subnational heterogeneity* (4.3.3). Each of the themes is illustrated in figures 4.3.1-4.3.4 to provide an overview of the firm's approach to managing external pressures in Indonesia.

#### 4.3.1 Host-country pressure I. Responding to regulatory complexities

The regulatory environment is perceived by participants to be challenging. For instance, UGG's Head of External Affairs described the regulatory environment as "*non-transparent*", due to the complicated and unstructured nature in which policies are developed and implemented. Furthermore, policymakers are "*very active*" (Head of Communications), which is particularly challenging for UGG due to the large number of industries in which the firm operates. As explained by the firm's Head of External Affairs:

*"In terms of regulations, to give you a context of where [UGG] stands, we are the only multinational with various types of business, we have cosmetics, home care and food and beverage. Nestle, for example, their core business is food and beverage, L'Oréal will be cosmetics, we have it all, so the spectrum of the business is huge. And I think we are the biggest FMCG in Indonesia. So almost every regulation created by the government will impact [UGG's] business".*

For this reason, UGG is required to respond strategically to restrictive regulations that may create competitive disadvantages. As UGG's Head of External Affairs explained,

*"We form an internal taskforce, which consists of different functions. First and foremost, we need to secure [UGG] business, and then we communicate that by lobbying the government and [industry] associations. It is a model we continuously do in every case or issue. So, for example, if it [the regulation] is about sugar, then we form an internal taskforce which consists of the procurement team, supply chain team and external affairs to see how this impacts our business. It is a balance between internal coordination and how we voice out to our external stakeholders".*

This example shows that UGG's non-market strategy has become an integral part of its business. According to participants, managing policy interventions requires establishing and maintaining cooperative relations with political actors. Therefore, to manage regulatory challenges, significant resources are devoted to building relationships with host governmental actors. Some of UGG's efforts to influence political decisions include applying expertise, offering advice, investments, and taking part in important projects with a long-term impact on the conditions in the local society. In detail, each of UGG's organisational practices and strategies will be discussed with regard to how they can assist the firm in approaching the challenging regulatory environment (see Figure 4.3.1).

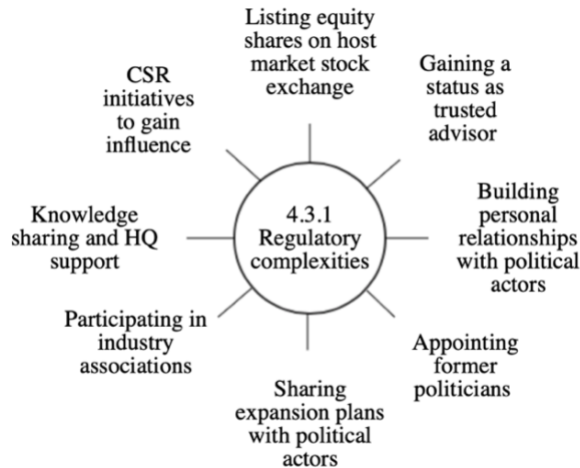


Figure 4.3.1 UGG's strategies for responding to regulatory complexities

- *Listing equity shares on host market stock exchange*

Participants noted that UGG and foreign MBEs in general are often regarded with scepticism by host governmental actors. Through their hierarchical power, the government aims to develop and implement policies that aim to benefit certain parties. As a result of their often target-specific policy interventions, participants emphasised the need to gain social acceptance and credibility in the market. However, the firm strived to be viewed as a local company, and UGG was able to facilitate this by listing some of its equity shares on the host market stock exchange. According to UGG's CFO,

*"UGG is not always seen as a foreign company but more as a local company. That is also because about 15 percent of our shares is on the local stock exchange. It is not necessarily seen as an extension of UGG Netherlands".*

This shows that host country actors such as the government may view UGG as (to some extent) local, or, at least, localised, which can help the firm in discussions with policymakers.

- *Gaining a status as 'trusted advisor' to the government*

As a result of the long-established position as a large firm in the country; its role as a manufacturer of everyday products and from its employment of HCN at senior levels, UGG is embedded in official decision-making in Indonesia (Geoffrey, 2005). The firm was able to influence how policies are interpreted, in part because of the respect in which the company is held. In this regard, the corporate reputation for integrity and competence can be seen as a major competitive advantage. As a result, UGG gained status as a 'trusted advisor' to the government. As described by UGG's Head of Foundation,

*“What often happens, we become the point of reference for expertise. They will actually come to us and invite us for a dialogue, for instance, when they are preparing a certain policy. We have become a trusted advisor for certain issues”.*

The firm’s CFO further explains,

*“Where necessary, and that happens quite regularly, we provide a helping hand towards the government, wherever we can help improve the country’s development. You can imagine, we are a big company, one of the biggest in Indonesia. If laws and regulations change, such as tax laws or other laws, our VP external relations or our CEO are often asked to give advice. They will ask us about what we think would be the consequence [of the regulation] for business. For such consultations, we are on their [the government’s] list. Recently the Minister of Finance visited our office; he was here for several hours. That is beneficial for a company because we can give our opinion and tell what is best for us. That is a very good thing; it means that you have credibility. But they also ask us to come up with initiatives to stimulate small and medium-size and large enterprises and promote employment”.*

The government encouraged UGG to come up with initiatives to help develop Indonesian firms. Examples include SME development programmes, building up the local farming industry and sharing good accounting practices, but also providing tours for local business owners at UGG’s factories to demonstrate the firm’s high health and safety standards. To give an example, UGG helped set up several local suppliers to start producing raw or packing materials to substitute for imports (Urip, 2015). Usually, local parties provide the land, buildings, and labour, while UGG provides machinery, training, and technical support at the initial stage of the development. The technology of choice is usually simple manual machines requiring greater labour. As a result, UGG indirectly employs hundreds of thousands of employees in its network (Urip, 2015). This, in turn, provides UGG with increased power when dealing with political actors and trying to influence standards and regulations.

Furthermore, UGG has made significant investments in developing the local farming industry in Indonesia. In collaboration with agricultural experts from a local university, UGG developed a programme to improve the farmers’ production methods, where UGG provides financial credit and guaranteed purchase of the product at a contracted price. As UGG offers the farmers a price higher than the market rate, thousands of farmers’ income increased. This type of initiative UGG management regards as especially valuable in building trust and legitimacy from different layers of government, NGOs, media and the general public. Again, developing local industries and creating employment for locals, may, in turn, allow the firm to influence or even set industry standards and regulations.

- *Building personal relationships with political actors*

Participants described how firms in Indonesia are depended on the goodwill of politicians and the government, and managing political ties continues to be critical to UGG's success. For this reason, UGG has devoted substantial capital to the expenditure of establishing and maintaining political ties. UGG's Head of External Affairs described how interactions between political actors and senior managers are planned,

*“We do what we call proactive engagement, so one of the tasks our department has is regularly connect our senior leaders with high-level [officials] in the ministries. So, I have this plan; for example, our VP Food should meet with the Ministry of Industry, our VP sales should meet with Ministry of Trade”.*

According to participants, one advantage of political ties is already having the contacts and resources in place to deal with regulatory issues when they arise. Strong political ties will, *“help us in the future... if something happens, we can have direct contact with high-level officials in the ministry”*. (UGG Head of External Affairs). The Head of Communications further adds,

*“We try to engage with them as much as possible. Even though we have been here for many, many years we still spend so much time trying to understand the rules and requirements. But also, their attitudes towards new investments...”*

Political relationships are thus important means of collecting information about the formal and informal rules in Indonesia. Furthermore, political actors can also provide direct benefits to a firm. This may come as financial support as a firm invests in, for example, a new plant. The benefits of the firm's non-market strategy included receiving a 5-year 'tax holiday' from the Indonesian government for its oleochemical division (UKRAgroConsult, 2014).

Participants used the term 'levelling' to describe the matching between UGG's employees and government officials. It was deemed necessary, first of all, that the 'level of seniority' is similar on both sides. For instance, if a meeting with a minister will take place, a UGG's Vice President (VP) or even UGG's country leader has to be present. Sending a lower-ranking UGG representative could damage the relationship, *“we know that if you meet with high-level government, and we give them junior level, they will be offended”* (UGG, Head of External Affairs). However, not only is the level of seniority important in building relationships, other aspects such as cultural background (religion), geographical location (i.e. a particular city or island), education (school or university) play a role in the planning process, as Indonesians are known to base decisions on a personal basis. According to the Head of UGG Foundation,



*“You have to find the sweet spot of that person. Of course, if you are coming from the same school or city... suddenly you become friends and then you can have a conversation about how things work”.*

For this reason, strong, personal, cooperative relationships can benefit the firm, particularly when important matters are being discussed, related to, for instance, tax or regulations. Being able to speak the same dialect was one way of building up a good connection. As explained by the firm's Head of External Affairs,

*“Culture also matters, this is from my personal experience because I'm a Javanese so if you meet Javanese government official you instantly and easily click. Or if you can speak a bit of Sundanese language, they will listen to you more and things like that. You need to be smart to read the situation because a similar cultural background will influence the way you communicate with them. For example, interactions with someone from North Sumatra will be different than, for instance, a Javanese. It cannot be a VP from Amsterdam; for example, he should be Indonesian. Even if we want to meet with a government official, we know in which university he or she graduated, and then, this creates an informal conversation what helps finally to convey your message”.*

This example also demonstrates the need to appoint HCNs to senior levels. These meetings are normally held between native Indonesians, preferably between people from the same geographic region<sup>37</sup>.

- *Appointing former politicians*

UGG employed several individuals who have served in a political capacity to function as business advisers in the matter of socio-political activities. Having ministerial experience helped not only understand how the government makes decisions, but also gain credibility and the connections needed to navigate the opaque regulatory environment. The CFO explained,

*“We have people who used to work for the Ministry of Finance. That means you have a very broad network, which is very important here”.*

According to the UGG's Head of Foundation,

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<sup>37</sup> UGG first appointed an HCN country leader in the 1980s, although, its current CEO is a third-country national (TCN), from India.

*“the board of commissionaires, in my personal opinion, is about providing perspective. Because they are advisors, right? And you need an advisor from various fields, including the government, because they are the one who can provide certain guidance... ok, we are actually facing this... what do we anticipate to do next? Having a cross-stakeholder representative in your board of commissionaires is ideal. But not every company is able to afford so many commissionaires from various fields”.*

Thus, the ministerial experience of the former politicians helped in navigating regulatory complexities, not only because they understand policymakers’ thinking process, but also due to their political connections. Interestingly, one of the participants, the Head of External Affairs, who worked for UGG for over a decade recently ‘took a sabbatical’ to work at the government’s investment coordinating board, which is in charge of implementing policy and regulations, and reports directly to the president. Again, relationships are critical in Indonesia, and political experience can help gain access to decision-makers within the government.

- *Sharing expansion plans with political actors*

One way of expressing commitment is by sharing future expansion plans. An example is the recently announced \$500 million re-investment to expand its production capacity in its factories (Indonesia Investment, 2018b). Such expansion plans are presented by UGG’s management to the Ministry of Industry. Furthermore, in 2015, UGG’s global CEO met with the Indonesian president, Joko Widodo (Jakarta Post, 2015) to discuss the two trillion Rupiah (approx. £110 million) investment in a new factory in Sumatra, in line with the Indonesian government’s agenda of promoting economic growth outside Java. According to a local newspaper, the CEO stressed the plan to ensure that the firm’s robust growth would be followed by even stronger multiplier effects to the Indonesian society (Jakarta Post, 2015). According to Urip (2015), the firm’s continuous reinvestments into the country is regarded as a contributor to its organisational credibility.

Furthermore, in response to increasing criticism about the use of plastic for its consumer products, UGG recently invested a €10 million in a state-of-the-art recycling factory. The CFO of UGG explains,

*“[UGG] is targeted about plastic and the role we play in that. We have huge projects to do something about it. We just invested 10 million euro to build a huge factory here to recycle our packaging so that you can use the material to make new packaging. We set up a wastebank where people can collect plastic and get money for it if they bring it to the waste banks. That also creates jobs. Such investments demonstrate commitment not only to the Indonesian government but also towards Europe. Indonesia is in the top three of most polluted plastic countries”.*

In complement, the firm initiated a programme to collect waste, which is active in 17 cities and won several national and international CSR awards. This type of programme is regarded as especially valuable by UGG management due to the need to build legitimacy in society.

- *Participating in industry associations*

Due to UGG's prominence and power in the country, it has a voice in issues that concern it, even if it is exercised discreetly through industry associations. Its management understood that, in many cases, lobbying to change national as well as local regulations is more effective and likely to succeed through trade associations or interest groups involving other firms as well as UGG. According to UGG's Head of Communications,

*“So, there are instances where the regulations are imposed quite quickly. Policymakers often have their own deadlines. We can also always come to them directly, but it's better to not always come to them individually.... via the industry association, that's much more effective”.*

Apart from becoming a member of multiple associations, UGG managers also took up leading roles by serving as board members in the associations they had joined. For instance, one of the participants served as a board member at the European Chambers of Commerce. As a result, they were able to gain influence and use the associations as a platform to interact with policymakers.

- *Knowledge sharing and HQ support*

UGG Indonesia received support from HQ as well as other subsidiaries in the region. For instance, participants noted that new regulations tend to come up at different times in countries within a region. Therefore, interactions and knowledge sharing between subsidiaries helped manage regulatory complexities. However, support extends well beyond issues related to regulatory complexities and political interactions. The CFO explained,

*“In terms of knowledge sharing, we currently have many Indians here. Because the markets [India and Indonesia] are comparable. The subsidiaries are also quite similar. They do 5 billion; we do 2.5 billion. Their market approach and product portfolio are also quite similar. Our operating model is a bit behind, so we get a lot knowledge from India. Apart from that, we get a lot of help from headquarters regarding sustainability, marketing and compliance. We do that a lot. We recently travelled to Brazil to see how they operate and how we can learn from that. Besides that, I regularly WhatsApp with my colleagues in Thailand and the Philippines”.*

Transfer of information can take place either through global or regional HQ, which then acts as a ‘clearing house for ideas’ (Maljers, 1992) or through direct contact between two operating companies. This takes place, in practice, through UGG’s formal structure, as well as the informal exchanges between managers (i.e. WhatsApp messages and phone calls).

- *CSR initiatives to gain influence*

On the corporate level, UGG works with CSR issues to present its brand as socially responsible and ethical. This was done, for example, by a joint research project between UGG and an NGO to investigate the outcomes of globalisation (Maitland, 2005). Furthermore, a complementary strategy to influence policymakers is by demonstrating how UGG assists in managing critical social problems and taking part in collaborative projects with the government. Such efforts are actively communicated to socio-political actors with the aim of enhancing the MBE’s reputation with respect to, for instance, the media and NGOs who track its practices. For instance, together with a major NGO, the firm provided support to the government’s Total Sanitation Programme (Annual report, 2017).

Furthermore, the firm aligned its CSR agenda to support the realisation of several UN SDGs, which were unanimously adopted by countries in 2015. The SDGs provided a platform for UGG to collaborate with governments including Indonesia. According to the Head of UGG foundation interviewed for this study,

*“We will knock the door of the government to say we intent to promote health and hygiene, better environment, and sustainable agriculture, those are the pillars of our CSR programme, how can we align to your agenda? We know the answer, of course it is aligned...because we know it. Basically, all countries that are becoming a UN member they are adopting it as part of their national goals”.*

Participants stressed that CSR initiatives that contribute towards SDGs are an opportunity to strengthen relations with political actors. However, even though an investment in relationships is a prerequisite for successful relationships, they do not necessarily result in direct benefits for the firm. As expressed by UGG’s Head of External Affairs,

*“But sometimes we do handwashing campaign with this [government] department, but another department issues another regulation, and there is not always communication between departments. That happens, so sometimes you cannot directly reap the benefits”.*

The intragovernmental coordination is unclear since the liaison between the ministries is poor or absent. It also shows that while some activities have already been successful, others may lead to results in the future. Furthermore, as a result of its major presence in the country, UGG understands the need

to build relationships with and communicate to non-market actors, such as the media and NGOs who track its practices. The firm is regularly targeted by major NGOs making allegations about the firm's practices. For instance, Amnesty International recently published a report on palm oil supply chain abuses of major FMCGs, including UGG. These allegations are understandably serious and, if true, highly damaging to the firm's reputation. While these activities would only create short-term business advantages, from a company perspective, there is a risk that its long-term legitimacy and credibility may be questioned, if UGG is perceived as manipulating the use of scarce resources in a society that still suffers from many shortages. Nonetheless, UGG's Head of Communication was open about the balancing act of being ethical and supportive of the local economy.

*“The decision on whether we impose a moratorium is a global decision [...] When we stopped buying from one of our suppliers after it was accused of unsustainable practices, our director at the time was summoned by the Minister, and they asked for an explanation. From an environmental perspective, what we did was good. We stopped buying from a non-responsible supplier but from a local economy point of view we did a bad thing because we were perceived as not supporting local economy. And they can understand that, but the challenge was not only with the government, but also with the media. Because they can create a perception like, this is a big multinational that is not supportive to [the Indonesian economy]. That's how the media picked it up. The way we manage that... Of course, we need to have a strong narrative of why we are doing this, and one of the things we pointed out was that we are fully supportive to the local economy. Eventually, the supplier joined the Roundtable on Sustainable Palm Oil and improved their practices, and now we are buying from them again”.*

The quote reflects the firm's challenges in managing the perception of the government, the media and the general public. It also re-emphasises that, in Indonesia, where firms depend significantly on the goodwill of the government and politicians, a strong non-market strategy is required to communicate to different socio-political actors who track its practices.

#### **4.3.2 Host-country pressure II. Responding to cultural specificities**

There is potential for developing the consumer goods market in Indonesia, with a less-developed demand for products that are already familiar in UGG's home country. However, Indonesian consumers live on more than 8000 inhabited islands, which makes it challenging to create, drive and expand local markets for UGG's products. To fully tap into the sheer number of consumers, who have different habits and are on low incomes, UGG has to not only adapt its products to consumers' needs but also educate and influence their behaviours. To do so, the firm collaborated with various non-market actors to support its efforts in developing the consumer goods market. One part of the UGG strategy has been to develop specially tailored education programmes that demonstrate the firm's commitment to socially relevant

matters, while at the same time developing the market for its products. In detail, UGG's strategies, which include community education and generating support of nonmarket actors, will be discussed with regard to how they can assist the firm in managing Indonesia's cultural specificities (see Figure 4.3.2).



Figure 4.3.2 UGG's strategies for responding to cultural specificities

- Market development through community education

One specific strategy of UGG that has proved successful in Indonesia involved developing the market by creating consumer demand through community development, i.e. “activities involving community building and improving lifestyle which in turn increases users and expand the market” (Urip, 2015:101). As a result of these efforts, which are executed through the ‘UGG Indonesia foundation’, the firm has successfully changed consumers’ behaviours. Examples include getting people to wash their hair using shampoo and brushing their teeth using toothpaste; shampoo and toothpaste are some of UGG’s best-selling products. Although some of its efforts to develop market started as early as the 1970s, since the establishment of the UGG foundation in the early 2000s, the firm has organised consistent educational programmes in line with its brands, concerning, for instance, health, hygiene, and nutrition, reaching millions of Indonesians each year in suburban and rural areas that have a great need for this type of programme.

UGG’s community programmes focus on a broad range of social issues, all of which have some relevance to UGG’s brands. To give an example, in line with UGG’s toothpaste brand, it promotes oral health in schools and communities, through its personal care brands, it promotes self-esteem among Indonesian women and through its soap brand, it organises handwashing days. As a result of these consistent efforts, in large parts of the country, Indonesians have become aware of the importance of using UGG’s products (e.g. soap, toothpaste and shampoo). Consequently, many of UGG’s products have reached market-leading positions, and the firm estimates that each Indonesian household uses one or more of its products each year.

Through the UGG foundation, the firm has demonstrated its commitment to developing local communities, with the same result of maintaining a competitive edge. All these activities show the firm’s commitment as a strong supporter of society, which ensures positive acceptance and trust from local stakeholders and a strong foundation for sustainable growth. As a result of UGG’s educational activities, the firm was able to gain valuable feedback about consumer needs, which consequently allowed UGG to anticipate the aspirations of consumers and to respond creatively and competitively with its products.

Given that many Indonesian have little dispensable income or live in poverty, UGG adapted its packaging sizes, e.g. by introducing small packets of deodorant or shampoo, which are considered premium products in Indonesia (Urip, 2015). Furthermore, community education to get people to wash their hair using shampoo increased after UGG introduce small low-priced packs to cater to first-time users, the low-income group and rural consumers. Again, educational efforts with a social aspect are an excellent example of how UGG's activities can result in competitive advantage. To conclude, UGG's efforts to grow and develop has been a result of (1) introducing of socially innovative products (identifying customers' needs), (2) combined with efforts to create, condition, and expand the market through community development and education to improve lifestyles.

- *Collaborations with non-business actors to change consumer behaviours*

To manage cultural specificities in Indonesia, UGG is required to collaborate with various non-market actors including, for instance, local NGOs, universities and local governments. For example, one specific strategy that worked well for UGG in developing the toothpaste market was initiating a community development programme at schools in remote parts of the country. When UGG re-established itself in the 1970s, the toothpaste market was very small (Urip, 2015). However, as a result of UGG's collaborations with different stakeholders, it was able to create and drive the market.

Participants explained that UGG's collaborations with the Indonesian Dentist Association and the Faculty of Dentistry at local universities were considered essential in educating and informing communities. The programme provided free access to dental care by deploying mobile dental units operating at schools and suburban and rural areas. UGG provides product supplies (i.e. toothpaste and toothbrush), educational materials and oral care tools to educate communities in all corners of the country. At the same time, dental students from local universities were able to gain real practice and experience at schools in rural areas. As a result, awareness of oral care improved dramatically, especially in remote parts of the archipelago, which improved the quality of life of the population. Consequently, UGG's toothpaste brand possesses an advantage over its competition and has been leading the market for decades. According to Urip (2015), most Indonesians are now moderately aware of the importance of oral care, yet similar educational programs and collaborations with more institutions are still being undertaken to educate consumers further. UGG's Head of Foundation explains,

*“We collaborate with the Dentist Association to educate Indonesian people all over the country, especially in rural areas, about the importance of brushing their teeth using toothpaste. We need this collaboration to change their behaviours... The message this year is the danger of hidden sugar to dental cavities, which can be avoided by brushing day and night and routine control every six months by the dentists. The dentists provide education for teachers and children and afterwards they will act as agents of change to deliver the message to their peers. Of course, this is also good for our business. It's a win-win”*

UGG's long history of community education created an advantage over the competition and has as a result, leading the market for decades. This example demonstrates how UGG collaborates with different non-market actors can change behaviours and develop demand for products that are already familiar in UGG's home country.

**4.3.3 Host-country pressure III.** Responding to subnational heterogeneity in the diverse archipelago UGG's products can be found in modern shopping malls in Jakarta but also, more commonly, in the small road-side wooden shacks where a majority of Indonesians still do their shopping in all corners across the archipelago. However, Indonesia has substantial heterogeneity in regional institutions, and business cannot be conducted the same way throughout the country. As a result, the firm has faced different degrees of government intervention and hostility across regions. As explained by UGG's Head of Communications,

*“you have to bear in mind that one region can be very different from another [...] when you go to the local government, it is a very different story, 180 degrees different, but we also need to secure the support of the local government because that's where our factories are located”.*

While in some areas, formal government agencies are “more advanced” (Head of External Affairs), gaining access to and operating in less institutionally developed can be difficult. For instance, the firm needs to obtain licences from corrupt leaders in far-flung and remote parts of the country, which proved challenging. Furthermore, there is a need for building cooperative relations with the communities surrounding UGG's factories. Without the support of their neighbours, the firms may face hostility that can result to serious consequences. Again, the support of non-market actors was critical in UGG's efforts to gain a country-wide presence in the diverse archipelago. Figure 4.3.3 shows how the activities assist the firm in responding to subnational heterogeneity.

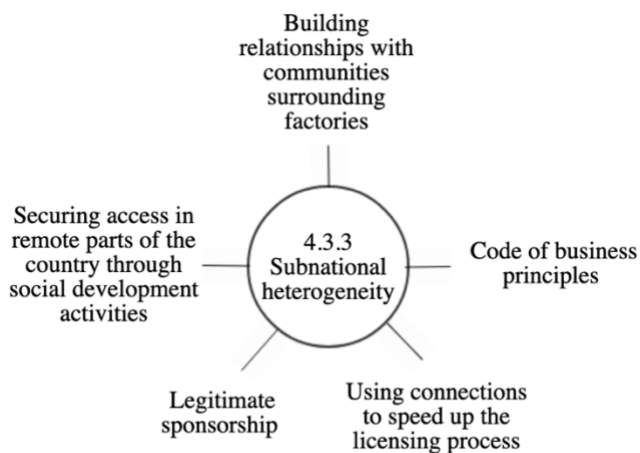


Figure 4.3.3 UGG's strategies for responding to subnational heterogeneity



- *Building a relationship with the communities surrounding factory premises*

The consequences of a lack of engagement with communities can be major, and participants recognised the need for managing the local environment. UGG understood the need to play an active role in the communities surrounding the firm's operational areas, and that environmental concerns need to go beyond its own operations. Participants stressed the importance of creating community goodwill,

*“because they make doing business there very difficult. For example, they can demand community programmes, or whatever they feel that the company can do to improve their quality of life”* (Head of External Affairs).

One specific strategy of UGG to gain community goodwill was the firm's environmental care program which started in the early 2000s. The programme was developed to strengthened awareness on the importance of maintaining good relationship with the community surrounding UGG's factories' premises. Activities include, for instance, supporting community health and reducing environmental pollution, all coordinated through the firm's programme. Furthermore, UGG employees conduct volunteering activities, including teaching at primary schools on health and hygiene, and initiatives to create a clean and environment (CSR report, 2018), aimed at gaining community acceptance.

UGG took an innovative approach to raise the standards of the communities and residents in the neighbouring areas surrounding their factories. For instance, UGG worked together with the local government (e.g. the city mayor and local district chiefs), and informal public figures, a local NGO, a local university, and local media to participate in the environmental programmes (Urip, 2015). Furthermore, the firm recruited and trained local opinion leaders to become role models, or agents of social change, to promote community participation. As a result of the programme, the narrow lanes surrounding the factories are now neat and tidy, potted plants and flowers brought greenery to the neighbourhoods and rivers are clean. Participants suggest that the programme turned out to be an effective approach for improving community lifestyle, and for UGG to gain acceptance and goodwill. Again, deploying social strategies and engaging with non-market actors was essential in establishing a harmonious relationship with local communities.

- *Code of business principles to counter corruption*

Participants noted it was not always easy operating in an *“unfair playing field”* (UGG, Head of External Affairs), i.e. a market where many firms engage in corruption, while UGG operates according to a strict code of business principles. However, *“if you give them money, you will become their ATM machine”* (Head of Communications). The Head of External Affairs further added that,

*“they [other firms] don’t have this standard yet, so they can do whatever ... I’m not generalising, but some of them... In terms of building relationships with the government, they can do it in a more flexible way”.*

Particularly in rural and less institutionally developed parts of the country, UGG faces bureaucratic corruption. According to the Head of External Affairs, *“in the central level, our job is easier than our colleagues in the local areas. They are sitting close to the president, and he is very strict”* (Head of Communication). However, obtaining licences is often challenging, *“we have nine factories in two areas in West and East Java. That’s why we deal with a lot of bureaucracy and licences and regulations”* (Head of External Affairs). Participants suggest that UGG’s employees adhere strictly to the code of business principles. UGG’s Head of Communications explains,

*“We have very strict code of business principles which makes it very challenging to operate in the market of Indonesia. Some governments are very reformed and very advanced, but some are still maintaining that old culture of receiving money on the table [...] It is not easy, they are literally asking for money sometimes. When we ask, why is there no further progress [with the licences]? They say, we are busy, you know... they have a thousand reasons. Basically, because there is no stimulus for them. But we said, we cannot do that [paying bribes]. We consistently say that we cannot breach our business conduct”.*

The CFO further notes,

*“In the end, there’s only one way, that you stay within your principles of your code of business principles. And you have to be very strict. Because when you slip, you will risk get into an area where you don’t want to be, which will have consequences not only here in Indonesia but also for your shareholders in the Netherlands”.*

As a result, UGG has earned a reputation for conducting its operation with integrity and with respect for people, organisations and the environment. The values and standards of the firm are set out in its code of business principles, shared with its business partners, including suppliers and distributors (UGG, website, 2018). Another way to tackle corruption is through UGG’s collaboration with Indonesia’s anti-corruption commission, which conduct training sessions for UGG employees who interact with government officials on a day-to-day basis (UGG, Annual Report, 2018).

- Using connections to speed up the licensing process

As is customary in many emerging markets, issuing permits and other bureaucratic processes may take a long time. Although UGG stressed that being persistent and adhering to its code of business principles

is essential in securing licenses, the firm was, in some occasions, able to leverage their political connections to speed up the process. As explained by UGG's Head of External Affairs, who is in charge of gaining the licenses for the firm's nine factories,

*"We involve our factory team to engage with the local government. For example, they have local government contacts and know who to contact if we have difficulties with licences. That normally helps".*

It is thus evident that connections may help speed up the notorious bureaucratic licensing process. Again, this demonstrates the importance of cooperative relationships with government officials.

- Legitimate sponsorship

At times, not 'playing the game' resulted in major delays in obtaining factory licences. Therefore, participants suggested that when negotiating unreasonable demands with corrupt bureaucrats, it was essential to know what is on their agenda. In some cases, UGG able to 'compensate' by providing "legitimate sponsorship" – as an alternative to graft. Here, the 'negotiators' looked at what sort of social programmes – which needed to have some relevance to UGG's products - they could provide. Thus, UGG employs the strategy of social contributions as an approach to respond to corruption, *"and making clear that these are the things that we could bring to the table. So, therefore, they are not asking for money"* (Head of Foundation). However, what UGG proposes is not always aligned with governments' expectations,

*"Ok, we can help them by doing education on health and hygiene. Perhaps the government's agenda needs funding for scholarships for university students or for high school students, which is probably not very much aligned with our agenda, because we want to promote health and hygiene education but not necessarily in the form of full scholarships. So sometimes it's a bit tricky. So, it's very important that you have a good personal relationship with the officials. So that they can also understand that we have this agenda that we need to follow".*

Again, this quote demonstrates both the challenge of operating in Indonesia's less-developed institutional regions, as well as the need to build personal relationships with political actors. It also expresses how social initiatives can, at times, help deal with managing unreasonable demands.

- Securing access in remote parts of the country through social development activities

Gaining access to some regions may require firms to initiate programmes with a social interest, especially in parts of the country with a great need for social responsibility projects. For instance, if UGG aims to expand to and conduct business in an area it does not have a presence yet, the firm may

need first to establish relations with local leaders. In fact, receiving support of local leaders is sometimes considered a precondition for doing business. To do so, the firm, through its foundation, may first organise ‘handwashing campaigns at locals schools’ or ‘set up a wastebank for collecting waste’. As a result of the firm’s social initiatives, the firm is likely to receive the support required to do business.

*“They [local officials] know that [UGG] has done a lot for their area, whether it’s collecting waste or handwashing campaigns, and because of that, they will give us the best advice. They will say, ‘Here is a list of businessmen you can potentially approach. Go and talk to them’. Yes, this is actually very important. It’s very easy to talk to them, rather than not having... can you imagine if we are a complete stranger? They will ask who are you? Relationships are key in Indonesia”.* (Head of External Affairs)

As a result of the firm’s social efforts to support communities, local leaders become more conducive to UGG’s commercial operations. It allows UGG to more easily access governmental actors and business actors to start or expand its operations. One quote from the Head of UGG Foundation illustrates the benefits of UGG’s projects,

*So, whenever we are trying to find a new distribution partner, we are looking to find a recommendation to find out who the local businesses that have good credentials. So, we usually knock the door of the government in that particular area. And then basically ask the government, because they probably have views, because they deal with everybody right? So, it’s like, do you have any recommendation? Because every local government would like to stimulate the local economy”.*

Thus, by initiating the conversation with government representatives through the firm’s social projects, commercial operations are more likely to succeed in rural areas that are usually difficult to penetrate. UGG management also explained that, due to its reputation, the firm is often approached by other local governments to initiate community project in their areas. This, again, is likely to secure commercial operations.

#### **4.3.4 Case summary Universal Global Goods**

Figure 4.3.4 illustrates how UGG’s strategies assist the firm in responding to the three host-country pressures.

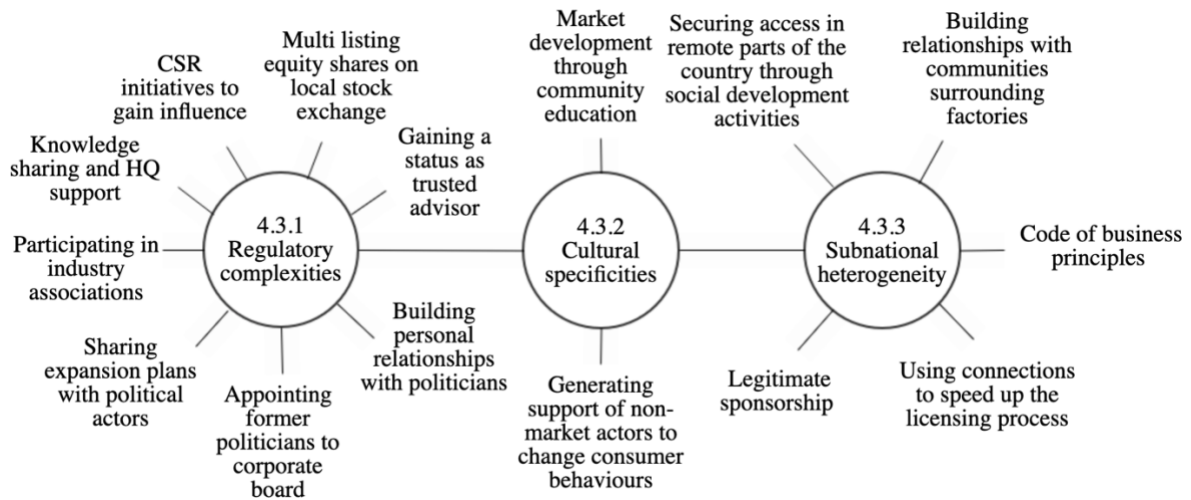


Figure 4.3.4 Map of UGG’s strategies for responding to host-country pressures in Indonesia

As a result of the long-established position as a large firm in the country, dating back more than 80 years, its role as a manufacturer of everyday products and from its employment of HCN at senior levels, UGG is embedded in official decision-making in Indonesia. Rather than merely adapting to the challenging market conditions, UGG was able to reshape unfavourable institutional conditions, develop a cooperative relationship with the government, and change consumer habits, making the market more receptive to the firms’ products. One major driver in managing all three host-country pressures is UGG’s commitment to socially relevant matters. UGG Indonesia implemented the fundamentals of CSR as early as the 1970s. Since then, the firm has invested major resources into CSR, which have been, since the early 2000s executed through the UGG foundation. It also allows UGG to appear as an actor with expertise in socially relevant matters, and to augment their influence on certain political processes. Increased trust, in the eyes of social and political actors, but also in terms of society at large, even in rural communities, is a result of this.



## 4.4 Primus Technics

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Primus Technics (Hereafter PT), is a global technology company, headquartered in the Netherlands, and employs over 70,000 people with sales and services in 100 countries. Once famous for selling light bulbs and televisions, PT now concentrates on the market for medical equipment (e.g. MRI machines and PET-CT scanners), as well as consumer electronics (e.g. hairdryers and shaving machines). PT's Indonesian subsidiary, PT Indonesia, has a presence in the country since the late 1890s and is an important pillar of their global operation. Indonesia's growing middle-class consumers, accompanied by major investments in the private and public sector, are likely to continue to offer new business opportunities for PT. In recent years, the firm is shifting its focus from the developed consumer goods markets to the booming healthcare sectors in Indonesia and other emerging markets with large populations and rising incomes.

- Primus Technics' operations in Indonesia

PT started exporting to Indonesia in the 1890s during the colonial period. In the 1940s, PT built its first factory to produce locally, taking advantage of the growing population and low wages. Its Indonesian operations were halted twice, first during World War II, and again in the 1960s after independence, when the firm was nationalised by the Indonesian government. In the late 1960s, as a continuation of the nationalisation, the firm operated as a joint venture with an Indonesian state-owned enterprise (SOE). However, PT managed to regain control, and today its consumer products are manufactured in its International Production Centre in Batam, as well as via long-standing relationship with a local third-party manufacturer. Local management notes that the relationship with the Indonesian partner goes back 35 years, founded on trust and long-term cooperation. Despite the closure of PT's lightbulb factory in 2015, PT has a large market operation in Indonesia and employs approximately 2000 employees in its production centre in Batam, and its health division employs another 200.

PT's product category has a strategic focus on four different business areas: health and wellness (oral healthcare, mother and childcare), sleep and respiratory care (healthy sleeping, respiratory care), and personal care (male grooming, beauty) and domestic appliances (food preparation, home care). Besides its consumer electronics business, PT also operates in the B2B and B2G markets with its medical equipment. For this reason, the political environment in Indonesia is an essential part of the firm's business activities, particularly for the sales of medical equipment to state-owned hospitals. In 2014, the firm appointed its first Indonesian country director since the firm was founded, which demonstrates not only the maturity of the Indonesian market but also their commitment to the market. According to an internal report, the country director aims to strengthen existing partnerships with stakeholders in the private sector, government, and SOEs.

- The Primus Technics Indonesia brand

Local management in Indonesia stressed that PT's long presence in the country (its parent company started exporting in the 1890s) and reliable products helped develop its reputation as a trustworthy player in the market. The aim has been to create a consistent and recognisable image that represents the vision and values that PT stands for. A major goal has been to create an image as a socially responsible corporate citizen with respect for local values. One part of PT's strategy to gain acceptance in the market is by demonstrating how the firm's innovative tech-solutions can assist the government in managing important social problems, and by taking part in collaborative projects with social and political actors.

Over the years, PT received several awards, including Asia Pacific Patient Monitoring Company of the Year and Indonesia Telehealth Company of the year, recognising PT's innovation in the healthcare business (Yan, 2015). Furthermore, on the corporate level, PT also works with CSR issues and presenting the PT brand as socially responsible and ethical. This is done, for example, by relationships with NGOs, such as UNICEF, and is a member of the United Nations Global Compact in order to increase trust in the brand and to stress PT's commitment to sustainable operations. PT also aligned its CSR agenda to support the realisation of several SDGs of the UN, which were unanimously adopted by countries in 2015. Profiling the brand this way is also a support in developing government relationships. Furthermore, this positioning vis-à-vis government as well as NGOs is important for increasing legitimacy and trustworthiness and may support developing close relationships with political actors and opinion leaders.

- Primus Technics' challenges in Indonesia

To survive and thrive, PT needs to prevent not only restrictive trade policies but also deal with the sluggish implementation of regulations that allow the firm to sell its healthtech solutions. A main challenge for PT has been to shift opinions about its healthcare technology and to standardise medical checks as a routine procedure in state-owned hospitals. Convincing the government is challenging as there are several political decision levels which require multiple contacts with central as well as regional and local authorities. Gaining the support of medical experts who have an important role as more general opinion leaders assist the firm in influencing attitudes of the government and the general population towards healthcare standards. Having the government as a customer is, however, not only a case of making profits, it also affects the opinions of other potential customers. For this reason, PT strives to influence opinions about healthcare technology and its brand by means of educational programmes targeting different decision-makers, as well as by PR and events.



- *Primus Technics' approach to managing interactions with social, political and business actors*

This case study investigates PT's interactions with different types of political actors, such as policymakers and different layers of government, as well as the relationships with other firms and opinion leaders. Each of these relationship types, and organisational practices and strategies involved, is discussed with regard to how they can assist the firm in approaching the three host-country pressures, namely (I) *regulatory complexities* (4.4.1), (II) *cultural specificities* (4.4.2) and (III) *subnational heterogeneity* (4.4.3).

#### **4.4.1 Host-country pressure I. Responding to regulatory complexities**

PT's former CEO described managing the regulatory environment as "*always moving goalposts*" reflecting the way in which the Indonesian government targets foreign firms. The former CEO further added, "*The Indonesian government was occasionally leaning towards blocking anyone that was trying to bring in products from overseas*". To further complicate matters, the following quote of PT's Head of Marketing describes the complicated and unstructured nature of regulations,

*"Regulations are non-transparent, sometimes they say it is under development, it is ongoing... We cannot easily implement our products to daily clinical practise because the regulation does not exist yet. If we ask them, how is the regulation? They will say, oh it's under development. It is also a misperception; sometimes they say it is done by another ministry, while back then they say we only need approval from this ministry. And sometimes it changes as well after the presidential election, if the Ministers change, regulations can also change or suspend. This kind of situation is very common"*.

These quotes reflect Indonesia's complicated and bureaucratic regulatory structure. Participants further argue that political actors play a decisive role in setting or influencing different industry standards, via either recommendations or by formal regulations. For this reason, PT's local management had developed an understanding of not only how to establish relationships with government officials but also the way in which these relationships were altered with changes in the government or the 'mood' of government officials. Due to the complicated and unstructured regulatory environment, and the fact that the government is PT's customer (i.e. state-owned hospitals), significant resources were devoted to building and maintaining relationships with political actors. Figure 4.4.1 illustrates PT's organisational practices and strategies that assist the firm in managing regulatory complexities in Indonesia.



Figure 4.4.1 PT's strategies for responding to regulatory complexities

- *Aiming to build long-term relationships with political actors*

PT's Communication Manager argues that *"Indonesia is a country with a relationship-based culture and a strong relationship with the government matters"*. Therefore, it was deemed necessary to regularly interact with key decision-makers. As is customary in many emerging markets, PT's management stressed the importance of developing personal, long-term relationships with host governmental actors, based on mutual trust. Although trust is also important in advanced economies, the Former Sales Manager, who regularly dealt with government officials, explained the difference,

*"Without trust, you can't operate here. And that is even more so in countries like Indonesia. In the Netherlands, you also need trust, but it is much more business-like. In Indonesia, you operate in much more of a grey area; people are more cautious. When I was there, trust was already established, but sometimes you need to establish trust with new people. That goes step by step. Showing them that you know what you are talking about, and always making sure you fulfil your commitments on time. That also means dinners and drinks. They say that the way to a man's heart is through his stomach, that's also true for business. You slowly work towards that. It is the same with friendships. It is something you build up"*.

Again, such explanations demonstrate the need for a relational approach to managing the political environment in Indonesia. Political relationships are also vital for collecting information about the formal and informal rules in Indonesia. Not only are regular interactions required to gain knowledge about, for instance, potentially restrictive regulations or changing product requirements, but also, for changes in the government's budget spending, as this impacts PT's healthcare business.

The Head of Marketing explains, *"We have to keep engaging with them, so we know what they are thinking, about next year's budget spending etcetera, because it will affect our business"*. Gaining such

knowledge involves networking with decision makers at the central, provincial and regional level. Furthermore, participants pointed to the importance of seniority levels and cultural background during meetings between PT representatives and political actors,

*“When we meet with them, first of all, we need to know their level of seniority; we need to know whom we need to approach, like if we want to meet with the Minister of Health, we should bring the highest level in the company, maybe our country leader or senior manager. And if we have someone that speaks his local language, that could help. You need to try”.* (Head of Marketing)

The management further stressed that Indonesians tend to make decisions on a personal basis. Again, this demonstrates the need for a personal approach for dealing with political actors. A lack of understanding about such issues can jeopardise establishing cooperative relationships, while it is the awareness of the background and position of the government official that can help build up initial levels of trust between parties.

- *Internalising decision-makers*

PT’s business in Indonesia is depended on a favourable regulatory environment, and managing political ties is critical to its success. One of PT’s strategies to manage the regulatory environment was by internalising one of the government’s policymakers. By doing so, the firm was to some extent able to shape the institutional environment. The former Sales Manager recalled,

*“We had very good connections at that level. We also tried to hire people who had an advisory role, not always on the political level but always in the higher echelons in the government. For example, the president of the body that wrote the regulations on street lighting was employed by us. Let’s say there is a new technology for lighting, and we think we should do more about street lighting because it makes the roads safer, he would then help us with the standardisation for street lighting in Indonesia”.*

This example demonstrates how a firm can manage the regulatory environment by not only developing close relations with political actors but also by internalising one of the government’s policymakers. As a result, PT was able to create a competitive advantage because it allowed PT to gain valuable political insights and flexible policies.

- *Influencing regulations through industry associations*

PT takes a collaborative approach to influencing national policymakers. PT joined multiple associations, and the firm's Head of Marketing took up a leading role by serving as a board member in one of the associations the firm had joined. As explained by the Head of Marketing,

*“We are a member of the association of the provider for medical devices, and also of the association of multinational company for medical device. It is important to be a member of these association because they have a continuous dialogue with the government. We are currently a member and, I am also part of the committee”.*

Through the industry associations, PT was able to interact with political actors and voice out concerns regarding industry-specific matters. The participant's board positions also allowed PT to gain a stronger position to react against potentially restrictive policies.

- *Stressing contributions to the economy and communicating future investments*

Local management understood the importance of expressing its commitment to foreign governmental actors. During meetings, it was often necessary to emphasise the firm's contributions to the local economy, such as tax and employment. PT's former CEO interviewed for this study recalled,

*“When the government wanted to impose more trade barriers, we often had to point out that in Indonesia we had huge factories in Batam and Surabaya with tens of thousands of employees and in terms of the tax, we were a bigger Indonesian-based operation than most Indonesian companies. [...] It was therefore easy to position yourself as a supporter to the local economy”.*

As a complement, Dutch directors from PT's global HQ made occasional visits to Indonesia to discuss issues such as re-investments and employment. According to the former Sales Manager,

*“The Dutch director sometimes came over to Indonesia to talk to the Indonesian government. They came to visit Indonesia to talk about investments etcetera. The government wants to regularly know if more jobs will be created”.*

Thus, PT was aware of the criteria upon which the Indonesian government accord legitimacy to foreign firms, and thus, they expressed their commitment (e.g. re-investments and job creation) to the market in their communication with host governmental actors.

- *Developing a status as a socially responsible corporate citizen*

There is a need to develop legitimacy in the eyes of socio-political actors who regard Dutch firms with scepticism. Although most participants suggested that colonial history played a little role nowadays, due to the long time that has passed since Indonesia's independence, PT's former CEO recalled,

*“Someone stood up during a press conference and said, ‘You bloody Dutch, you raped and pillaged our country - you should pack up and go home’, while the cameras were rolling”.*

This demonstrates the need to develop a reputation as a socially responsible corporate citizen with respect for local values. Furthermore, the former CEO added that MBEs in Indonesia have received pressure from the government to invest in social projects in Indonesia. The argument was that many MBEs lacking in concern towards social interest (Maris, 2014), which further demonstrates the need to invest in CSR. PT understood that a proactive approach towards CSR provides the MBE with credibility and praise, while a late (or lack of) a response would lead to criticism from NGOs, pressure groups, governments and customers on which they depend. Therefore, a complementary strategy of PT to build a reputation and to influence political actors was by demonstrating how the firm can assist in managing important social problems and taking part in collaborative projects with social and political actors. According to PT's Head of Marketing,

*“Every year, the governor has some projects. Then we actively participate in these kinds of activities, for instance, to promote women and child projects, and cancer projects. We partner with them and provide educational and content information. Of course, this helps in building our relationship with them”.*

Collaborating with political actors in different social projects can also be a way of influencing perceptions regarding the firm's market offering in the society at large. Furthermore, PT's lighting division used to run a program that replaces lightbulbs in villages with energy-efficient lighting. Such initiatives are actively communicated to the media. According to PT's former CEO,

*“This was always highly appreciated by the recipients. It made a difference. In many of these villages, when I left, the mothers would be crying and shaking and kissing my hands and saying thank you thank you for the difference I made. They now had life after dark. This also supports the government's goal of achieving universal electricity access”.*

These projects were delivered in remote parts of the country with a great need for this type of social responsibility project.

Another issue concerns one of PT's materials, tin, of which the vast majority comes from Indonesia, and is used for some of the firm's products. Firms including Microsoft, Asus and Huawei, have been criticised for not stepping up against irresponsible tin mining (The Guardian, 2014). Accusations could damage the firm's relationship with the government as well as its global brand. As a result of headlines about unregulated tin mining that affect the environment and health of miners, PT partnered with other industry players and established a working group that aims to improve standards for tin mining in Indonesia (PT, annual report, 2017). Although PT was never accused directly, such collaborations increase trust in the brand and to stress PT's commitment to presenting the PT brand as socially responsible and ethical.

- *HQ support and inter-subsidiary knowledge sharing*

PT's global HQ assessed geopolitical issues in the different host markets in which the firm operates, to identify potential threats and provide support where necessary. This process took place during regular conference calls, where PT Indonesia shared institutional knowledge about its host market with other subsidiaries and outlined any challenges they were facing. Usually, subsidiaries in the Asian region would first report to Singapore (where its regional HQ is located), which then updates Dutch (global) HQ. PT's former CEO interviewed for this study recalled,

*"I reported to Singapore. There were always a large number of countries that dialled in on a monthly basis, sometimes there were the Asian countries reporting in, sometimes New Zealand and Australia reported in, sometimes Japan and Korea joined the flow [...] And generally speaking, we received enough support from global and regional to make things move into the right direction [...] We probably met every 3-6 months physically, face to face with your other colleagues, and there was a good opportunity to share best practices. Sometimes it made a lot of sense if you are in the ASEAN cluster; for instance, it was easier to share best practises, it was more relevant for each other's needs. If you did something well in Vietnam or faced a similar issue, you could replicate that in Cambodia, in the Philippines in Malaysia or Thailand".*

This example shows the importance of inter-subsidiary networking to leverage experience in different operating regions. One key dimension in the assessment was the political environment, and during these conference calls subsidiary managers shared experiences and challenges they faced in different institutional contexts. Through formal and informal knowledge sharing, PT Indonesia leveraged political knowledge and experience gained in other emerging markets.

#### 4.4.2 Host-country pressure II. Responding to cultural specificities

The sheer number of middle-class consumers, accompanied by major investments in the private and public sector offer new business opportunities for PT. The next sections will demonstrate how PT influences and educates customers and other stakeholders to shift attitudes and behaviours in a way that makes the market more receptive to the firms' products and overall market offer. It is reasonable to assume that the potential for doing so will be especially high in Indonesia with a less-developed demand for different types of innovative products and solutions that are already familiar in PT's home country. However, a main challenge for PT has been to influence the government to adopt a number of medical checks as a routine procedure in state-owned hospitals. Furthermore, marketing activities are highly regulated, and for PT's healthcare business, most forms of advertisement are banned. As a result, the firm needs to be creative in its efforts to reach its customers. One part of PT's strategy includes seeking the support of recognised opinion-leaders (who are considered to be independent) that can assist the firm in influencing the prevailing norms, values and behaviour of the society. PT's strategies, as well as the relationship with different types of actors will be discussed with regard to how they can assist the firm in approaching cultural specificities (see Figure 4.4.2).



Figure 4.4.2 PT's strategies for responding to cultural specificities

- *Educating customers and other stakeholders*

PT puts a major effort into influencing different stakeholders through, for instance, PR and events. Given that PT's development in Indonesia depends heavily on the government's policies on healthcare standards, the firm collaborates with medical experts to present their story to different members of the government and outline the advantages and benefits that health technology can have on society. Specially tailored educational programmes that teach these actors about the values of PT and its solutions are part of this. The Head of Marketing explains,

*"We regularly organise educational events for healthcare professionals and the media. Usually, they will then write about the event and endorse our products. This is a key part of making our customers aware of the importance of our products for Indonesians".*

One element of PT's approach has thus been to develop specially tailored educational programmes that demonstrate and teach these actors about the importance of PT's solutions. Events and training

programmes are organised where key influencers are invited to participate. Creating positive publicity in the media about PT's new technology and the support of medical experts who are considered to be independent are part of this. These events are also perceived as valuable by the target groups because they will gain valuable knowledge.

A key part of developing PT's reputation in Indonesia is its 'PT Innovation for Healthier Indonesia' programme. As part of the programme, PT developed a mobile phone application, which allows obstetricians and gynaecologists to remotely monitor pregnant women, specifically in rural areas, thereby addressing the increasing concern of maternal mortality in Indonesia. Indonesia struggles with one of the highest rates of maternal and fetal death in the developing world<sup>38</sup>, and PT collaborates with partners to educate thousands of medical professionals to increase medical standards. These efforts help create awareness and add trust to the PT brand, which is necessary to be able to influence the general norms and attitudes in society towards healthcare standards. However, in order to sell its products to state-owned hospitals, PT relies on policy-changes to standardise the medical checks as a routine procedure. This, according to the Head of Marketing, is a challenging process,

*“Our end-users are healthcare professionals in state-owned hospitals. The regional government, is therefore, our customer. We provide them with information and education on the importance of our application to pregnant women. But first, we need the policy, we need to make sure that these check-ups are part of the routine procedure, which the central government decides. Before we reach out to the end-users, we go to the policy-maker because we need their endorsement, we need their support, we need to let them know our products can help reach the government targets. We do a lot of like educational seminars that link with the issues that they face in this specific area. It takes a lot of effort and convincing before they not only understand the need to have our products but also to buy it”.*

This example demonstrates that having the government as a customer is challenging, as there are several political decision levels which require multiple contacts with central as well as regional and local authorities. Having the government as a customer is, however, not only a case of making profits, it also affects the opinions of other potential customers. Thus, to convince decision-makers of buying PT's products and services, the firm engages in educational efforts to influence their views of the firm. Furthermore, to gain the support of the media and various NGOs, PT communicates the need for having standardised medical checks, and how its solutions can help decrease the number of maternal deaths.

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<sup>38</sup> According to the World Health Organisation (WHO), Indonesia has 190 maternal deaths per 100,000 live births in 2013, the third lowest results among ASEAN member states, despite Indonesia being the largest ASEAN economy, which can be largely attributed to a continuing lack of access to quality healthcare for expectant mother (Newswire, 2016).



- *Generating support from key opinion leaders to influence customers' perceptions*

Participants stress that several social and political actors need to be convinced before finally getting legitimacy in the market. One specific strategy of PT to influence customer perceptions is to approach different types of opinion leaders, including medical associations and other experts. With their support, PT targets political decision-makers about the functionality and technology behind its products and solutions, as well as the positive implications they have towards attaining the government's adopted SDGs. As explained by the firm's Head of Marketing,

*"We need key opinion leaders from the association, we need medical experts, and together with their support, we approach the Ministry of Health. They will help us influence the ministry based on their needs. With this line of business, we reached out to the obstetrics and gynaecology associations, who will endorse our products to the end-users, these are the midwives and the general practitioners in the state-owned hospitals. We involve these associations because they are the experts, they will give their expertise, and explain to the government why the end users will benefit from this. This is in line with their objective as well. We position our product to help them support their goals".*

Gaining the support of medical experts who have an important role as opinion leaders assist the firm in influencing attitudes of the government towards healthcare standards. Without such third-party endorsement, it would be hard, if not impossible, for PT to convince the government about the firm's innovative solutions. Furthermore, the Head of Marketing argues that a long-term approach is required to persuade political actors to standardise medical checks as a routine procedure in state-owned hospitals,

*"We first have to identify who key decision-makers are. Then we start with meetings, talk with them, then we do some presentations. We keep doing this and slowly we build trust. This is our practice to maintain a sustainable relationship. For the health system, it's not like with the consumer products, it's a long journey, for one product it will take two or three years to convince them. For example, breast cancer screening mammography, which is already a routine procedure in most countries, but in Indonesia, it is only for people who can afford it. It is not yet in the standard medical check for people to do the screening. To convince them [the government] we need the support of the KOLs; we also conduct studies with them, to give evidence-based arguments about the breast cancer screening in the early stage and we bring this data to the Ministry of Health to convince them".*

Again, these examples demonstrate the importance of gaining the support of KOLs. Gaining their endorsement is critical for shifting attitudes of PT's costumers and other stakeholders. To conclude, the

case examples illustrate how the MBEs strived to gain the support of locally respected actors (i.e. health experts) to develop local markets and influence the norms and attitudes in the Indonesian society.

#### 4.4.3 Host-country pressure III. Responding to subnational heterogeneity

In Indonesia, PT distributes products to areas that are often inaccessible without the support of local business partners and authorities. As a result, operating throughout the country requires cooperation and support of other firms and actors. Figure 4.4.3 illustrates the strategies that support PT in managing subnational heterogeneity<sup>39</sup>.

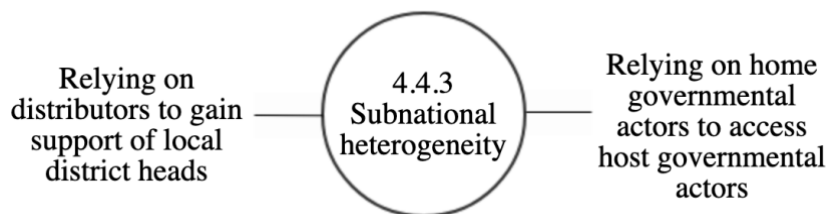


Figure 4.4.3 PT's strategies for responding to subnational heterogeneity

- *Relying on distributors to gain the support of district heads*

For PT's consumer electronics business, it was often necessary to gain the support of local government representatives. The firm's former CEO noted that interactions and dealings with local mayors or bupati (regents) were usually established through PT's partners. For instance, when PT organised events in different regions in the archipelago, PT's distributors would first gain the approval and support of the local government representatives. As explained by PT's former CEO,

*“In every tier one city in Indonesia, we have held some form of gathering. The mayor or vice mayor normally attend or a bupati, and it would not be unusual if we had live television coverage and we would often get 100-150 thousand people coming. Of course, you need the approval of the local bupati, but our local partners had the contacts for that and made it happen. Together with our local distributor partner, we would conduct sales activities at these events and very often you could sell up to a 100,000-dollar worth of products in an evening”.*

Thus, PT relied on local partners to manage interactions with local governmental actors and local media. Again, operating throughout the country requires the support of business partners, especially in areas in which PT does not have the understanding of or influence upon local leaders. For PT, a central

<sup>39</sup> Unlike the other case firms, PT's production centre is located in an industrial estate (and managed by a different PT entity), and for this reason, it was not necessary to build relations with local communities. Furthermore, other types of PT's consumer products are manufactured via long-standing relationship with an Indonesian partner, who also manage their own factories.

part of driving the business has thus been to develop an indirect sales model. This means that the firm is normally not in direct contact with customers but bases its operations on close collaboration with different, well-connected partners, founded on trust and cooperation.

- *Relying on home governmental actors to access host governmental actors*

There is a need for political connections in a business environment where corruption is widespread. At times, PT had to manage unreasonable demands from governmental actors. However, PT’s former Sales Manager recalled,

*“The Dutch government and the embassy played an active role to support the Dutch industry. They have good contact and helped us reach out to the Indonesian government when necessary”.*

Resolving such issues was mostly handled by the firms’ top management who relied on their personal connections with home governmental actors to help them access key host governmental actors.

#### 4.4.4 Case summary Primus Technics

Figure 4.4.4 illustrates PT’s organisational practices and strategies with regard to how they link to managing the three host-country pressures.

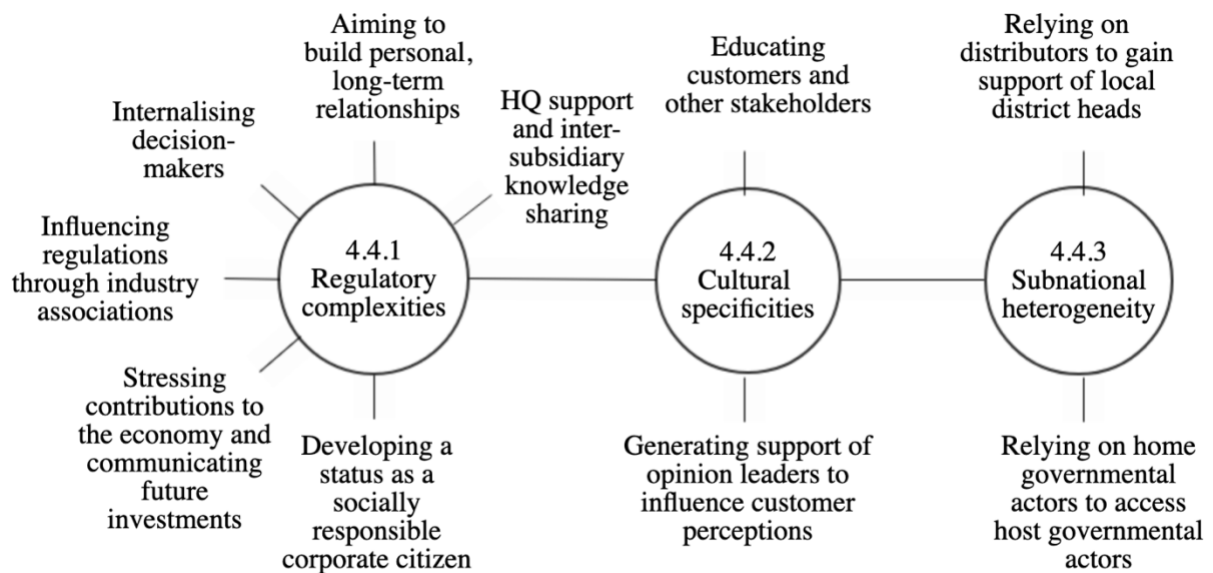


Figure 4.4.4 Map of PT’s strategies for responding to host-country pressures in Indonesia

The case study demonstrates how successful integration in the market required building legitimacy in the Indonesian society. One part of achieving this was by demonstrating how the firm’s innovative healthcare solutions can assist in managing important social problems and taking part in collaborative

projects with social and political actors. PT's management regards such type of initiatives as valuable for demonstrating a commitment to developing the country. One major challenge for PT remains influencing the government to adopt a number of medical checks as a routine procedure in state-owned hospitals. Therefore, PT has developed specially tailored educational programmes that demonstrate and teach these actors about the importance of PT's solutions. Events and training programmes are organised where key influencers are invited to participate. Creating positive publicity in the media about PT's technology and the support of medical experts who are considered to be independent are part of this. For instance, the case study reveals how medical experts such as obstetricians and gynaecologists can assist the firm in influencing the prevailing norms, values and behaviour of the society. By educating customers and developing relationships with opinion leaders, the firm was able to change customer perceptions and behaviour in a way that makes the market more receptive to the firm's products and overall market offer.

#### 4.5 Chapter summary

This chapter explored the operations of four long-established Dutch MBEs in the consumer goods industry in Indonesia. The case studies have illustrated different ways in which the studied firms interact with political actors (e.g. governments and policymakers), business actors (e.g. distributors and JV partner) and social actors (e.g., NGOs and opinion leaders) to respond to host-country pressures inherent in doing business in Indonesia, namely the *(I) regulatory complexities, (II) cultural specificities and (III) subnational heterogeneity*. In detail, each of the relationship types and strategies involved have been discussed with regards to how they link to the three host-country pressures.

The findings stress that long-term relationships with a broad range of external actors can have a positive impact on the MBE's market position and its competitive advantage. The case studies also demonstrate that during the firms' expansion in a culturally different market, it is important to consider their role in society, as well as the development of relationships in the business and the socio-political market. Without the necessary support of key host country actors, it will be difficult to become accepted within the society. At the same time, interacting and being associated with socially and culturally respected actors, such as local government representatives and non-political NGOs gave the firms increased legitimacy and relevance in the eyes of the consumers.

In order to draw conclusions from the within-case studies, the cross-case analysis chapter will discuss the similarities and differences of the firms' approaches to social, business and political actors, and how they respond to host-country pressures. The cross-case analysis chapter will also present the Evidence Structure (Table 5.1).



## 5. Cross-case analysis

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The previous chapter demonstrated how the studied firms interact with different types of political actors, such as governments and policymakers, as well as the relationships with various types of business partners and social actors. Each of the relationship types, as well as the strategies adopted and resources deployed, has been discussed with regard to how they can assist the firm in approaching host-country pressures in the Indonesian market, namely regulatory complexities, cultural specificities and subnational heterogeneity. In order to draw conclusions from the case-specific idiosyncrasies, this chapter presents the similarities and differences of the firms' approaches to social, business and political actors, and collaborations with diverse network partners.

Following the Gioia methodology (Gioia et al., 2013), the Evidence Structure was constructed<sup>40</sup>. The Evidence Structure includes the (i) first-order descriptive codes, (ii) second-order themes and (iii) aggregate dimensions, as well as the (iv) instruments used, and (v) actors involved in performing each activity. For instance, 'aiming to build personal, long-term relationships with host governmental actors' is a first-order descriptive code; the second-order dimension became 'relational approach to managing the non-market environment'; the aggregate dimension became 'legitimacy building'. The instruments used are 'meetings with host government actors (formal and casual dinners)', and the actors involved are 'top subsidiary management, corporate affairs department and host country governmental actors'. To support the themes in the Evidence Structure, the cross-case analysis that follows includes verbatim quotes from different participants on, for instance, how and why they aim to build personal, long-term relationships with host governmental actors. The Evidence Structure (Table 5.1) is presented next.

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<sup>40</sup> The Gioia methodology was chosen mainly to provide transparency and avoid entering the realm of guesswork and speculation.

Table 5.1 Evidence structure<sup>41</sup>

Evidence from	Section	First-order descriptive terms	Second-order themes	Aggregate dimensions	Instruments	Actors involved
<b>Host-country pressure I. Responding to regulatory complexities (5.2)</b>						
FCD, HBC, UGG, PT	5.2.1	Aiming to build personal, long-term relationships with host governmental actors	Relational approach to managing the non-market environment	Legitimacy building	Meetings with host government actors (formal and casual dinners),	Top subsidiary management Subsidiary corporate affairs department Host country governmental actors (central, provincial and district government)
FCD, HBC, UGG, PT	5.2.2	Collecting information about the formal and informal rules	Networking capability	Institutional knowledge acquisition	Regular formal and informal meetings with host government officials	Subsidiary corporate affairs department Host governmental actors (central, provincial and district government)
FCD, HBC, UGG, PT	5.2.3	Managing uncertainty: a. Sustained interaction with host country regulators b. Continuous assessment of geopolitical issues in host markets	Managing environmental uncertainty	Internal political resources	Topical meetings with government officials Code of good business conduct Monthly conference calls	Global headquarters (The Netherlands) Top subsidiary management Subsidiary corporate affairs department Host country governmental actors
FCD, HBC, UGG, PT	5.2.4	Disseminating knowledge to subsidiaries on how to deal with regulatory challenges	Political knowledge sharing	Internal political resources	Lessons learned reports from other subsidiaries Strategy sessions Visits to other subsidiaries	Indonesian subsidiaries, regional HQ (Singapore), global (Dutch) HQ Subsidiaries from various emerging markets in the region
HBC, UGG, FCD, PT	5.2.5	MBEs' contributions: a. Stressing contributions to the local economy to avoid restrictive regulations (PT, FCD, UGG) b. Communicating future investments in line with widely accepted societal values (HBC, UGG, PT)	Expressing commitment	Legitimacy building	Briefings to top management Meetings with political actors at ministry of trade	Top management Host country governmental actors (central, provincial and district government)
UGG, HBC	5.2.6	Multi-listing equity shares on host market stock exchange	Expressing commitment	Legitimacy building	IPO on Jakarta stock exchange	Top management
FCD, HBC, UGG, PT	5.2.7	Appointing host country nationals to corporate board	Expressing commitment	Legitimacy building	Formal letters Local managers relying on their personal networks	Subsidiary management in consultation with corporate HQ
HBC, UGG	5.2.8	Appointing former politicians to function as business advisers in the matter of socio-political activities	Board political capital	Internal political resources	Directors relying on their political networks	Board members Commissioners Government officials
FCD, UGG, HBC, PT	5.2.9	Social strategies: a. Aligning CSR agendas with government's adopted United Nations Sustainable Development Goals	Political accommodation	Legitimacy building	Topical discussions with political actors, Strategy sessions with top	Home and host country governmental actors, CSR team, Global HQ, subsidiary management, Universities

<sup>41</sup> For the purpose of developing a theoretical understanding, the Evidence Structure follows an imposed ordering; it does, however, not necessarily account for chains of events and interactions among concepts.

Chapter 5. Cross-case analysis

		<b>b.</b> Investments to build up local farming industry to improve relationship with political actors (FCD, UGG)			management and agriculture experts	
FCD, HBC, UGG, PT	5.2.10	Collaborations to manage regulatory environment: <b>a.</b> Collaborating with competitors via industry associations to manage regulatory environment (FCD, HBC, UGG, PT) <b>b.</b> Proactively influencing policy development through relationships with opinion leaders (FCD)	Collective approach to managing the non-market environment	External networks	Public hearings Topical meetings Presentations with stakeholders	Subsidiary management KOLs, host governmental actors (ministries) Industry associations
<b>Host-country pressure II. Responding to cultural specificities (5.3)</b>						
FCD, UGG, HBC, PT	5.3.1	Educating customers: a long-term approach to influencing cultural factors	Building trust	Legitimacy building	Social development activities	KOLs, NGOs, local governmental representatives
FCD, UGG, HBC, PT	5.3.2	Generating the support of locally respected actors to influence behaviours in the society	Building trust	Legitimacy building	Workshops, seminars, school programmes	KOLs (paediatricians, dentists, midwives, nutritional experts)
<b>Host-country pressure III. Responding to subnational heterogeneity (5.4)</b>						
FCD, HBC, UGG	5.4.1	Building a relationship with the communities surrounding factory premises	Bargaining	Resolving critical issues	Negotiations with district governments	MBE community development team, local business owners, residents, district government
FCD, HBC, UGG, PT	5.4.2	Managing the licensing process: <b>a.</b> Using connections to speed up the licensing process (HBC, UGG, PT) <b>b.</b> Relying on JV partner to obtain licenses (FCD)	Facilitating	Resolving critical issues	Local managers relying on their political networks, Code of conduct	Factory managers Subsidiary corporate affairs team District governmental actors
FCD, HBC, UGG, PT	5.4.3a	Managing unreasonable demands: <b>a.</b> Adoption of anti-bribery principles (FCD, HBC, UGG, PT) <b>b.</b> Legitimate sponsorship (UGG)	Bargaining	Resolving critical issues	Meetings with host government actors, Code of conduct	Subsidiary corporate affairs team District governmental actors
PT, HBC	5.4.3b	Managing unreasonable demands: <b>a.</b> Political connections to manage unreasonable demands <b>b.</b> Relying on home governmental actors to access host governmental actors	Facilitating	Resolving critical issues	Meetings with host government actors, Code of conduct	Subsidiary corporate affairs team Home and host governmental actors
HBC, FCD, PT	5.4.4	Relying on well-connected partners at the subnational level: <b>a.</b> Coping with alcohol bans in far-flung islands through relationships with network partners (HBC) <b>b.</b> Relying on distributor-partners to gain support of local leaders (FCD, PT)	Mobilising network partners	External networks	Field visits and meetings with local business associations	Network partners (e.g. distributors, hotels, restaurant, bars) Business associations
UGG	5.4.5	Securing access in remote parts of the country through social development activities	Political accommodation	Legitimacy building	Social development activities Meetings with host government actors	UGG Indonesia Foundation District governmental actors



### 5.1 Similarities and differences in the approaches to business, social and political actors

The circumstances of the Indonesian market provide the context for the challenges that First Class Dairy (FCD), Holland Beer Company (HBC), Universal Global Goods (UGG) and Primus Technics (PT) can expect when developing their operations in an emerging market. This chapter compares the four case examples and identified similarities and differences in their approaches to social, business and political actors, and collaborations with diverse network partners. Selected verbatim quotes are included to illustrate the arguments.

### 5.2 Host-country pressure I. Responding to regulatory complexities

Participants of the MBEs referred to managing the country's regulatory environment as a main challenge and stressed the importance of having strong direct or indirect ties to political actors. Indonesia's regulatory environment is complicated in several ways. First, there are several political decision levels which require multiple contacts with central as well as provincial and district governments. Second, Indonesia has a particularly complicated, complex, and bureaucratic regulatory structure. Participants described the regulatory environment by using terms such as "*non-transparent*" (UGG, Head of External Affairs), "*conflicted*" (HBC, Supply Chain Director) and "*always moving goalposts*" (PT, Former CEO). Although the threat of potentially restrictive regulations differed considerably depending on the industry, all participants highlighted the importance of managing the political and regulatory environment proactively. One phrase, in particular, demonstrates this accurately, "*In the end, everything boils down to government relations*" (HBC, Former CEO).

In particular, HBC was targeted by religious political parties and pressure groups due to the nature of their main category of products, alcoholic beverages. HBC has been rather unsuccessful in preventing restrictive policies. For example, the firm collaborated with competitors to prevent a ban on the sale of beer in convenience stores, but this proved to be very difficult. Despite continuous efforts of the firm to prevent restrictive policies, significant alcohol restrictions were promulgated in 2015 by the central government, and in the same year, parliament proposed a bill to completely ban the sale, distribution and consumption of alcohol in the Muslim majority country. However, participants of all MBEs noted how their firms, and foreign firms in general, are regularly targeted by lawmakers' protectionist policies. For instance, participants of FCD and UGG noted how their firms regularly faced proposals from regulators of policies related to agriculture (e.g. trying to increase sugar prices and forcing foreign firms to source milk locally), while PT's former CEO recalled how it regularly faced import-related protectionist policies. The next sections demonstrate how four long-established Dutch MBEs tackle common issues related to Indonesia's complex regulatory environment.

### 5.2.1 Aiming to build personal, long-term relationships with host governmental actors

As is customary in many emerging markets, the participants were required to develop personal, long-term relationships with political actors, based on mutual trust and commitment. It was deemed important to regularly interact with key decision-makers with the aim of establishing strong personal relationships, as it can take significant time and efforts to develop cooperative relations. As explained by FCD's Corporate Affairs Director,

*“In Indonesia, it is really essential to have this kind of relationship both informally and formally with government officials because when you have issues, you can ask them for support directly, you can WhatsApp the official and ask them how to best approach this. You need to build up such relationships over time; it doesn't happen overnight”.*

In order to build personal, long-term relationships, participants from case UGG, HBC and PT noted that it is important to have an awareness of the political, cultural and religious background of the counterpart, as Indonesians tend to make decisions on a personal basis. For instance, HBC's Finance Director stated,

*“It helps if you know someone who is at the same political party, from the same university, or from the same city, that's the way it works here”.*

Furthermore, UGG's Head of Foundation argues,

*“You have to find the sweet spot of that person. Of course, if you are coming from the same school or city... suddenly you become friends and then you can have a conversation about how things work”.*

In a similar vein, UGG's Head of External Affairs, who is in charge of government relations, emphasises the importance of a cultural awareness in establishing relationships with government representatives. When people from a similar region meet, *“you instantly and easily click”*. It also helps if the firm representative speaks the same dialect of the government officials because *“they will listen to you more”*. Meetings between MBE representatives and government officials are normally held between HCN, preferably between people from the same geographic region.

### 5.2.2 Collecting information about the formal and informal rules

The MBEs interact with host country governmental actors to better understand the rules of the game, thus enabling them to adapt to local conditions. It is deemed essential to build a network of relationships with decision-makers at various layers of government. For instance, participants described how the

MBEs' directors, as well as their corporate affairs and legal teams regularly meet with central government representatives and regulatory bodies to obtain knowledge that helped navigate regulatory challenges. Indonesian subsidiary managers understood not only how to establish relationships with government officials but also the way in which these relationships were altered with changes in the government or the mood of the government officials. As FCD's former country leader interviewed for this study recalled,

*“Without good relationships, you may be unaware of what they [the government] require, in terms of documentation and compliance issues and you can get yourself a situation where you don't want to be in. The rules are not always clear, there might be clear rules, but the way these rules are interpreted can be different, so it is important to understand these things”.*

UGG's Head of Communications explains,

*“We try to engage with them as much as possible. Even though we have been here for many, many years we still spend so much time trying to understand the rules and requirements. But also, their attitudes towards new investments...”*

Thus, the MBEs engaged in a focused search to acquire institutional knowledge, i.e. to understand the formal institutional rules, covering issues of policies and regulations, as well as informal rules covering issues around government attitudes towards foreign investors.

### **5.2.3 Managing uncertainty**

#### ***a. Sustained interactions with host country regulators***

Due to the heterogeneity of emerging markets, subsidiaries are given responsibility to manage their relationships with host governments. The continuous management of the political environment was part of the subsidiaries' ongoing strategic planning. They did not see their political strategy as a stand-alone strategy or a type of political behaviour enacted only in times of conflict with host governments, but rather as an important element of their firms' overall business strategy. Furthermore, the Indonesian regulatory environment was considered by participants to be complex and unpredictable. To manage this uncertainty, participants engaged in sustained interactions with regulators. This is evident from, for instance, FCD's Operations Director who stated,

*“Our corporate affairs director and our legal director spent most of their time interacting with the various ministries telling them our position and the industry's position to guide this whole [regulatory] process”.*

The study involves actors of considerable prominence and power. As a result, they were often invited to participate in discussions with policymakers. All firms attempted to influence decisions by applying their expertise, offering advice, through investments, and taking part in important projects with a long-term impact on the conditions in the local society. UGG was particularly successful in its efforts and gained status as a ‘trusted advisor’ to the government. This, in turn, provided the firm with increased power when dealing with political actors and trying to influence standards and regulations.

*b. Continuous assessment of geopolitical issues in host markets*

The MBEs’ headquarters continuously assess geopolitical issues in the different host markets in which the firms operate. Due to the heterogeneity of emerging markets, an assessment of potential threats was deemed necessary to gauge the political challenges in the different operating regions. As FCD’s Former CEO recalled, “*countries like Indonesia, China, Thailand and the Philippines have very little in common*”, which stresses the differences in institutions between countries and the need for a country-specific political strategy. Similarly, as expressed by HBC’s CEO,

*“Globally, when we look at it, we have a better overview of what happens in different regions, because everywhere it is different right? [...] and obviously in terms of geopolitics in Asia, you always look at what happens in Indonesia, what happens in Malaysia, what is the latest in the election in Cambodia”.*

The MBEs’ routines entail an assessment of the political environment in the operating areas and stress the importance of building cooperative relationships and influence unfavourable institutions. As a result, HQ was, at times, able to contribute towards making decisions regarding approaches to political actors and regulatory complexities.

**5.2.4 Disseminating knowledge to subsidiaries on how to deal with regulatory challenges**

Even though participants highlighted the uniqueness of the Indonesian market, the MBEs leveraged political knowledge and experience gained in other emerging markets. For instance, based on their previous experience, they knew that different governmental actors might be useful in different ways. This knowledge is shared between HQ and subsidiaries, and allowed subsidiaries to adopt successful practices. Dutch (global) HQ and Singaporean (regional) HQ assisted subsidiaries of the four MBEs through disseminating political knowledge on how to deal with regulatory challenges, which in turn fed back to other subsidiaries in the region. For instance, if problems occur at the country level, headquarters assists by disseminating ‘lessons learned’ from other host market subsidiaries.

At PT and FCD, this process took place during regular conference calls where subsidiaries shared their institutional knowledge about the host markets and outlined any challenges they were facing. PT’s

former CEO interviewed for this study recalled, *“There were always a large number of countries that dialled in on a monthly basis”*. One key dimension in the assessment is the political environment, and during these conference calls subsidiaries shared experiences and challenges they faced in different institutional contexts.

In times of turmoil, HBC’s former CEO recalled that they could call upon directors who had previously worked in or had experience with similar conditions in other emerging markets. As HBC’s Former CEO recalled,

*“A finance manager who worked in Congo flew directly to Jakarta and helped our team out. For these things, large multinationals are very useful. Corporate guidelines don’t tell you about how to deal with these issues.”*

Similarly, UGG’s Finance Director noted that India has similar market conditions to Indonesia and Indian directors regularly visit Jakarta’s office to leverage their experience. Furthermore, FCD’s Corporate Affairs Director revealed that similar regulatory challenges tend to come up at different times in countries within a region. In other words, the regulatory challenges faced in one emerging market may also pose a threat to a subsidiary in a neighbouring country. As expressed by FCD’s Corporate Affairs Director,

*“Let’s say Indonesia wants to impose a tax for sugar, how to deal with this? How we create a strategic stakeholder approach? We just contact Singapore and they already have best practices from let’s say Philippines and Thailand, and from that we can use their experience on how to approach these issues, about what works and what doesn’t work”*.

The four MBEs have a Singaporean office that plays a coordinating role, although FCD (2018) and UGG (2019) recently downsized their operations there, *“because the disconnect between countries like Indonesia, India and Philippines are too big for Singapore [...] some of the functions will go to Manilla, Bangkok and Jakarta offices”*, UGG’s FCO noted.

### *5.2.5 Stressing MBE contributions to the local economy and communicating future investments*

The participants understood the criteria upon which host governments accord legitimacy to foreign firms, and thus, they expressed their commitment to the market in their communication with governmental actors. In other words, signalling a commitment to the market and promising future investments allowed the MBEs to enhance their bargaining positions. For example, since a law that prevents HBC from selling beer in convenience stores came into effect in 2015, the firm has invested heavily in a new factory producing non-alcoholic beverages. Communicating future investments in line with widely accepted values helped HBC demonstrate commitment and build trust in the eyes of

political actors. Participants from case FCD, UGG and PT also mentioned that sharing future expansion plans helped express commitment in the eyes of local policymakers. For instance, PT's former Sales Manager and former CEO recalled how directors of the Dutch HQ regularly visited Indonesia to discuss expansion plans with host governmental actors. It is evident that the government is interested in investments that contribute to the Indonesian economy, e.g. investments that create work for local labour.

Respondents from the MBEs also pointed out that during meetings with political actors, it was necessary to emphasise their firms' contributions to the local economy, including tax contributions, as well as contributions to the economy by sourcing materials locally, and to provide employment opportunities for locals. For instance, PT's former CEO interviewed for this study recalled,

*“The Indonesian government was occasionally leaning quite vigorously towards blocking anyone that was trying to bring in products from overseas [...] We often had to point out that in Indonesia we had huge factories in Batam and Surabaya with tens of thousands of employees and in terms of the tax, we were a bigger Indonesian-based operation than most Indonesian companies”.*

Similarly, the Former CEO of FCD explains,

*“We contribute a lot to the Indonesian economy, in terms of tax, income for people and farmers and buying local products [...] So, when local directors sit down with the government, mentioning these things help and will work to your advantage”.*

Thus, the studied firms were aware of the way in which foreign governments accord legitimacy to foreign firms and communicating investments helped to build cooperative relationships and prevent restrictive regulations.

### **5.2.6 Multi-listing equity shares on host market stock exchange**

The MBEs acknowledged that foreign firms are often regarded with scepticism by political actors. As the government often engages in target-specific policy interventions, participants emphasised the need to gain social acceptance and credibility in the market. Two case firms, UGG and HBC, have listed equity shares on the Jakarta Stock Exchange, which helped the firms to be regarded as a, to some extent, local firm in the eyes of political actors, as well as the general public and the media. As the Finance Director of UGG stated,

*“UGG is not always seen as a foreign company but more as a local company. That is also because about 15 percent of our shares is on the local stock exchange. It is not necessarily seen as an extension of UGG Netherlands”.*

Similarly, HBC’s Finance Director notes that,

*“HBC has about 80 percent of the shares, the other 20 percent are listed on the Jakarta Stock Exchange. We have a different logo; the whole company is a standalone organisation. That is important to realise, yes HBC is the majority shareholder, but it is also an Indonesian company with Indonesian shareholders. Of course, these things help us in our relationship with the government and the media”.*

It was interesting to note that both FCD and HBC changed their subsidiary names, while UGG and PT kept their global company name. Participants referred to what can be seen as a balancing act of localising the operations while at the same time leveraging the international brand names and the firms behind them.

### *5.2.7 Appointing host country nationals to corporate board*

Participants stressed the importance of hiring HCN directors. Given the preference of the MBEs’ political actors to interact with native Indonesian firm representatives, the studied firms’ government relations directors, who communicates with senior policymakers, are HCN. In fact, virtually all the MBEs’ members of staff are Indonesian, as well as the majority of UGG, PTs and FCD’s board members, while on HBC’s board expatriates slightly outnumber Indonesians. While UGG’s and HBC appointed an Indonesian country director (CEO) in the past, expatriates are currently helming the firms<sup>42</sup>. However, FCD and PT appointed their first Indonesian CEOs in 2014 and 2015, respectively. Appointing an Indonesian country CEO demonstrates not only the maturity of the Indonesian market but also the commitment of the firms to the market.

Apart from the high costs related to appointing expatriates, Indonesians may have a better understanding of the peculiarities of doing business in the country. For instance, PT’s Former Sales manager recalled,

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<sup>42</sup> Interestingly, the case firms, as well as Dutch MBEs in general, have a pattern of always having a Dutch CFO or CEO. Between the two there is always one expatriate.

*“We had Indonesians directors who knew, if you talk about the commercial side of the business, how to play the game. They understood how an outsider could profit from the market without engaging in corruption”.*

Thus, the firms appointed local directors to provide them with better insight into the local situation that is impossible to achieve otherwise. Other reasons such as cost and restricting regulations on the number of expatriates are also likely to have played a role in the firm’s localisation efforts.

### *5.2.8 Appointing former Indonesian ministers to function as business advisers in the matter of socio-political activities*

Two case firm, HBC and UGG, appointed former politicians to their board of commissioners to function as business advisers in the matter of socio-political activities<sup>43</sup>. As a result of their experience, they are well-connected politically and respected by senior political figures. However, it appeared that the need for commissioners with political experience is related to the industry in which the firms operate. Managers of PT and FCD noted that, in their industry, it was not necessary to appoint someone with such credentials. For instance, FCD’s Corporate Affairs Director stated, *“We don’t have someone like that. Whether you need one depends on the nature of your product”*. However, FCD’s Operations Director noted that in the first three decades after the firm established itself, their Indonesian joint venture partner had close ties to former president Suharto. Even though PT’s Head of Marketing acknowledged that the firm currently does not have any directors with serious political experience, one of the firm’s Former Sales Manager recalled, *“We also tried to hire people who had an advisory role, not always on the political level but always in the higher echelons in the government.”*

HBC produces and sells alcoholic beverages and UGG extracts palm oil for many of its consumer products; both industries are considered to be sensitive, the former because of religious views towards consuming alcohol, the latter because palm oil is under government control<sup>44</sup>. As HBC’s CEO explained,

*“to give us insights about the culture, political dynamics and their perspectives of why things are [...] they have their network of contacts that would basically do the introductions, and sometimes because they write the letter as an introduction for a meeting that helps us to get the meeting”.*

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<sup>43</sup> Indonesian company law provides that public listed companies must have at least two commissioners. The Board of Commissioners (or supervisory board) is collectively supervising the management of the company, providing input concerning policies of the company’s management created by the Board of Directors.

<sup>44</sup> HBC’s Commissioner is a former politician with decades of experience in various roles including member of parliament and served as a minister. UGG has two commissioners with significant government experience; one is a former Deputy Minister to multiple ministries, the other a Former Chief of Staff to multiple ministries.



Thus, the directors with serious political experience on HBC and UGG's supervisory boards provide the firms with the insights and connections to navigate the socio-political landscape.

### 5.2.9 Social strategies

#### a. Aligning CSR agendas with government's adopted UN Sustainable Development Goals

The local situation in Indonesia gives the MBEs a lot of opportunities to draw the government's attention and interest to collaborate. A complementary strategy to influence political actors is demonstrating how the firm may assist in managing important social problems, and in taking part in collaborative projects with social and political actors. These efforts are regarded as valuable by the MBEs, particularly due to the need to build legitimacy in society. As expressed by FCD's Sales Manager,

*“One of the most important things for a multinational is that you're not seen as a company that is only here to profit from Indonesia, but that you also come to bring something”.*

One major effort in demonstrating such commitment is through CSR. That all firms involve the government actively in, for example, CSR projects that are aligned with the SDGs, illustrates this. In particular, UGG stressed the importance of aligning their CSR agenda with the government's agenda to build a cooperative relationship with policymakers. The Head of the UGG foundation interviewed for this study stated,

*“We will knock the door of the government to say we intent to promote health and hygiene, better environment, and sustainable agriculture, those are the pillars of our CSR programme, how can we align to your agenda? We know the answer, of course it is aligned...because we know it. Basically, all countries that are becoming a UN member they are adopting it as part of their national goals”.*

Examples of the MBEs' collaborations include, for instance, investing in and driving projects with a social interest, such as the school milk program run by FCD. Similarly, HBC collaborated with two ministries in a programme that raises environmental awareness in schools. Further, PT's lighting division ran a program that replaces lamps in villages to replace them with energy-efficient lighting, and its health division works on cancer project with Indonesian governors. The studied firms aimed to establish a role as a corporate citizen with social responsibilities and respect for cultural values. They also initiated projects with a long-term impact on the conditions in the society. These contributions are delivered in remote parts of the country with a great need for this type of social responsibility project. This freed them from some of the regulative constraints.

**b. Investments to build up local industries to improve relationships with political actors**

Food, its supply and nutritional value is a major issue for any country, but especially in Indonesia where the population is growing at an incredible speed. This makes UGG's and FCD's global expertise and resources very relevant to the government's aim to improve food security. Both firms invested major resources in developing local farming industries. For instance, with the support of home and host governments, FCD built a modernised farm in which Indonesian farmers share the farm facilities and receive training from Dutch farmers to improve efficiency and boost milk quality and productivity. Furthermore, the firm implemented several automated milk collection points that are openly shared with other dairy cooperatives, which in turn increases the firm's general legitimacy in the society. As expressed by FCD's Operations Director,

*“Every month I get about 40-60 articles where our name is mentioned, saying that we have been supporting in this region and that region. And that is the goodwill that will keep you sustained”.*

The examples further illustrate how FCD can appear as an actor with expertise in socially relevant matters, and to augment their influence on certain political processes. In a way, the firm is driving the development of the commercial market in Indonesia as well as their own value chain. According to a former FCD Country Director, the collaboration in this programme was the basis for a good relationship with the Indonesian government.

Furthermore, UGG struggled to get sufficient quality and quantity of supply of soya beans from local farmers. In collaboration with agricultural experts from a local university, UGG developed a programme to improve the farmers' production methods, where UGG provides financial credit and guaranteed purchase of the product at a contracted price. UGG offered the farmers a price higher than the market rate, and thousands of farmers' income increased. This type of initiative UGG management regards as especially valuable in building trust and legitimacy from different layers of government, NGOs, media and the general public. Developing local industries and creating employment for locals, may, in turn, provide the MBEs with increased power when dealing with political actors and trying to influence standards and regulations.

### *5.2.11 Collaborations to manage regulatory environment*

**a. Collaborating with competitors through industry associations**

The MBEs are members of multiple industry associations and their top management take leading roles by serving as board members. Proactive involvement in industry associations, together with other firms, can have a joint-political impact in managing regulations that may create competitive disadvantages. For instance, together with other dairy companies, FCD lobbies against regulations that may increase the price of packaging or raw materials, with the argument that it would increase the cost for consumers

and limit the ability of the Indonesian consumer to buy products that are essential for their health. As a result, they might have to stop buying a particular product, e.g. milk, which is essential for a healthy diet. This way, FCD and competitors oppose the government's activities by outlining the consumer's point of view but at the same time supporting the industry's interests. According to participants, lobbying in collaboration with other firms gives more strength than to go and discuss policy matters as a single firm. In fact, without coordination between potentially affected firms, national policymakers are more easily able to impose regulations that can create competitive disadvantages.

**b. Proactively influencing policy development through relationships with opinion leaders**

The MBEs strived to influence political decisions based upon the opinion leaders' point of view, while pursuing the business interests of the firm. Key opinion leaders (i.e. leading experts in a particular field) play an essential role in shaping the regulatory environment in Indonesia. In the process of developing regulations, policymakers involve opinion leaders from various fields to help shape their laws. Depending on the industry and type of regulation, opinion leaders may, for instance, include faculties of universities, medical experts or heads of dairy cooperatives. For instance, FCD utilised its longstanding relationships with the heads of the dairy cooperatives, who are considered to be opinion leaders in the dairy industry, to have a combined influence on certain political processes.

**5.3 Host-country pressure II. Responding to cultural specificities**

The Indonesian market provides an example of the challenges the MBEs can face when developing their operations in a culturally different emerging market. A main challenge involves changing the attitudes and opinions of customers and other stakeholders towards their brands and products. Participants described Indonesia as having a progressive culture while at the same time, highly influenced by traditional and sometimes conservative cultural values. Although the MBEs have specific business offerings and operate in different industries, the four firms faced difficulties in reaching and influencing the culture-based beliefs of their customers and other stakeholders. The MBEs efforts to change opinions include, for instance, long-term education programmes. Another way is to develop relationships with respected, recognised political and social actors that may help convince the public and influence the general norms and opinions in a society. For instance, the MBEs developed supportive relationships with local government representatives, non-political NGOs and opinion leaders (e.g. medical experts) in order to translate unique values into a new setting. It is reasonable to assume that the potential for doing so will be especially high in Indonesia with a less-developed demand for different types of products and solutions that are already familiar in the MBEs' home country. This section demonstrates how the MBEs influence and educate customers and other stakeholders to shift attitudes and behaviours in a way that makes the market more receptive to the firms' products and overall market offer.

### 5.3.1 *Educating customers and stakeholders: a long-term approach to influencing cultural factors*

The MBEs are involved in various educational programmes to change attitudes and develop local markets. The participants suggested that a long-term approach is required to influence the opinions of customers and other stakeholders in the Indonesian market. Examples of strategies the four studied firms adopted are presented next.

FCD faced cultural obstacles of local consumers regarding their most central product area, and an important part of driving their business has been to educate consumers on the health benefits of dairy consumption. Educational programmes that are in collaboration with political and social actors are part of this. These efforts help create awareness for the FCD brand, while at the same time driving the demand for milk products. The MBE also partnered with well-known medical experts to help to increase the legitimacy of the brand and products. For instance, a collaboration with the Indonesian Nutritionists Association was translated into nutrition and lifestyle programmes and school milk programmes that reached millions of consumers. By investing in and driving projects with a social interest, such as the school projects, and by inviting political actors to take part, the firms also generated increased legitimacy.

HBC invests major resources in educating different stakeholders, involving business actors as well as those from the socio-political sphere. For instance, HBC's initiatives include educational programmes with the support of various network partners to ensure that alcohol is not served to underage consumers. The firm's management suggests that their efforts to educate partners to manage the country's underage drinking problem help gain acceptance in the eyes of political actors and pressure groups. Again, by driving projects with a social interest and by inviting political actors to take part, a firm can increase its legitimacy. As the future performance of HBC is heavily influenced by and relies on the decisions of lawmakers, HBC also takes an educating role towards political actors. HBC involves other industry players as well as non-political NGOs and universities to take part in discussions with political actors concerning the alcohol prohibition bill, stressing not only the economic point of view, i.e. the loss of tax and employment but also social health issues, including the danger of a rise in consumption of bootleg alcohol. For instance, together with partners, the firm involved medical experts to provide an evidence-based approach about the dangers of methanol poisoning of alcohol distilled at home, while at the same time stressing its commitment to being a responsible alcohol company<sup>45</sup>. The example also illustrates how HBC can appear as an actor with expertise in socially relevant matters.

UGG established the 'UGG Indonesia foundation' to support its brands, educate consumers and develop local markets. Since 2001, the firm has consistently organised educational programmes in line with its brands about, for instance, health, hygiene, and nutrition, reaching millions of students each

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<sup>45</sup> An interview with the Corporate Affairs Director of a British alcohol MBE confirmed their joint-efforts in educating the government on the public health and safety concerns related to a rising consumption of opsolan (bootleg alcohol) as a result of recent alcohol restrictions.

year in suburban and rural areas that have a great need for this type of programme. Education on hygiene, for example, through handwashing days and oral health days, are part of this. In large parts of the country, Indonesians have become aware of the importance of using UGG's products. A part of the UGG strategy has thus been to develop specially tailored education programmes that demonstrate the firm's commitment to socially relevant matters, while at the same time developing the market for its products. As a result of these efforts, the firm has successfully changed consumers' behaviours (e.g. getting people to wash their hair using shampoo and brushing their teeth using toothpaste). Many of UGG's products have reached market-leading positions, and its management estimates that virtually all Indonesian households use one or more of its products each year.

PT puts a major effort into educating its customers by targeting different decision-makers through, for instance, PR and events. As PT's development (for its healthcare division) in Indonesia depends heavily on the government's policies on healthcare standards, the firm collaborates with medical experts to present their story to different members of the government and outline the advantages and benefits that health technology can have on society. These efforts are actively communicated to the media and may help convince the public and influence the general norms and opinions in a society. For instance, the firm stresses its efforts to increase the level of medical standards, responding to the country's high level of maternal and fetal deaths. Involving political actors in different social projects can also be a way of influencing customer perceptions regarding the firm's market offering. Having the government as a customer is, however, not only a case of making profits. It also affects the opinions of other potential customers in favour of PT. To summarise, the studied firms were heavily involved in long-term educational efforts to influence and educate their customers and stakeholders in favour of the firms' brands and to develop their respective markets.

### **5.3.2** Generating the support of locally respected actors to influence behaviours in the society

The MBEs suggest that a chain of influencers have to be convinced before gaining legitimacy in the market. Although in different ways, the four MBEs communicate through opinion leaders who, with their own respective networks and audiences, influence customers and stakeholders in favour of the MBEs' brands and products. By doing so, the MBEs aim to improve the value proposition of their products through the support of local socially and culturally respected actors who will add trust to the MBEs' brands. In a way, the MBEs strived to gain legitimacy and be supported by actors who were considered to be independent. Examples are presented next.

One specific strategy of FCD is to approach medical experts to help create awareness about the importance of dairy in a healthy diet. Even though Indonesia is traditionally a region without a milk-consuming culture, the case study on FCD revealed how nutritionists, midwives, paediatricians and medical doctors have an important role as more general opinion leaders, and they can thus assist the firm in influencing the prevailing norms, values and behaviour of the society. As expressed by FCD's Operations Director in Indonesia,

*“We work with paediatricians, because there is a lot of baby food, so we train them in terms of how our milk is a replacer for when babies come off breast milk [...]. And they share their knowledge with their audience... through seminars, writing articles and blogs”.*

HBC operates in a heavily regulated market, which does not permit firms producing alcoholic beverages to advertise their products openly. However, acceptance of HBC’s product offering is vital for the firm to be able to survive and thrive in the market. For this reason, HBC’s participants note that they have to be creative to shift consumer attitudes in favour of their products and alcohol in general. One specific strategy of HBC is to approach and support beer enthusiasts and culinary experts through knowledge sharing, e.g. sending brewers as a speaker at their events and financial donations. For instance, the firm sponsored a book by a renowned Indonesian food critic to strengthen the concept of pairing beer with food. HBC’s Marketing Director explains the role of key opinion leaders,

*“KOLs have an important role. For our alcoholic drinks we are not allowed advertise on television, or billboards. The role of KOLs is very important because it’s not a direct expression of a brand but a KOL who tells about your brand, is your brand ambassador, that is something we do quite often and what works well. Because through the network of the KOLs, who have their own audiences, they can reach their own target market but on a sort of natural and personal way. We use KOLs for events, that they come to events and later write about it. That’s what we do regularly”.*

Given the advertisement restrictions, approaching KOLs provide a unique way of reaching HBC’s customers. It is favourable for HBC when consumer attitudes are more open towards the consumption of alcohol because socio-political actors, who depend on groups like the media and the public at large are likely to reflect on consumer attitudes.

One specific strategy that worked well for UGG in developing the toothpaste market was initiating a community development programme at schools in remote parts of the country with a great need for this type of initiative. Participants explained that UGG’s collaborations with the Indonesian Dentist Association and the Faculty of Dentistry at prestigious universities are considered as essential to educating society further. The MBE provides free access to dental care by deploying mobile dental units operating at schools and suburban and rural areas. As a result, awareness of oral care improved dramatically, especially in remote parts of the country. Consequently, UGG’s toothpaste brand possesses an advantage over its competition and has been leading the market for decades.

One specific strategy of PT is to approach and gain support of medical associations who are considered to be opinion leaders. With their support, PT targets political decision-makers about the functionality and technology behind its products and services, as well as the positive implications they

have towards attaining the government's adopted SDGs. Participants stress that several social and political actors need to be convinced before finally getting legitimacy in the market. It took the firm significant efforts and resources to persuade political actors to standardise medical checks as a routine procedure in state-owned hospitals. Creating positive publicity in the media about their new technology and the support of medical experts who are considered to be independent is part of this.

To conclude, the case examples illustrate how the MBEs strived to gain the support of locally respected actors to develop local markets and influence the behaviours in a society. As a result, the studied firms were able to change the opinions and attitudes of customers and other stakeholders in a way that makes the market more receptive to the firm's products and overall market offer.

#### **5.4 Host-country pressure III. Responding to subnational heterogeneity**

The MBEs manufacture and distribute products in or to areas that are difficult to reach in terms of logistics and are often inaccessible without the support of local partners, communities and authorities. As the MBEs gained a significant presence in the archipelago, including multiple production plants, and the heterogeneity in subnational institutions, several issues hindered their operations and posed a substantial threat to their subsidiary success. Firstly, one critical challenge concerns developing and maintaining harmonious relationships with local communities and their authorities surrounding the MBEs production plants. As FCD's Corporate Affairs Director interviewed for this study stated, "*if you do not manage the community well, there will be rallies; they will storm right through the gate*". Furthermore, as recalled by HBC's Former CEO, "*our offices were plundered during the riots*". For this reason, the participants noted that it was necessary to interact with local communities surrounding the MBEs factories and gain the support of local authorities. Accordingly, the MBEs had devoted significant resources to gain community acceptance; social contributions and offering work for local labour freed them from some of the constraints.

Secondly, the country's decentralisation has compounded these regional issues. Since the enactments of the decentralisation law in 2001, each of the country's 542 regencies (roughly equivalent to counties) is now taking responsibility for its own affairs through locally elected officials. The devolution of regulatory and revenue-raising functions has allowed district governments (i.e. below the provincial level) to issue business regulations. As a result, MBEs that want to establish their factories now require their licence to operate from local authorities in the areas in which production plants are located. Thus, MBEs that operate in these areas of governance seek support and endorsement from their authorities. However, compared to dealing with the central government, dealing with local leaders in remote (and institutionally less-developed) parts of the country requires different capabilities. As explained by UGG's Head of External Affairs, "*when you go to the local government, it is a very different story, 180 degrees different, but we also need to secure the support of the local government because that's where our factories are located*". This section investigates how these different types of

actors interact, the strategies that are adopted, and which critical resources are utilised to resolving critical issues.

#### *5.4.1 Building a relationship with the communities surrounding factory premises*

FCD, HBC and UGG have devoted considerable resources to building harmonious relations with the local governments and communities in the areas surrounding their factories<sup>46</sup>. Without such efforts, participants explained that foreign MBEs might face riots or other forms of uproar organised by residents or business owners from nearby villages and may face difficulties obtaining licenses from local authorities<sup>47</sup>. Since 2009, FCD has held regular meetings with local authorities to identify areas in which the firm can assist the communities. As a result of these meetings, FCD offers work for residents and initiates social projects to support the development of the communities. The firm also partnered with Indonesian Nutritionists Association for local health workers to provide nutritional support for children and provides training to residents to generate extra income.

In a similar vein, UGG introduced a programme to support the communities in which it operates. In cooperation with local governments, non-political NGOs, universities, opinion leaders, regional newspapers, UGG launched various community-based activities including health and hygiene education and training on waste management. According to the Head of the UGG Foundation, such efforts were an effective way to gain community acceptance and goodwill. HBC's social contributions include distributing meat for national events and religious festivities as well as financial donations to families, orphans and senior citizens, facilitated with the support of the local government and military. The firm also supported the construction and renovation of schools and Muslim prayer spaces and provided milk and nutrition supplements for children through local health clinics. These are the type of programmes the MBEs regard as especially valuable in the development of cooperative relations with local governments and residents.

#### *5.4.2 Navigating the licensing process*

##### **a.** Using connections to speed up the licensing process

As is customary in many emerging markets, issuing permits and other bureaucratic processes may take a long time. Although the MBEs stressed that persistence is essential in securing licenses, the firms

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<sup>46</sup> PTs production plant is located in an industrial estate and managed by a different entity. Therefore, it was not necessary for PT to manage relations with local communities.

<sup>47</sup> An interview with the Government Relations manager of a large French MBE confirmed the challenges a firm can face when operating in rural areas. The manager recalled how the firm had purchased a piece of land, build a factory and acquired the necessary licenses, but had never been able to start operations due to a lack of engagement with the surrounding communities. Thousands of residents had attacked the factories and the firm has had to withdraw from the region.



were able to leverage their political connections to speed up the process. As HBC's Former CEO recalled,

*“Having the right connections was invaluable in getting the permits and licences required. Without the connections that would have taken years”.*

In a similar vein, UGG's Head of External Affairs, who is in charge of the licenses for the firm's nine factories,

*“We involve our factory team to engage with the local government. For example, they have local government contacts and know whom to contact if we have difficulties with licences. That normally helps”.*

It is thus evident that connections can help speed up the bureaucratic licensing process.

**b. Relying on local joint venture partner to obtain licenses**

FCD was established through a joint-venture with a local conglomerate when the Indonesian government required foreign dairy firms to set up a local condensed milk industry. Especially in the years after establishment, the network and influence of FCD's local partner played an important role. As expressed by the firm's Operations Director,

*“Whether it was organising the land, the titles, and also the early collaboration and working with the government, we needed a local partner as much as they wanted us to have this”.*

One particular advantage of FCD's well-connected joint venture partner was that obtaining licenses and permits for the factories was usually done quickly. However, since the downfall of Suharto in 1998, the local partner is no longer welcomed by the government, and since then all permits, and licences are handled through FCD directly.

**5.4.3a Managing unreasonable demands**

**a. Adoption of anti-bribery principles**

The MBEs' strict code of business principles required them to operate within the country's laws and regulations. Moreover, participants suggested that getting involved in scandals would significantly damage their firms' global reputation. While the central government, *“are in a stage where they are more reformed”* (HBC Finance Director), dealing with representatives of district governments, especially in rural areas and in far-flung islands, can be challenging. As UGG's Head of External Affairs noted, *“they simply keep delaying because they don't have an incentive”*. As expressed by FCD's

Operations Director, *we never diluted for the sake of getting any paper approved*". Furthermore, UGG's Head of External Affairs also noted it was not possible to pay any "extra fees", because "you will become their ATM machine". It was therefore necessary to strictly follow the adopted anti-bribery principles to be able to operate in Indonesia without engaging in any form of corruption.

**b. Legitimate sponsorship**

UGG employs the strategy of social contributions as an approach to respond to bribe requests. One specific strategy of UGG to avoid unreasonable demands was through "legitimate sponsorship" (Head of External Affairs). In some cases, UGG was able to 'compensate' by providing "legitimate sponsorship" – as an alternative to graft. As expressed by UGG's Head of Communications,

*"we try to compensate that by making sure that our programmes are actually supporting their agenda. And we can still give legitimate sponsorship, like when they have a national handwashing day, we can provide our products, that's legitimate. We provide whatever we are allowed to provide, education or t-shirts for the children..."*

Here, the 'negotiators' looked at what sort of social programmes – which needed to have some relevance to UGG's products - they could offer to assist the local leaders and the community they represent. UGG employed the strategy of social contributions as an approach to respond to corruption, "and making clear that these are the things that we could bring to the table. So, therefore, they are not asking for money" (Head of Foundation). Thus, despite the firm's strict code of business conduct, UGG management in Indonesia adopted an alternative way to deal with corrupt bureaucrats.

**5.4.3b Managing unreasonable demands**

**a. Political connections to manage unreasonable demands**

Through HBC's directors' political network, the firm was able to protect itself from unreasonable demands and, at times, leveraging their connections to deal with "undesirable interference" (Case HBC, Former CEO). Similarly, PT's former Sales Manager recalled, "if I felt that such things needed to be discussed I would usually go to the highest boss of PT Indonesia and would ask him if he could, at the next opportunity, mention this or that". Hence, there is a need for political connections in a business environment where corruption is widespread.

**b. Relying on home governmental actors to access host governmental actors**

When HBC applied to extend licenses for its factory in the early 2000s, the firm faced an unreasonable demand from a local mayor. According to the firm's former CEO, the local mayor requested,

*“millions in sponsorship money to set up a football team. Of course, we couldn’t pay that. We got the Dutch ambassador here as well as Dutch Ministers involved, who helped lobby the government and eventually, we got the licenses”.*

In a similar vein, PT’s Former Sales Manager noted that,

*“The Dutch government and the embassy played an active role to support the Dutch industry. They have good contact and helped us reach out to the Indonesian government when necessary”.*

Resolving such issues was mostly handled by the firms’ top management who relied on their personal connections with home governmental actors to help them access key host governmental actors.

#### **5.4.4** *Relying on well-connected partners at the subnational level*

##### **a.** Coping with alcohol bans in far-flung islands through relationships with network partners

HBC mobilised its network partners to respond to subnational heterogeneity in remote parts of the country where the firm does not have the understanding of or influence upon local leaders. A significant problem for HBC is that a large number of regional alcohol bans have been promulgated in the more conservative districts on issues of religion and morality. Even though in most regions and islands, alcohol sales are allowed, the firm wanted to prevent such regulations from spreading to other (less conservative) districts. To cope with locally-imposed Islamising regulations that ban the sale and consumption of alcohol, HBC supports its network partners by, for instance, the setting up of business associations and offering legal support to lobby local authorities against regulations that restrict HBC and its partners. By offering background support to HBC’s customers (i.e. distributors, bars and restaurants), the firm and its network partners were able to present a stronger force towards local authorities.

At the same time, the firm collaborated with well-connected distributors to reverse bans that were already in place. Through the political network of local distributors, it was not only possible to reduce the restrictive effects of political decisions, but also to secure new business. An example is when HBC changed distributors to one who was politically well-connected, which resulted into several new customers in areas where it was previously not allowed to sell alcohol (as a result of alcohol restrictions). Due to the distributor’s personal network and trustworthiness, local authorities turned a blind eye. It thus shows that HBC was not only reactive in its approach to manage the regulatory environment, but also proactive. Even though this strategy has only been observed at one of the case firms, had the study had other selection criteria, and included other MBEs in the same industry, similar evidence would have been found. Findings were triangulated through an interview with the Corporate Affairs Director of a

leading British alcoholic beverages company. This demonstrates that mobilising network partners is a strategy used by MBEs in the alcoholic beverages industry, and thus it was included in the analysis.

**b. Relying on distributor-partners to gain support of local leaders**

The case studies reveal how two firms (PT and FCD) gained the support of local authorities in Indonesia through their distributor partners. The firms do not have the influence upon local leaders in far-flung islands that is required to interact with them directly. For instance, when PT organised sales-events in different regions throughout the country, its distributors would gain the approval and support of the local government representatives. PT's former CEO explained, *"Of course, you need the approval of the local bupati [district head], but our local partners had the contacts for that and made it happen"*. This firms collaborated with locally well-connected partners to effectively supply the entire population. An important part of driving the firms' business has been to develop an indirect sales model. This means that the firms are normally not in direct contact with customers but based its operations on close collaboration with distributors, founded on trust and cooperation. Indonesian consumers are spread out over thousands of islands where PT and FCD do not have the understanding, influence or connections to manage interactions with political actors, and therefore the firms rely on their distributor-partners in these areas.

**5.4.5 Securing access in remote parts of the country through social development activities**

Support of local leaders is considered a precondition for doing business in the decentralised country. However, gaining acceptance may require initiating programmes with a social interest, especially in remote parts of the country (participants referred to these areas as *"deep rural"*) with a great need for social responsibility projects. Through UGG's foundation, the firm initiated social development activities to gain access and support in areas in which the firm has little or no presence. As a result of the firm's social efforts to support health, hygiene, and nutrition in local schools, local leaders and the communities became more conducive to UGG's commercial operations. Participants suggested that due to UGG's history of sponsoring community projects, it was more likely to realise access to and a better hearing from local leaders. It thus allowed the firm to more easily access governmental actors to start or expand its operations in these regions. The firm's Head of External Affairs stated,

*It's very easy to talk to them, rather than not having... can you imagine if we are a complete stranger? They will ask who are you? Relationships are key in Indonesia"*.

Thus, by initiating the conversation with government representatives through the firm's social projects, commercial operations are more likely to succeed in rural areas that are usually difficult to penetrate. Furthermore, UGG management explained that, due to its reputation, the firm is often approached by other local governments to initiate community project in their areas. This, again, is likely

to secure commercial operations. Although this strategy was only observed at one case firm (UGG), evidence of a similar approach was identified during interviews with three directors of a large French MBE that operates in the consumer goods sector. Thus, had the study included broader selection criteria, including firms from other countries, similar evidence was likely to be found. The French MBE's Vice President (VP) described how their firm engaged with local communities through social activities before being able to access a region. Activities, for instance, included sponsoring a local football team.

### 5.5 Identification of higher-level conceptualisations

Figure 5.1 illustrates a process whereby an MBE can strengthen its position and gain stability in a challenging emerging market. After comparing the case-specific idiosyncrasies, this chapter introduces a higher level of conceptualisation of the evidence found across multiple case examples. The firms aimed to establish a role as a corporate citizen with social responsibilities and respect for cultural values. Their contributions were delivered in remote parts of the country with a great need for social responsibility projects. Furthermore, the firms applied their expertise, offered advice; through investments and creating employment and taking part in important projects with a long-term impact on the conditions in the society, which freed them from some of the structural and regulative constraints. As a result, the MBEs were able to gain stability of their foreign market positions in Indonesia.

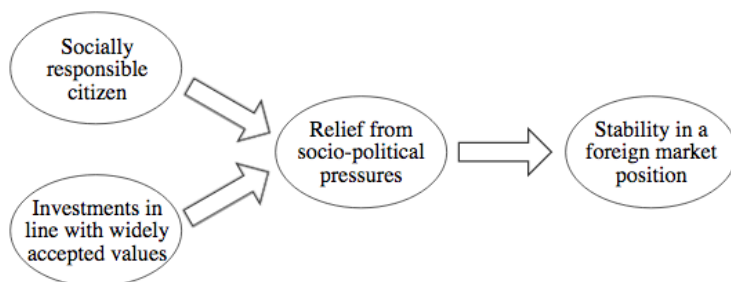


Figure 5.1. A process of developing stability in a host market through relief from structural pressures

### 5.6 Chapter summary

The main goal of this thesis is to gain a better understanding of how established MBEs manage challenges of a major emerging market and gain stability in their market positions there, through developing a set of relationships with political, social and business actors. The study also investigates how the different actors interact, the strategies that are adopted, and which resources are utilised in building a competitive position in the market. Some activities have already been successful, whereas others may lead to results in the future. This chapter compared the four case studies. It identified similarities and differences in their approaches to political actors (e.g. governments and policymakers), business actors (e.g. various network partners) and social actors (e.g., NGOs and opinion leaders) to manage challenges inherent in doing business in Indonesia, namely regulatory complexities, cultural

specificities and subnational heterogeneity. As a result, the firms were freed from some of the structural and regulative constraints and gained stability of their foreign market positions in a challenging emerging market.

The case findings stressed that strong, long-term cooperative relationships with a broad range of external actors in both the business and the socio-political market can help reduce host-country pressures and have a positive impact on the MBE's market position and its competitive advantage. Furthermore, the findings demonstrate that during the firms' expansion in a culturally different market, it is essential to consider their role in society, as well as the development of relationships in both the business and the socio-political market to gain the necessary support of key host country actors. At the same time, interacting and being associated with socially and culturally respected actors, such as local government representatives and non-political NGOs gave the firms increased legitimacy and relevance in the eyes of the consumers.

While the within-case (chapter four) and the cross-case analysis chapter (chapter five) are categorised according to the three conditions inherent in the Indonesian market environment (i.e. regulatory complexities, cultural specificities and subnational heterogeneity) the next chapter (chapter six) follows the structure of the five aggregate dimensions (i.e. legitimacy building, internal political resources, institutional knowledge acquisition, external networks and resolving critical issues (see Evidence Structure, table 5.1). Building on the discussion chapter, chapter seven will introduce the conceptualisation of the findings. Finally, chapter eight will respond to the research questions and sub-questions while addressing related findings and literature.



## 6. Surviving and thriving in an emerging market

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The main purpose of this thesis is to reach a better understanding of how foreign subsidiaries manage challenges of a major emerging market and build a position there, through developing a network of relationships with political, social and business actors. Guided by the overarching research question (RQ) - How do established Dutch MBE subsidiaries grow and develop in Indonesia? - this thesis has not only examined how these different types of actors interact but also the activities and resources involved in responding to host-country pressures, these being regulatory complexities, cultural specificities and subnational heterogeneity. To do so, a multiple-case study of the (only) four long-established Dutch MBEs in the Indonesian consumer goods market was conducted. This chapter will discuss the case studies' findings in light of different bodies of literature, including global integration - national responsiveness and subsidiary embeddedness, as well as other IB and strategy research related to managing subsidiaries in emerging markets.

The global integration-national responsiveness literature suggests that the pressure for an MBE to be locally responsive is particularly high in large emerging markets, where its subsidiaries face dynamic market conditions as well as a complex socio-political and regulatory environment (Prahalad & Doz, 1987; Morrison & Roth, 1992; Luo, 2001; Tian & Slocum, 2014; Banerjee et al., 2019; Ma et al., 2019). The case findings reveal that foreign subsidiaries in Indonesia are confronted with an environment that is culturally different, complex, dynamic, and often unpredictable. The local situation has driven up the need for responsiveness, and, as a result, the subsidiaries have become deeply embedded into the local economy. By doing so, the studied firms not only avoided the liability of being an outsider (Johanson & Vahlne, 2009), but they were also able to better respond to host country pressures that arose from institutional barriers, including regulatory bias (Chaudhri & Samson, 2000), cultural differences (Elg et al., 2015; Li et al., 2017) at not only at the country level, but the subnational level (Hutzschenreuter et al., 2020).

The embeddedness perspective provides an additional explaining of how the participants were able to develop strong (instead of arm's length) ties with host country actors, such as suppliers, customers and governments (Granovetter, 1985; Rizopoulo & Sergakis, 2010; Zeng et al., 2019). This thesis provides ample evidence that the embeddedness of a subsidiary in different and unique external local networks enable cooperative responses to host-country pressures (Elg et al., 2015; Banerjee et al., 2019) and create more competitive opportunities (Meyer & Su, 2015; Ghoshal & Nohra, 1989). Arms-length relationships over time had become cooperative relationships as investments were made, and mutual trust, knowledge, commitment and legitimacy gradually increased (Uzzi, 1996; Gulati, 1998; Ford et al., 2003; Hadjikhani et al., 2008; Santangelo, 2012; Isaac et al., 2019). In line with Rizopoulo and Sergakis (2010), this research suggests that Granovetter's (1985) embeddedness concept is also relevant when applied to all non-market, including nonmarket, relationships.



An additional explanation of a subsidiary's embeddedness can be found by applying an institutional lens. Institutional embeddedness recognises that MBE subsidiaries face unique circumstances by virtue of their embeddedness in "multiple, fragmented, nested, or often conflicting institutional environments" (Kostova et al., 2008:998) - each with its own specific "social, cultural, and political context" (Okhmatovskiy, 2010:1039). Research to date, however, has mainly focused on the effects of institutional variations on firms (Marquis & Raynard, 2015), and how firms adapt in similar ways, eventually leading to isomorphism, while much less attention has been paid to examining the ways in which MBEs purposefully and strategically influence their institutional environment to further their own individual ends. As Khanna et al. (2005:16) point out, "many multinationals are powerful enough to alter the contexts in which they operate [and the] products or services these companies offer can force dramatic changes in local markets". Despite the importance of both understanding and adapting to institutional variations (Peng et al., 2009), the findings of this thesis suggest that subsidiary managers need to be proactive about diagnosing and influencing their external environments (Marquis & Raynard, 2015).

Embeddedness can be viewed not only as a matter of the institutional context in which a subsidiary interacts, but also the quality of the relationships developed within a context. The findings suggest that subsidiary managers occupy a critical role at the heart of subsidiary decision-making at the interface of the (corporate) MBE and the host market, not only by managing internal efficiency and control, but also external demands of key host country actors (i.e. the government, policymakers, media, civil society, and clients). Despite the central role of subsidiary managers, leading IB scholars (Buckley & Casson, 2019; Meyer et al., 2020) note that, firstly, in most existing research there is too little emphasis on the individual and too much on the firm; and secondly, there is a lack of emphasis on interactions between actors, such as networking between individuals. In addition, Kopocic and Törnroos (2019) note that many articles on business interactions fail to make a distinction between the firm and individuals. However, it is individuals who act for firms, whereas most studies resort to firms as actors, or mix individuals and firms as actors in confusing ways, which reduces the human element of interrelationships.

Even though extant literature is largely situated at a macro organisational level (Caussat et al., 2019), the findings of this thesis demonstrate that relationships in emerging markets are typically developed at the interpersonal level. Consequently, identifying and explicating key practices and strategies at the level of the people involved, rather than at the organisational level, provides fresh and deep insights into the managerial activities required to respond to host-country pressures in the immediate temporal and spatial context of post-colonial Indonesia. Building on the Evidence Structure (Table 5.1), the next sections will discuss the theory and literature related to each of the aggregate dimensions.

## 6.1 Discussion of aggregate dimensions

The concepts and ideas that emerged from the analysis chapters are given meaning only if they can be related to what is already known, and this chapter will draw out those relationships and revelations. The cross-case analysis chapter (chapter five) focused primarily on the firms' strategies, i.e. first-order descriptive codes, as well as the actors involved, while the discussion that follows starts with the aggregate dimensions. Furthermore, the within-case (chapter four) and cross-case (chapter five) were categorised according to the three host-country pressures (i.e. regulatory complexities, cultural specificities and subnational heterogeneity), whereas this chapter follows the structure of the five aggregate dimensions. The next sections will discuss the literature supporting the MBE's actions directed at legitimacy building (6.2), developing internal political capabilities (6.3), acquiring institutional knowledge (6.4), leveraging external networks (6.5) and resolving critical issues (6.6), by making clear all relevant evidence-to-theory connections, thus allaying the usual concern that qualitative research too often does not show how evidence relate to theory.

The visualisations of the aggregate dimensions (Figures 6.1-6.5) will re-familiarise the reader with the links between the connected aggregate dimensions, second-order themes and first-order descriptive terms. These visualisations are based on the Evidence Structure (Table 5.1) and presented in the form of three concentric circles. In the middle, one can see the aggregate dimension; the next circle presents the second-order themes, and the outer circle presents the first-order descriptive terms. These figures will amalgamate to become Figure 7.1, 'The enhanced understanding of the actors' lived experience in subsidiaries in an emerging market' (presented in the next chapter), which is an important contribution of this thesis.

## 6.2 Legitimacy building

This research explores how Dutch MBEs may grow and develop in Indonesia, a challenging institutional environment typical of emerging markets in some ways (Sheth, 2011) but also unique due to strong economic nationalism and cultural traditions (Brandt, 1997; Economist, 2015). Achieving legitimacy as a respected member of the society can be regarded as a primary goal for an MBE, and an essential step towards counterbalancing the liability of outsidership (Johanson & Vahlne, 2009). Through various strategies, the firm's managers were also able to respond to the negative impact resulting from the liability of foreignness (Johanson & Vahlne, 1977) by acquiring legitimacy, "the social licence to operate" (Ehrnström-Fuentes, 2016:434).

Research to date broadly posits three legitimation strategies directed at various legitimacy providers, such as the government and policymakers, but also NGOs, media and local communities. Firstly, isomorphism (conformism to local institutions, DiMaggio & Powell, 1983; Suchman, 1995); secondly, transference (partnership with legitimate local actors, Lu & Xu, 2006; Chan & Makino, 2007); and thirdly socio-political activism (establishing relationships with host governments, Peng et al., 2009,

Meyer et al., 2014). Most studies to date have regarded the local subsidiary manager as a relatively submissive actor facing institutional constraints which merely adapts to local formal and informal rules of the game (which is the case for isomorphism). However, in a context such as Indonesia, where foreign actors often face discrimination from socio-political actors, the extent to which subsidiaries ought to remain passive should be questioned.

Extant research conceptualises legitimacy as a macro-level phenomenon (Bitektine & Haack, 2015), which suggest that they examine the influence of legitimation strategies on the macro-level of firm and society (Caussat et al., 2019), while disregarding the implementation of these strategies. Conversely, IB literature often regards subsidiaries as being passive recipients, which operate according to a basic mandate provided by corporate HQ (Kostova et al., 2008), while this research suggests subsidiaries are able to develop strong, cooperative relationships with key host country legitimacy providers. In other words, most studies overlook the concrete microlevel organisational practices that subsidiary managers can implement to support legitimation strategies (Caussat et al., 2019).

In line with scholars calling for more agency on the part of the subsidiary unit in building cooperative relations in a foreign market (Kostova et al., 2008; Zeng et al., 2019), the analysis of the studied firms reveals how MBEs proactively implement strategies to obtain legitimacy from socio-political actors. In this vein, Kostova et al. (2008) propose that MBEs' receipt of legitimacy can be viewed as a negotiated process between subsidiary managers and relevant local actors. A proactive approach to seeking and maintaining legitimacy is also essential because it does not last forever and can be challenged at any point in time (Hadjikhani et al., 2019). A lack of legitimacy or deficit in legitimacy can become a liability of outsidership (Johanson & Vahlne, 2009) and have a negative impact on the development of a firm's competitive market position. For this reason, even when an MBE enjoys a legitimate position in a foreign market, activities for sustaining legitimacy were vital to assure the firm's growth.

Instead of passively adapting to the local environment, the firms in this study tasked their subsidiaries to navigate unfavourable institutional conditions, improve their cooperative relationship with the government and change cultural behaviours of customers and other local stakeholders to make the market more receptive to the firms' products. The following sections (6.2.1-6.2.4) reveal the links between the first-order descriptive terms, second-order themes and aggregate dimensions (see Figure 6.1). The next sections will discuss how a 'relational approach to managing the non-market environment' (6.2.1), 'expressing commitment' (6.2.2), 'political accommodation' (6.2.3), and 'building trust' (6.2.4) assist the firms in building legitimacy.

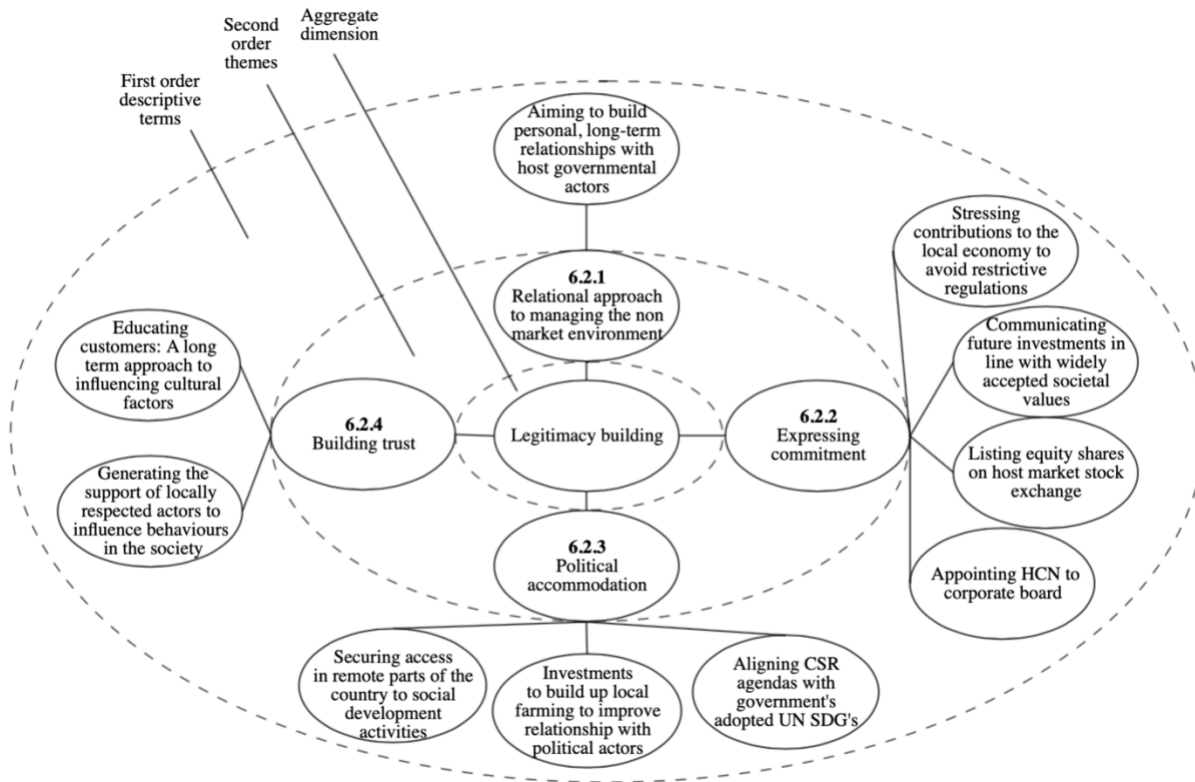


Figure 6.1 Visualisation of the aggregate dimension 'legitimacy building'

### 6.2.1 Relational approach to managing the non-market environment

- Aiming to build personal, long-term relationships with host governmental actors

The Indonesian government is known to intervene extensively in the private sector (Dieleman & Sachs, 2008; Economist, 2015; 2018; Castle, 2016; Dieleman & Widjaja, 2018). It is, therefore, not surprising that the participants considered the success of business in the public policy arena to be no less important than business success in the marketplace. As a result, the MBEs pursued political strategies across issues and over the long term, rather than on a case-by-case basis, so that when regulatory issues arise, the contacts and resources needed to influence policymakers are already in place. Hence, it was essential for the MBEs to adopt a relational strategy as they attempted to build relationships with host governmental actors in the Indonesian market (Hillman et al., 1999).

A critical dimension of an MBE's institutional approach is how it interacts with and manages relevant referent audiences (Marquis & Raynard, 2015). Building on the categorisations developed by Hillman and Hitt (1999), several scholars have examined the antecedents and consequences of different approaches such as relational versus transactional (Sun et al., 2012; Shirodkar & Mohr, 2015), and the adoption of different strategies by MBEs in advanced economies and emerging markets. Leading emerging market scholars (Hoskisson et al., 2013; Khanna et al., 2005) also point out that where government involvement in business is persuasive and contract-enforcing mechanisms are weak, relational strategies become especially critical to a firm's ability to secure support and social legitimacy from relevant stakeholders. Common among the proponents of a relational approach is the belief that

“organisations require more than material resources and technical information if they are to survive and thrive in their social environment” (Scott et al., 2000:237) - that is, “they also require social approval and legitimacy” (Marquis & Raynard, 2015:304).

As is customary in emerging markets, the participants were required to develop personal relationships with political actors (Marquis & Raynard, 2015; Mondejar & Zhao, 2013), based on trust and commitment (Elg et al., 2015). Research on government-MBE relationships in emerging markets also suggests that contact is often frequent, dominated by information exchange, and marked by high levels of social interaction and trust which are built over the long-term (Jansson et al., 1995; Shirodkar & Mohr, 2015). Furthermore, in line with the findings of Dang et al. (2020), the government remains a key stakeholder of MBEs’ and maintaining cooperative relationships may facilitate operational success. There are also several studies which demonstrate that MBE-government interactions over time can result in gaining or strengthening a legitimate position in the host market’s society (e.g. Buckley & Ghauri, 2015; Luo, 2001a).

Embeddedness literature describes relational embeddedness as the degree of ties (strong ties versus weak ties) in relationships with external actors (Granovetter, 1985; Hagedoorn & Frankort, 2008; Sun et al., 2010). In line with the embeddedness perspective, arms-length relationships over time had become cooperative relationships as investments were made, and mutual trust and commitment gradually increased (Uzzi, 1996; Gulati, 1998; Ford et al., 2003; Santangelo, 2012; Isaac et al., 2019). Even though the original embeddedness works emphasise relationships in the marketplace, this research suggests that the embeddedness concept can be applied to all non-market actors, including those in the socio-political sphere.

Participants noted that the stronger the relations between the firm’s directors and government representatives, the better the chances of building a cooperative relationship. The studied firm consistently appointed host country nationals (HCN) as their government-relations directors, to be the subsidiaries’ face when negotiating with the regulator. Although there may be several reasons for appointing local directors, including their knowledge of local markets (also called contextual intelligence, Khanna, 2014), research on global integration-national responsiveness suggests that host-country pressures may include policies that require staff to be HCN (Luo, 2001b). Indonesian employment policies require Dutch MBEs to train staff, and local management should be in the hands of HCN (Sluyterman & Bouwens, 2015). One of the participants (HR Director, FCD) noted that applications for working permits to the Ministry of Manpower were often rejected, or stalled, although a personal relationship could help in obtaining work permits. Other reasons for appointing HCN as government affairs directors include a preference of local government officials to converse in Indonesian, but HCN also have greater access to local networks, which helped in navigating the idiosyncrasies of emerging markets (Khanna, 2014).

Participants noted how a similar language or dialect which results from growing up in a similar geographical region (i.e. city or island) or educational background (i.e. school or university) could help

initiate cooperative relations (Feinberg et al., 2015). HCN were thus able to leverage the fact that they come from the same community, speak the same local dialect, and are socially connected to each other (Zeng & Williamson, 2003). It was also deemed helpful if these individuals held similar religious beliefs (Muslims). Literature supports the notion that religion can affect decision-making and behaviour. For instance, Richardson and Hammal (2018) argue that despite the diversity of cultures that exists across the Muslim world, it is also possible to observe a sense of unity, which derives directly from Islamic teachings.

### 6.2.2 Expressing commitment

- Stressing contributions to the local economy to avoid restrictive regulations
- Communicating commitment to future investments in line with widely accepted societal values

Due to their global experience, the studied firms were aware of the criteria upon which governments accord legitimacy to foreign firms, and thus, they expressed their contributions to the economy, as well as their expansion plans, in their communication with host governmental actors (Rodgers et al., 2019; Elsahn & Benson-Rea, 2018). For MBEs to succeed in emerging markets, demonstrating commitment is mandatory because their inhabitants, including their governments, often distrust unfamiliar companies and products, and without an initial level of trust, foreign firms are not able to develop the required legitimacy (Schuster & Holtbrügge, 2012). According to Hadjikhani and Ghauri (2001), MBEs undertake investment decisions towards society to gain support for their business, and consequently, society (and therefore also the government) become dependent on MBEs because of their investments in employment and welfare. According to Luo (2002), however, MBEs required to spend years operating in the country through its boom and bust if it were to signify a substantial commitment to a host country.

As the MBE's on-going contributions after entry (e.g. re-investment, employment and R&D) are important to host governments, it can be expected that sharing future expansion plans can improve cooperative relations (Luo, 2001a). Commitment can be demonstrated in terms of size of investment or actions towards the counterpart alone or towards the connected political and/or business actors (Johanson & Vahlne, 1990; Scott, 1994; Denekamp, 1995; Elg et al., 2015). The studied firm's commitment activities, including corporate social responsibility and corporate political activities affected their legitimacy in the eyes of the government, as well as society at large. However, the government required such investments to be in line with widely accepted values, as a primary concern of the government and members of the parliament are to follow the demands and values in the society (Chidlow et al., 2019).

As the society and individual groups scrutinise the decisions of government and parliament towards foreign firms (i.e. voters on which they depend), investments in, for instance, a brewery for alcoholic beverages (drinking is against Islamic dietary laws) may not be advertised in a firm's communications to political actors. Instead, political actors for their legitimacy are to show their legitimate power

towards foreign firms. Authorities may also use their hierarchical power to develop and implement policies to ‘benefit’ the society. An example here is the alcohol prohibition bill proposed by parliament to “protect the morals and culture of Indonesian society” (Indonesia Investments, 2018b). When MBEs enter in discussions with political actors, they are likely to stress their positive contributions to the society, such as tax contributions and local employment to respond to restrictive measures by policymakers (Luo, 2002). An example here is HBC’s recent investment in a state-of-the-art, US\$15 million production plant for non-alcoholic beverages.

- Listing equity shares on local stock market

Although HBC and UGG’s primary listings are on their home country’s stock exchange, both firms multi listed equity shares on the Jakarta stock exchange. Research has explored the strategic element of cross-listing for the ability of a firm to embed itself, and thereby overcome host-country pressures, in host institutional environment of the countries where it decides to cross-list (Siegel, 2005, Peng & Su, 2014). Cross-listing reflects a firm’s increasing commitment to the host country and local partners (Banalieva & Robertson, 2010). It also deepens the listed firm’s embeddedness by leveraging the advantages associated with bonding with institutions in a different context. Siegel (2005) differentiates between formal market mechanisms (i.e. legal bonding) and informal market mechanisms (i.e. reputational bonding). The majority of literature on cross-listing is on MBEs from emerging markets (EMBE) listing on the stock exchange of advanced economies to achieve better investor protection as well as a signalling and bonding effect, and an attempt for EMBEs to embed themselves in the better institutional environments (Temouri et al., 2016). However, for Dutch MBEs whose home-country financial regulations and corporate governance standards are considered to be of high standards, cross-listing in an emerging market reflects a commitment not necessarily to adhere to the local regulations, but to “bond themselves by building their reputation” (Siegel, 2005:320).

Although cross-listing has formal components (e.g. the clearing of formal listing requirements), Peng and Su (2013) argue that what drives the cross-listing of firms are in fact the informal components - including an enhanced reputation, as well as the increased familiarity for both the cross-listed firm to know the host-country institutions and vice versa. As a result of an increase in the MBE’s ‘institutional relatedness’ (i.e. the number and strength of informal ties with dominant institutions), they may more easily find potential alliance partners, suppliers, and customers consequently attract more attention and obtain more opportunities in the host market (Peng et al., 2005; Sun et al., 2011).

- Appointing host country nationals to corporate board

When making subsidiary staffing decisions, MBEs can choose between parent-country nationals (PCNs), host-country nationals (HCNs) and third-country nationals (TCNs) (Daniels, 1974). Virtually all the studied firms’ members of staff are Indonesian, as well as the majority of UGG, PTs and FCD’s

board members, while on HBC's board, PCN slightly outnumber HCN. The studied firms all appointed HCNs to their corporate board for several functions, including, for instance, those in charge of government relations and human resources. However, only two firms currently have an HCN country leader helming their Indonesian subsidiary (case FCD and PT appointed their first Indonesian CEOs in 2014 and 2015 respectively), which demonstrates their commitment towards the Indonesian market. This is consistent with, for instance, Gaur et al. (2007) and Harzing (2001) who suggest that appointing HCNs as country directors are important for gaining legitimacy.

A key subsidiary staffing issue is thus whether to appoint a PCN, HCN or TCN as a country CEO. Several studies suggest that established MBEs may prefer to appoint PCNs, as they may be better in aligning the local working culture with the global strategy (Kobrin, 1988) and provide effective coordination and control in a subsidiary (i.e. global integration strategy) (O'Donnell, 2000). It could, however, be argued that in Indonesia, where doing business is described as "entirely relationship-driven" (Alford, 2013:1) and where government officials strongly prefer to interact and converse with native Indonesians, appointing an HCN will help in building legitimacy in the eyes of the host government.

Gaur et al. (2007) suggest that situational and temporal influences can explain MBE's subsidiary staffing decisions. The authors argue that firms may decide to appoint an HCN as country director to build legitimacy in institutionally distant environments, although the need for HCNs to provide legitimacy declines over time. This would suggest that FCD and PT, which appointed an HCN in 2014 and 2015 respectively, may switch back to PCN country directors over time, because firms may ultimately prefer PCN to bridge cultural differences between HQ and the local subsidiary. Interestingly, both HBC and UGG appointed their first HCN in the late 1960s and in 1980 respectively, relatively soon after they re-established their operations (after being nationalised in the 1960s). Back then, it was essential to build legitimacy in the country as the war between the Netherlands and Indonesia had just ended. During the fieldwork period, however, UGG and HBC appointed TCN country leaders from other emerging markets in the Asian region (i.e. from India and Malaysia respectively), rather than PCNs or HCNs. This may be due to the similarities between cultures, while at the same time being able to have an 'outsider perspective'.

Extant literature on global integration-national responsiveness suggests that HCN managers are more likely to be embedded in local networks, through which they have accumulated local social capital, which increases their chances to successfully implement a locally responsive strategy, and ultimately respond to the negative effects of host-country pressures. In line with Johnson (2011), participants noted that local talent possesses relevant local communication skills with local employees and other constituencies (see also Sekiguchi et al., 2011) which also helped in navigating the local institutional environment. In this vein, Caussat et al. (2019) argue that managing a subsidiary is essentially a relational occupation. It can thus be argued that effective communication with multiple audiences can be regarded as a crucial capability of subsidiary managers (Meyer et al., 2020), which may give HCN



an advantage in managing sensitive relationships with host country legitimisers, such as regulators and the media.

### 6.2.3 Political accommodation

- Aligning corporate social responsibility agenda with government's adopted United Nations Sustainable Development Goals
- Investments to build up local industries to improve relationships with political actors

The case studies reveal how, upon developing their business operations in Indonesia, MBEs have chosen to engage voluntarily in social projects that generated value for the society as a whole. Luo (2001) defines political accommodation as the extent to which an MBE contributes to the social needs of society. Without such accommodation, an MBE is likely to be stereotyped as an "exploiting consortium" by the host government or society (Luo, 2001a:404). The studied firms, although in various degrees, made significant contributions to the development of the Indonesian market through, for instance, offering local employment, pollution control, supporting schools, developing local farming and other public interests.

Even though Zhao et al. (2014) find that older MBE subsidiaries are more likely to face publicity crises, as a result of their inertia to understand social demands, the findings in this research demonstrate how four long-established subsidiaries deployed significant resources to social responsibility efforts in an emerging market. Research on CSR of MBEs has been grounded in the idea that legitimacy matters for doing business (Reimann et al., 2015). For instance, Boddewyn and Doh (2011) note that by initiating social development activities, firms are able to demonstrate a commitment to the host country and create goodwill in the eyes of policymakers. Luo (2001a) further argues that favourable policies and treatments will be given to socially accommodative MBEs that maintain a good reputation and image in the host country. In a similar vein, Hillman and Wan (2005) suggest that a firm with a history of sponsoring community projects most likely realises easier access to and a better hearing from local politicians. That is beneficial for MBEs because, in emerging markets, the jury is often out on foreign firms (Khanna et al., 2005). Even though engaging in CSR activities may involve significant resources, MBEs profit from CSR as a means to build and increase the trust and credibility (Elg et al., 2017; Yiu & Saner, 2017) not only in the eyes of predatory and corrupt state officials (Lawton et al., 2013) but also in terms of society at large and of gaining access to an attractive market (Chidlow et al., 2019).

Participants highlighted how corporate political activities (CPA) and CSR activities often went hand in hand and described how the increase in trust between business and the government was generated by the alignment of CPA and CSR activities (Liedong et al., 2015). For instance, political ties can assist firms in selecting CSR priorities by identifying significant social and political issues. At the same time, as political ties can provide critical information, support, or favourable regulations, they enhance the economic viability of CSR activities (den Hond et al., 2014). As a result of significant participation of MBEs in host industries, governments have become increasingly concerned with

MBEs' corporate citizenship, pressuring them to be more accommodative to these needs (Luo, 2001a; Rodgers et al., 2019). This suggests that MBEs that are more politically responsive to a host country's social and political needs are more likely to maintain cooperative relations with the host country government.

The studied firms strived to establish a role as a corporate citizen with social responsibilities and respect for cultural values in a similar way as described by Dang et al. (2020). For instance, investments made towards the development of local farming industries allowed the firms (UGG and FCD) to participate in discussions with policymakers, appear as an actor with expertise, and were consequently able to augment their influence on specific political processes (Liedong et al., 2015). At the same time, Hadjikhani et al. (2008) and Elg et al. (2012) demonstrate how taking part in and supporting collaborations to improve public health, and other social issues can strengthen the government's own legitimacy in relation to the citizens. Over the long run, the MBEs bargaining position can thus be best maintained if their business interests are in line with public interests in host countries (Kim, 1988).

Research on institutional theory suggests that CSR practices are determined as part of the processes of conformity and adherence to rules, norms, and values in local markets (DiMaggio & Powell, 1983). For instance, Yang and Rivers (2009) identified conditions under which MBEs' subsidiaries adapt to local CSR practices to legitimise themselves in emerging markets. More recent studies (Reimann et al., 2012; Reimann et al., 2015) also highlighted the possibility of isomorphic CSR behaviour and indicated that MBEs might observe local competitors' approaches to CSR. However, other researchers look beyond the mimicry behaviour of firms and have identified CSR actions as a means to gain legitimacy vis-à-vis local actors (Zhao et al., 2014). From a strategic perspective, firms proactively engage in CSR specifically targeted towards legitimacy-building (Boddeyn & Doh, 2011) rather than passively conforming to isomorphic pressures (Suchman, 1995).

The findings of this thesis demonstrate how the participants utilised their firm's CSR efforts in negotiations with government officials and politicians concerning potentially restrictive regulations. The findings are, to some extent, similar to Dang et al. (2020), who discuss how reporting positive contributions to the host market MBEs may reduce regulatory risk in emerging markets. In line with Dang et al. (2020), the contributions include the supporting of local farmers by educating them about high-quality farming standards and supporting local communities. This helped the studied firms address negative perceptions or fear among the general population of foreign firms entering the market to exploit resources and hurting local jobs and profits. This study found that while the MBE's activities may seem to be targeted explicitly towards the well-being of the general population, in reality, there is also an element of appeasing various legitimacy providers (e.g. government, policy makers, media and NGOs). For instance, one director described CSR efforts as 'ammunition', and often mentioned specific social contributions to the host society at the start of meetings with political actors.

CSR may thus be pursued to enhance the MBE's reputation with respect to, for instance, the media and NGOs who track its practices (Caussat et al., 2019). Negative exposures of issues such as child

labour or environmental damage can be highly damaging to the firm's reputation. MBEs are increasingly becoming aware of "their obligation to do no harm and are conscious of the emerging generation of socially minded customers, workers, partners, investors, regulators, and non-governmental organisations are watching and monitoring every step companies make" (Urip, 2015:47). Through engaging in practices and activities that were not required by the local institutional context but are viewed as socially desirable, the studied firms gained additional local support (Kostova et al., 2008). The MBEs' strategy to involve the government actively in, for example, CSR projects (aligned with the UN SDGs) that concern public health, illustrates this.

- Securing access in remote parts of the country through social development activities

Firms are now aware that emerging markets are not only fundamentally different from advanced economies but also from one another (Xu & Meyer, 2013). Even within countries, vast regional and local differences must be taken into account. Large dispersed countries, such as Indonesia, feature substantial heterogeneity in regional institutions (Sun et al., 2016) and cultures (Brandt, 1997). In many ways, islands in Indonesia are like countries; in an archipelago, the local language, culture, religion and traditions define regions (Brandt, 1997). One of the consequences of the differences in these local conditions of subnational regions is that MBEs have to develop novel (subnational) context-specific strategies (Baptista & Swann, 1998), and establish relations with local actors with an understanding of and influence upon local legitimising actors. However, many parts of the country are still, in effect, independent fiefs run by big landowners, powerful local clans, governors or mayors. Furthermore, since the decentralisation law came into effect in 2001, local leaders have become responsible for creating their own laws and rules, including business permits and licensing. MBEs that want to set up in these areas of governance require support and endorsement from the 'bupatis' and 'wali kotas'<sup>48</sup> who hold power and have access to critical resources (Economist, 2015)<sup>49</sup>.

Initiating the conversation with government representatives through social projects is likely to increase the chances of securing commercial operations. For instance, Hillman and Wan (2005) suggest that firms with a history of sponsoring community projects are most likely to realise easier access to and a better hearing from local authorities. Several studies have demonstrated that an MBE should also pay particular attention to the environment and periodically meet local NGOs and governments to discuss how they can assist in social issues (Sidibé & Saner, 2012). Luo (2001a) explains how MBEs

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<sup>48</sup> A regency is headed by a regent (Bupati), and a city is headed by a mayor (Wali kota).

<sup>49</sup> The expansion within dispersed countries with vastly different cultures and rules of the game could be defined as 'intranationalisation'. Whereas foreign and most large local firms first set up shop in Java, home to more than half of the population, the archipelago consists of thousands of far-flung islands with disparate cultures and languages. Although some of the internationalisation literature is likely to be relevant when studying how firms based on Java expand to these regions, further exploration of this within-country expansion (or intranationalisation) could well be an exciting research avenue.

can overcome local actors' perception of the MBE as a foreign exploiter by being responsive and contribute to the social needs of the region in which it operates. Thus, the firms not only used social development activities at the central government level, but also, in different regions in the country, to counterbalance MBE's local (subnational) liability of foreignness (Johanson & Vahlne, 1990), by investing in, for instance, hospitals, sports centres or cultural facilities as well as hiring local employees who have expertise in the local area. As a result of the MBE's social efforts to support health, hygiene, and nutrition in local schools, local leaders and the communities have become more conducive to the firms' commercial operations in remote parts of the country.

#### 6.2.4 Building trust

- Educating customers: a long-term approach to influencing cultural factors

The studied firms benefit from long-standing reputations, as their parent companies first entered the country nearly a century ago, which helped gain the trust of local stakeholders. Luo (2002) suggests that gaining trust in a host market requires that MBE need to spend years operating through the country's boom and bust, especially if the foreign MBE originates from the former colonial power. Although most studies discuss trust as a dyadic concept, where arms-length transactions (i.e. low embeddedness) over time become trustful cooperative relationships (i.e. high embeddedness), the MBEs strived to gain a higher level of trust in society through having a good general reputation (Anderson et al., 1994), as well as by establishing relationships with third-parties which indirectly increase the firms' trustworthiness and credibility (Ferrin et al., 2006; Elg et al., 2015).

There is also evidence to suggest that as a result of interstate conflict between countries, host country consumers may be reluctant to purchase products from a colonising country due to nationalistic sentiments (Antonetti et al., 2019) and that animosity may also reduce product quality perceptions and can become extremely difficult to manage (Witte et al., 2020). Even though participants noted that the shared colonial history no longer had much negative influence on their day-to-day operations, the studied firms continuously sought to obtain social trust, which embodies the trust of the public, as well as political and business trust connected to political/business actors (Hadjikhani et al., 2008). To gain social trust, the studied firms invested in socially recognised activities with the aim of establishing a role as a corporate citizen with social responsibilities and respect for cultural values (Hadjikhani & Ghauri, 2001). When MBEs adhere to social norms, benefit from a strong corporate reputation and leverage a social-responsibility image, they can develop the trustworthiness and organisational credibility (Luo, 2001a) necessary to change attitudes and develop local markets.

The studied firms have been involved in long-term educational efforts with a social interest to influence and educate their customers and stakeholders to establish a strong reputation and to develop their respective markets (Elg et al., 2012; Elg et al., 2015). Instead of merely adapting to the local market conditions, in a way, the firms were able to co-produce certain norms, beliefs and opinions in the Indonesian society (Ghauri et al., 2016). It is reasonable to assume that the potential for doing so will

be high in Indonesia with a less-developed demand for different types of products and solutions that are already familiar in the MBEs' home country (Harris et al., 2002). Peters (2019) explains that institutions shape the behaviour of actors while at the same time actors are able to form and reform institutions; the latter is likely to be the case when powerful actors exercise agentic behaviour and instigate change (Thornton et al., 2012) in emerging market contexts that are undergoing large-scale economic and social changes (Meyer & Peng, 2016).

The analysis of the studied firms revealed how the MBEs strived to educate and exert an influence on their customers' and stakeholders' values, norms and behaviour so that they are open to the firms' brand and products. In line with Kostova et al. (2008), MBEs not only conform to the norms, rules and belief systems of host country actors (Oliver, 1991), but also actively engage in manipulating, negotiating, and partly constructing their socio-political and cultural institutional environments (Marquis & Raynard, 2015). According to Ghauri et al. (2016) the likeliness of firms to succeed shaping their external environment depends on the legitimacy and support that they can get from different stakeholders, such as regulators and the media (Carrillat et al., 2004; Deephouse, 2000; Donaldson & Preston, 1995) as well as their embeddedness in the institutional and political environment (Oliver & Holzinger, 2008).

- Generating the support of locally respected actors to influence behaviours in the society

The case studies reveal how the MBEs need to convince a chain of influencers before finally gaining legitimacy on the market. One of the characteristics of trust in emerging markets is that people demonstrate a high level of trust when it comes to family members, friends and colleagues, whereas they tend to distrust people or firms that fall outside their personal relations, which naturally creates challenges for MBEs (Puffer et al., 2010). As distrust often exists towards newcomers (Zucker, 1986), seeking support from reputable local actors became a complementary strategy to overcome the firms' lack of social status and benefit from the status possessed by well-established domestic actors (Li & Filer, 2007).

The studied firms strived to be associated with socially and culturally respected actors, such as local government representatives and non-political NGOs (Elg et al., 2015). Because these local actors have some kind of local legitimacy that foreign firms do not possess, being associated with these actors may allow the foreign firm or its products to enjoy similar legitimacy. The more local legitimacy this actor has in the local community, the more external legitimacy the firm enjoys. Even though most studies discuss firm partnerships between MBEs and other business actors, MBEs may also overcome such distrust by establishing relations with recognised political and social actors that may enhance their reputation (Boddewyn & Doh, 2011). For instance, when the MBEs took part in major projects with a social interest, such as the school programmes, they invited NGOs and political actors to take part, which helped the firms gain legitimacy as a respected member of the society (Yin & Jamali, 2016).

The firms also strived to gain the support of opinion leaders, such as medical experts, who helped the MBE to influence the opinions, attitudes, beliefs, motivations, and behaviours of customers and other stakeholders in a similar way as described by Elg et al. (2015). Developing such a unique and effective set of local relationships can be seen as an innovative approach of the MBEs to gain legitimacy and overcome distrust of potential customers. Even though earlier work (e.g. Elg et al., 2008; Ghauri et al., 2016) has demonstrated the importance of developing long-term relationships with nonmarket actors, these studies are usually limited to one type of actor (i.e. the government), while disregarding importance of opinion leaders, such as medical experts or NGOs, in the development of a firm's market position in a foreign market.

### **6.3 Internal political capabilities**

This case occurred in an emerging market where firms depend significantly on the goodwill of politicians and the government (Dieleman & Widjaja, 2018) and for large MBEs in Indonesia it is not the question whether to manage political ties, but rather how to handle such interactions. The subsidiaries managed their own relationships with host governments, developed institution-specific political knowledge, and relied predominantly on their locally-developed capabilities. However, as a result of the MBEs global experience, the subsidiaries were able to access diverse "pockets of knowledge" (Elsahn & Benson-Rea, 2018:806) and deploy them to manage their relations with host governmental actors. For instance, locally harvested learning by subsidiaries was disseminated to sister companies, and inter-subsidiary sharing of political knowledge was stimulated by HQ (Elsahn & Benson-Rea, 2018).

The MBEs assessed geopolitical issues in their host countries and subsidiaries were given the responsibility to manage their relations with host country regulators proactively. To improve cooperative relations with authorities, and increase their political embeddedness, two firms appointed individuals to the board of directors who had previously served in a political capacity. As strategic choices, the studied firms' strategies and practices (i.e. first-order descriptive terms) shed light on how firms interact with, navigate, and seek to influence their external environments (Marquis & Raynard, 2015). Figure 6.2 reveals the links between the aggregate dimension 'internal political capabilities', the second-order themes and first-order descriptive terms. Accordingly, the next sections will discuss how 'managing environmental uncertainty' (6.3.1), 'political knowledge sharing' (6.3.2) and 'board political capital' (6.3.3), assist the firms in developing internal political capabilities.

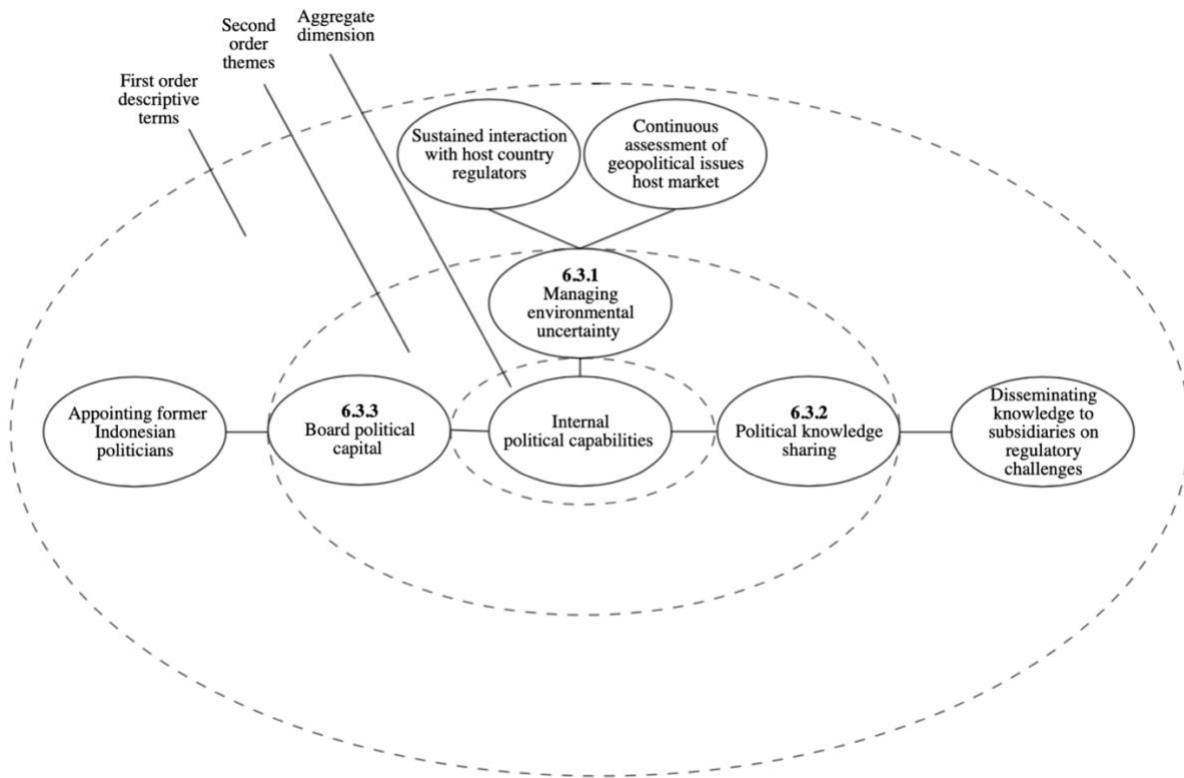


Figure 6.2 Visualisation of the aggregate dimension ‘internal political capabilities’

### 6.3.1 Managing environmental uncertainty

- Sustained interaction with host country regulators

As the magnitude and scope of government policies expand into the business sphere, the management of MBE-government relations become a vital determinant of a firm’s competitive position (Marquis & Raynard, 2015; Hillman et al., 2004). The studied firms followed a deliberate approach in managing their non-market environment (Mintzberg & Waters, 1985), and achieved a high level of non-market embeddedness (Sun et al., 2010). They systematically managed their relations with host country regulators (Elsahn & Benson-Rea, 2018) to respond to the environmental uncertainty of the Indonesian market (Katz & Kahn, 1978). Therefore, this study confirms that MBEs not only engage in political activities with the host government upon entering the market (Hillman & Wan, 2005), but also need to maintain extensive political activities during the post-entry stage in order to survive and thrive in an adverse institutional environment (Salmi & Heikkilä, 2015; Hadjikhani et al., 2019; Rodgers et al., 2019). To do so, subsidiaries were required to develop in-house political skills due to the idiosyncrasy of the regulatory environment, as well as the authorities’ preference for dealing with HCN.

As a result of their experience, the studied firms were able to increase their political knowledge base which, through knowledge sharing instruments, is recombined in the firm’s internal political capabilities (Elsahn & Bensn-Rea, 2018). However, while the studied firms were actively involved in managing the non-market environment, participants also hinted that it could be a problem if they are too critical and offensive in questioning established norms and contacting decision-makers on different

levels. As previous research suggests, not only a failure to appease - but also being too critical to the government - can irreparably damage a firm's legitimacy (Freeman et al., 2004). This may jeopardise the relationships the firms are trying to build, especially due to the government's sensitivity to "a possible colonial attitude of the Dutch" (Van Marrewijk, 2004:309).

- Continuous assessment of geopolitical issues in host market

Understanding how to 'think globally and act locally' (Luo, 2001b) is a complex issue that requires coordination between the subsidiary and the HQ level (Prahalad & Doz, 1987). The assessment of contextual issues by HQ can be seen as part of how organisations interact with and navigate their external environments in the countries in which they operate. Firms have learned that to succeed in emerging markets; they need to be risk-aware but not risk-averse (Johnson, 2011). Environmental uncertainty, as defined by Milliken (1987), is the perceived inability of an MBEs top management to assess the external environment in which they operate accurately. However, as noted by Katz and Kahn (1978:284), "any organised activity, in order to persist, must have some degree of predictability". As a result, when an environment becomes more complex and turbulent (Luo, 2001b), MBEs will use practices and strategies to assess individual markets to deal with the increased uncertainty. Due to the heterogeneity and political instability of emerging markets (Xu & Meyer, 2013), HQ' of the studied firms continuously assess geopolitical issues in the different countries in which they operate (Elsahn & Benson-Rea, 2018).

Although emerging markets share a number of similarities as compared to their more developed counterparts, they are not a homogenous group, making it an essential task to identify the geopolitical challenges of individual markets. This can be a challenging task as the studied firms each operate in dozens of countries with different formal rules, laws and regulations as well as different informal cultural and normative expectations and obligations (Jansson, 2007; Marquis & Raynard, 2015). As the formal and informal rules of the game differ between markets, knowledge of local institutional conditions may thus be a critical factor in influencing an MBE's competitive position. However, through their global experience, the studied firms have developed certain routines and guidelines for managers to follow in the host markets. As subsidiaries were given responsibility to manage their relationships with foreign governments, routines entail regular assessments of and updates about the political environments to HQ. Experiences gained on the ground (i.e. in individual markets) are communicated by subsidiary leaders with HQ and RHQ to decide on strategic action.

### *6.3.2 Political knowledge sharing*

- Disseminating knowledge to subsidiaries on how to deal with regulatory challenges

The MBEs' deployed their internal political capabilities, gained through a combination of locally-developed political skills and inter-subsidiary knowledge sharing; not by literal replication but instead allowing for flexible adaptation and learning as a means of managing the complexity of operating in



diverse institutional environments (Jonsson & Foss, 2011; Elsahn & Benson-Rea, 2018). The more political knowledge the MBE has, the more power and influence it gains (Krehbiel, 1998). Participants considered it especially critical to know how to bargain effectively with or obtain the support of important decision-makers. Subsidiary managers thus value political knowledge and seek means to develop or acquire it.

The MBEs leveraged their international experience by transferring internationalisation knowledge (Jonsson & Elg, 2006). Despite the heterogeneity of markets, the MBE's ability to share knowledge between subsidiaries allowed for strategic continuity from one market to another. In this vein, Ghauri et al. (2016) suggest that without knowledge transfer capabilities, the MBE does not have a basis for standardisation and influencing the market. The pursuit of billions of consumers in the developing world requires that MBEs need to transfer learning across these markets rapidly. However, according to Dawar and Chattopadhyay (2002), a mind shift is required; from viewing emerging market subsidiaries as mere delivery mechanisms for programs developed elsewhere, to learning centres.

For MBEs operating in Indonesia, which is known for its close entanglement of government and the economy, MBEs need to develop knowledge of their political environment through experience in dealing with local governments (Kingsley et al., 2012; Suarez, 1998). Even though political knowledge is likely to be experimental, market-specific knowledge, Henisz (2003) and Elsahn and Benson-Rea (2018) demonstrate that some political knowledge on managing MBE - government interactions can be transferred across borders. For instance, Elsahn and Benson-Rea (2018), demonstrate that MBEs relied upon various instruments to encourage political knowledge sharing behaviour to enable practices of political knowledge transfer between headquarters and subsidiaries and between subsidiaries (i.e. inter-subsidiary knowledge sharing). At the studied firms, both global-HQ and regional-HQ assisted the subsidiaries through disseminating political knowledge on how to deal with regulatory challenges, which in turn fed back to other subsidiaries in the region.

### 6.3.3 Board political capital

- Appointing former politicians to function as business advisers in the matter of socio-political activities

Business practice suggests that in emerging markets with strong non-market forces, MBEs will appoint subsidiary directors who have the ability to manage interdependence between the firm and the government. Tactics to gain 'in-house political knowledge' include establishing close ties with politicians and appointing individuals to the board of directors who have previously served in a political capacity (Hillman, 2005; Sun et al., 2012). Potential advantages of appointing high-visibility ex-politicians to the board may include gaining an increased network opportunity with political actors (Sun et al., 2012; Feinberg et al., 2015; Sun et al., 2016). At the board level, this is termed 'board political capital' as it represents not only directors' human capital in terms of government knowledge and

experience, but also their social capital or connections to government decision-makers (Sun et al., 2016).

Prior research shows that owing to the lack of formal institutional support, firms in emerging markets have more incentives to cultivate and exploit ties to government officials (Park & Luo, 2001; Xin & Pearce, 1996). Firms are more likely to be successful at managing the political environment with a greater understanding of and better connections to key government decision-makers. To some extent, the institutional environment can be shaped by the organisation since MBEs can internalise government decision-makers (Boddeyn & Brewer, 1994; Luo, 2002). Two of the studied firms (UGG and HBC) appointed former politicians to their corporate boards, and operate in highly regulated industries (i.e. oil and alcohol), which confirms the findings of Hillman (2005) that indicates that firms in more heavily regulated industries (the oil and alcohol industry are heavily regulated in Indonesia) are more likely to have politicians on their boards than less regulated firms do.

Using a political embeddedness perspective, Okhmatovskiy (2010) analyses the relationships between firms and the state and argues that it is important to consider benefits and costs related to government ties. In this thesis, no significant costs were identified with regards to appointing the former politicians. This may be due to the fact that these former politicians no longer had any formal obligations within the government. However, at one of the case firms, FCD, the local partner was once close with president Suharto, but after his downfall, he became an outsider and was no longer welcomed by the newly established government.

#### **6.4 Institutional knowledge acquisition**

In an environment that is complex and turbulent, firms will use whatever means they have to deal with the uncertainty. An increase in boundary-spanning activities of firms in emerging markets is a known result of this uncertainty (Aldrich & Herker, 1977; Miles, 1980). Embeddedness in different and unique external local networks may also enable managers to collect critical information about the formal and informal rules. Particularly when formal institutional mechanisms are absent, managers rely on informal solutions, including networking, which becomes a necessary means to complement formal government support (Luo, 2001a). By forging extensive networking with government officials, the firms acquired institutional knowledge and developed greater adaptability in an uncertain environment. By having a valuable network, a subsidiary manager, as Burt (1997:342) points out, “becomes an entrepreneur in the literal sense of the word: a person who adds value by brokering connections”. The next section will discuss how a firm’s networking capability (6.4.1) can assist firms in acquiring institutional knowledge (see Figure 6.3).

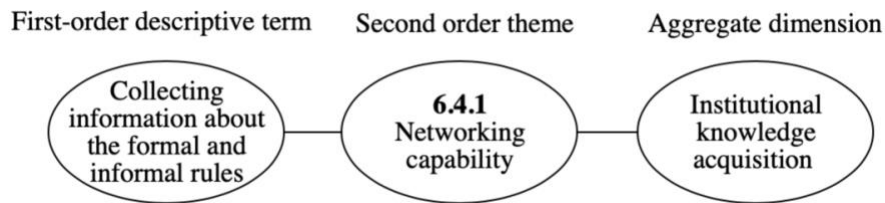


Figure 6.3. Visualisation of aggregate dimension ‘Institutional knowledge acquisition’

#### 6.4.1 Networking capability

- Collecting information about the formal and informal rules

A sound understanding of the institutional environment continues to be critical for MBEs to navigate through the rules and regulations in their host countries (Dang et al., 2020). In emerging markets, where institutions are changing, firms are known to rely more on informal institutions such as networks and relationships. Participants perceived the regulatory context to be uncertain, and thus they engaged in developing a network of relationships with political actors to collect knowledge about the rules of the game and adapt to changing conditions (Xu et al., 2010; Luo & Peng, 2002). Institutional or political ties refer to the extent to which managers cultivate relations with government officials at various levels of administration and regulatory bodies (Wang et al., 2019), and are known to be particularly relevant for MBEs in countries known for their rampant corruption (Dieleman & Widjaja, 2018). Forming linkages with political actors can be seen as a means to cope with the increased uncertainty, as these ties can provide the firm with protection, advice and information (Pfeffer & Salancik, 1978).

As emerging markets are undergoing processes of institutional transition, whereby changes in the formal and informal rules of the game can prove to be challenging to MBEs, they are required to develop a networking capability to acquire institutional knowledge (Elsahn & Benson-Rea, 2018; Peng 2003; Wright et al. 2005). Subsidiary managers therefore formed a communication channel for knowledge acquisition and as a mechanism for acquiring information to monitor and coordinate external uncertainty (Peng & Luo, 2000). By doing so, this study confirms the findings of Xu et al. (2010), which suggest that firms with strong industry positions invest significant efforts in acquiring institutional knowledge. The studied firms are leaders in their respective industries and thus have the financial capital to afford the expenditure of establishing and maintaining institutional ties. The advantage of closer institutional ties includes that firms have already the contacts and resources in place to deal with regulatory issues when they arise (Ahuja, 2000).

Personal, informal relationships were found to be particularly critical in subsidiary managers’ interactions with government officials. In line with Peng et al. (2005) and Sun et al. (2017), who use the term ‘informal embeddedness’ to describe how political ties allowed access critical resources (e.g. legitimacy), and sense new market opportunities. Furthermore, other benefits of personal, cooperative relationships include other types of nonmarket resources, including social capital (Peng et al., 2005). Nahapiet and Ghoshal (1998:243) define social capital as, “resources embedded within, available

through, and derived from the network of relationships”. In the context of Indonesia, which involves a great deal of uncertainty, politicians were found to hold the information required to navigate the market, and, accordingly, it became strategically important to develop cooperative relations with them (Peng & Heath, 1996).

It is important to acquire knowledge about the formal and informal rules because a lack of it may lead to misunderstandings and harm relationships, with cooperation turning into conflict (Hadjikhani et al., 2019). For this reason, the participants (subsidiary managers) were deeply embedded in local networks, and actively sought to collect information about politicians, their positions, and about the social needs of the people (i.e. the voters on which they depend) (Luo, 2002). Due to subsidiary managers’ knowledge about these actors, their needs and desires, they were often able to achieve the type of relationship required for successful cooperation. Because without such relations, the participants were not able to succeed in the Indonesian market. In other words, knowledge plays not only a role in building cooperative relations, but it may also enable MBEs to adapt to host-country pressures inherent in doing business in emerging markets.

### 6.5 External networks

It has now been established that MBEs have to collaborate with other firms and non-business actors in order to achieve their strategic goals in emerging markets (Dacin et al., 1999; Deligonul et al., 2013). Leading emerging market scholars indicate that firms in emerging markets rely more intensively on their business networks and relationships (Meyer & Peng, 2016). Participant in Indonesia noted that a significant part of the business operations concerns building and maintaining networks of relationships with business partners and authorities (Jansson, 2007). In this vein, Jansson (2007:12) argues that “relationships are always important, but they are even more so in emerging markets, which therefore can be characterised as network societies”. Studies on a subsidiary’s external networks focus on the MBE subsidiary’s linkages with, and embeddedness within, their external networks (see Table 2.1). This line of reasoning explicitly builds on social embeddedness and social network theories (Granovetter, 1985; Uzzi, 1996; Gulati et al., 2000), which highlight the importance of external networks comprised of relationships in the subsidiary’s local market. The findings of this thesis further illuminate the critical importance of managerial agency in the development of a firm’s market position in an emerging market.

According to Khanna et al. (2005), the internal growth of firms in emerging markets is limited by institutional voids (e.g. regulatory institutional voids); as a result, building strong personal connections with network partners and policymakers allowed the participants to respond to such challenges (Elg et al., 2015; Elg et al., 2012). An example is the firms’ coordination with potentially affected firms (through industry associations) and other actors to counteract restrictive regulations imposed by policymakers. Common among the collective approach is the belief that collaborating with other firms gives more strength than to manage environmental certainty alone. Figure 6.4 visualises the link between

first-order descriptive terms and second-order themes (which have been discussed in detail in chapters four and five), while sections 6.5.1-6.5.2 will discuss the literature on external networks. Accordingly, the sections that follow will discuss how a ‘collective approach to managing the nonmarket environment’ (6.5.1) and ‘mobilising network partners’ (6.5.2) assist the firms in building and leveraging their external networks.

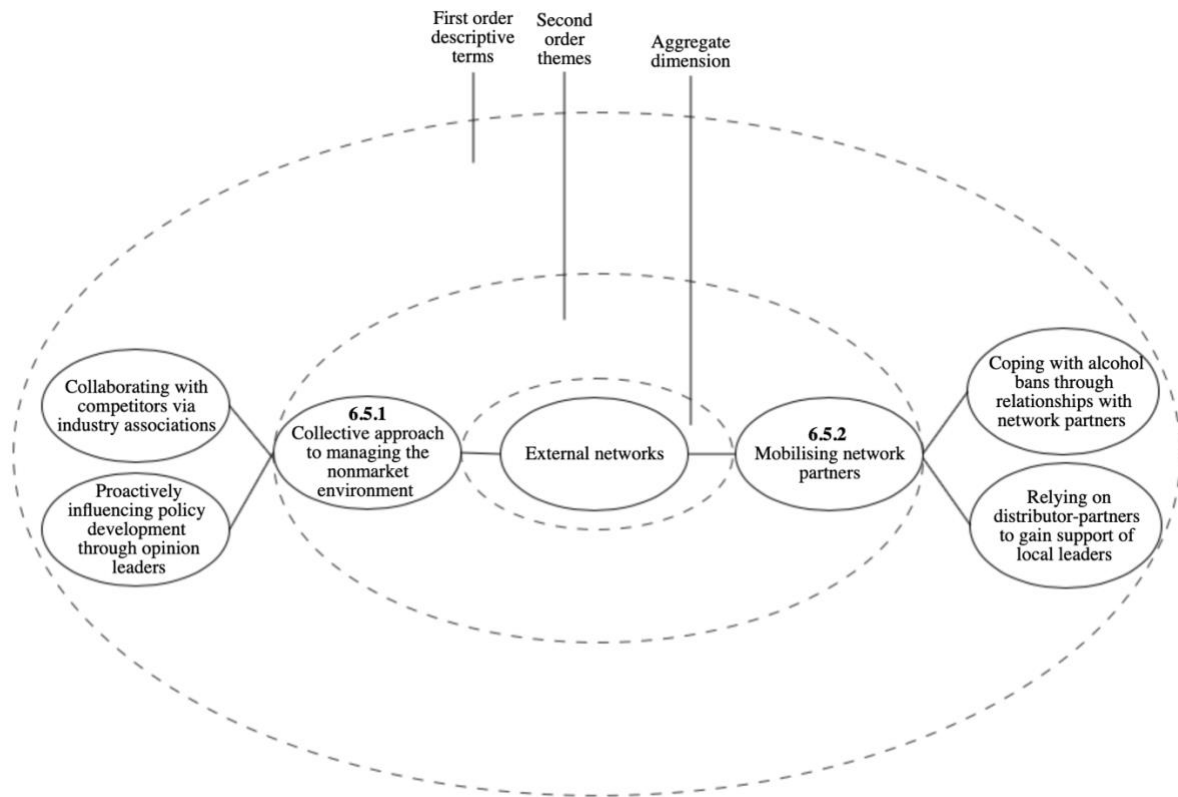


Figure 6.4 Visualisation of aggregate dimension ‘external networks’

### 6.5.1 Collective approach to managing non-market environment

- Collaborating with competitors via industry associations to manage regulatory environment

Indonesia is known for its close entanglement of government and the economy (Dieleman & Widjaja, 2018) and relationships with leading non-business actors are critical for gaining the support necessary to manage regulatory challenges. The studied firms interact with policy-makers directly as well as through different industry bodies to present a more unified front to the government. In this vein, Olson (1965) differentiates between individual participation and collective participation. An example of the former is where an individual firm lobbies political decision-makers, while a group of firms that lobby political decision-makers via trade association is an example of the latter<sup>50</sup>.

<sup>50</sup> The term lobbying in this thesis refers to the provision of information to policy-makers by individuals representing the firm’s or industry’s interests, i.e. by lobbyists (Hillman & Hitt, 1999).

Industry bodies can play an essential role in industrial development and epitomise the collective voice of an industry's constituent firms in representations with the government (Tomlinson, 2011; Marlerba & Orsenigo, 1996) by lobbying and consulting with governments (Croucher et al., 2006) with the aim of curbing aggressive policies towards the private sector. As a result of their knowledge and expertise, they tend to have a significant degree of influence with policy-makers (Bennett, 1998). The studied firms proactively engaged in coalitions that encompass industry, business and trade organisations (Osabutey & Croucher, 2018). Interestingly, subsidiary managers also took up leading roles by serving as board members in the associations they had joined. This is another example of exerting agency in local networks on the part of the individual subsidiary manager. As a result, they were able to gain influence and use the associations as a platform to interact with policy-makers.

- Proactively influencing policy development through opinion leaders

Opinion leaders may hold positions from which they may influence the attitudes, beliefs, and behaviours of others through their technical expertise (Howard et al., 2000). Thus, they are in a position to play a critical role in influencing policies. The participants were aware of this and the analysis provided examples of how MBEs exploit their network relationships to influence policymakers and to advance convergence in policies in a similar way as described by Elg et al. (2012). Case FCD, for instance, has devoted substantial effort to building strong partnerships that are mutually beneficial and based on clear responsibilities and commitments. FCD's subsidiary manager mentioned that he regularly visited dairy cooperatives to strengthen relationships between them. Such close embeddedness between the MBE and the partner based on mutual trust is the opposite of arm's-length relationships (i.e. low embeddedness) (Granovetter, 1985). Its partners, the dairy cooperatives - are considered to be opinion leaders in the dairy industry, and have been supported through knowledge development and different types of investment that have made them committed to collaborate to prevent restrictive policies.

When the studied firms became aware of potentially restrictive policy changes, they identified and approached experts in their field directly or via an industry association to provide a joint-political impact. The fact that the government usually consults various experts before making a decision demonstrates the maturity of the market<sup>51</sup>. Firms' joint efforts included, for instance, collaborations to conduct joint studies and position papers on the potential impact of a proposed regulation. Collaborating with third parties is argued to be rational in the face of institutional voids (Khanna & Palepu, 1999).

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<sup>51</sup> One notable exception is the alcohol restrictions imposed in 2015 that prevents alcohol companies to sell beer in convenience stores. The law was promulgated without coordination with other ministries - the minister has since been sacked.

### 6.5.2 Mobilising network partners

- Coping with alcohol bans in far-flung islands through relationships with network partners
- Relying on distributor-partners to gain support of local leaders

The findings interestingly revealed how firms mobilised their network partners in order to collaborate in managing different types of potential influences. According to Hadjikhani and Ghauri (2001), network collaborations will require that partners identify and share interests and are prepared to take part in political activities. Furthermore, Elg et al. (2012) demonstrate how MBEs can influence political actors in emerging markets environments where they lack the understanding of or influence upon these actors. Their findings suggest that MBEs may seek to gain support from network partners for their strategy in order to influence political actors proactively to reduce restrictive effects of political decisions. The idea of mobilising is based on the idea that networks of firms are more or less dependent on each other. Mobilising network partners includes activities such as influencing relationships (e.g. communicating the detrimental impact ban would have on network partner's business), allocating resources to the relationships (e.g. hiring lawyers for distributors), committing partners by sharing visions or goals (e.g. helping to set up associations with distributors and hotel, restaurant and café owners).

Even though the studied firms are well known and influential, Indonesia covers a vast archipelago spread across many islands and requires the support of different partners who are more familiar with the regional conditions. The firms' collaborative approach is a conscious strategic choice as acting through, and together with network partners will enable the firm to build a network of relationships. For instance, FCD and PT partnered with well-connected distributors to gain the support of local authorities to reach end-users. Furthermore, HBC mobilised network partners such as distributors and restaurants owners and helped them set up business associations to create a strong force in managing different types of political influences (Elg et al., 2012). The firm (HBC) also partnered with politically well-connected partners that ease authorities' attitudes towards alcohol so that they are more open towards the firm's product (Ghauri et al., 2016). Again, instead of viewing institutions as top-down pressures that constrain social and organisational behaviour, the analysis reveals how individual managers of HBC proactively shaped its external environments by proactively manage regionally imposed alcohol bans in Indonesia.

### 6.6 Resolving critical issues

The studied firms were forced to resolve critical issues that emerged as they grew and developed their operations in Indonesia. As the Indonesian archipelago features substantial heterogeneity in regional institutions, MBEs with a nearly-countrywide presence have to manage different degrees of government intervention across regions. Although Indonesia is a unitary state with uniform legal and regulatory frameworks, since the decentralisation law came into effect in 1999, local authorities of each of these regions are now taking responsibility of their own affairs (Economist, 2018). As a result, the studied

firms had to negotiate separately with authorities in these different regions. The need for resolving critical issues was often triggered by specific events that came up, particularly in rural and less institutionally-developed parts of the country where corruption and bureaucracy are ubiquitous (Dieleman & Widjaja, 2018; Economist, 2018) and inhabitants are suspicious of foreign firms (Economist, 2015; Kuan Yew, 2013).

Indonesia consists of 34 provincial governments and 416 regency governments, and all of these institutions can (and do) make their own rules. As a result of the decentralisation, Bardhan and Mookherjee (2006:97) describe that, at the regional level, doing business may involve “money politics (politik uang), local heads acting like little kings (raja kecil), cigarette money (uang rokok), pervasive petty corruption (pungli meaning ‘extra-legal charge’)” and poor bureaucratic governance in the districts that make up the sprawling archipelago. The studied firms needed to adapt their strategies to the challenges related to dealing with cultural and political specificities in subnational regions (rather than a single country). While in more ‘institutionally developed’ regions, the firms gained easy access to, for instance, business licences, in other regions the firms were confronted with high levels of corruption.

Critical issues or threats can be defined as developments caused by outside events of the MBE which come from unexpected sources and are likely to have a negative impact on the ability to meet the firm’s objectives (Ansoff, 1980). Emerging market literature points out how foreign firms are susceptible to local conflicts, nationalist policies and discrimination from socio-political actors, which increases the risk of operating successfully (Kuan Yew, 2013; Marquis & Banyard, 2015; Caussat et al., 2019). When foreign investors came to Indonesia, local communities have often been bypassed in the consultation process, and very often were forced to accept unfavourable terms (Kuan Yew, 2013). As a result, one major challenge concerns managing relationships with local communities and authorities surrounding the areas in which MBEs establish their production plants. Foreign companies have been unaware of this in the past (Kuan Yew, 2013; Innovation Norway, 2017). They have faced riots organised by residents or business owners from nearby villages attacking production plants (Innovation Norway, 2017), bribe payment requests (Hosen, 2010), or other unreasonable requests from local authorities (e.g. forcing firms to use suppliers that are acquainted or related to government officials, Borsuk & Chng, 2014). The next sections will discuss how ‘facilitating’ (6.6.1) and ‘bargaining’ (6.6.2) assisted the studied firms in resolving critical issues (see Figure 6.6).



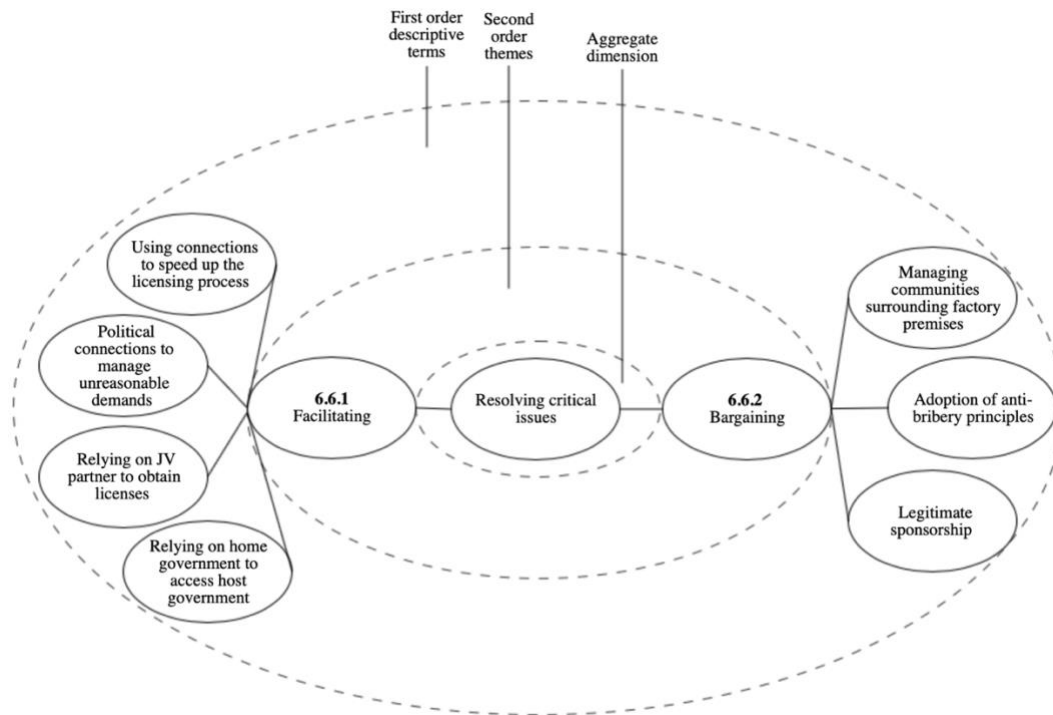


Figure 6.5. Visualisation of the aggregate dimension ‘resolving critical issues’

### 6.6.1 Facilitating

- Using connections to speed up the licensing process
- Political connections to manage unreasonable demands

‘Widespread corruption’ (Dieleman & Widjaja, 2018) and a ‘Kafkaesque bureaucracy’ (Economist, 2015) are two of the many problems inherent in the “murky and sometimes wild Indonesian business environment” (Borsuk & Chng, 2014:282). In order to successfully manoeuvre the opaque, relationship-based political landscape, managers developed strong personal ties with the government as a coping mechanism (Luo & Peng, 2000). Instead of using illegal actions, a firm’s ability to leverage well-connected managers’ relationships plays a vital role in succeeding in emerging markets (Luo, 2001). The strong emphasis on relationships is also supported by the notion that Indonesia is a highly trust-based society, generally based on personal and social relationships (Borsuk & Chng, 2014; Brandt, 1997).

In markets characterised by weak institutions, managers rely more extensively on informal relationships (Peng & Heath, 1996) to facilitate prompt access to licenses or bribe requests (Peng & Luo, 2000). As is evident from the improvements of Indonesia’s Ease of Doing Business index (World Bank, 2018), recent reforms have had some help in speeding up the country’s infamous bureaucracy (Economist, 2015), although when dealing with Indonesian bureaucracy speed is a relative concept. Nonetheless, it was often an internal challenge for the MBE’s government relations manager to prepare their often impatient bosses for the extensive licensing processes. However, on some occasions, through their personal relationships, managers were able to facilitate faster access to obtain the necessary

permits (Luo, 2001a). In this vein, Peng and Luo (2000) demonstrate a link between the strength of personal relations with officials and improved firm performance. This link exists because such personal ties can help facilitate matters such as speedy access to factory permits and preventing unreasonable demands from corrupt bureaucrats.

- Relying on joint venture partner to obtain licenses

Although full foreign ownership is allowed in many sectors in Indonesia, not all firms have taken this route as they needed Indonesian partners to navigate the challenging business landscape (Borsuk & Chng, 2014). In fact, many investors opted out of straight investment as they needed a local partner to deal with Indonesia's large bureaucracy, which according to Borsuk and Chng (2014:311) was once "a labyrinth nearly impossible to navigate without paying bribes". Only one of the studied firms (FCD) entered into a partnership with a local firm, an influential conglomerate, when the Indonesian government required foreign dairy firms to set up a local condensed milk industry, in the late 1960s.

According to Dean's (1999) essay on doing business in Indonesia, joint venture arrangements were for many years the only practical means for investing in Indonesia. Foreign firms were compelled to match up with a local partner in order to get entry into most Indonesian business sectors. One of the benefits of the foreign company was gaining access to the permits and licenses. For such matters, FCD's local partner could call upon his direct ties to the president. Meyer and Tran (2006) explain that partnering with a local firm may help align the interests of the local authorities with the prosperity of the business. If an influential local conglomerate shares the risks as well as the profits of the business, the local partner will help obtain the necessary licenses to operate as well as protect the firm from interference from corrupt bureaucrats.

Existing studies revealed that political embeddedness may provide benefits, but as a degree of embeddedness increases, potential costs also become noticeable (Uzzi, 1996). For instance, Rangan and Drummond (2004) suggest that firms from coloniser countries may receive preferential treatment only as long as the regime supporting them remains in office (Fisman, 2001). On the other hand, in the case of regime change, being associated with such actors makes the foreign firms vulnerable to creeping expropriation or nationalisation. When the tide turns, insiders can become outsiders and connections can become liabilities (Feinberg et al., 2015). Advantages gained from years of relationship-building can disappear overnight, which was the case for FCD's local partner. After the downfall of Suharto in 1998 (with whom he had close relations), the local partner was no longer welcomed by the government, and since then, all interactions are being handled by the Dutch firm.

- Relying on home governmental actors to access host governmental actors

Participants pointed out that the Dutch embassy, as well as the home country government, have the necessary power and influence on local authorities to negotiate with corrupt officials. The need for

support from home governmental actors was often triggered by specific events (e.g. requests for unreasonable demands, for instance, the mayor that requested millions of dollars from HBC to set up a football team) that came up as they run their operations in Indonesia. Resolving such issues were mostly handled by top management who relied on their personal connections with for instance ambassadors and support of home governmental actors to help them resolve key foreign governmental actors (Elsahn & Benson-Rea, 2018).

It is evident that firms that fail to acknowledge the importance of a non-market approach may run into difficulties in emerging markets as they are required to deal with local governors, mayors or religious leaders, who may wield a good deal of power within their geographical ambit (Sidibé & Saner, 2012). As a result of the political decentralisation, many parts of the country are, in effect, independent fiefs run by local heads acting like ‘little kings’ (raja kecil) (Bardhan & Mookherjee, 2006). Corruption is ubiquitous in most of these regions - the abuse of public power for private benefit - which warped the rules of the game (Rodriguez et al., 2005) and forced the studied firms to seek the support of home governmental actors (Elsahn & Benson-Rea, 2018). Only after facilitating support from a Dutch minister and the Dutch embassy, HBC was able to obtain the necessary licences.

### 6.6.2 Bargaining

- Managing communities surrounding factory premises

Nowadays, most MBEs understand the importance of maintaining good relations with local communities in Indonesia (Innovation Norway, 2017). Many MBEs mention in their annual or sustainability report about their community-building activities, such as blood donations, scholarships, or teaching at local schools<sup>52</sup>. During the interviews, participants highlighted the importance of building relationships with local governments and communities to avoid encountering issues that may hinder their operations and pose threats to their subsidiary success. Conversely, a lack of engagement with local authorities and residents can result in social upheaval, which may find an explanation in the country’s socio-cultural legacies.

Marquis and Banyard (2015) suggest that, due to the rapid co-evolution of the economy and society in emerging markets, MBEs need to adopt a strategic perspective that incorporates not only market imperatives but also social and cultural concerns. Because when MBEs operate in emerging markets, they may face ideologically fuelled social unrest and local hostility toward growing expatriate populations as well as scepticism toward foreign firms in general. According to an article by the Economist (2015), the Asian financial crisis left “Indonesia deeply suspicious of foreign capital”. The same article further suggests that “economic liberalism has never really taken hold in Indonesia” and their scepticism towards foreign firms is “driven by the widespread belief that foreigners have long

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<sup>52</sup> The researcher studied many MBEs’ annual report and the majority mention community-building activities as part of their CSR efforts.

plundered Indonesia's resources and left locals none the wealthier". It does not help that the regions in which the studied firms established their factories tend to have high levels of poverty and unemployment.

Problems near MBEs' production plants have had their roots in a lack of communication with the community in which they are operating. Unless a foreign MBE seeks local community involvement, providing employment and investment will not ensure good relations or security (EAAU, 2000). Concepts of traditional ownership of land are strong in Indonesia, and local communities feel they have a stake in what happens in their environment, irrespective of land titles or contractual rights that may have been awarded to an MBE by the central government. Dean (2001) argues that "the process of community consultation does not end at the planning stages, but rather it must be ongoing and frequent, even - perhaps especially - when there are no apparent issues". It is therefore pivotal that MBEs create close and symbiotic relationships with the surrounding community so that the community feels it has a stake in protecting it. Dean (2001) continues that "gestures, gifts, employment and money will not ensure good relations and security if the venture tries to isolate or distance itself from the community". To further complicate matters, the studied firms may be subject to scepticism as a result of the colonial history between the countries (Van Marrewijk, 2004). Indonesia was under Dutch colonisation for almost 350 years, and the Dutch East India Company ruled most of the nation's economy. As a result of this early history, capitalism is closely linked with colonialism and imperialism in the Indonesian consciousness (Urip, 2010).

A greater appreciation of these socio-cultural legacies is critical for understanding how local norms, values, and expectations enable and constrain firms and their strategic action (Han et al., 2014). More considerable attention to the context - or "contextual intelligence" (Khanna, 2014:2) can help us gain a better appreciation of the circumstances and conditions under which MBEs operate (Stahl & Tung, 2015). To cope with social unrest, Marquis and Raynard (2015) define socio-cultural bridging as an essential part of a firm's institutional strategy. For instance, participants pointed out that there are strong expectations from the wider public that MBEs should provide not only work for local labour but also help develop and invest in the communities in which they operate. Tilcsik (2010) suggest that addressing such expectations may be challenging for MBEs as they go against the logic of capitalism, which focuses on markets and competition.

One way of engaging with communities was through social efforts such as providing nutritional support and financial donations to senior citizens. The studied firms paid particular attention to the environment and periodically met with local NGOs to discuss social issues. It was also deemed important to engage in discussions with local authorities to identify social issues and to assist in selecting CSR priorities (Sidibé & Saner, 2012). An integrated CSR approach can help respond to local actors' scepticism; firms may invest in nutrition for residents, sports centres or cultural facilities as well as hiring local employees who have expertise in the local area (Sidibé & Saner, 2012; Khanna, 2014). By doing so, the MBE will not only facilitate cooperative relations with local people but also contribute

to the reduction of poverty in these areas. Over the long run, the MBEs operations can be best maintained if their business interests accommodate public interests and social development (Kim, 1988).

- Adoption of anti-bribery principles

Subsidiaries of MBEs operating in emerging markets are likely to regularly encounter pressure to engage in corrupt practices (Beets, 2005). Particularly in an environment like Indonesia, in which corruption is pervasive (Dieleman & Widjaja, 2018), firms are required to have management practices in place to deal with potentially corrupt officials (Rodriguez et al., 2006). According to Spencer and Gomez (2011), the implications of a subsidiary's decisions regarding corrupt practices are particularly salient for MBEs from home countries in which anti-corruption norms have been institutionalised. Getting involved in a scandal regarding corruption would affect their global legitimacy and reputation (Kostova & Zaheer, 1999). Subsidiary managers occupy an important boundary-spanning role in their local markets, where they face unreasonable demands (Hadjikhani et al., 2019; Rodgers et al., 2019; Zeng et al., 2019). Bribery requests are quite common in business licensing, which heavily involve the MBEs (Doh et al., 2003). It was their perseverance to say no to unreasonable demands that was often the only way of dealing with the corruption's frustrating persistence, participants argued. One strategy of HQ to reduce the costs of corruption was to impose practices used in their home country. The subsidiaries had adopted anti-bribery principles (also called corporate codes of conduct) that guide their policies on corruption (Doh et al., 2003). The principles include official guidelines to which the firms were to conform to, for instance, restrictions on the value of gifts and payments of additional fees.

When MBEs from an advanced economy with strong corporate governance invest in an emerging market with more corrupt countries, they may be presented with the opportunity to engage in bribery, but the ability and willingness may be limited while the risk of punishment is high if the firms act on the opportunity (Zyglidopoulos et al., 2019). Even though it is costly and carries the risk of penalties and reputational damage, Claessens et al. (2008) demonstrate how payments to politicians can result in significant benefits. Moreover, not "playing the game" (Zyglidopoulos et al., 2019:2) can put MBEs at a disadvantage when competitors do not follow such restrictions (Spencer & Gomez, 2011). The participants, however, claim they have been able to thrive in what they refer to as an 'unfair playing field' without engaging in corruption. Those firms who get caught often claim to have been faced with a "no bribe–no business" type of dilemma (Zyglidopoulos et al., 2019:9). However, as Mullins and Rhodes (2011) demonstrate - this does not have to be the case – and there are ways through which MBEs can do business without bribing or engaging in corruption.

- Legitimate sponsorship

A firm may employ the strategy of social contributions to deal with corruption (Doh et al., 2003). Rodriguez et al. (2006) suggest that CSR practices that promulgate anti-corruption norms hold promise for dealing with corruption's frustrating persistence. Furthermore, a study by Rodgers et al. (2019) identified the complementary dynamics between corporate political activities (CPA) and CSR strategies in host markets characterised by weak and incomplete institutions. The authors explain that where institutional contexts are unstable or missing, MBEs use social contributions to offset institutional voids. As a result, this may lead to an exchange relationship between a firm and the state, which can provide the former with legitimacy and allow the MBE to operate efficiently without having to engage in illicit and corrupt behaviours (Doh et al., 2003). The firms are aware of the rampant corruption and regularly faced request for extra fees to get papers approved more quickly. As they were unable to fulfil those demands, the studied firms expressed their social commitment to the development in their communication with the local government. In a way, they were able to use their CSR activities as a 'bargaining chip'; participants referred to this as 'legitimate sponsorship' (Rodgers et al., 2019).

Due to the large number of concepts discussed, Table 6.1 (next page) was included to remind the reader of the, in total, 42 concepts (5 aggregate-level constructs, 12 supporting second-order themes and 25 first-order descriptive terms) and links between them. The findings in the table are based on the evidence gathered in Indonesia. Table 6.1 'A toolkit for operating in emerging markets' is presented next.

Table 6.1 A toolkit for operating in emerging markets

Aggregate dimension	Second-order themes and first-order descriptive terms
Legitimacy building	<i>Relational approach to managing the non-market environment</i> <ul style="list-style-type: none"> <li>• Aiming to build personal, long-term relationships with host governmental actors.</li> </ul>
	<i>Expressing commitment</i> <ul style="list-style-type: none"> <li>• Stressing contributions to the local economy to avoid restrictive regulations;</li> <li>• Communicating future investments in line with widely accepted societal values;</li> <li>• Listing equity shares on local stock market;</li> <li>• Appointing host country nationals to corporate board.</li> </ul>
	<i>Political accommodation</i> <ul style="list-style-type: none"> <li>• Aligning corporate social responsibility agendas with government's adopted United Nations Sustainable Development Goals;</li> <li>• Investments to build up local industries to improve relationships with political actors;</li> <li>• Initiating social development activities to secure access in remote parts of the country.</li> </ul>
	<i>Building trust</i> <ul style="list-style-type: none"> <li>• Long-term educational efforts to influence cultural factors;</li> <li>• Generating the support of locally respected actors to influence behaviours in the society.</li> </ul>
Internal political capabilities	<i>Managing environmental uncertainty</i> <ul style="list-style-type: none"> <li>• Sustained interaction with host country regulators;</li> <li>• Continuous assessment of geopolitical issues in host market.</li> </ul>
	<i>Political knowledge sharing</i> <ul style="list-style-type: none"> <li>• Disseminating knowledge to subsidiaries on how to deal with regulatory challenges.</li> </ul>
	<i>Board political capital</i> <ul style="list-style-type: none"> <li>• Appointing former politicians to function as business advisers in the matter of socio-political activities.</li> </ul>
Networking capability	<i>Networking capability</i> <ul style="list-style-type: none"> <li>• Collecting information about the formal and informal rules.</li> </ul>
External networks	<i>Collective approach to managing non-market environment</i> <ul style="list-style-type: none"> <li>• Collaborating with competitors via industry associations to manage regulatory environment;</li> <li>• Proactively influencing policy development through opinion leaders.</li> </ul>
	<i>Mobilising network partners</i> <ul style="list-style-type: none"> <li>• Coping with subnational heterogeneity through relationships with network partners.</li> </ul>
Resolving critical issues	<i>Bargaining</i> <ul style="list-style-type: none"> <li>• Managing communities surrounding factory premises;</li> <li>• Adoption of anti-bribery principles;</li> <li>• Legitimate sponsorship.</li> </ul>
	<i>Facilitating</i> <ul style="list-style-type: none"> <li>• Using connections to speed up the licensing process;</li> <li>• Political connections to manage unreasonable demands;</li> <li>• Relying on joint venture partner to obtain licenses;</li> <li>• Relying on home governmental actors to access host governmental actors.</li> </ul>

## **6.7 Chapter summary**

This thesis contributes to the recent debate in the literature regarding how MBE subsidiaries respond to host-country pressures in an emerging market, through developing a network of relationships with political, social and business actors. In recent decades, literature on the MBE has expanded in its analysis, from countries to the MBE and eventually to the individual subsidiaries of MBEs. However, not only is research on the nonmarket strategies of MBE subsidiaries is relatively recent and rare, extant literature often fails to recognise the importance of individual managers in developing strong, cooperative relationships with key host country actors (e.g. government, policy makers, media and NGOs). In addition, extant research often ignores the implementation of subsidiary strategies, while the findings of this thesis investigate the concrete micro-level mechanisms of interrelationships with local socio-political actors to develop a position in a foreign market.

To conclude, the extant chapter discussed the theory behind the organisational practices that are required to – navigate regulatory complexities, cultural specificities and subnational heterogeneity. These three host-country pressures can be managed by gaining legitimacy, developing internal political capabilities, acquiring institutional knowledge, leveraging external networks and resolving critical issues. This chapter has introduced the visualisations of the aggregate dimensions (Figures 6.1-6.5), which will amalgamate to become Figure 7.1, ‘The enhanced understanding of the actors’ lived experience in subsidiaries in an emerging market’ (presented in the next chapter), which is an important contribution of this thesis.





## 7. Introducing an enhanced understanding of managing MBE subsidiaries in an emerging market

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This research aims to reach a better understanding of how long-established MBE subsidiaries respond to host-country pressures in an emerging market and thrive there, through developing a network of cooperative relationships with business, as well as socio-political actors. The case studies revealed that inherent in doing business in Indonesia are several host-country pressures that require strategic adaptations on the part of the MBE subsidiary. As a result, the studied firms' were required to adopt a strategy of adaptation and local responsiveness to deal with the specificity of the Indonesian market, and became deeply embedded in a network consisting of business actors (buyers, suppliers, distributors, and competitors), political actors (governmental officials from the political government, industrial bureaus, and regulators) and social actors (NGOs, opinion leaders and media). Furthermore, the subsidiaries adopted a number of strategies to build legitimacy, develop internal political capabilities, acquire institutional knowledge, leverage external networks and resolve critical issues. By doing so, the firms were able to respond to regulatory complexities, cultural specificities and subnational heterogeneity.

Based on the four in-depth case studies, the 'Evidence Structure' (chapter five, table 5.1) was developed which informed the 'Visualisation of the aggregate dimensions' (in chapter six, figures 6.1-6.5), which, in turn, amalgamated into 'The enhanced understanding of the participants' lived experiences in subsidiaries of MBEs in an emerging market' (chapter seven, Figure 7.1). The within-case analysis (chapter four) and cross-case analysis (chapter five) focused primarily on the studied firms' strategies, i.e. first-order descriptive terms, while chapter six discussed how the five aggregate dimensions relate to what is already known in the literature. Chapter six also demonstrated how different theoretical perspectives, including subsidiary embeddedness and global integration-national responsiveness can be applied in order to understand and analyse the MBEs' activities in an emerging market. Building on this discussion, the next sections (7.1-7.1.1) will explain the development of Figure 7.1. Then, the three concentric circles in the framework will be discussed, starting from the inside out: the context (i.e. the host-country pressures, 7.2-7.2.3), followed by the aggregate dimensions and supporting strategies (7.3-7.3.5) and finally the different actors (that form the triangle) and their role and influence are discussed (7.4-7.4.3). Figure 7.1 is presented next.

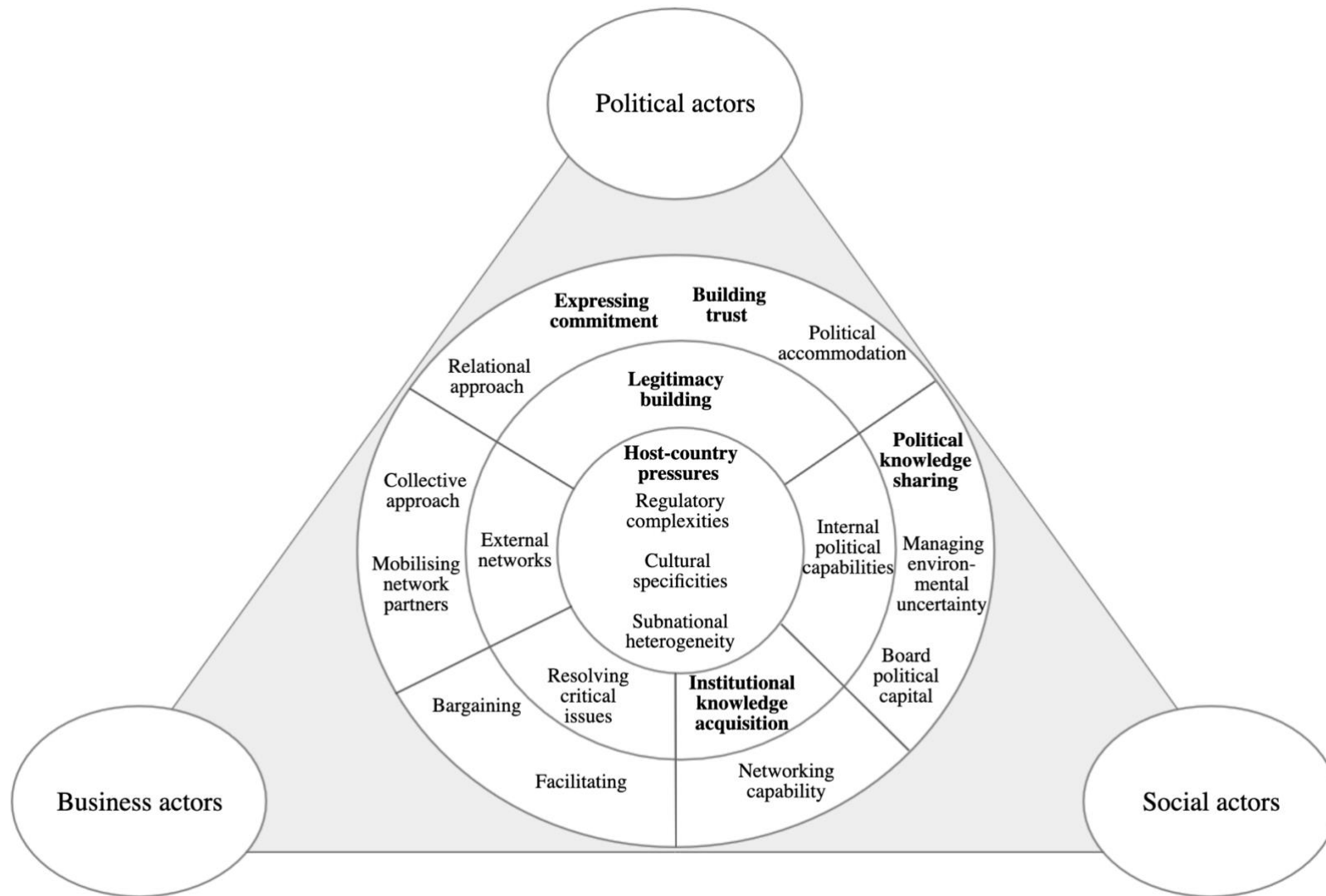


Figure 7.1 The enhanced understanding of the actors' lived experience in subsidiaries in an emerging market

### 7.1 Developing an enhanced understanding of the actors' lived experiences

Building on the empirical findings in Indonesia, Figure 7.1 presents an 'enhanced understanding of the actors' lived experience in MBE subsidiaries in an emerging market', which helps explain the development of a firm's market position in a culturally different market. It encompasses and brings together all major elements of this research. The Figure is presented in the form of *three concentric circles*, encapsulated by the three actors. The three actors (political, social and business) are presented in a triangle, which is similar to Figure 2.1 (adapted from Gauri et al., 2012). The *inner circle* represents the three host-country pressures (i.e. regulatory complexities, cultural specificities and subnational heterogeneity); the *middle circle* represents the five objectives (i.e. aggregate dimensions), and in the *outer circle* includes the strategies adopted by the studied firms (i.e. the second-order themes). The information in the three circles derived from the case study findings. In a nutshell, Figure 7.1 demonstrates that building a position in an emerging market requires actors' to not only build cooperative relationships with business, political and social actors, but also to adopt multiple strategies (i.e. the second-order themes) which allow them to reach five objectives (i.e. the aggregate dimensions) that are necessary to respond to the three host-country pressures.

It is important to clarify which elements in Figure 7.1 were derived from the literature and which elements were observed in the evidence. Firstly, the outside structure (i.e. the triangle), consisting of political, social and business actors is similar to Figure 2.1 and adapted from Ghauri et al. (2012). There are a number of studies that categorise external actors into business, social and political (i.e. Hadjikhani et al., 2008; Ghauri et al., 2012; Lee et al., 2012; Elg et al., 2015; Hadjikhani et al., 2019). More specifically, both Hadjikhani et al. (2008), Ghauri et al. (2012) and Elg et al. (2015) adopt similar triangle-shaped frames. This research is intended to build on and advance this field of inquiry by presenting a more nuanced understanding of what is required to manage external pressures in an emerging market. Secondly, following the approach of Gioia et al. (2013), as described in the evidence analysis part of the methodology chapter (in sections 3.6.1-3.6.5), the qualitative exploratory adopted in this study allowed for the identification of the three host-country pressures (the inner ring), the firms' strategies, which are the second-order themes (i.e. the outer ring), and the five objectives, which are the aggregate dimensions (i.e. the middle ring). Thus, while the outside triangle-shaped structure was based on prior research, the novel part of the Figure are the three concentric circles, which together provide a richer picture of the participants' view of how host-country pressures are managed in an emerging market.

In figure 7.1, five constructs appear in **bold letters** (i.e. building trust, expressing commitment, legitimacy building, political knowledge sharing and institutional knowledge acquisition) because they share similarities to the earlier proposed theoretical view in Chapter Two (in sections 2.6-2.6.4). It was anticipated that these constructs would play a role in the development of cooperative relationships with external actors in an emerging market (described in sections 2.6-2.6.5). Thus, building on the literature

review, it was expected that subsidiaries are required to build a network of cooperative relationships with business and non-business actors (political and societal actors), which require legitimacy, combined with trust, knowledge and commitment (see Figure 2.4, page 60). However, extant research offers a limited understanding of how these concepts work together, and how they can be linked to business, social and political actors. This thesis has examined not only how these constructs and actors work together but also uncovered that other, novel concepts may provide an additional explanation of the development of a firm's market position in a culturally and structurally challenging market. The next section will explain how these constructs are operationalised in the context of the subsidiary in an emerging market.

### **7.1.1 Operationalisation of trust, commitment, knowledge and legitimacy**

The findings of this thesis not only emphasise the important role 'trust', 'commitment', 'knowledge' and 'legitimacy' play in a subsidiary's business operations but also provide a richer picture of how these constructs are operationalised in an emerging market setting. It is important to note here that in Figure 7.1, these constructs have become 'activities' (i.e. 'trust' became 'building trust'; 'commitment' became 'expressing commitment'; 'legitimacy' became 'legitimacy building'; and knowledge became 'political knowledge sharing' and 'institutional knowledge acquisition'), reflecting the need to proactively manage the Indonesian market. For example, while the concept 'legitimacy' can be viewed almost as a 'snapshot in time', it is necessary for subsidiary managers to put significant time and resources into 'legitimacy building' through various organisational practices and strategies. During the interviews, several participants pointed to the recent (2018) nationalisation of a foreign-owned MBE, which is believed to be a result of a lack of legitimacy. The nationalised firm was accused of polluting the environment and funding repression in the Indonesian province of Papua. Keeping in mind that that three of the four studied firms were once nationalised (in the 1960s), they actively sought to engage in 'building trust' and 'expressing commitment' to maintain a legitimate position. The idea behind this is simple: legitimacy can be questioned at any point in time, and those who do not possess it, will not survive.

Indeed, achieving legitimacy as a respected member of society can be considered as a main goal for MBEs in emerging markets, and building trust and expressing commitment play an important role here. However, the analysis demonstrates that legitimacy building is a higher-level dimension (i.e. aggregate dimensions), while trust-building and expressing commitment, both which contribute to 'legitimacy building', are classified as a second-order themes. Although this study confirms the importance of the four concepts (trust, commitment, knowledge and legitimacy) (Hadjikhani et al., 2008; Lee et al., 2012; Elg et al., 2015; Hadjikhani et al., 2019), it also contradicts these same studies as they present them as 'equals', while this study delves deeper into the concepts and identifies different levels. An attempt to explain as to why the results of these study differ may find an explanation in the type of analysis used in these studies. For instance, Elsahn and Benson-Rea (2018) deployed a similar

methodological approach to this study (Gioia et al., 2013) and categorised ‘expressing commitment’ to host governmental actors as a second-order dimension, while ‘legitimacy building’ is categorised as an aggregate dimension. The Gioia methodology provides transparency in the presentation of evidence, whereas other types of analysis may lack in rigour and leave ‘connecting the dots’ up to guesswork and speculation.

There is a huge body of literature on (various types of) knowledge (see section 2.6.1), but this research explains how different types of knowledge (i.e. political knowledge sharing and institutional knowledge acquisition) are operationalised by foreign-owned firms in an emerging market. Firstly, the studied firms adopted the practice of inter-subsidiary ‘political knowledge sharing’ (a second-order theme) so that subsidiaries could utilise experiences gained in other emerging markets. Sharing political knowledge constitutes a crucial part in developing the studied firms ‘internal political capabilities’ (an aggregate dimension), which is a requirement for being able to respond to the host-country pressures. Furthermore, as a result of the frequent changes to the ‘rules of the game’ in Indonesia, the firms also developed a networking capability to ‘acquire institutional knowledge’, which, in turn, assisted the studied firms in managing regulatory pressures. Thus, while it was expected that the construct of knowledge plays an important part in a subsidiary’s business operations, this thesis provides a richer picture of how these concepts are operationalised in an emerging market setting.

In Indonesia, a foreign firm is required to ‘build legitimacy’, ‘acquire institutional knowledge’, ‘develop internal political capabilities’, ‘leverage external networks’ and ‘resolve critical issues’ in order to navigate the host-country pressures in Indonesia. The aggregate-level constructs are supported and evidenced by the second-order themes – ‘relational approach’, ‘expressing commitment’, ‘political accommodation’, ‘building trust’, ‘managing environmental uncertainty’, ‘political knowledge sharing’, ‘board political capital’, ‘networking capability’, ‘collective approach’, ‘mobilising network partners’, ‘bargaining’ and ‘facilitating’ – and operationalised by the MBE and the external business, social and political actors. The practices and strategies assist the firm in approaching the three host-country pressures specified in the inner circle of Figure 7.1. The rest of this chapter will discuss the different parts of Figure 7.1, starting from the inside out, beginning with the host-country pressures (7.2-7.2.3), followed by the aggregate dimensions and supporting strategies (7.3-7.3.5) and, finally the three actors firms need to collaborate with in an emerging market (7.4-7.4.3).

## **7.2 Host-country pressures**

The findings clearly demonstrate that in an emerging market, MBEs are required to develop cooperative relationships aimed at coping with, and responding to, host-country pressures. In contrast to contractual risks resulting from the exposure of transaction-specific assets, which can be balanced through internalisation of intermediate markets (Dunning, 1981), host-country pressures require collaborative efforts with key host country actors (Hennart, 2009; Johanson & Vahlne, 2009). The global integration-national responsiveness debate depicts the view that subsidiaries are required to adopt a local

responsiveness strategy of adaptation when institutional environments of host markets are complex, although the need for adaptations is likely to vary depending on the environment (Prahalad & Doz, 1987). Host-country pressures emanate from the differences between home and host country, the complexity and dynamism of market conditions, and the socio-political and regulatory environment of the host country (Banerjee et al., 2019). Accordingly, the Indonesian situation provides an interesting example of the idiosyncrasies and complexities that Dutch MBEs can expect when developing its operations in a culturally different emerging market. The next sections (7.2.1-7.2.3) will discuss the environmental pressures inherent to doing business in Indonesia, namely regulatory complexities, cultural specificities and subnational heterogeneity.

### **7.2.1 Regulatory complexities**

The findings show that navigating through regulatory complexities has been a central challenge in the development of the studied firms' market operations in Indonesia. The country's regulatory environment is perceived by participants to be challenging in several ways. Firstly, there are several political decision levels which require multiple contacts with central as well as regional and local authorities. Secondly, participants considered Indonesia to have a particularly complicated, complex, and bureaucratic regulatory structure. Many relevant laws and policies have confusing, even contradictory, articles and terms, as they were passed without sufficient time for discussion or scrutiny (Schonhardt, 2015). Thirdly, the government often makes sudden changes to the rules in ways that are difficult to predict (Azalia & Fionna, 2015) and nationalist policies are often directly targeted toward foreign MBEs, which is, according to an article by the Economist (2015) "driven by the widespread belief that foreigners have long plundered Indonesia's resources and left locals none the wealthier". To address negative perceptions or fear among local authorities, and the general population, of foreign MBEs entering the market to exploit resources and hurting local jobs and profits, considerable time and resources are spent interacting with authorities and regulatory bodies in Indonesia.

A recent study by the OECD looked at foreign direct investment (FDI) rules in 68 rich and middle-income countries. It found that Indonesia had the third-most restrictive regime (Economist, 2019d). The country is facing a myriad of regulatory problems, many of which the government is taking steps to fix. However, "too often populist and nationalist tendencies are the main cause of obstruction" (Economist, 2019c). For instance, in an effort to encourage foreign investors, the government has eased limits on foreign ownership, but only half-heartedly. "Every time regulations are loosened nationalists howl", so restrictions remain severe, discouraging investors (Economist, 2019d). President Joko Widodo has also become more of an economic interventionist. Recently he nationalised a foreign-owned gold and copper mine. Although reclaiming national resources is popular among Indonesians, it has scared potential investors as well as established foreign firms already operating in the country (Economist, 2019c). In several interviews, participants referred to the recent nationalisation of the foreign-owned firm (Economist, 2019c) – which they suggested to be a result of its reputation as, what Luo (2001a) refers

to as, an “exploiting consortium” (p. 404). Given that three out of four studied firms have been nationalised in the past, it is not surprising that they learned that there is a need to build cooperative relationships and gain legitimacy in the Indonesian market. Accordingly, participants noted that it is crucial to hold a reputation as a company that not only makes profits in the country, but also gives back and helps develop the country further.

The studied firms have had to manage negative perceptions or fear among local governments, firms, and the general population of foreign firms entering the market to exploit resources and hurting local jobs and profits (Dang et al., 2020). Especially in Indonesia, a country with strong non-market forces, economic nationalism and cultural traditions, the MBEs integrated their political strategy to manage the broader social and political environment. Developing a cooperative relationship with the government also meant the MBE could more easily cope with the non-transparent regulatory environment and can focus on operating efficiently. To conclude, the complicated and unstructured nature of the regulations in Indonesia require strategic adaptation on the part of the MBE.

### **7.2.2 Cultural specificities**

Indonesia continues to offer enormous potential for developing the consumer goods market, with a less-developed demand for different types of products and solutions that are already familiar in the MBE’s home country. However, stories of cultural collisions and misunderstandings by Western firms in Indonesia are plentiful (Brandt, 1997; Dean, 2001). Failure of well-established products in emerging markets is often attributed to a lack of sensitivity to local cultures (Ghemawat, 2001; Sheth, 2011). Johnson (2011:5) describes how firms have rushed in with “Western brands, Western package sizes, Western pricing, without understanding the nuances of the markets. Many of them have also been too impatient. They’re ready to walk away too quickly”. Nonetheless, the studied firms understood how to adapt and strengthen their business, despite turbulent market conditions, rather than withdrawing, as many did during the country’s financial crisis in 1998.

The Indonesian market provides an interesting example of the challenges that an MBE can expect when developing its operations in a culturally different emerging market. A main challenge involved changing the attitudes and opinions of their customers and other stakeholders towards their brands and product offerings. Participants described Indonesia as having a progressive culture while at the same time, highly influenced by traditional and sometimes conservative cultural values. Although the MBEs have specific business offerings and operate in different industries, participants of all firms mentioned the difficulties their firms faced in reaching and influencing the culture-based beliefs of their customers and other stakeholders. However, the firms’ strategies were aimed at influencing the prevailing norms, values and behaviour of the society through to make it more receptive to their products and brands, through for instance, long-term education programmes and close collaborations with third-parties.

Leading IB scholars discuss how MBEs should adapt to culturally different and challenging emerging markets (Meyer & Thu Tran, 2006; Elg et al., 2015). As firms tailor their strategies to local



contexts, they may have to create product and brands that match their competencies with the local needs of consumers. In some cases, MBEs have to innovate and develop entirely new products to attract customers. However, innovation may also lie in how a firm develops supportive relationships in order to translate unique values into a new setting (Elg et al., 2015). The findings demonstrate how developing such a unique and effective set of local relationships can be seen as an innovative skill that is difficult for competitors to imitate. In Indonesia, the MBEs were required to generate support from socio-political and business actors, such as local government representatives, non-political NGOs and other opinion leaders (e.g. medical experts) who added trust to their brand. The studied firms in this thesis not only adapted their products and brands with the local needs of consumers, but innovation also lay in how they developed a supportive set of relationships with, for instance, medical experts who have an important role as opinion leaders, and they can thus assist the firm in influencing the prevailing attitudes towards their products (Ghuri et al., 2016).

Indonesians are known to distrust foreign firms and products (Economist, 2015; Antonetti et al., 2019), and thus the firms were required to gain the support of reputable local actors (Li & Filer, 2007). Furthermore, during, as well as after interstate conflict, host country consumers may be reluctant to purchase products from a colonising country due to nationalistic sentiments<sup>53</sup> (Antonetti et al., 2019). Another way to reach customers was by developing relationships with respected, recognised political and social actors that helped convince the public and influenced the general norms and opinions in a society (Elg et al., 2015). For instance, the MBEs developed supportive relationships with local government representatives and non-political NGOs in order to translate unique values into a new setting. In line with Ghuri et al. (2016), the ability of the firms to succeed in influencing norms, beliefs and opinions in a society depended on their legitimacy and support that they received from different socio-political stakeholders (Deephouse, 2000; Donaldson & Preston, 1995) as well as their embeddedness in the institutional and political environment (Oliver & Holzinger, 2008).

### **7.2.3 Subnational heterogeneity**

The findings suggest that MBEs need to develop an adapted approach to serve local customers who live in an archipelago that is home to 273 million people and consists of approximately 8000 inhabited islands. In Indonesia, the studied firms' established factories and distributed products in or to areas that are difficult to reach in terms of logistics and are often inaccessible without the support of local business partners and authorities. In order to secure the supply chain and gain access to critical resources, relations had to be established with different types of market and non-market actors. However, subnational regions in Indonesia are much more institutionally diverse than those in advanced

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<sup>53</sup> The post-colonial influences on current operations of Dutch MBEs will be discussed in more detail in the next chapter.

economies (Chan, 2010; Ma et al., 2019), and the differences in the local conditions of subnational regions influenced the studied firms' strategies

As a result of heterogeneity in Indonesia's regional institutions, the subsidiaries were confronted with different degrees of government intervention and hostility across regions (Kuan Yew, 2013; Innovation Norway, 2017), especially since their operations cover many of the archipelago's (densely) populated islands (Sheth, 2011). The studied firms' products are available in modern shopping malls in large cities but also, more commonly, in the small road-side wooden shacks and little shops where most Indonesians do their shopping in all corners across the archipelago. However, business cannot be conducted the same way throughout the country. Many parts of the country are still, in effect, independent fiefs run by big landowners, powerful local clans and religious leaders who hold power and hold access to critical resources.

The country's decentralisation had compounded these regional issues. Since the enactments of the decentralisation law in 1999, the country's provinces and regencies (roughly equivalent to counties) have been taking responsibility for their own affairs through locally elected officials (Kuan Yew, 2013). The devolution of regulatory and revenue-raising functions has allowed district governments (that is, below the provincial level) to issue business licensing requirements. There are now 34 provincial governments and 416 regency governments, and all of these institutions can (and do) make their own rules. As local governments have become in charge of business licensing, corruption and bureaucracy have become widespread. Accordingly, in their efforts to gain a countrywide presence, particularly in rural and less institutionally developed parts of the country, the studied firms faced 'rampant corruption' (Dieleman & Widjaja, 2018), 'Kafkaesque bureaucracy' (Economist, 2018) and inhabitants that are suspicious of foreign firms (Kuan Yew, 2013; Economist, 2015; Innovation Norway, 2017).

Kuan Yew, (2013) notes that when foreign investors came to Indonesia, local communities were often bypassed in the consultation process, and very often were forced to accept unfavourable terms. Without community involvement, providing employment and investment would not ensure good relations or security (EAAU, 2000). Concepts of traditional ownership of land are strong across the country, and local communities feel they have a stake in what happens in their environment, irrespective of land titles or contractual rights that may have been awarded to an MBE by the government (Dean, 2001). The studied firms had faced ideologically fuelled social unrest and local hostility in the areas surrounding their production plants. For this reason, it was necessary, although challenging, to manage relationships with the local authorities surrounding their production plants, so that the communities felt they had a stake in protecting it.

### **7.3 Responding to host-country pressures**

To respond to the three host-country pressures in Indonesia (i.e. regulatory complexities, cultural specificities and subnational heterogeneity), the studied firms engaged in twelve strategies (i.e. the second-order themes) which include the 'relational approach', 'expressing commitment', 'political

accommodation', 'building trust', 'managing environmental uncertainty', 'political knowledge sharing', 'board political capital', 'networking capability', 'collective approach', 'mobilising network partners', 'bargaining' and 'facilitating'. These strategies allowed the firms to reach the five objectives (i.e. aggregate dimensions) which include, 'building legitimacy' and 'acquiring institutional knowledge', 'developing internal political capabilities', 'leveraging external networks' and 'resolving critical issues'.

While in the Evidence Structure (Chapter 5, Table 5.1), most of the second-order themes and aggregate dimensions are linked to just one of the host-country pressures, in reality, they may well assist the firm in managing two or all three of them. Therefore, due to the multifunctionality of the strategies, in Figure 7.1, the three host-country pressures are encircled by the five aggregate dimension and their supporting strategies. This means that each of the five aggregate dimensions assists the firm in managing the three host-country pressures. The next sections (7.3.1-7.3.5) will demonstrate how they do so, using examples of the four case studies supported with relevant literature. This also justifies the use of the three concentric circles as a chosen structure to represent the operationalisation of Figure 7.1.

As part of the evidence analysis, the researcher identified second-order themes (which are based on first-order descriptive codes), as well as aggregate dimensions. To do so, the researcher had to choose the constructs that were considered the 'best fit' in demonstrating the links between the first-order codes, second-order theme, aggregate dimension and how they linked to one of the three host-country pressures. However, some links between second-order themes, aggregate dimensions and host-country pressures are not directly visible in the Evidence Structure. Therefore, the sections that follow will demonstrate how the second-order themes and aggregate dimensions may contribute to managing more than one host-country pressure - in some cases, all three.

To give an example, the case studies and resulting discussion have revealed how 'building trust' in society contributes to gaining legitimacy, which is prerequisite for foreign firms to be able to influence the general norms and opinions in a society. The logic behind this is simple – without a reputation as a trustworthy company, customers are unlikely to be conducive to the foreign MBEs' business offering. An additional strategy to 'building trust' involves seeking the support of locally respected actors, and both strategies assist the firms in approaching 'cultural specificities' (see chapter 5, table 5.1, section 5.3.1 & 5.3.2). But when we talk about dyadic trust, which is known to be a requirement for building personal, long-term relationships with host governmental actors, it becomes clear that trust-building also assists the firm in managing 'regulatory complexities'. However, as is evident from the Evidence Structure, the second-order theme 'relational approach to managing the non-market environment' (i.e. the theme that followed building personal, long-term relationships with host governmental actors), was considered a 'better fit', despite the importance of trust in building relationships (see Chapter 5, Table 5.1, section 5.2.1). Finally, 'building trust' was also necessary to establish cooperative relationships with the communities surrounding factory premises (see Chapter 5, Table 5.1, section 5.4.1), and thus it is necessary to manage 'subnational heterogeneity'. In other words,

the second-order themes, as well as the aggregate dimensions, may respond to several of the host-country pressures, rather than just one.

Although the researcher does not claim or aim to discuss every link between actors, second-order themes, aggregate dimensions and host-country pressures, the examples from the case studies combined with relevant literature have provided a detailed “motion picture” (Gioia et al., 2013:22) of the studied phenomenon (i.e. the case firms) within the country (i.e. Indonesia) and industry (i.e. consumer goods) studied. To avoid any guesswork and speculation, in the next sections (7.3.1-7.3.3) **host-country pressure I** (regulatory complexities), **host-country pressure II** (cultural specificities) or **host-country pressure III** (subnational heterogeneity) is added at the end of a sentence or paragraph to demonstrate the links (i.e. the links between how a particular strategy can assist the firms in managing different host-country pressures). Thus, this research aims to reach a better understanding of how established MBE subsidiaries respond to challenges of a major emerging market, and the next sections demonstrate clear links of how the second-order themes and aggregate dimensions assist the firms in approaching the three host-country pressures.

### 7.3.1 legitimacy building

The analysis and discussion have revealed the importance of building legitimacy in the Indonesian market. Four supporting practices, i.e. (i) ‘*building trust*’, (ii) ‘*political accommodation*’, (iii) ‘*relational approach*’, and (iv) ‘*expressing commitment*’ were identified as activities MBEs perform to develop and maintain legitimacy<sup>54</sup>. Evident from the findings chapters is that legitimacy building is by far, the most crucial element of the studied firms’ internationalisation process. It is required to assist the firm in managing all three host-country pressures. Without legitimacy, a firm is unlikely to achieve any of its strategic goals in Indonesia. The logic behind this is simple - gaining legitimacy from local stakeholders is critical to MBE success; those organisations that do not possess it, will not survive (Luo, 2002; Hadjikhani et al., 2019). However, it is necessary to not only build legitimacy but also to maintain it. Legitimacy does not last forever and can be challenged at any point in time (Hadjikhani et al., 2019), as demonstrated by the recent nationalisation of a US-owned gold and copper-mine (Economist, 2019e).

A lack of, or deficit in, legitimacy can become a liability of outsidership (Johanson & Vahlne, 2009) and harm the development of a firm’s competitive market position. For this reason, even when an MBE enjoys a legitimate position in a host market, regular activities for sustaining legitimacy are vital to assure a firm’s survival. One way of achieving legitimacy is by making contributions to the development of the Indonesian market. ‘*Political accommodation*’ (ii) helped prevent the firms from being stereotyped as an “exploiting consortium” (Luo, 2001:404) by the host government or society. The studied firms assisted in managing important social problems, which has been a major contributor

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<sup>54</sup> As the construct ‘building trust’ was already discussed in the example of the previous section, the rest of section 7.3.1 will focus on the remaining three constructs, namely ‘relational approach’, ‘expressing commitment’, and ‘political accommodation’.

to managing the three host-country pressures. For instance, investments towards achieving Indonesia's SDGs provided the firms with increased power when dealing with political actors and trying to influence standards and regulations (**host-country pressure I**). These contributions were also delivered in remote parts of the country with a great need for social responsibility projects. This allowed, for instance, UGG, to create, condition, and expand the market through community education (e.g. getting people to wash their hair using shampoo and brushing their teeth using toothpaste) with the goal of changing consumer behaviours and attitudes towards the firm's products and brand (**host-country pressure II**). Finally, in rural parts of the country, social initiatives allowed the firm to more easily access and gain the support of governmental actors and business actors. By initiating the conversation with government representatives through social projects, the firm's commercial operations were more likely to succeed in rural areas that are difficult to penetrate (**host-country pressure III**).

The studied firms adopted a '*relational approach*' (iii) (rather than transactional, Hillman & Hitt, 1999) as they attempted to build relationships with non-market actors in the Indonesian market. For instance, to be able to cope with the many relevant laws and policies with confusing, even contradictory, articles and terms, the studied firms were required to interact frequently with the government and regulatory bodies. The likelihood of having a cooperative dialogue in MBE-government discussions is slim were the firm not to be perceived as legitimate. At the same time, it is recognised that long-term cooperation between an MBE and the government may contribute to legitimacy building (e.g. Luo, 2001; Buckley & Ghauri, 2015). As a result of the firms' relational approach, when regulatory issues came up, the contacts and resources needed to influence policymakers were already in place (**host-country pressure I**). Furthermore, the firms collaborated with respected, recognised political (e.g. local government representatives) and social actors (non-political NGOs or medical experts) that helped convince the public and influence the norms and opinions in a society in favour of the MBEs product or solutions (**host-country pressure II**). Finally, a relational approach was taken when the firms' engaged with local communities surrounding factory practices, or when the firms strived to gain the support of local leaders to gain access to remote regions (**host-country pressure III**).

The firms are aware of the criteria upon which the government accords legitimacy to foreign firms (i.e. re-investments in line with widely accepted values), and thus, they '*expressed their commitment*' (iv) to society. Political actors cannot increase employment, social welfare and growth for the society without the success of business actors (Hadjikhani et al., 2019). At the same time, without the support of the governments, MBEs cannot thrive in Indonesia. For this reason, the firms communicated their expansion plans with both the government and the media. Other efforts to demonstrating commitment was by listing equity shares on host market stock exchange and appointing an HCN as their country leader. The firms understood that institutionally embedded firms headed by an HCN are more likely to realise easier access to and a better hearing from local authorities (**host-country pressure I**).

### 7.3.2 Internal political capabilities

The goal of most strategies is to build a competitive advantage by assembling the right capabilities and competencies for making or delivering an offering (i.e. doing what the company does well). The studied firms developed capabilities and competencies locally, while at the same time receiving support from HQ and other subsidiaries by disseminating knowledge from across the multinational network. By doing so, the subsidiaries were able to tap into various “pockets of knowledge” (Elsahn & Benson-Rea, 2018:806), through inter-subsidiary sharing and by appointing former politicians. Each of the supporting practices, i.e. (i) ‘*board political capital*’ (ii) ‘*political knowledge sharing*’, and (iii) ‘*managing environmental uncertainty*’ assisted the firm in managing host-country pressures in Indonesia.

Former politicians understood the working of the government and provided the MBEs with knowledge on political decisions, the actors involved, as well as their embeddedness (Hadjikhani & Ghauri, 2001; Okhmatovskiy, 2010). Two firms (HBC, UGG) appointed individuals to the board of directors who have served in a political capacity to gain ‘*board political capital*’ (i) (Hillman, 2005; Okhmatovskiy, 2010; Sun et al., 2012), while a third (PT) hired a government advisor. As a result, the firms benefited from increased network opportunities with political actors and thus the possibility to gain an insight in the decision-making process of policymakers (Sun et al., 2012; Feinberg et al., 2015; Sun et al., 2016). As a result of their knowledge and experience, former politicians also assisted in facilitating subnational heterogeneity, such as dealing with unreasonable demands from corrupt district heads (**host-country pressures I, III**).

One strategy the studied firms engaged in to manage regulatory complexities was *political knowledge sharing* (ii). A key advantage of global MBEs is that they can leverage their knowledge of political environments across markets (Henisz, 2003; Ghauri et al., 2016; Elsahn & Benson-Rea, 2018). The more political knowledge the MBE has, the more power and influence it gains. For this reason, political knowledge is valuable, and firms seek means to develop or acquire it. For instance, based on their previous experience, they knew that different governmental actors might be useful in different ways. Moreover, the firms understood how to bargain effectively and obtain the support of decision-makers (Holburn & Vanden Bergh, 2004). Furthermore, the analysis reveals that similar regulatory challenges tend to come up at different times in countries within the Asian region. In other words, the regulatory challenges faced in one emerging market may also pose a threat to a subsidiary in a neighbouring country. Therefore, the firms relied on several instruments to enable practices of political knowledge transfer (e.g. disseminating best practices and lessons learned reports) between their regional HQ and host market subsidiaries (**host-country pressure I**).

‘*Managing environmental uncertainty*’ (iii) was considered by participants to be a critical part of the MBEs’ operations. Due to the unstable institutional environments that characterise Indonesia and other emerging markets, the subsidiaries’ parent companies continuously assess geopolitical issues (Elsahn & Benson-Rea, 2018). As a result of their assessment, the firms were able to identify regulatory

threats early and receive appropriate support where necessary. By doing so, the firms could put the necessary measures in place to manage threats. Furthermore, HQ provided specific guidelines or organisational values for subsidiaries to follow when dealing with foreign governments. HQ also encouraged subsidiaries to systematically manage relations with host country regulators (Katz & Kahn, 1978). A benefit of a firm's close political ties is that the contacts and resources needed to influence policymakers are already in place (**host-country pressure I**).

### 7.3.3 Institutional knowledge acquisition

As is customary in emerging markets, Indonesia is undergoing processes of institutional transition, which results in frequent changes to the rules of the game. It is for this reason that MBEs are required to develop a '*networking capability*' to acquire institutional knowledge (Peng 2003; Wright et al. 2005; Elsahn & Benson-Rea, 2018). As the regulatory context is uncertain, the firms developed a network of relationships with political actors directly as well as with industry associations or lobbying organisations. Significant resources were devoted to establishing and maintaining institutional ties and making sure the firms are aware of changes in the formal institutional rules, covering issues of policies and regulations, as well as informal rules covering issues around government attitudes towards foreign investors (**host-country pressure I**).

Although institutional knowledge acquisition is – at least looking at the number of second-order themes – the least complex aggregate dimension, its implications reach far beyond gaining knowledge on regulatory issues. Indeed, participants considered a firm's ability to network to be a prerequisite for doing business in the Indonesian marketplace. It is not surprising that Jansson (2007:12) characterises emerging markets as "network societies" and in Indonesia, doing business is described as "entirely relationship-driven" (Alford, 2013). As institutions in emerging markets change more frequently than compared to their more developed counterparts, networking and collecting knowledge on the formal and informal rules of the game continues to be a critical success factor. The strong emphasis on networking is also justified by the notion that Indonesia is a highly trust-based society, generally based on personal and social relationships (Brandt, 1997; Borsuk & Chng, 2014). In a way, the firm's networking ability facilitated each of the three host-country pressures (**host-country pressures I, II, III**).

### 7.3.4 Resolving critical issues

Particularly in far-flung islands and rural regions in the archipelago, firms were forced to resolve critical issues. Issues included ideologically fuelled unrest in the areas surrounding the MBEs' premises, corruption and bureaucracy. Two supporting practices, (i) '*bargaining*' and (ii) '*facilitating*', helped the firms in managing challenges inherent in doing in business in regions of the archipelago with high levels of government intervention and hostility towards foreign firms. For instance, to gain the support of local communities and authorities, the firms provided financial donations, nutritional support and

various social development activities. Instead of engaging in illegitimate actions, 'legitimate sponsorship' can serve as a way of (i) '*bargaining*' with local government representatives (**host-country pressure III**).

Managing corruption and bureaucracy at the regional level was often handled by the firms' (or their local partners') managers who relied on their connections. Managers' political connections thus (ii) '*facilitated*' in resolving critical issues. Through their political ties, they were able to facilitate unreasonable demands and gain quick access to, for instance, business permits and licenses (**host-country pressure III**). However, the firms encountered - and were required to resolve - many critical issues as they aimed to achieve their strategic goals in Indonesia. For instance, after the government suddenly imposed restrictive measures that prohibits the sale of beer in the nation's (approximately 70,000) convenience stores, which a participant described as "*a bolt in the blue*" (HBC's Finance Director), the firm had to negotiate an exemption to the ban for holiday destination Bali. To do so, the firm's commissioner (i.e. a former politician) collaborated with industry associations and network partners, and *bargained* with government actors to get the exemption, stressing the impact it may have on the Balinese economy (**host-country pressure I**).

Furthermore, one case firm described how its marketing efforts were thwarted by a competitor firm who had funded a local NGO to go on a 'roadshow' to make false claims about one of its products. As a result, they had put pressure on the National Agency of Drug and Food Control (NADFC), which consequently planned to impose a regulation to ban the firm's products. If the regulation were to be implemented, it would be extremely damaging to the firm's brand. The firm may lose its support of medical experts and, more importantly, its legitimacy. However, before the regulation was implemented the firm's director was able to *facilitate* access to one of NADFC's senior manager and convinced him to drop the regulation (**host-country pressure II**).

### 7.3.5 External networks

Two supporting practises, (i) '*collective approach*' and (ii) '*mobilising network partners*' are captured by the aggregate dimension, external networks. Common among proponents of engaging in, and leveraging, networks of relationships with external actors is that it gives more strength than to manage environmental uncertainty alone. The (i) '*collective approach*' involved participating in industry associations and collaborating with KOLs to present a united front to government and potentially restrictive regulations. To gain influence in industry associations, the firms' management took up leading roles by serving as board members. Through this platform, they were able to prevent policymakers from imposing regulations that may create competitive disadvantages. Another way the firms influenced policy development was by identifying, approaching and collaborating with various KOLs. As political actors developed regulations, leading experts in the MBEs' respective industries were asked to provide expert advice on the implications of outcomes of the regulations. Collaborating with experts who are able to provide an invaluable source of information to the government helped



firms navigate potentially restrictive regulations (Keffer & Hill, 1997). Depending on the industry and type of regulation, KOLs may, for instance, include faculties of universities, medical experts and heads of dairy cooperatives. The MBE strived to influence political decisions based upon the KOLs' point of view while pursuing the business interests of the firm (**host-country pressure I**).

The MBE also developed a network of relationships with well-known medical experts who played an important role as opinion leaders and assisted the firms in influencing the general norms, values and behaviour of the society. For instance, a collaboration between FCD and the Indonesian Nutritionists Association was translated into nutrition and lifestyle programmes and school milk programmes that reached millions of consumers. By investing in and driving projects with a social interest, such as the school milk programme, and by inviting political actors to take part, the firms also generated increased legitimacy. For HBC, acceptance of its product offering is vital for the firm to be able to survive and thrive in the market. One specific strategy to shift consumer attitudes in favour of their products and alcohol in general is to approach and support beer enthusiasts and culinary experts through knowledge sharing, e.g. sending brewers as a speaker at their events and financial donations. For instance, the firm sponsored a book by a renowned Indonesian food critic to strengthen the concept of pairing beer with food (**host-country pressure II**).

To cope with locally imposed alcohol bans, HBC was required to (i) '*mobilise its network partners*' (e.g. distributors and retailers) as a support in interactions with local political actors (Elg et al., 2012). Especially in remote parts of the country where the firm does not have the understanding of or influence upon local leaders, presenting a united front together with local network partners will help secure stable operations. To do so, the MBE allocated resources (e.g. hiring lawyers and setting up business associations), influenced relationships (e.g. communicating the detrimental impact ban would have on the network partner's business) and committed partners by sharing visions and goals (e.g. helping to set up associations with distributors and hotel, restaurant and café owners). It may also be required for MBEs to build relationships with politically well-connected business actors to create new business in far-flung parts of the country. Thus, through the political network of local distributors, it was not only possible to reduce the adverse effects of political decisions, but also to secure new business (**host-country pressure III**).

#### 7.4 The MBE's external actors

This research aims to reach a better understanding of how established MBE subsidiaries respond to host-country pressures of a major emerging market, and the previous sections have demonstrated clear links of how the second-order themes and aggregate dimensions assisted the studied firms in approaching regulatory complexities, cultural specificities and subnational heterogeneity. However, to manage these challenges, the studied firms were required to interact with different types business, social and political actors. Participants emphasised that in Indonesia, inter-organisational relationships with political, business and social actors are of critical importance because a significant part of the business

operations concerns building and maintaining networks of relationships. Therefore, each of the firm's stakeholders and their influence on the MBE's operations is discussed next.

#### **7.4.1 Political actors**

MBEs are required to develop ties with political and regulatory actors and agents, particularly governments, political institutions, and regulators. Political actors include the country's central, provincial and district government, including their representatives (e.g. national officials<sup>55</sup>, ministers, city mayors and district heads). Members of parliament and regulatory bodies also impact the MBE's activities. Most firms have to deal with these actors directly or indirectly through industry associations or lobbying organisations. Another characteristic of the Indonesian market is that many state-owned and - operated enterprises (SOE) serve the marketplace with monopoly powers.

Through their hierarchical power, authorities develop and implement policies to benefit society<sup>56</sup>. Government regulations on different levels can impact the MBE significantly. While parliament and ministries can impose nation-wide regulations, local governments can impose business licenses and regulations in their geographical ambit. Every region manages its resources and deals directly with foreign firms. For this reason, large MBEs with factories in multiple locations (which is often necessary given the geography in Indonesia) are required to negotiate with each government separately. While the participants explained that, the president and most of his cabinet members represent developed institutions where graft is unusual, decentralisation has increased bureaucracy and corruption at the provincial and regency level. However, for MBEs, it is important to build a network of cooperative relationships with the government as the central as well as provincial and district levels.

Participants stressed the importance of developing cooperative relations with regulatory bodies, such as the 'National Agency of Drug and Food Control' (NADFC) - which is responsible for protecting public health - and has the power to issue regulations on the safety of products in several industries. In the process of developing new industry standards and regulations, the firms' directors (as a result of their prominence and power in their respective industries) were invited to discuss and give feedback about the implications with NADFC representatives directly. At the same time, participants noted it could be a problem if they are too critical and offensive in questioning established norms. This could jeopardise the relationships they are trying to build.

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<sup>55</sup> Whereas in most Western countries, bureaucrats are seen to serve the public, hence their name 'public servants'. However, bureaucrats in Indonesia are referred to as 'pegawai negeri' or 'national officials'. Typical in Indonesia is that services are dispensed almost as if they were favours, granted or denied at the whim of the official, without scope for objection or appeal (EAAU, 2001).

<sup>56</sup> Although the members of the parliament are to follow the demands and values in the society, this may not always be the case. A recent poll found that parliament is considered the country's most corrupt institution. An anti-corruption commission has found grounds to arrest MPs from all parties represented (Economist, 2018).

Besides the government, political actors also involve other non-business actors functioning as intermediaries between the MBEs and the political units (Buckley & Ghauri, 2015). The studied firms often dealt with political actors directly as well as indirectly through industry associations. Participants noted that lobbying in collaboration with other firms gives more strength than to go and discuss policy matters as a single firm. Being actively involved in an industry association is regarded by participants as vital in the prevention of restrictive policies. Finally, Indonesia's state-owned enterprises (SOEs) are central actors in the current government's development strategy. They can be regarded as an extension of the government and continue to be present in various sectors. While some SOEs enjoy near-monopolistic power, others in more liberalised sectors hold dominant positions. At times, the government use SOEs to intervene in the private sectors, as was the case with the proposed sugar law (described in case FCD, section 4.1.1). Furthermore, one of the studied firms, UGG, formed a joint venture company with a SOE to be able to extract palm oil for its consumer products.

#### **7.4.2 Social actors**

In contrast to business actors with a pure business structure, social actors may or may not be financed by the MBE, the government or a private group (Ghauri et al., 2012). They aim to challenge and guard matters such as society's welfare, corruption, poverty, health, human rights and the environment. Social actors include NGOs, media, religious groups and other associations or individuals that play an essential role in society and shape public opinion (Buckley & Ghauri, 2015). They have the ability to support or alienate a firm's operations in a particular market which can significantly impact on its success (Ghauri et al., 2012). NGOs and other opinion leaders make use of social media to respond to unethical practices, particularly in the developing world, and call for, for instance, boycotts of firms or countries with poor human rights records (Meyer et al., 2020). The studied firms are, due to their extensive presence in Indonesia and other emerging markets, the nature of their industry and their strong brands, especially vulnerable, and social actors can disrupt their operations (Vachani & Post, 2012).

When the pressure on MBEs towards more responsible behaviour increases, cultivating relationships with NGOs, the media and others in the public sphere have become strategically important. It is for this reason that the studied firms have developed relationships with major NGOs, such as Oxfam Novib and have become members of the United Nations Global Compact, in order to increase trust in their brands and to stress that they are not involved in ethically questionable working practices. This positioning versus the government as well as NGOs is important for increasing legitimacy and trustworthiness (Elg et al., 2015).

NGOs often target global consumer goods MBEs with allegations about their activities in emerging markets. In particular, one case firm, UGG, was regularly challenged by various NGOs to explain its (or its suppliers') business practices and to correct those practices that may harm specific stakeholders (Teegen et al., 2004). Allegations about issues such as harming the environment are understandably serious and, if true, highly damaging to the firm's reputation. In response, the firm invested in a new

recycling factory, joined major NGOs and openly disclosed a list of its palm oil suppliers in the country. Research shows that close relationships with NGOs may allow MBEs to avoid scandals which have to do with employee conditions or environmental pollution that can harm their global reputation (Elg et al., 2008).

On the corporate level, the studied firms work with CSR issues and in presenting their brands as socially responsible and ethical. This is done, for example, by a joint research project between UGG and an NGO to investigate the outcomes of globalisation. In a similar vein, HBC collaborated with NGOs and invited political actors to take part in programmes that help to reduce negative impacts on the environment, including planting trees. At the same time, UGG partnered with an NGO to provide knowledge management support to the government's sanitation programme. In this way, the NGO contributes to the stability of MBE-government partnerships by accommodating the interests of all involved actors while pushing the social mission to the fore.

The studied firms also aligned their CSR agenda to support the realisation of several UN SDGs, which were unanimously adopted by countries in 2015. CSR is, to some extent, pursued to enhance the MBE's reputation with respect to, for instance, the media and NGOs who track its practices. In line with the findings of Dang et al. (2020), this study found that while the MBE's activities may seem to be targeted explicitly towards the well-being of the general population, in reality, there is also an element of appeasing various legitimacy providers (e.g. policy makers, media and NGOs).

Another important type of actor in this category, the key opinion leader (KOL), is critical to the development of the MBE's market position in Indonesia. KOLs are associations or individuals that play an important role in society and form public opinion, and their endorsement can add trust to a firm's brand. Participants pointed to the importance of identifying and approaching KOLs, who hold positions from which they can influence the opinions, attitudes, beliefs, motivations, and behaviours of others through their technical expertise (e.g. a leading health professional, director of an NGO or news outlet, Howard et al., 2000). There are two ways through which the MBEs benefitted from the status possessed by locally respected KOLs. Firstly, for their power with regard to legislation or policy changes. The MBEs strived to influence political decisions based upon the KOL's point of view while pursuing the business interests of the firm. Secondly, the studied firms approached various influencers; leading nutritionists, paediatricians, medical doctors and professors to educate consumers and shift attitudes and behaviours while, again, pursuing the business interests of the firm. The firm assumed that by communicating through KOLs, with their own respective networks and audiences, customer preferences might be influenced in favour of the firm. For instance, influential medical experts played an important role as opinion leaders and can thus assist the firms in influencing the general norms, values and behaviour of the society. Furthermore, the participants noted that it was necessary to gain the support of a chain of recognised socially and culturally respected influencers to be able to influence the culture-based beliefs of individual households.

### **7.4.3 Business actors**

Recent studies on the internationalisation of MBEs demonstrate that no firm can develop sustainable competitive advantage on its own, but instead, it requires the assistance of other firms with sufficient knowledge and influence (Buckley & Ghauri, 2015; Elg et al., 2015). External business actors are directly related to the firm and its value creation or value consumption (Jansson, 2007). They may include the MBE's suppliers, competitors, customers, distributors and joint venture partners. For instance, suppliers are business actors who provide MBE's with materials, components or any other production factor. Strong collaborative efforts between an MBE and its supplier, as demonstrated by FCD's longstanding partnerships with the dairy cooperatives, can provide a firm with increased power when dealing with political actors and trying to influence standards and regulations.

Competitors may include other MBEs or local firms which provide similar products that directly compete with the MBEs products. At times, competitors must collaborate via industry or trade organisations to present a strong force to the government. Customers include retailers in the modern trade (hypermarkets, supermarkets and minimarkets), traditional trade (toko, warung and traditional markets) or distributors that act as an intermediary between the firm and retailer. In Indonesia, it is necessary for consumer goods MBEs to collaborate with dozens; in some cases, hundreds of distributors to deliver products to all corners of the archipelago. Relationships with well-connected distributors on the local level may also be necessary to be able to gain access and do business in rural areas (Elg et al., 2012). For instance, for HBC, it was necessary to collaborate with distributors and other network partners to reverse restrictive regulations. As a result, it was not only possible to reduce the adverse effects of political decisions, but also to secure new business in parts of the country where it was previously not allowed to operate.

Business actors may also include a firm's partner in a joint venture company. The case study on UGG reveals how the firm has built a large market operation through joint ventures with local players and acquisitions of firms affected by the country's financial crisis (Maitland, 2005). FCD was obliged to partner up with a local conglomerate to access the Indonesian market. When the firm established itself in the early 1970s, the political network and influence of the firm's local partner played an important role. As the influential local conglomerate shared the risks as well as the profits of the business, they enhanced the firm's credibility as well as alleviated adverse interference by local bureaucrats. One particular advantage of FCD's well-connected joint venture partner was that obtaining licenses and permits for the factories was usually done quickly. However, when the tide turns, insiders can become outsiders and connections can become liabilities (Dieleman & Sachs, 2008). Even though FCD's local joint venture partner was able to leverage direct contact with Suharto, after the downfall of the president, he was no longer welcomed by the government, and since then all permits, and licences are handled through FDC directly.

## **7.5 Chapter summary**

This chapter introduced Figure 7.1 which represents an enhanced understanding of the participants' lived experiences in subsidiaries of MBEs operating in an emerging market. It first explained the process of developing the Figure, highlighting which aspects derived from the literature and which resulted from the evidence (section 7.1), followed by a discussion of how the initial constructs (i.e. trust, knowledge, commitment and legitimacy) were operationalised in this study (7.1.1). Next followed a discussion of the host-country pressures MBEs face in Indonesia (section 7.2), the second order themes and aggregate dimensions (section 7.3), and finally the actors involved (section 7.4). As a result of the empirical findings in Indonesia, this local research on Dutch firms in a post-colonial setting developed a new way of conceptualising how MBE subsidiaries deal with challenges in context. The next chapter not only responds to the research questions but also presents the contributions to literature, limitations and managerial implications.



## 8. Concluding discussion

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The focus of this research is on reaching a better understanding of how MBEs respond to host-country pressures in a major emerging market, through developing a network of relationships with political, social and business actors. Guided by the overarching research question - How do established Dutch MBE subsidiaries grow and develop in Indonesia? - this thesis has not only examined how the different types of actors interact, but also the activities that are performed, and which critical resources are utilised in responding to regulatory complexities, cultural specificities and subnational heterogeneity. Based on the four in-depth case studies (chapter four, sections 4.1-4.4), the 'Evidence Structure' was developed (in chapter five, Table 5.1), which informed the development of The 'visualisations of the aggregate dimensions' (in chapter six, Figures 6.1-6.5), which, in turn, amalgamated into 'The enhanced understanding of the participants' lived experiences in subsidiaries of MBEs in an emerging market' (chapter seven, Figure 7.1). This chapter will not only respond to the research questions but also presents the empirical and theoretical contributions, limitations and managerial implications.

The studied organisations in this thesis are long-established Dutch MBE subsidiaries with colonial roots, which operate in the emerging market of Indonesia. Even though the emphasis of the study is on contemporary Indonesia, the actors' views of the historical impact on current business activities are also discussed in this chapter. Evidence was gathered at the subsidiary level in Indonesia. Like all good qualitative research, this study used multiple sources of evidence (archives, field observation) but at the heart of this study is the semi-structured interview with subsidiary managers as the chosen means through which the primary research was conducted. The researcher's personal network and immersion in the local context resulted in unique access to some otherwise unreachable local executives of (the only) four established, Dutch MBEs in the consumer goods industry in post-colonial Indonesia. The participants in this study typically had been working for the MBEs for a long time and their experience had allowed them to enter the upper echelons of management hierarchy, learning valuable insights about their organisation and networks along the way. Participants were asked about what they and their subsidiaries have done in recent times (post-Suharto period, 1999-2019) with regard to interactions and networking with local actors and institutions, as well as how host-country pressures are managed in Indonesia.

This research makes contributions to several streams of literature and has key implications for practitioners. Both will be discussed in detail, but first, this chapter will recapitulate the research questions (8.1), followed by a discussion on the empirical contributions (8.2-8.2.6), including contributions to the global integration-national responsiveness debate (8.2.1), embeddedness perspective (8.2.2), internationalisation literature (2.2.3), navigating the liability of foreignness (8.2.4), postcolonial research (8.2.5), complementary dynamics between corporate social responsibility and corporate political activity (8.2.6) and the wider implication for institutional theory (8.2.7). Furthermore,



the chapter discusses the methodological contribution (8.3-8.3.1), generalisability of the study (8.4), limitations of the study and future research avenues (8.5) and, finally, the managerial implications (8.6).

### 8.1 Recapitulation of the research questions

This research seeks to explore the question: How do established Dutch MBE subsidiaries grow and develop in Indonesia? This is addressed by posing two sub-questions: (1) How do MBEs respond to host-country pressures as they seek to survive and thrive? (2) How do MBEs collaborate and with whom, to respond to these pressures? To answer the main RQ, the sub-RQs will be addressed first.

The research was launched following a period of reflection, familiarisation of the literature and consequently problematization through which the RQs were developed. In practice, this was an iterative process spread over a period of a year and a half, as the RQs were continually refined based on learning from the literature review and growing appreciation of the subject. During the early stages of the research, the researcher had only a general idea of the pressures MBEs face and the actors they had to collaborate with, in Indonesia. It was during the fieldwork that what (and who) really mattered ‘on the ground’ emerged, which helped refine the focus of enquiry. An extensive fieldwork immersion, combining in-depth, semi-structured interviews, observations and archives resulted in the generation of rich evidence that led to a deeper understanding of the subsidiaries’ operations in the immediate temporal and spatial context of Indonesia. Although emerging markets are often described as if they pose similar challenges, this research addressed how MBEs collaborate with business, social and political actors to navigate regulatory complexities, cultural specificities and subnational heterogeneity in Indonesia.

To answer the first sub-RQ, the findings have revealed that three host-country pressures require strategic adaptations on the part of the MBE subsidiary. The studied firms engaged in practices and strategies which are captured by five aggregate dimensions – legitimacy building, internal political capabilities, institutional knowledge acquisition, external networks, and resolving critical issues. In detail, each of the activities involved has been investigated in relation to how they can assist the firms in approaching the challenges inherent in doing business in Indonesia. The aggregate-level constructs are supported and evidenced by the following organisational practices and strategies – ‘relational approach’, ‘expressing commitment’, ‘political accommodation’, ‘building trust’, ‘managing environmental uncertainty’, ‘political knowledge sharing’, ‘board political capital’, ‘networking capability’, ‘collective approach’, ‘mobilising network partners’, ‘bargaining’ and ‘facilitating’ – operationalised by the MBE and the external business, social and political actors. Together, these findings allowed for the development of ‘The enhanced understanding of the participants’ lived experiences in subsidiaries in an emerging market’ (Figure 7.1).

Each of the constructs plays a part in the way in which long-established Dutch MBE subsidiaries respond to regulatory complexities, cultural specificities, and subnational heterogeneity. The Evidence Structure (Table 5.1) has given transparency to the presentation of the findings of the research and

demonstrated links between the host-country pressures, constructs and aggregate dimensions, as well as the instruments used, and actors involved in performing each activity. Put differently, to avoid any guesswork and speculation; the Evidence Structure illustrated clear connections between the gathered evidence and theory.

To answer the second sub-RQ, it is necessary to shed light on the way in which the studied firms collaborate with external stakeholders to respond to the three host-country pressures. Throughout the thesis, it has been argued that MBEs need to interact with different business and non-business actors in order to gain support for their strategic goals in emerging markets. The analysis chapters revealed how the studied firms interact with different types of political actors, such as governments and policymakers, as well as the relationships with various types of business partners and social actors. In detail, each of these relationship types has been discussed with regard to how they can assist the firms in approaching regulatory complexities, cultural specificities and subnational heterogeneity.

In particular, the emphasis on political and social actors offered fruitful understandings about how MBEs may respond to external pressures. In Indonesia, which is known for its close entanglement of government and the economy, the support of leading non-business actors was critical for gaining the support necessary to achieve a competitive market position. For instance, the findings reveal that building legitimacy was a prerequisite for managing the three host-country pressures. The collaboration with political actors as well as NGOs in performing activities that have a social and environmental value generated trust as well as legitimacy to the studied firms. Furthermore, investments towards social issues allowed the firms to participate in discussions with policymakers, appear as an actor with expertise, and augment their influence on specific political processes. In turn, the process provided increased legitimacy for local political actors and thus enhanced their incentives to keep being involved in the social activities and to drive MBEs towards considering local social issues.

Addressing the sub-RQs helped towards answering the main RQ. The ability to grow and develop a sustainable, long-term position in emerging markets is regarded as a key strategic factor for MBE subsidiaries (Hadjikhani et al., 2012; Cavusgil et al., 2013; Ghauri et al., 2017), while it is also recognised that host-country pressures present major challenges (Bartlett & Ghoshal, 2000; Elg et al., 2015; Meyer & Peng, 2016). Context-specific challenges require unique capabilities from MBE subsidiaries (answered in sub-RQ 1) and force them to establish relationships with different business, social and political actors (answered in sub-RQ 2), while they strive to grow and develop in Indonesia.

It is clear that there is still much to learn about how MBEs organise their subsidiaries effectively to compete in a single emerging market (Ghauri et al., 2017; Ma et al., 2019; Buckley & Casson, 2019; Meyer et al., 2020). However, this research explained the development of the market position of long-established, industry-leading MBEs in a postcolonial setting. The fact that the studied firms have been, despite the risks, operating in Indonesia for decades makes these four cases valuable learning examples. The research demonstrates that in order to grow and develop in an emerging market, MBEs must collaborate with different actors and partners, and engage in a number of strategies to overcome host-

country pressures. Thus, guided by the overarching RQ - How do established Dutch MBE subsidiaries grow and develop in Indonesia? - this thesis has developed an enhanced understanding of the participants' lived experiences in subsidiaries in an emerging market.

## **8.2 Empirical and theoretical contributions**

This thesis makes several contributions. For instance, this research provides overall support for a national responsive-centric approach (instead of an integration-centric approach) to deal with host-country pressures in an emerging market. It also adds to the embeddedness literature by explaining how different types of embeddedness, including relational (market and nonmarket) embeddedness, can provide a more nuanced understanding of how subsidiaries operate in emerging markets, but ultimately, it requires cooperative relationships between subsidiary managers vis-à-vis key host country actors (i.e., the government, policymakers, media, civil society, and partners). The study also contributes to the debate on how firms overcome the liability of foreignness by exploring how Dutch MBEs have navigated a challenging institutional environment. In particular, there is a need for an awareness of a host country's socio-cultural legacies and how local norms, values, and expectations enable and constrain firms and their strategic action.

The findings challenge some of the existing internationalisation theories and contributes to the literature that emphasises business networks and relationships to explain the firm's internationalisation efforts. It also discusses the complementary dynamics between corporate social responsibility and corporate political activities to respond to host-country pressures. It follows that these two lines of enquiry should be integrated as they tend to go hand in hand in managing external pressures in emerging markets. This study also contributes to the conflicting evidence regarding the influence of a shared colonial history on the business operations of MBEs originating from the former colonial ruler. Overall, the findings show that, due to the sensitive nature of colonial history, Dutch MBEs have been subject to a high level of scrutiny from local socio-political actors, especially the regulator and the media. Recently, however, the negative influences of the colonial history have lessened significantly, and Dutch-Indonesian relations are largely free from postcolonial complexities. Furthermore, the findings have wider implication for institutional theory; in particular, it found that subsidiary responses to institutions stretch well beyond isomorphism, extend it to the context of Indonesia, and augment the existing knowledge on new institutional economics. Each of the contributions will be discussed next.

### **8.2.1 A national responsiveness approach to managing subsidiaries in an emerging market**

This thesis contributes to the literature on global integration (GI) - national responsiveness (NR) as well as to the growing literature on how MBE subsidiaries compete in emerging markets (Prahalad & Doz, 1987; Luo, 2001b; Meyer & Estrin, 2014; Williams et al., 2017; Banerjee et al., 2019; Ma et al., 2019). There is a general consensus in the IB and strategy literature that environmental challenges have an impact on the MBE's performance (Ghoshal & Nohria, 1989). Understanding host-country pressures

in emerging markets is critical for evaluating the kind of strategies that subsidiaries need to develop in order to succeed. To respond to challenging subsidiary environments, MBEs can generally pursue two different paths to succeed in emerging markets (Williams et al., 2017). First, a GI-centric approach suggests that HQ involvement, either directly or through a regional-HQ, directs subsidiaries in their efforts to manage local challenges, while the NR-centric approach relies more on local managers and their capabilities to navigate the host market. Even though Bartlett and Ghoshal (1998) argue that MBEs must pursue a transnational strategy combining both integration and responsiveness strategies, scholars such as Verbeke (2013) and Meyer and Su (2015) have since noted that most firms are required to make critical choices between the two.

From a local perspective, MBE subsidiaries are foreign-owned firms that compete and collaborate with local firms. However, they are distinguished because they are part of both the MBE and the host economy. For this reason, the study not only explored the firm's external subsidiary relationships, but also the role of HQ (as perceived by subsidiary managers) in managing host-country pressures is taken into consideration. The studied firms in this thesis are deeply integrated into the Indonesian economy. Overall, they realised that unnecessary direction and support from HQ is uneconomic. HQ reserved itself to a limited range of important decision: the general direction of the business, agreements to forward plans, top management appointments, major investments; but these too were made in consultation with the subsidiaries. Corporate (Dutch)-HQ of the four firms had established a regional-HQ in Singapore. Regional-HQs' role has frequently changed over the decades, but during the fieldwork period it focused more on coordinating rather than controlling. For instance, if challenges occur at the subsidiary level, the regional-HQ in Singapore assists by disseminating 'lessons learned reports' from other host market subsidiaries.

Although HQs' support varied across the studied firms, overall, the subsidiaries crafted their own business strategies as a result of environmental pressures and opportunities facing the subsidiary in the host country. Recently, FCD (2018) and UGG (2019) downsized their regional-HQ (Singapore) operations, "*because the disconnect between countries like Indonesia, India and Philippines are too big for Singapore [...] some of the functions will go to Manila, Bangkok and Jakarta offices*" (UGG, CFO). Even though regional-HQ should be better positioned to compensate for the disconnect between HQ and far-flung subsidiaries, the findings demonstrate that emerging markets may be too dissimilar, and each country may require its own host-country HQ (Ma et al., 2019) to manage its many factories, sales offices and distribution centres. Large decentralised emerging markets, such as Indonesia, require multiple subsidiaries which are controlled mainly by the host-country HQ (in Jakarta). However, as subsidiaries encounter challenges in their local markets, Regional-HQ provide support to the subsidiaries through their experience gained in the region, although their influence and control are in decline, and most business decisions are made at the host-country-HQ level.

There is no such thing as a purely GI or NR strategy but, in reality, firms will pursue a combination of both, although a greater emphasis will be put on either adaptation or integration (Verbeke, 2013;

Meyer & Su, 2015). In Indonesia, where environmental challenges are present in the market environment, firms are required to adopt a strategy that is local specific, which relies predominantly on local managers and an adapted business strategy to meet the local needs and demands of the host market. For this reason, this thesis provides overall support for a locally responsive-centric approach (instead of an integration-centric approach) to deal with environmental challenges in an emerging market. The findings are in line with Tian and Slocum (2014) and Williams et al. (2017), who suggests that subsidiaries that adopt a national responsiveness-centric approach are more likely to do well in large emerging markets. Furthermore, the studied firms have established multiple factories and sales offices throughout the archipelago, which, as explained by Tian and Slocum (2014) increases the need to shift from a strategy that emphasises integration via a strong corporate HQ, to one emphasising the importance of the local context.

These findings also support the work of Banerjee et al. (2019) who integrated a relational dimension to the GI-IR framework, suggesting that nonmarket relationships are critical in managing markets that are characterised by a challenging institutional environment. This view is also in line with Luo (2001), who argues that pursuing local responsiveness motivates subsidiary managers to develop sustained, cooperative relationships with local customers, suppliers, distributors, competitors, and governmental authorities, which allows MBEs to respond to host-country pressures (Ghoshal & Nohria, 1989). Furthermore, this study contributes to the work of London and Hart (2004), who suggest that successful emerging market strategies of Western MBEs require cooperation with non-traditional partners (e.g. community groups, non-profit organisations local and village-level governments) to acquire information on the local context, local legitimacy, and access to needed resources. London and Hart (2004) further add that firms should move beyond merely adapting business strategies and facilitate the ‘bottom-up co-invention’ of locally appropriate solutions.

Emerging market contexts typically require localised business models supported by localised organisational practices, which requires collaborations with locally knowledgeable individuals (Meyer et al., 2020). One case firm, UGG, was particularly successful in establishing cooperative relationships with non-traditional partners through initiating social activities in remote parts of the country with a great need for social responsibility projects. By establishing its own foundation, UGG has demonstrated its commitment as a strong supporter of society and ensures acceptance and trust from local stakeholders. Through its educational activities, the firm was able to gain valuable feedback from local customers, community groups and authorities, which consequently allowed UGG to anticipate the aspirations of consumers and to respond creatively and competitively with appropriate solutions.

With regards to staffing choices, the subsidiaries primarily relied on local talent, and made limited use of expatriate staff to manage emerging market subsidiaries. The studied firms’ employ thousands of employees, and virtually all their members of staff are Indonesian, as well as many of their board members. Furthermore, the companies had implemented policies to stimulate training of host-country national (HCN). Expatriate participants mentioned that it was often expected that an HCN replaced

them after their assignment finished. Williams et al. (2017) note that a NR-centric approach is where the subsidiary relies predominantly on locally hired managers to enact a strategy to manage host-country pressures. Two case firms (FCD and PT) recently appointed an HCN as subsidiary CEO in Indonesia. However, UGG and HBC both appointed a third-country national (TCN) as a subsidiary CEO, although from other emerging markets in the Asian region (i.e. India and Malaysia), despite having appointed HCN subsidiary CEO in the past. TCNs may be an effective compromise due to the similarities between country cultures, while at the same time keeping an outsider perspective.

Extant literature suggests that HCN managers are more likely to be embedded in local networks, through which they have accumulated local social capital, thereby increasing their chances to successfully implement a locally responsive strategy (Williams et al., 2017), and ultimately respond to the negative effects of host-country pressures. Furthermore, in line with Johnson (2011), participants noted that local talent possesses relevant communication skills to communicate with local employees and other constituencies (Sekiguchi et al., 2011). In this vein, Caussat et al. (2019) argue that managing a subsidiary is essentially a relational occupation. Other reasons for appointing HCN at the director-level include a preference of local government officials to converse in Indonesian. It can thus be argued that effective communication with multiple audiences is a crucial capability of subsidiary managers, which gives HCN an advantage in managing sensitive relationships (Meyer et al., 2020). For this reason, the findings of this thesis also support the literature on subsidiary managers as boundary-spanners between the subsidiary and its local environment (Williams et al., 2017; Caussat et al., 2019).

Leading IB scholars (e.g. Prahalad & Doz, 1987; Luo, 2001b) have discussed different types of pressures MBE subsidiaries face, but most scholars ignore the implementation of strategies, and concrete micro-level practices to respond to these challenges. This thesis thus contributes to the GI-NR literature not only by identifying major host-country pressures of an emerging market, but also by exploring the organisational practices and strategies MBE subsidiaries managers adopt to respond to regulatory complexities, cultural specificities and subnational heterogeneity.

### **8.2.2 Expanding the embeddedness perspective**

The studied firms' pursued long-term strategic goals, such as seeking long-range investment opportunities and gaining a sustained market share in the Indonesian market, and thus they established close links with key host country actors, such as the regulator, government and business partners. It is not surprising that Nell et al. (2011) note that larger, older or acquired subsidiaries are often deeply embedded in a network of specific formal and informal relationships in the host markets. The studied firms' developed relationships of varying strength and intensity to actors, ranging from arm's-length (low embeddedness) to trusting, cooperative relationships (high embeddedness). Participants noted that a strong network of relationships, particularly with political actors, but also with business and social actors is required to be able to successfully navigate the Indonesian market.

Although there are many types of embeddedness with their own, sometimes confusing or overlapping definitions, it is essentially a measurement of how an entity interacts with other actors in its social environment (Dacin et al. 1999). Despite the many definitions of embeddedness, one major distinction was observed (sections 2.5-2.5.5) between embeddedness viewed as a firm's (or individual's) link with its institutional context, that is from an institutional theory perspective (e.g. Oliver, 1996; Hung, 2005), and embeddedness as a firm's relationships with external organisations and the individuals representing them. In other words, embeddedness can be viewed not only as a matter of the institutional context in which a subsidiary interacts, but also the quality of the relations it develops with other organisations within the context. In this section, the latter is discussed, that is, embeddedness based on the work of Granovetter, who proposes an accessible stimulus for modern research on embeddedness (Dacin et al., 1999). Although host-country pressures (i.e. regulatory complexities, cultural specificities and subnational heterogeneity) emanate from a country's institutional barriers (Meyer et al., 2020), it is at the relational level (i.e. interpersonal and interorganisational ties) where firms aim to cope with and respond to these pressures.

Evident from the focused literature review (Table 2.1) is that most studies on external subsidiary embeddedness focus on interfirm relationships, while in this research the firm's network involves a broad range of relationships with business and non-business actors. In line with Rizopoulo and Sergakis (2010), this study argues that Granovetter's perspective not only applies to interfirm relations, but also to those in the socio-political sphere. The findings further suggest that different types of embeddedness, including relational embeddedness, political embeddedness, and informal embeddedness, should be integrated. As the case studies reveal, the MBE's ability to respond to host-country pressures depends greatly on the quality of their relationships with not only business partners but also a broad range of non-market actors, including local governments, NGOs and key opinion leaders (Elg et al., 2015; Hadjikhani et al., 2018; Elsahn & Benson-Rea, 2018). Furthermore, in line with Peng et al. (2005) and Sun et al. (2017), informal embeddedness (i.e. social ties) between subsidiary managers and political actors are essential in managing the regulatory and political environment. Personal relationships matter; and they are human and social (interactive) in nature. At the same time, at the organisational level, subsidiaries also enter into formal inter-organisational relationships with external actors, such as business partners but also with, for instance, the United Nations Global Compact and various host governmental bodies. In other words, embeddedness resides both at the interpersonal level – i.e. managerial ties - and at the interorganisational level – i.e. firm ties.

The findings of this research demonstrate that in Indonesia, which is known for its close entanglement of government and the economy, leading non-business actors are of critical importance in the MBE's network. While business networks and relationships in network studies are explored extensively, relationships between firms and socio-political actors are less often studied (Hadjikhani et al., 2019). However, there is also research that widens the boundaries of the MBEs' network to include political and social actors, combined with business relationships, as emphasised by other scholars in

recent years (i.e. Hadjikhani et al., 2008; Ghauri et al., 2012; Lee et al., 2012; Santangelo, 2012; Hoenen et al., 2014; Elg et al., 2015; Klopff & Nell, 2018; Hadjikhani et al., 2019). Even though there are also studies that analyse MBEs' relationships with non-market actors (e.g. Salmi & Heikkilä, 2015; Hadjikhani & Ghauri, 2001; Boddewyn, 1988), most of these studies treat the non-market environment as if it were limited to only governmental institutions. However, political institutions are frequently not sufficiently interested in listening to corporate interest groups and thinking about non-market strategy purely in terms of exchanges with politicians becomes seriously limiting (Demirbag & Wood, 2018). It is, therefore, entirely rational for firms to search for alternative ways of seeking a non-market advantage (Ghauri & Hadjikhani, 2012). For instance, participants emphasised the critical importance of gaining the support of key opinion leaders (KOL) in policy development, while IB scholars very rarely discuss the existence of these actors<sup>57</sup>.

### 8.2.3 A cooperative approach towards internationalisation into emerging markets

Traditional internationalisation theory describes the expansion of firms to foreign markets as gradual increases in commitment over time (Johanson & Vahlne, 1977). It suggests that firms that moved abroad tended to start with exports, then set up local sales offices and finally take on local manufacturing. The reality, however, in line with subsequent empirical studies that have not been able to corroborate the process of stepwise increases, is a lot "messier" (Benito et al., 2009:1455), as demonstrated by the studied firms' nationalisation and subsequently re-establishment in Indonesia. However, in their most recent paper, Vahlne & Johanson (2020) acknowledge that reality is always fraught with challenges of volatility, uncertainty, complexity, and ambiguity, and to explain the IB manager's actions, it is necessary to take these conditions into account, as well as context. Following the tenets of contextual explanation, this study explored not only the expansion of long-established Dutch MBEs in a foreign market, but also the effects of the country-specific factors, including its environmental challenges, are taken into account.

This research contradicts some of the existing theories that assume that an MBE's internationalisation activities and decisions are based solely on their internal capabilities and resources controlled by the firm itself (Johanson & Vahlne, 1977; Dunning, 2000). While these theories discuss the impact of the firm's internal capabilities and country-specific advantages (CSA) (Dunning, 2000), they lack in the argument that CSA are not possessed by the MBE, instead, they are owned by other actors in the country. For instance, although OLI and internalisation models recognise that foreign market entry requires the bundling of MBE and complimentary local assets, which they call CSA, they implicitly assume that those assets are freely accessible to MBEs (Hennart, 2009). It follows that the focus has largely been on a focal firm in a neoclassical time environment and only recently has a

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<sup>57</sup> One notable exception is a study by Elg et al. (2015) in which the authors point to the importance of more empirical studies, including MBEs from varying countries.



network view perspective been argued (Hennart, 2009; Johanson & Vahlne 2009; 2011). Furthermore, in contrast to contractual risks resulting from the exposure of transaction-specific assets, which can be balanced through internalisation of intermediate markets (Dunning, 1981), firms in emerging markets will face host-country pressures that require collaborative efforts with critical host country actors.

In line with recent versions of the internationalisation process theory (Johanson & Vahlne, 2009), which recognise that firms form relationships and that those relationships become networks, this study views the foreign business network as a market structure in which the internationalising firm is embedded. However, the work of Johanson and Vahlne (2009) focuses mainly on business networks, and does not make reference to, firstly, interpersonal networks and secondly, nonmarket networks. Although relationships in emerging markets are typically developed at the interpersonal level, the work of Johanson and Vahlne (2009) and other internationalisation research is largely situated at a macro organisational level (Buckley & Casson, 2019), which implies that firms interact with each other only on an organisational level. This eliminates the human element of business relationships (Koporcic & Törnroos, 2019). Moreover, many leading IB scholars (Buckley & Casson, 2019; Meyer et al., 2020) have recently noted that there is too little emphasis on the individual and too much on the firm. Consequently, identifying and explicating key practices and strategies at the level of the people involved, rather than at the organisational level, has provided fresh and deep insights into the managerial activities required to respond to host-country pressures in the immediate temporal and spatial context of post-colonial Indonesia.

Furthermore, Johanson and Vahlne (2009) make no reference to nonmarket networks, while in many emerging markets (and certainly in Indonesia) the government and other types of socio-political actors pose a significant risk to the foreign MBE's ability to survive and thrive (Rodgers et al., 2019; Dang et al., 2020). Despite recent claims of Vahlne and Johanson (2020) that their guiding principle has been to remain as close as possible to the reality of practising managers, they ignore the "key stakeholder in achieving operational success" (i.e. the host government, Dang et al., 2020:1). Given the nature of emerging markets, which are characterised by their underdeveloped political and social institutions (Sheth, 2011), this research demonstrates that the activity of business actors and business relationships are not the exclusive component in overcoming the liability of outsidership and liability of foreignness. Indeed, close interpersonal relations with a broad range of socio-political are required to succeed in Indonesia.

#### **8.2.4 Navigating the liability of foreignness**

Many Dutch MBEs have historically been attracted to Indonesia due to the close links between the countries. According to Marrewijk (2004), Dutch firms considered the strong cultural, financial and educational links with Indonesia as an advantage in doing business. When the studied firms first entered Indonesia during colonial times, they benefitted from a "politically sympathetic environment" (Sluyterman & Bouwens, 2015:105). Although doing business in the country was far from easy,

political risk was low as the Dutch colonial administration treated Dutch firms favourably. Furthermore, the colony's administration and institutions were, to some extent, recreated by the mother country. In other words, the liability of foreignness was relatively low, despite the major differences between the countries in terms of, for instance, climate, labour relations and infrastructure development. However, not long after Indonesia gained independence, Dutch assets were nationalised, and expatriates were sent home. After years of state-ownership, less FDI-averse president Suharto came to power, and Dutch firms were allowed to buy back their shares. This time, however, the firms had to overcome a new set of challenges and deal with actors who "were very sensitive to a possible colonial attitude of the Dutch" (Van Marrewijk, 2004:309). The firms' 'business re-establishment' required a different toolkit to navigate the now adverse institutional environment.

Indonesia represents an exceptional context to investigate the liability of foreignness that is, the difficulties and additional costs that MBEs encounter when they operate in a foreign market (Zaheer, 1995). When the Dutch firms re-established themselves after Indonesian independence, they faced an adverse institutional environment typical of emerging markets in some ways but also unique due to strong economic nationalism, scepticism towards foreign (and, especially, Dutch) firms, and cultural traditions (Marrewijk, 2004). Marrewijk (2004) provides a gripping account of the negative influences of the colonial history on the business establishment of a Dutch telecom provider (described in section 2.7.1). For instance, the Dutch firm's local JV partner used the sensitive Indonesian-Dutch relationship of the past to their advantage in negotiations and conflicts. Furthermore, Marrewijk (2004) describes how the opening of the Indonesian market to foreign investments fuelled the fear among Indonesians that Western culture would overrule the Indonesian identity. The resentment towards foreign firms was amplified after the Asian financial crisis, which left Indonesia deeply suspicious of foreign capital (Economist, 2015, 2018). In a country where, according to HBC's former CEO "*In the end, everything boils down to government relations*", the difficulties and additional costs had significantly increased, as demonstrated in the protectionist policies introduced in recent years.

The focus of this section is on how firms manage the liability of foreignness in the face of increasing cultural divides. The analysis reveals how the firms have to engage in what Marquis and Raynard (2015) refer to as, 'socio-cultural bridging', i.e. tackling cultural divides that may hinder international expansion and growth. There is a need for an awareness of the country's socio-cultural legacies (e.g. the colonial history and the views of locals towards foreign firms) and how local norms, values, and expectations enable and constrain firms and their strategic action (Han et al., 2014). According to FCD's local manager: "*One of the most important things for a multinational is that you're not seen as a company that is only here to profit from Indonesia, but that you also come to bring something*". In other words, MBEs have to pay attention to the nuances of context (circumstances and conditions) in which they operate (Stahl & Tung, 2015). The findings also suggest that the way in which an MBE can respond to the liability of foreignness and develop a strong market position is determined

by its ability to manage the environment and gain business, political and social support for its actions (Hadjikhani et al., 2008; Hadjikhani et al., 2019).

Participants pointed out that there are strong expectations from the wider public that MBEs should provide not only work for local labour but also help develop and invest in the communities in which they operate. Furthermore, the governments also expect foreign firms to contribute in remote parts of the country with a great need for social responsibility projects. Addressing such expectations may be challenging for MBEs as they go against the logic of capitalism, which focuses on markets and competition. However, as a result of the firms' long history in the country, the firms developed what Khanna (2014:1) refers to as "contextual intelligence". Participants were aware that firms that appear to profit from Indonesia, without giving back to the country, will be stereotyped as a 'foreign exploiter' by the host government or society (Luo, 2001:404). In fact, a firm's licence to operate can be challenged at any point in time (Hadjikhani et al., 2019) – as demonstrated by the recent nationalisation of a US-owned gold and copper mine, which participants often referred to during interviews (Economist, 2019e). Thus, in line with what organisational theorists have long contended, this research demonstrates that responding appropriately to socio-cultural expectations is critical for gaining social approval (Pfeffer & Salancik, 1978; Oliver, 1991) and consequently decreases the firms' liability of foreignness.

How an MBE deals with socio-cultural expectations can have a strong effect on an MBE's success in the host country. This holds especially true in emerging markets where MBEs have to deal with legitimacy pressure not only from customers, but also from host governments that can implement restrictive regulations and put legitimacy pressure on non-compliant MBEs (Wei et al., 2020). The findings also support Elg et al. (2008), who note that, during the firm's establishment in a culturally different market, it is important to consider its role in society, as well as the development of relationships in both the business and the socio-political market. At the same time, interacting and being associated with socially and culturally respected actors, such as local government representatives and non-political NGOs can increase a firm's legitimacy and relevance in the eyes of consumers.

### **8.2.5 Postcolonial influences on Dutch business operations**

The majority of studies seem to suggest that a shared history between countries has at least some explanatory power to explicate why Europeans often maintain unique relations with their former colonies (Frankel & Rose, 2002; Makino & Tsang, 2011; Brysk et al., 2002; Torres et al., 2012). Relationships between the former colonial masters and their ex-colonies are, according to Brysk et al. (2002), mainly those of friendship, rather than rivalry. However, a recent study (Witte et al., 2020) distinguishes between the way in which the former colonial power relinquished authority over the ex-colony (Nayak & Jeffrey, 2011); whereas small political conflicts that ended colonisation (100 - 1000 battle-related deaths) do not deter MBE investments, full-fledged wars (i.e. political conflicts with more than 1000 deaths) diminish the positive effect of colonial ties on the probability that an MBE will invest in a country.

Approximately 5000 Dutch soldiers and 100,000 Indonesians soldiers died during the war that succeeded the declaration of independence (Trouw, 2020). The end of colonialism had serious consequences for Dutch firms, which were disrupted, and eventually nationalised. However, despite the violence that ended Dutch colonialism, the Dutch are currently the largest European investor in Indonesia, and also the country's fifth-largest foreign investor (BKPN, 2019). In this vein, Ghemawat (2001) found that a firm is likely to trade ten times as much with a former colony, compared with a country to which it has no such ties. Furthermore, the firms (i.e. HBC, FCD and PT) that were sold back to their previous owners (after being under government control for several years) have since become industry-leading firms.

In the decades succeeding independence, Dutch businesses have faced negative consequences of the colonial history, as the Indonesian government, businesses and the general population were wary of a colonial attitude of Dutch firms (Marrewijk, 2004). However, by the end of the 1990s, a Dutch newspaper described relations between the Netherlands and Indonesia to be 'more normal than ever' and are 'largely free from post-colonial complexities' (Brummelman, 1999). It is likely that the negative attitudes have lessened over time, although a former subsidiary CEO of PT, who headed the subsidiary for eight years, starting in the mid 2000s, noted that, *"Someone stood up during a press conference and said, 'You bloody Dutch, you raped and pillaged our country, you should pack up and go home', while the cameras were rolling"*. Such events, if picked up by the media, may obviously bring up negative sentiment towards the Dutch firm. However, when asked about possible influences on the current business operations, FCD's operation director noted that, *"Earlier, multinationals were seen as colonising [...] They were worried about the post-colonial attitude. But that's all gone. The attitudes towards FDI have changed"*.

Witte et al. (2020) argue that even in countries where colonial ties have remained an important part of FDI, their impact is likely to decline. The Dutch provided Indonesia with hundreds of millions of development assistance until 2016 (Oneworld, 2016). Obviously, such aid comes with some influence, although UGG's CFO notes that,

*"The colonial influence is gone. Which means you have to work harder. The impact of the Netherlands is very limited these days, that's because Indonesia is more developed and less dependent. Other countries like China and from the Middle east have much more power here. When the Dutch come with proposals for lending money for infrastructure development etc, they have many demands and always point their finger. But when the Chinese say here is the money, we want to profit from it but besides that you can do with it what you want... Governments prefer that"*.

This shows that any influence that came with the yearly (until 2016) development aid has now faded.

Two recent Dutch trade missions, and an apology from the Dutch King over ‘excessive violence’ after Indonesian independence have signalled an apparent rapprochement between the two countries (Jakarta Post, 2020). However, due to the sensitive nature of colonial history, Dutch MBEs have been subject to a high level of scrutiny from local socio-political actors, especially the regulator and the media (Marrewijk, 2004), although the negative impact of the colonial influences has lessened significantly.

### **8.2.6 Complementary dynamics between corporate social responsibility and corporate political activities**

The study presented an empirical investigation at the micro-level of organisational practices, including corporate political activities (CPA) and corporate social responsibility (CSR) to operationalise subsidiary strategies in managerial terms. The case studies reveal how, upon developing their business operations in Indonesia, MBEs invested major resources to social projects to develop a cooperative relationship with the government. The MBEs’ strategy to involve the government actively in, for example, CSR projects (aligned with the UN SDGs) that concern public health, is an example of this. Participants described the collaboration in these programmes as the basis for a good relationship with the local government. However, there is evidence to suggest that although the firms’ activities may seem to be targeted explicitly towards the well-being of the general population, in reality, there is an element of appeasing various legitimacy providers (e.g. policy makers, media and NGOs).

There is also evidence that the firms’ CSR strategies helped dealing with requests for government bribes. As the firms were unable to fulfil unreasonable demands, they expressed their social commitment in their communication with the local government. In a way, they were able to use their CSR activities as a ‘bargaining chip’ in their negotiations with local government representatives. However, whilst the literature on non-market strategies has often been separated into the domains of CSR (Aguinies & Glavas, 2012) and CPA (Lawton et al., 2013) the findings of this research respond to calls advocating a better understanding of the interconnectivity between these two lines of enquiry (Rodriguez et al., 2006; Sun et al. 2012; Frynas et al. 2017; Rodgers et al., 2019; Caussat et al., 2019). Reporting on the empirical evidence from Indonesia, the research illuminates how MBEs that operate in an adverse institutional context enact various political strategies, including CSR, to respond to challenges inherent in doing business in the country, such as restrictive regulations and corruption.

### **8.2.7 Implication for institutional theory**

In the context of the MBE, a major insight into the debate on embeddedness is that MBEs have to deal with heterogeneous social institutions in their multiple national environments (Heidenreich, 2012). Although this study is primarily focused on identifying and explicating key practices and strategies on the level of the people involved, rather than at the level of the institutions, this section will discuss wider implication for institutional theory. Institutional theory is a popular framework exploring a firm’s

relations with its environment (Zucker, 1987; DiMaggio & Powell, 1983). It offers an understanding of the structures, norms, and values of the local environment and of the pressures that MBEs have to manage. Traditionally, the main assumption has been that institutions are structures that shape the behaviour of firms and drive them to adapt in similar ways, eventually leading to isomorphism (DiMaggio & Powell, 1983). However, contrasting with the earlier perspective that viewed institutions as top-down pressures that constrain social and organisational behaviour, this study suggests that MBEs proactively navigate their external environments in emerging markets.

This study found that subsidiary responses to institutions stretch well beyond isomorphism, extends it to the context of Indonesia, and augments the existing knowledge on new institutional economics (e.g. Boddewyn & Brewer, 1994; Oliver & Holzinger, 2008; Kostova et al., 2008; Dieleman & Sachs, 2008; Doh et al., 2012; Regnér & Edman, 2014). New institutional economics focuses on the effect of institutions on firm's and vice versa (Doh et al., 2012). Research to date, however, has mainly focused on the effects of institutional variations on firms (Marquis & Raynard, 2015; Regnér & Edman, 2014; Peng et al., 2008) because individual firms are often, but not always, too insignificant to have an impact on institutions (Doh et al., 2012). However, there is also evidence that firms scan, anticipate and influence the political environment in host countries (Oliver & Holzinger, 2008; Boddewyn & Brewer, 1994).

Emerging markets are known to develop with a high degree of social, political, and economic change (Meyer & Peng, 2016). They are in a phase of transition, where values and structures are changing. This makes it more likely that MBEs can proactively influence the institutional environment, at least in comparison with advanced economies with more stable institutions (Regnér & Edman, 2014). In line with scholars calling for more agency in institutional theory (e.g. Kostova et al., 2008; Regnér & Edman, 2014; Marquis & Raynard, 2015; Caussat et al., 2019), the findings also suggest that MBEs place more power in the hands of their subsidiaries in host markets. Instead of passively adapting to the local environment, HQ of the studied firms tasked their subsidiaries to navigate unfavourable institutional conditions, improve their cooperative relationship with the government and shift cultural behaviours to make the market more receptive to the firms' products.

This study is important both because it identifies an MBE advantage in responding to institutions, and as it places the focus of this response at the subsidiary level, it adds to the growing recognition that local subsidiaries have a crucial role in MBE activities (Rugman & Verbeke 2001; Andersson et al., 2002). However, it would be wrong to suggest that the four studied firms were able to influence institutions in a similar way, and their success heavily depended on not only their size and embeddedness but also on the nature of their product offering. For instance, although the firms were sometimes able to prevent – or change – legislation, the firms were not always successful in their endeavours. The law that prevented HBC from selling beer in the (approx. 70,000) convenience stores is an example of this. Nevertheless, there is evidence to suggest that MBEs not only conform to the norms, rules and belief systems of host country actors but also actively engage in manipulating practice

to influence the perceptions of what is legitimate (Kostova et al., 2008). For instance, the studied firms' were engaged in collaborative lobbying efforts to change existing regulations that hampered profits. As a result, the study contributes to a stream of IB literature that shows how MBE subsidiaries purposefully and strategically shape their institutional context to further their own individual ends (Regnér & Edman, 2014; Caussat et al., 2019).

### **8.3 Methodological contribution**

The researcher followed the methods as described by Gioia et al. (2013) to collect and analyse the evidence. Coincident with the evidence gathering and after initial stages of analysis, the researcher was "cycling between emergent data, themes, concepts, and dimensions and the relevant literature" (Gioia et al., 2013:21), not only to see if the findings have precedents, but also whether new concepts emerge. Upon consulting the literature, the research process can be viewed as transitioning from inductive to a form of abductive research, in that the empirical evidence and existing theory are considered in tandem (Alvesson & Kärreman, 2007). The use of the exploratory qualitative methodological approach allowed for the development of the Evidence Structure (Table 5.1). Accordingly, 'The visualisation of the aggregate dimensions' (Figures 6.1-6.5), were developed, which, in turn, informed 'The enhanced understanding of the participants' lived experiences in subsidiaries of MBEs in an emerging market' (Figure 7.1).

Virtually all of the evidence was collected in Indonesia, immersed in the local culture to better make sense of the participants' narratives and to get access to the selected firms. Five years prior to the start of the PhD, the researcher had lived in Indonesia, but language skills were brushed up by participating in weekly language classes at the Indonesian embassy in London starting six months before the fieldwork. The qualitative approach maximised the advantage of the researcher's background within the area of interest, helping provide access to key informants, and provide an understanding of culture, language and environment. Several authors have demonstrated that context sensitivity is critical to producing quality evidence and analysis (Caprar, 2011; Gao et al., 2014) and that the experience of the researcher and his ability to understand the phenomena studied can be an important advantage in capturing relevant evidence and making sense of it. In their view, the personal knowledge of the research context, which derives from the background and experiences of the researcher, should be in keeping with the research tradition in which he is operating (Welch & Piekkari, 2017). It is likely that the ability to speak the local language, familiarity with both Dutch and Indonesian cultures, and prior experiences of working and living in both countries helped make sense of the participants' narratives in a way that preserved the authenticity of their perspectives. Furthermore, it was the immersion in the host-country context that resulted in unique access to some otherwise unreachable local executives of (the only) four long-established, Dutch MBEs in the consumer goods industry in Indonesia.

An exploratory, qualitative, multi-case study approach to collect and analyse evidence was chosen, by combining case research, with in-depth, semi-structured interviews, observations and the

interrogation of archival research, such as company archives, institutional archives and media reports (Miles et al., 2014). While the interviews were formally scheduled with selected participants within the Indonesian subsidiaries, many others were shorter, more informal conversations with suitable parties, such as representatives of embassies, industry and trade experts, consultants and academics, e.g. at conferences, seminars or working groups. They were in some cases as short as 5-10 mins and were mostly recorded by hand-written notes. Eight pocket-sized notebooks were filled throughout the study, with five of them during the main fieldwork period in Indonesia alone. Furthermore, the researcher undertook many field visits to the premises of the investigated firms, where detailed observations were made. Another main contributor to the success of the fieldwork was the researcher's 'intern position' at the European Business Chamber of Commerce in Indonesia (EuroCham). During the five months at EuroCham's office in Jakarta, the researcher learned about Indonesian regulations, the relationship between MBEs and the government, the working of bureaucracy, and how things are really done in Indonesia. Furthermore, it allowed the researcher to attend and observe many working groups and seminars, which proved to be exceptionally useful in gaining access to some otherwise unreachable local executives.

To conclude, the success of the collection of evidence and analysis can be attributed to (i) the exploratory qualitative approach, (ii) understanding of culture, language and environment, (iii) the researcher's personal network that resulted in unique access, (iv) and the use of multiple sources of evidence (archives, field observation, interviews).

### **8.3.1 Actors-resources-activities (ARA)**

This study adds to the growing number of scholars who have adapted the original ARA conceptual frame to fit the focus of their study (Welch & Wilkinson, 2004; Elg et al., 2008; Ghauri et al, 2008; Lee et al., 2011; Crespín-Mazet & Dontenwill, 2012). Although the ARA conceptual frame was originally developed - and has been predominantly used for - investigating buyer-supplier relationships and their embeddedness in wider business networks (Håkansson & Snehota, 1995; Håkansson et al., 2009), this research demonstrates that, despite the generality of the framework (Lenney & Easton, 2009), it can offer an appropriate framework for investigating interactions with a broad range of nonmarket actors. The present study shows that different actors, activities and resources come to the fore in different relationship types. Using the ARA conceptual frame, this research explored not only how business, social and political actors interact, but also the activities that are performed, and the resources that are utilised in the MBE's development of a competitive position in an emerging market.

In addition, the findings of this thesis contribute to the ARA conceptual frame by highlighting the importance of individual human-to-human interaction in business as well as socio-political markets. However, according to Medlin and Törnroos (2007) and Koporcic and Törnroos (2019) a major weakness of studies that adopt the model is the lack of distinction between the firm and individuals as actors so that the role of humans has been underplayed. Scholars adopting the ARA framework often



resort to firms as actors, or mixes individuals and firms as actors ‘in confusing ways’, which makes it hard to know what actors mean in many texts (Koporcic & Törnroos, 2019). This eliminates the human elements of business relationships, and suggests that firms interact with each other only on an organisational level. However, it is evident from the findings in this study that social interactions between individuals are critical features of business relationships and network development.

Nearly every participant emphasised the importance of networking, and that Indonesia is a highly trust-based society, based on personal and social relationships. Furthermore, participants stressed that Indonesians tend to make decisions on a personal basis. For this reason, meetings between firm representatives and politicians were normally held between Indonesians, who practice the same religion (Islam) and are from the same geographic region. Being able to speak the same dialect was another way of building up initial levels of trust. Based on these findings, it is clear that relationships are human and social (interactive) in nature (Koporcic & Törnroos, 2019), and that each relationship somewhat unique and context-specific (Halinen & Törnroos, 1998; Halinen & Törnroos, 2005).

Considerable time and resources were devoted to finding out information about the politicians, their positions, but also about the social needs of the people (i.e. the voters on which they depend) (Luo, 2002). Furthermore, at the start of meetings between firm representatives and politicians, subsidiary managers often stressed resources invested in social responsibility projects, such as FCD’s school milk programmes and UGG’s handwashing campaigns. These investments, in turn, allowed them to participate in discussions with the regulator, appear as an actor with expertise, and augment their influence on specific political processes. It also provided increased legitimacy for the politicians who are incentivised to keep being involved in the social activities and to drive MBEs towards considering local social issues. Again, identifying the key practices and strategies on the human level has provided deeper insights into the managerial activities required to respond to host-country pressures in an emerging market.

#### **8.4 Wider applicability**

The introductory section of the thesis outlined arguments as to why a context-specific approach is deemed necessary for MBEs operating in emerging markets. In short, although emerging markets share a number of similarities as compared to their more developed counterparts, they are not a homogenous group. In fact, as the evidence revealed, a country may have substantial subnational heterogeneity within its borders. In Indonesia, MBEs face circumstances that are typical of emerging markets in some ways but are also unique due to strong economic nationalism and cultural traditions. However, it is critical to identify to what extent the lessons of this study are relevant for scholars and practitioners operating in other contexts.

The discussion chapter revealed that even though the Indonesian situation can be considered to be somewhat unique and context-specific, some of the strategies and practices have been (although not together) observed in other emerging markets. For instance, similar to the findings of this study, the

works of Elg et al. (2015) and Caussat et al. (2019) observed that in the establishment phase of MBEs in India, an understanding of the cultural and political specificities is a prerequisite for success, and investments in social responsibility activities are required for gaining acceptance in the eyes of socio-political actors. Furthermore, EM literature (Luo, 2001a; Caussat et al., 2019; Meyer et al., 2020; Lubinski & Wadhvani, 2020) shows that nationalist sentiments towards foreign MBEs are common rather than unique to Indonesia. Moreover, MBEs are known to utilise CPA and CSR non-market resources and capabilities in the host country in order to survive and thrive (Frynas et al. 2017; Caussat et al., 2019; Hadjikhani et al., 2019; Rodgers et al., 2019). For instance, many large MBEs have now understood that a proactive approach towards, aspects such as recycling and plastic, may provide the MBE with credibility and praise, while a late (or lack of) a response may lead to criticism from NGOs, pressure groups, governments and customers on which they depend (Pinkse & Kolk, 2012). Furthermore, it is likely that governments of countries that face similar social problems are likely to favour - and give favourable policies and treatment to - MBEs that are socially accommodative to the social needs of the country. It is not surprising that evidence of similar CSR practices has been observed in other emerging markets such as China (e.g. Yin & Jamali, 2016) and India (Elg et al., 2015).

In addition, Zhang et al. (2016) and Hutzschenreuter et al. (2020) demonstrate that within the borders of a single emerging market (i.e. in subnational regions), the institutional environment is often heterogeneous. Needless to say, FDI activities do not only occur at the country (national) level but also at the interface of different locational levels and kinds of geographic units. This is particularly true in large, decentralised emerging markets. The findings show that, as a result of Indonesia's decentralisation, MBEs face significant heterogeneity in subnational regions, which enhances the need to adopt a locally responsiveness strategy. In other words, subnational regions in Indonesia are much more institutionally diverse than those in advanced economies (Chan, 2010), and the differences in the local conditions of subnational regions influenced the MBEs' strategies. It follows that the findings of this study are particularly applicable to countries that are not only emerging, but also decentralised. According to Bardhan and Mookherjee (2006), political and/or economic decentralisation that has taken place in many developing countries/emerging markets in Latin America, Africa and Asia, and MBEs that operate in these countries may thus benefit from the findings of this thesis.

What can be learned from the fact that on the one hand the evidence demonstrates that MBEs are required to adopt a context-specific strategy, while at the same time (at least from a bird's eye's view), strategies are not too dissimilar across emerging market? Based on the findings, it becomes clear that it is the implementation of strategies, and, more specifically the social interactions between firm representatives and locally important individuals are pivotal to operational success in emerging markets. Even though strategies are similar, it is the micro-level interactions that are context-specific, and successful implementation will depend on the local cultural and contextual forces. Thus, it can be suggested that strategies may be, to some extent, applicable across border, but they may only be successful if implemented by individuals who possess 'contextual intelligence' (i.e. an understanding

of contextual cultural and political specificities), and have the ability to establish cooperative relationships with external actors in the extended business network.

### 8.5 Limitations and future research

Although the research is based on (the only) four firms that matched the study's case selection criteria, i.e. long-established Dutch MBEs in the consumer goods market, in order to develop a more generalisable framework, more empirical research is needed, including MBEs from different countries and with varying sizes and degrees of influence. However, the fact that the studied firms have managed to thrive in a post-colonial research context makes them valuable learning examples. Even though the qualitative case study approach adopted in this research does not allow making concrete generalisable statements, and it is important to be cautious in transferring findings to MBEs embedded in different contexts, the approach was in line with the objective of explicating how Dutch MBEs manage host-country pressures by building relationships with business, social and political actors in post-colonial Indonesia.

It is thus up to future studies to broaden the approach by studying additional countries and industries. For instance, a different cultural context of another emerging market could lead to different experiences. The different trajectories that countries such as Suriname and Curacao have taken following a common colonial experience might offer useful insights. This could be particularly illuminating for how different post-colonial country contexts affect the MBE's market development. It would also strengthen the empirical foundation and generalisability of the conceptual framework that has been introduced in this research.

A further limitation is the involvement of MBE actors only, without taking into account the social and political actors' perspectives and their perceptions of their relationships with the studied firms. Further research could investigate the other side of the triad (i.e. of social and political actors) as well as the longer-term outcomes from the conceptual framework. Furthermore, whereas this study looked at the subsidiary perspective, interviewing managers at the holding (HQ) companies may provide a broader picture of the investigated issues.

Although foreign MBEs establish their operations in Java, home to more than half of the country's population, the archipelago consists of thousands of far-flung islands with disparate cultures and languages. Many parts of the country are still, in effect, independent fiefs run by big landowners, powerful local clans, governors or mayors. In a way, islands in Indonesia are like countries; in the far-flung archipelago, the local language, culture, religion and traditions define these regions. Although some of the internationalisation literature is likely to be relevant when studying how firms based in Java expand to these regions, further exploration of this within-country expansion could well be an exciting research avenue. The expansion within dispersed countries with vastly different cultures and rules of the game could be defined as 'intra-nationalisation'. Consequently, future scholars could conduct comparison studies between Indonesia and other emerging market archipelagos, such as the Philippines.

## 8.6 Managerial implications

“For managers, probably the most important factor in growing a business in an emerging market is understanding the risks” (Johnson, 2011:49). This research has provided context for the challenges that MBEs can expect when developing their operations in an emerging market. As the findings discussed how firms were able to respond to host-country pressures and became industry leaders, this research may help future corporate policy-setters to improve the delivery of their strategic goals in Indonesia. The study concludes that in order to strengthen its competitive position and gain acceptance in the Indonesian market, an MBE should:

- establish a role as a corporate citizen with social responsibilities and respect for cultural values;
- develop cooperative relationships with policymakers;
- appoint HCN directors;
- show genuine interest and commitment concerning societal needs;
- educate local constituents through investments, applying expertise and offering advice;
- cultivate relationships with reputable and influential local actors (business, social and political) based on mutual interests.

Armed with such insights, subsidiary managers will have a higher chance of succeeding in emerging markets with turbulent institutional contexts. From a practical perspective, the findings provide useful guidelines for MBE managers. For instance, the socio-political context provides managerial implications to practitioners, who gain a more systematic understanding of their relationships in the political arena. Identifying boundary spanners in the political area is also very important when operating in Indonesia. Moreover, the findings implicate that extensive public-private relationships are needed even when MBEs enjoy an established position in a foreign market.

The findings of this study may also benefit managers at HQ who are in charge of overseeing the management of subsidiaries in emerging markets. Although HQ provided direction and support, the findings show that the studied firms were given the responsibility to manage their relations with host country regulators proactively. Overall, the firms have realised that unnecessary direction and support from HQ were uneconomic. HQ reserved itself to a limited range of major decisions: the general direction of the business, agreements to forward plans, top appointments, major investments; but these too are made in full consultation with the subsidiaries.

The management of political actors in Indonesia is incredibly complex as there are several political decision levels which require multiple contacts with central as well as provincial and district governments, and local government representatives prefer to interact with HCN, which makes it difficult to manage these relationships at the holding company level. Having said that, much of the literature has remained at an abstract, supra-organisational level in terms of policymaking and

regulatory and government control. Extant literature focuses on the MBE as a whole and is rarely about individual subsidiaries within the MBE. However, the MBE consists of diverse subsidiaries operating in unique institutional contexts and business networks, which cannot be adequately addressed by a uniform organisation-wide structure. Therefore, to gain an additional understanding, this research explored the management of relationships at the local level, which may benefit IB managers at both the subsidiary and HQ level.

### **8.7 Chapter summary**

Throughout the thesis, it has been argued that there is a need to enrich our understanding of how foreign MBEs navigate the challenging business environment of emerging markets. Although the ability to grow and develop a sustainable position in emerging markets is regarded as a key strategic factor for MBEs, it is also recognised that host-country pressures present major challenges. Accordingly, context-specific challenges require unique capabilities from MBE subsidiaries and force them to establish relationships with different business, social and political actors, while they strive to grow and develop in Indonesia. This research has demonstrated that to succeed in Indonesia, MBEs must collaborate with different actors and partners, and engage in a number of organisational practices and strategies to overcome host-country pressures. In particular, the findings of this thesis suggest that a proactive and dynamic role of subsidiary managers is required in overcoming host-country pressures. It is hoped that future scholars may learn from the new way of conceptualising how subsidiaries operate in an emerging market and deal with challenges in context.

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# Appendices

## Appendix I. Research introduction letter



### UNIVERSITY OF ROEHAMPTON BUSINESS SCHOOL

Director: Professor Sunitha Narendran,

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### Participant Recruitment Letter

Dear,

As you are aware, relationships are of critical importance in Indonesia since a major part of the business operations of multinational enterprises (MBEs) concerns building and maintaining networks of relationships with local stakeholders. In view of this and to fulfil a personal ambition I set out to complete a Doctor of Philosophy (PhD) at the University of Roehampton Business School to explore the subject in depth. My study is now moving towards its data gathering phase and I am writing to you to ask you to participate in an interview to discuss the development of your organisation in Indonesia.

My research seeks to investigate the internationalisation efforts of Dutch MBEs. Through a number of case studies, I want to explore how these MBEs have grown and developed their operations in Indonesia. More specifically, I want to know how they deal with Indonesian regulations, cultural specificities and other local challenges as they seek to survive and thrive. The main purpose of my research is to reach a better understanding of how a firm can manage these challenges and build a competitive position, through developing a set of relationships with local stakeholders: business actors (e.g. joint-venture partners, suppliers and distributors), political actors (e.g. governments and policymakers) and social actors (e.g. NGOs and key opinion leaders). Through these relationships, MBEs seek to overcome challenges inherent to the market and establish a legitimate position. I want to find out how Dutch MBEs collaborate and with whom, to respond to these challenges.

My research will be conducted in compliance with the University of Roehampton (UOR) Code of Good Research Practice and conducted under the UOR Ethics Guidelines. Furthermore, all activities will be conducted with health and safety good practice. If you were to participate in my research, you have the right to expect anonymity, whereby your contribution will not be traceable to you as an individual unless you give specific permission for it to be attributed. This permission may be withdrawn at any time, such that at any stage prior to my work being published, you may require any contribution to be removed. Following



the interview, you will receive a copy of the written notes of our interview for you to comment upon, redact or amend.

You have a right to confidentiality. Written notes relating to any conversations relating to the research will be transcribed electronically and secured in the University of Roehampton Business School electronic repository, that restricts access to me only, after which any paper-based record will be destroyed by secure means. You will be asked whether you agree to our interviews being recorded. Should you agree to this, the digital record will be electronically transcribed and stored as per the above arrangements and the voice record destroyed.

I aim to complete my PhD in 2019. I would be pleased to provide you with an electronic copy of my thesis upon request, that is, as long as my PhD has been approved for publication by the University. I would also be happy to provide a verbal summary of my findings on a best endeavours basis irrespective of the outcome of my research.

Examples of the type of questions addressed in the interview are attached to this letter. I hope that you are willing to participate in the research. If so, could you please complete the enclosed Consent Form and return it to me via email.

Yours Sincerely,



Christiaan Röell  
PhD Research Student

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**Project title**

‘Internationalisation through a network of relationships: Local perspectives from Dutch MBE subsidiaries in Indonesia’

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**Details study**

- Methods: the study is exploratory in nature and uses a multiple case research method, involving in-depth, semi-structured interviews with managers and archival research.
- My aim is to conduct case studies on large Dutch consumer good companies in Indonesia
- Interviews will have a broad scope covering the firm’s strategy and marketing activities in general as well as how they build relationships with different actors and partners.

---

**Example interview questions:**

- Please tell me about yourself, your professional background and your experience at [name organisation]?
- What are the main challenges of growing and developing [name organisation] operations in Indonesia? Please explain why.
- How would you describe [name organisation] strategy to manage the Indonesian market?
- How do you manage Indonesian rules and regulations and to what extent can regional/global headquarters assist in supporting the firm?

- How do you collaborate with business partners in the value chain in Indonesia? What challenges and issues were critical for these collaborations?
- How does [name organisation] build a good reputation in the eyes of its stakeholders (i.e. government, business partners and community)?
- Please describe the importance of developing personal relationship with government officials in Indonesia.
- Can you tell me a bit about your CSR activities in Indonesia? Are such activities necessary for [name organisation] Indonesia to get the appropriate support from its stakeholders in Indonesia (i.e. government, business partners and the community)?

## Appendix II. Participant consent form for participation interview

The research for this project was submitted for ethics consideration under the reference BUS 17/ 046 in the Roehampton Business School and was approved under the procedures of the University of Roehampton's Ethics Committee on 6<sup>th</sup> of November 2017. A sample Consent Form can be found below.



### **PARTICIPANT CONSENT FORM FOR PARTICIPATION IN INTERVIEW**

**Title of Research Project:** 'Internationalisation through a network of relationships: Local perspectives from Dutch MBE subsidiaries in Indonesia'

#### **Brief Description of Research Project, and What Participation Involves:**

This research seeks to investigate the internationalisation efforts of Dutch multinational enterprises (MBEs). Through a number of case studies, it explores how these MBEs have grown and developed their market position in Indonesia. More specifically, it seeks to understand how they deal with Indonesian regulations, culture and other local challenges as they seek to survive and thrive. The main purpose of this research is to reach a better understanding of how a firm can manage these challenges and build a competitive position, through developing a set of relationships with local business, social and political stakeholders. Four Dutch MBEs will participate in this study. You are invited to participate in an interview that will last approximately 1 hour. Interviews will have a broad scope covering the firm's strategy and marketing activities in general as well as how they build relationships with different actors and partners. The interview will take place at: \_\_\_\_\_ at the following time: \_\_\_\_\_

#### **Researcher contact details:**

Name: Christiaan Röell

Department: Business School

University Address: Queens Building, Roehampton Ln, London, SW15 5PU

Email: [chrisitaan.roell@roehampton.ac.uk](mailto:chrisitaan.roell@roehampton.ac.uk)

#### **Consent Statement:**

I agree to take part in this research and am aware that I am free to withdraw at any point without giving a reason by contacting Elaine Harris (contact details below). I understand that if I do withdraw, my data may not be erased but will only be used in an anonymised form as part of an

aggregated dataset. I understand that the personal data collected from me during the course of the project will be used for the purposes outlined above in the public interest.

By signing this form, you are confirming that you have read, understood and agree with the University's Data Privacy Notice for Research Participants.

The information you have provided will be treated in confidence by the researcher and your identity will be protected in the publication of any findings. The purpose of the research may change over time, and your data may be re-used for research projects by the University in the future. If this is the case, you will normally be provided with additional information about the new project.

Name .....

Signature .....

Date .....

Please note: if you have a concern about any aspect of your participation or any other queries please raise this with the investigator (or if the researcher is a student you can also contact the Director of Studies.) However, if you would like to contact an independent party please contact the Head of Department.

**Director of Studies Contact Details:**

Name: Professor Elaine Harris  
Department: Business school,  
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