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# The role of subsidiaries in Global Value Chains (GVCs): An institutional voids perspective on LVC upgrading and integration

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## ABSTRACT

We explore the process through which MNE subsidiaries engage and retain a critical mass of small suppliers in Global Value Chains (GVCs) while addressing institutional voids in emerging markets. Using evidence from an interpretive inductive longitudinal case study in agribusiness, we draw on the GVC and institutional voids literatures to: (1) extend the GVC literature by offering a subsidiary-focused view of GVCs; and (2) demonstrate the dynamic process of void engagement through complementary institutional bridging activities. Our temporal sequencing of subsidiary institutional agency in response to different modalities of voids demonstrates a constellation of bridging activities that results from a dynamic interplay between voids and practices.

## 1. Introduction

There are numerous calls for MNEs to be more involved in ‘doing good’ in developing countries through investment in the creation of positive externalities (van Zanten and van Tulder, 2018; Narula, 2019). This includes, for example, playing a more influential role in enhancing the incomes and productivity of small agricultural producers—SDG Target 2.3 (UN, 2020). The inclusion of small producers in international trade is perceived to be pivotal to rural development, poverty alleviation and food security (UNCTAD, 2009; Spoor, 2015) though results continue to be context-specific (e.g., Reardon et al., 2009; Kolk et al., 2018; Thorpe, 2018). Policy recommendations for enhancing the inclusion of small producers into international markets increasingly rely on the Global Value Chain (GVC) framework to advise on suitable interventions for economic development (UNCTAD, 2013; Bamber and Fernandez-Stark, 2019). This is to resolve ‘competitiveness bottlenecks’—constrained access to markets, inputs, finance and poor collaboration building, experienced by small producers (Fernandez-Stark and Bamber, 2012).

The GVC literature recognizes the challenges that small suppliers face in their *entry into the value chain*—the first and most challenging type of upgrading (Fernandez-Stark et al., 2012)—blocking opportunities for engagement in higher-value activities through subsequent product, process, functional and/or inter-sectoral upgrading (Humphrey and Schmitz, 2002). Unlike suppliers already participating in and upgrading along GVCs (e.g., Khan et al., 2018; Hoque et al., 2016; Sinkovics et al., 2018), these small suppliers often lack the capabilities and resources to connect with GVCs and/or meet their quality standards (e.g., Ponte and Gibbon, 2005; Maertens and Swinnen, 2015). The GVC literature’s emphasis on MNEs’ top-down approach—the role of MNE headquarters (HQ) with

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the ‘authority and power relations that determine how financial, material and human resources are allocated, and flow within chains’ (Gereffi, 1994: 97; Ponte and Sturgeon, 2014; Kolk, 2016; Sinkovics and Sinkovics, 2019)—to structuring geographically dispersed economic activities has not helped in finding ways of overcoming these challenges. Although the literature acknowledges the access that firms can gain to GVCs through bottom-up actions (Lee et al., 2012; Lee and Gereffi, 2015) and the institutional influences on this process (Pietrobelli and Rabellotti, 2011; Sako and Zylberberg, 2019), its focus has been on outsourcing and offshoring to local suppliers in emerging countries and their catch-up strategies (Schmeisser, 2013; Sinkovics et al., 2018; Ryan et al., 2020). It has overlooked the ways in which subsidiaries engage with institutions in the upgrading of LVC actors (Lema et al., 2015; Meyer et al., 2020). Hence, we do not have a clear understanding of the bottom-up processes followed by MNE subsidiaries in upgrading small suppliers’ entry into GVCs (Meyer et al., 2020). Consequently, we ask how subsidiary institutional agency contributes to the upgrading and consequent integration of a critical mass of small suppliers in emerging markets’ local value chains (LVCs) into GVCs.

Drawing on the GVC and institutional voids perspectives, we emphasize the importance of MNE subsidiaries as distinct entities that continuously interact with local consumers, suppliers, competitors, and research partners (Forsgren, 2004, 2017; Sinkovics and Sinkovics, 2019; Röell et al., 2022) to upgrade small suppliers in emerging economies. Emerging economies offer an ideal setting in which to study this process as they are characterized by institutional voids (IVs) i.e., the absence or underdevelopment of formal institutions that undermine the effective functioning of markets (Khanna and Palepu, 1997). MNE subsidiaries can address IVs—shape or transform a developing organizational field so as to resolve the barriers they face’ (de Lange, 2016: 202)—by bridging institutional differences, for instance through hybridization (Newenham-Kahindi and Stevens, 2018), and embedding practices in host institutional contexts, for example through networking with relevant local stakeholders (Saka-Helmhout et al., 2020; Röell et al., 2022). We expand this discussion by demonstrating the dynamic process of void engagement that illuminates how bridging activities of MNE subsidiaries complement each other as they experience multiple IVs. We adopt a longitudinal case study of H.J.Heinz-Egypt between 2004 and 2014 (before the KraftHeinz merger) to unpack the subsidiary’s institutional agency—purposive actions taken by embedded actors within who seek to shape their host institutional environment (Regnéer and Edman, 2014; Marquis and Raynard, 2015; Saka-Helmhout et al., 2020; Röell et al., 2022)—in integrating a critical mass of small suppliers in an emerging market’s local value chain (LVC) into the GVC.

Our contributions to the literature are twofold. First, we extend the GVC literature by demonstrating how MNE subsidiaries integrate LVCs into GVCs (Kano et al., 2020; Meyer et al., 2020). This shifts the focus from a HQ-centered approach of the lead firm to a subsidiary-focused one where the subsidiary institutional agency drives and shapes MNEs’ GVCs. This is a significant lens to adopt in GVC integration as MNEs influence on LVCs in emerging economies is manifested in subsidiaries’ practices in host contexts (Ietto-Gillies, 2019). We explore micro-level practices of MNEs (Verbeke et al., 2016; Kano and Verbeke, 2019) and temporal dynamics in GVCs (Kano et al., 2020) through a longitudinal case study of a subsidiary. We develop a practice-based model for the integration of a critical mass of small suppliers in emerging markets into GVCs in a relatively sustainable manner.

Second, we contribute to the IVs perspective in international business by demonstrating the dynamic process of void engagement through complementary institutional bridging activities. The current accounts of IVs depict these as largely given by actors, overlooking the microprocesses by which actors come to experience voids in ‘the social reality of everyday life’ (Berger and Luckman, 1967: 35). Our temporal sequencing of subsidiary institutional agency in response to different modalities of voids demonstrates a constellation of bridging activities that results from a dynamic interplay between voids and practices. The literature disregards the extent to which institutions are pliable and, hence, can influence the sustainability of institutional agency (e.g., Mair et al., 2012; Doh et al., 2017). Institutional voids are treated as objectively given rather than enacted by actors who experience them (Munir, 2005). Our findings show that informal institutions, such as cultural habits, are deeply rooted and pervasive, hence require more relational bridging efforts. Other formal institutions, such as labor markets, are more mutable, necessitating more transactional bridging efforts.

The remainder of the paper is organized as follows. First, we review the theoretical insights that informed our research. We then discuss our methods. The subsequent section presents the results of our interpretive inductive study. Finally, we discuss the main implications of the study and provide concluding remarks.

## 2. Theoretical background

The GVC framework conceptualizes MNEs from a top-down perspective in terms of HQs holding ultimate power to coordinate and control geographically dispersed activities. (Sinkovics and Sinkovics, 2019). However, the influence of the local institutional environment on supplier capabilities in upgrading is argued to be more important than that of MNEs as lead firms (Pipkin and Fuentes, 2017). Institutional pressures, and in particular IVs, can exacerbate suppliers’ vulnerability, i.e., suppliers can be forced to change production processes and/or outputs to remain in business. This, in turn, can push suppliers to resort to unconventional upgrading trajectories such as relying on ties to nonmarket institutions (Corredoira and McDermott, 2014); trust and social relations with boundary-spanners (Khan et al., 2015); and participating in international networks to access knowledge (Khan et al., 2018). Although the GVC literature ascribes importance to institutional influences (Pietrobelli and Rabellotti, 2011; Sako and Zylberberg, 2019; Fuller and Phelps, 2018), it is silent on how they are engaged with in the upgrading of LVC actors and the role of subsidiaries in capability building in GVCs (Lema et al., 2015; Meyer et al., 2020). Hence, we turn our attention to this next.

### 2.1. The role of subsidiaries in GVCs

Studies have acknowledged the role of subsidiaries in the global division of production activities (e.g., Cantwell and Mudambi, 2005; Arregle et al., 2009). Subsidiaries can be elevated to the role of a lead firm in decision making in the GVC through their on-the-

ground experience, hence knowledge of and commitment to the market (e.g., Forsgren, 2017). As they search for business opportunities, they tend to invest in business relationships, coordinate activities between stakeholders and extend relationships based on prior learning experiences (Forsgren et al., 2005). Institutional conditions shape and are shaped in the materialization of these business opportunities.

These dynamics lend subsidiaries an important role in the *process* of integrating LVCs into GVCs. However, the process is likely to be challenging for small suppliers that are resource short and fail to meet the GVC quality requirements (e.g., Perez-Aleman, 2011; Maertens and Swinnen, 2015). Subsidiaries, which generally prefer to work selectively with a few capable suppliers that meet international standards (Nadvi, 2008; Giuliani et al., 2005), are motivated for different reasons to integrate small suppliers. For instance, in cases of labor-intensive activities with small-scale economies or in the absence of scale-dualism, i.e., in settings dominated by small producers as in the case of guavas in Mexico, sourcing from small producers is inevitable (Reardon et al., 2009; Maertens and Swinnen, 2015). Coordinating activities with external stakeholders is an important prerequisite to successfully engage with these segments of small suppliers especially in emerging markets (e.g., Perez-Aleman, 2011; Parmigiani and Rivera-Santos, 2015) where business relationships are often developed through informal bonding mechanisms that rely on trust and confidence (Hakansson and Snehota, 1995: 21). Also, subsidiaries' investments in LVCs in return for the 'acquisition of the business partner's capabilities', forge close business relationships and enhance subsidiaries' embeddedness in LVCs (Forsgren, 2017: 128). As subsidiaries gain control of an independent resource base in host countries, they can strengthen their position within the MNE (Panand, 2013; Zhang et al., 2018; Lee et al., 2019). This, in turn, can consolidate subsidiaries' LVC-GVC bridging role.

Therefore, the extent to which MNE subsidiaries can effectively integrate LVCs into GVCs is likely to depend on how they engage with their local institutional environments (Sinkovics and Sinkovics, 2019). This is particularly the case in an emerging economy, characterized by IVs.

## 2.2. An institutional voids perspective

The IVs perspective in international business emphasizes the constraints that firms face on economic exchange where formal institutions—or written rules that are officially enforced by the state (North, 1990)—in capital, labor and product markets and regulatory environments are weak or inefficient (Khanna and Palepu, 1997). IB scholars have only recently acknowledged that voids are not 'empty spaces' (e.g., Regnér and Edman, 2014; Fortwengel and Jackson, 2016; Saka-Helmhout, 2020) but occur amidst institutional plurality where different aspects of formal and informal institutions collide and reconfigure spaces to enable social and economic action (Mair et al., 2012). Rather than focusing on how voids hamper firms in their business development through increasing transaction costs in inefficient markets (Doh et al., 2017), they are concerned with how market exclusion occurs and can be remedied. Firms can attempt to change institutional rules and introduce new ones where there are tensions between weak formal institutions and local informal institutional arrangements. This can be accomplished through bridging (transferring new meanings and practices that are sensitive to existing norms and relationships), brokering (bringing buyers and sellers together), and bricolage (continuous (re) combination and re-deployment of practices, structures and resources) (Marquis and Raynard, 2015; Saka-Helmhout, 2020).

Despite the advances in understanding how MNEs engage with voids, we contend that opportunities that IVs offer are taken largely as given by actors. In other words, the *enactment* of IVs is neglected. How firms achieve their objective is determined by their continuous interaction with the wider environment. These interactions may define further opportunities as organizations mobilize resources to address incompatibilities between their organizational objectives and environmental demands (Seo and Creed, 2002). In fact, opportunities in and around voids are not just pre-existing, waiting to be discovered, but are constructed by actors who wittingly or blindly engage with the opportunities they see for themselves based on their prior beliefs, capabilities and resources and formed in close interaction with others and their direct environment (Alvarez et al., 2013). This suggests that voids are *created* opportunities that are formed once experienced by actors (*ibid.*). This conceptualization of voids accommodates pragmatic improvisation and practice-driven change, i.e., enactment of voids, by interdependent actors who experience IVs.

We argue that the integration of LVCs into a cross-border organization of the activities required to produce goods or services rests on how MNE subsidiaries engage with IVs in the host country. Subsidiaries work in dynamic ways in selecting, retaining, and adjusting practices over time to help raise the quality standards of LVCs, creating constellations of bridging activities that are constructed and tailored through an agentic process in response to voids.

## 3. Methods

We adopt an interpretivist research paradigm which 'entails an ontology in which social reality is regarded as the product of processes by which social actors together negotiate the meanings for actions and situations' (Blaikie, 1993: 96). This paradigm involves researchers' immersion into the context of enquiry to gain a deep understanding of the *process* through which events unfold and of participants' perceptions of events. An inductive approach enabled us to initially consult different literatures without being restricted by their conclusions. This reduced 'confirmation bias' and supported the development of new insights from the collected data (Gioia et al., 2013: 21). We approached our research question with an *open mind* about potential new links between various theoretical constructs consulted at the beginning of the study. As we collected and analyzed data, our research scope was funnelled down from a broad focus on MNEs' role in smallholders' GVC integration to a microscopic lens on the practices of MNE *subsidiaries* used in the *process* of integrating a critical mass of smallholders into GVCs. This approach aligned well with our research problem, given the broad range of debates that could potentially inform the actions of MNE subsidiaries, combined with a general lack of conceptual and empirical attention for these subunits in the GVC literature. The inductive interpretive approach supported the development of our

contributions by focusing on the bridging role of an MNE subsidiary (Corley and Gioia, 2011).

### 3.1. The research context

The agribusiness industry in Egypt offers a revelatory setting to explore our phenomenon-based problem (Fletcher et al., 2018). First, global investments in agribusiness have increased since 2009 with MNEs playing a leading role in GVC coordination (UNCTAD, 2009). Second, small farmers' landholdings of up to 2 ha account for 84 % of all farms worldwide and are concentrated in emerging countries (FAO, 2014). Third, the industry has been under international pressure to include smallholders in GVCs to contribute to sustainable development (UNCTAD, 2009, 2013). Fourth, in response to the 2007/2008 global food crisis, key Official Development Assistance (ODA) donors, such as the USAID, supported public-private partnerships to increase smallholders' inclusion in MNE GVCs. The largest MNE investment in smallholders' GVC integration in terms of value in USAID public-private partnerships for 2007/2008 financial year was in Egypt by H.J.Heinz (USAID, 2019). H.J.Heinz invested around US\$36 million and targeted 3000 small tomato farmers as part of this Global Development Alliance (GDA) project. This was HJHE's first large-scale engagement of smallholders since its market entry in 1992 as a joint-venture with 'Americana'; the Middle East's largest franchisor of fast-food restaurants. By 2004, HJHE envisaged opportunities for expanding exports from Egypt—the world's fifth largest tomato producing country—to the Middle East, Europe and Africa whilst benefiting from duty-free access to some of these markets. This was accompanied by an increase in HJHE share in the business from 33 % in 1992 to 51 % by 2004. The engagement of smallholders became inevitable to support production growth. The GDA project in 2008 was a turning point for the sustained engagement of a critical mass of smallholders.

Egypt, as other emerging economies, is characterized by different types of institutional voids (Witt et al., 2018). The Egyptian state assumed an interventionist-redistributive role after the 1952 revolution. Economic liberalization took place in the 1970s, but it was not until the IMF/World Bank's Economic Reform and Structural Adjustment Programme (ERSAP) in 1990/1991 that recognizable economic reforms were witnessed. The ERSAP, including international trade agreements and privatization, enabled the economy to recover from the debt crisis of the 1980s—mainly due to dumped oil prices and poor tourism—and supported economic growth over the next two decades (Richards & Waterbury, 2008). Industrial policies were reformed to support exports and encourage private sector development. Noticeable developments were made by the 2004 'reform cabinet'; a technocratic government of business people keen on supporting private sector reforms (Loewe et al., 2013: 45). These included, for instance, facilitated access to finance and to international markets. These and other industrial and economic policies positively influenced the economy and accelerated GDP growth rates to 7.2 % in 2007/2008 for which Egypt was championed as the world's top reformer (World Bank, 2007).

Industrial developments were guided by the 'Egypt Industrial Development Strategy' (EIDS). The EIDS aimed to improve the quality of production, support innovation and technology development across the Egyptian industrial sector, attract foreign direct investment, train and upgrade the skills Egyptian labour, amongst other activities. However, the EIDS excluded micro and small enterprises employing less than ten employees and fifty employees, respectively. Micro, small and medium enterprises (MSMEs) have been supported by the Social Fund for Development (SFD) since the 1980s but from 2005 the Ministry of Investment extended support to MSMEs through the General Authority for Investment and Free Zones (GAFI) (Loewe et al., 2013).

GAFI supports MSMEs business development activities through the provision of training, legal advice and other types of formal support to upgrade the skills and capabilities of these firms. These services are provided by the Centre for Entrepreneurship and SME Development, established by GAFI in cooperation with the Canadian International Development Agency. Other types of support offered by GAFI include facilitated access to finance and international markets. The SFD still supports MSMEs but focuses on companies with annual revenues of less than two million Egyptian pounds. Despite these efforts, MSMEs upgrading is still limited on a national level due to different types of institutional voids that constraint MSMEs ability and willingness to upgrade (Hampel-Milagrosa et al., 2015). Also, these services are only available to formal MSMEs which is a major challenge to the development of the MSME sector due to its high levels of informality (Loewe, 2013).

The economic success of Egypt's industrial policies at the time did not address some of the institutional and structural deficiencies which contributed to increased levels of social inequality. Also, economic liberalization was unequally coupled with political liberalization which left the state with a semi-authoritarian character. This resulted in minor changes to key institutional arrangements, such as employment relations, education and skill development, despite the ERSAP's economic success. IVs in the business environment continued to challenge businesses in different ways (Alissa, 2007).

Agriculture's important GDP contributions, averaging 58 % in the 1960s, has exposed the sector to tight state controls since 1952. State-led Land Reforms in the 1950s/1960s redistributed land and limited land ownership to a low of 50 Feddans (21 Hectares) per farmer. As a result of land fragmentation, small landholdings—less than 5 Feddans—increased over 80 % of all landholdings (Aboulnaga et al., 2017). By 1963, all landowners were required to join state-controlled farmer associations. The 1969 cooperative law tightened state control of farmer association assets, finances and staff. Farmer associations determined e.g., crop rotations, area allocations and price ceilings, resulting in market distortions. The ERSAP reduced state control on e.g., input subsidies and pricing controls. Despite the shift in farmer associations' role to the provision of inputs and extension services, administrative inefficiencies and weaknesses in collective organization persisted. These hampered farmer associations from establishing effective links with agribusinesses (Sadowski, 1991; Aboulnaga et al., 2017).

Against this backdrop, HJHE, as a revelatory case, supports our inductive enquiry and serves as an *exemplar* of the phenomenon in which we are interested (Welch and Piekkari, 2017).

### 3.2. Data collection and analysis

We used purposeful sampling of key informants who had first-hand experience of HJHE's smallholders' upgrading and integration into GVCs (Gioia et al., 2010; Welch and Piekari, 2017). Retrospectively, we can identify six steps to data collection. This process was not planned in advance but unfolded in response to iterations of data collection and analysis.

First, we undertook desk research to identify a revelatory case with a 'high potential for developing new insight into an understudied phenomenon' (Langley and Abdallah, 2011: 118). Second, we extensively analyzed archival material. These included country reports, industry and company reports, GDA project evaluations, press releases and published interviews with different stakeholders, initially covering the period between 2008 and 2013—the duration of the GDA. The purpose of this step was to gain a deep understanding of the study context.

Third, we interviewed agricultural consultants, HJHE, USAID and (ex)ACDI/VOCA (Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance) informants in Cairo. The GDA project was the focus of the semi-structured interviews, e.g., the initiation of the GDA, challenges encountered in integrating smallholders into GVCs before and after the GDA,

**Table 1**  
Sources of triangulated data.

Data	Source & codes	Data Description
Interviews	<ul style="list-style-type: none"> <li>● Three HJHE respondents (HM)</li> <li>● USAID manager (UA)</li> <li>● ACDI/VOCA former manager (AVM)</li> <li>● Nine Smallholder farmers (SF)</li> <li>● Farmer association representative (FA)</li> <li>● Farmer association member/ Professionally trained trader (PTT)</li> <li>● Three agricultural experts/consultants (AC)</li> </ul>	<ul style="list-style-type: none"> <li>■ GDA opportunities and challenges, including sourcing of tomatoes from smallholders, how challenges were addressed and perceived sustainability of results.</li> <li>■ GDA opportunities, challenges and general evaluation of the public-private partnership.</li> <li>■ Technical assistance offered to smallholders on the GDA.</li> <li>■ SFs' experience of dealing with HJHE; opportunities, challenges and perceived sustainability of cooperation.</li> <li>■ Perceived farmer associations role in the GDA, support provided to smallholders, perceptions of GDA's results and sustainability.</li> <li>■ Professionally trained traders intermediary role, services offered to smallholders and agribusinesses.</li> <li>■ A contextualized understanding of the institutional environment and agribusiness in Egypt.</li> </ul>
Published interviews	<ul style="list-style-type: none"> <li>■ H.J.Heinz CEO, Bill Johnson</li> <li>■ HJHE marketing manager (Arabic)</li> <li>■ Adel El Beltagy, Minister of Agriculture and Land Reclamation</li> </ul>	<ul style="list-style-type: none"> <li>■ H.J.Heinz's expansion plans into emerging markets.</li> <li>■ Performance of HJHE post-2011.</li> <li>■ Opportunities and challenges for agribusinesses in Egypt.</li> </ul>
Annual Reports	<ul style="list-style-type: none"> <li>■ H.J. Heinz Annual reports 2008–2014</li> <li>■ H.J.Heinz CSR reports 2007, 2009, 2011, 2014</li> <li>■ Americana Group 2009</li> <li>■ ACDI/VOCA 2008</li> </ul>	<ul style="list-style-type: none"> <li>■ H.J.Heinz acquisition of Americana group.</li> <li>■ Sourcing of tomatoes, HeinzGAP quality standards, tracing techniques and food safety measures.</li> <li>■ Details of the GDA.</li> </ul>
Press Releases	<ul style="list-style-type: none"> <li>■ ACDI/VOCA (2008–2012)</li> </ul>	<ul style="list-style-type: none"> <li>■ Details of ACDI/VOCA technical assistance on the GDA.</li> </ul>
Government Reports	<ul style="list-style-type: none"> <li>■ Central Agency for Public Mobilization and Statistics– Arabic &amp; English</li> </ul>	<ul style="list-style-type: none"> <li>■ Performance of the agriculture sector (2004–2014)</li> </ul>
Reports of international donor agencies and NGOs	<ul style="list-style-type: none"> <li>■ FAO (2009–2017)</li> <li>■ USAID (2008–2018)</li> <li>■ UNDP 2009</li> <li>■ IFRPRI 2009–2011</li> <li>■ UNCTAD, 2008, 2009, 2013</li> <li>■ IFAD 2009, 2015</li> <li>■ ILO 2013</li> <li>■ EBRD 2011, 2017</li> <li>■ UNIDO, 2009</li> <li>■ OECD, 2014</li> <li>■ ECES, 2008</li> <li>■ AfDB, 2009</li> </ul>	<ul style="list-style-type: none"> <li>■ The Egyptian institutional environment, the agriculture sector, opportunities and challenges for agribusiness.</li> <li>■ The structure of LVCs with an emphasis on tomato LVCs.</li> <li>■ Contextual analysis of key stakeholders in LVCs.</li> <li>■ Context of the GDA, its rationale and objectives, stakeholders' roles, IVs experienced and GDA results.</li> </ul>
Country & Industry reports	<ul style="list-style-type: none"> <li>■ Euromonitor International (2007, 2008, 2013, 2015)</li> <li>■ Oxford Business Group (2013–2017)</li> </ul>	<ul style="list-style-type: none"> <li>■ The Egyptian institutional environment, the agriculture sector, opportunities and challenges for agribusiness.</li> </ul>
Newspapers	<ul style="list-style-type: none"> <li>■ The Financial Times, February 2013, 2016</li> <li>■ Forbes, March 2015</li> <li>■ Al-Ahram agriculture, 2016 (Arabic)</li> <li>■ Al-Ahram Weekly, June/2014</li> <li>■ Al-Boursa News, January/2014 (Arabic)</li> <li>■ Rural Cooperatives, March/April 2014</li> </ul>	<ul style="list-style-type: none"> <li>■ Details of the GDA.</li> <li>■ HJHE exports from Egypt to other countries.</li> <li>■ HJHE performance post-Arab Spring.</li> <li>■ Challenges facing tomato smallholders.</li> <li>■ H.J.Heinz strategy to expand into new emerging markets.</li> </ul>

technical assistance offered, context-specific opportunities and challenges and the sustainability of project results, as outlined in Table 1.

Fourth, in line with our interpretive approach, the collected data was analyzed simultaneously. Such analysis offered insights into the bridging role of the subsidiary. We focused on the practices used to develop and/or extend business relationships with different actors to address IVs in LVCs and integrate smallholders into the GVC. This was a turning point in our analysis that offered further insights into our phenomenon-based problem and necessitated the collection of more data.

Fifth, the scope of data collection and analysis was expanded to cover the period between 2004 and 2014 to include events before and after the GDA, as revealed by informants.

Sixth, further iterations of data collection and analysis revealed the need to include the experiences of smallholders and farmer association members. The latter included, what we labelled later, professionally-trained traders. Informants shared their perceptions on cooperating with HJHE. We probed both positive and negative aspects of the experience which offered useful insights into their relationships with HJHE and other actors in the LVC. These interviews were undertaken in rural villages. We engaged in data collection until we reached saturation of responses, i.e., additional data did not strengthen or change our emergent themes in meaningful ways (Bowen, 2008).

A total of 19 semi-structured interviews were conducted between April and December 2017 and more than 2050 pages of documents were analyzed. Interviews were undertaken by the first author in Arabic, typically lasted one hour, and were recorded and transcribed verbatim. Notes were taken where recording was unpermitted by respondents. To enhance the equivalence of meaning when translating transcripts into English, three techniques were combined: back translation, pretesting and the use of bilinguals. The latter offered a socio-cultural and contextual perspective on translation necessary for enhancing the level of experiential equivalence (Usunier, 2011; Chidlow et al., 2014). At the beginning of the interviewing process, the interview questions were translated from English into Arabic and then were pretested on bilinguals to preserve the equivalence of meaning. At the end of the interviewing process, transcripts were translated by a bilingual member of the research team. A sample of the English transcripts were subsequently translated back into Arabic by both a professional translator and a bilingual individual. This process enhanced the level of experiential equivalence throughout the data collection process.

### 3.3. Analytical procedure

In line with our research paradigm, we used the Gioia method (Gioia et al., 2013) to analyze our process data by means of open coding. We attempted to generate narratives (Langley and Abdallah, 2011) from informants' core issues related to LVC integration. We then compared emerging empirical insights with theory. Although the literature was visited throughout data analysis, it did not determine interpretations of empirical data (Risi and Wickert, 2017). For instance, the GVC literature offered insights on the challenges encountered by smallholders (e.g., Fernandez-Stark and Bamber, 2012). However, it did not explain how the MNE subsidiary engaged with various stakeholders and institutions. Instead, the subsidiary's bridging role was crystalized from the experiences of informants. The analysis progressed until our visits to theory and data did not generate new insights, and we reached consensus on the meaning of our codes (Ciulli et al., 2019).

We reflected on our archival and interview raw data (first-order categories) and refined these into themes that captured the core

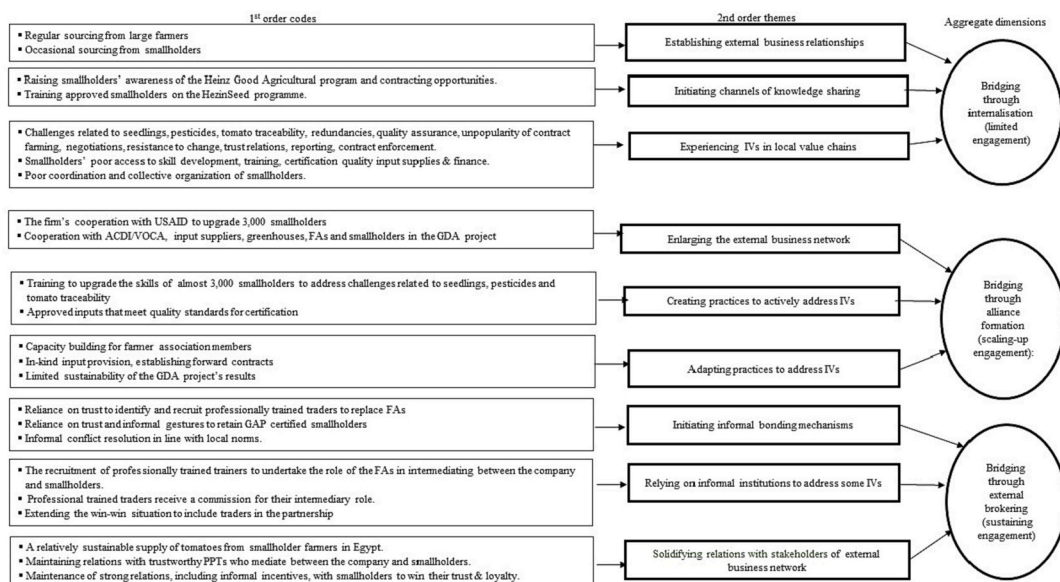


Fig. 1. Data structure.

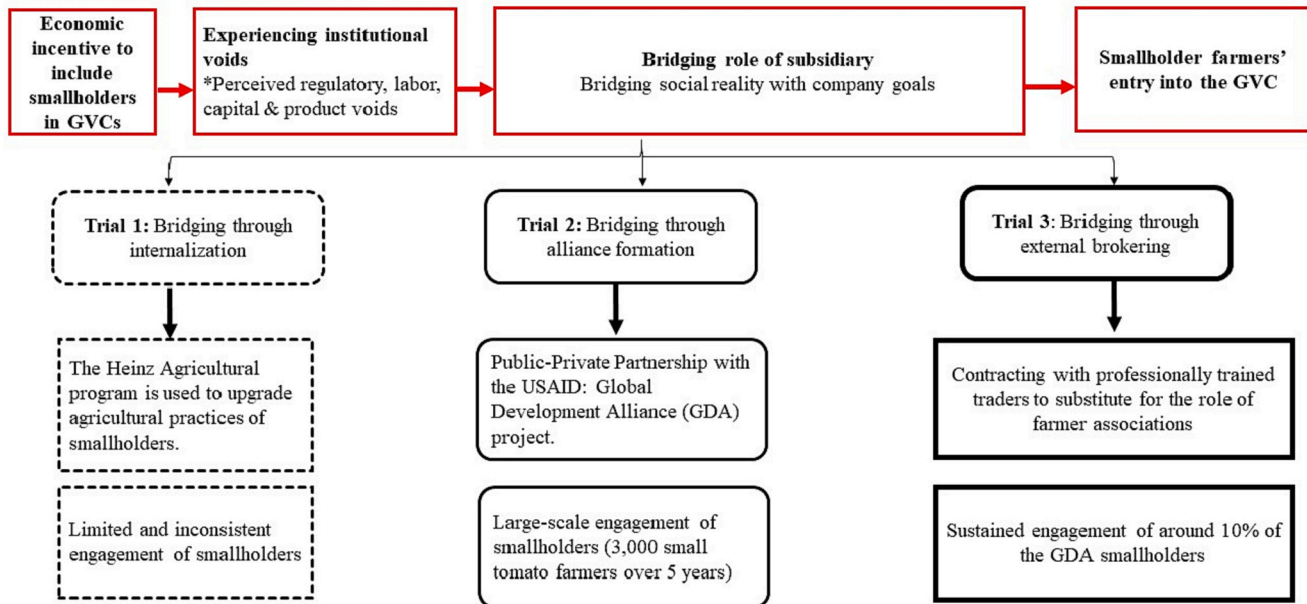


Fig. 2. An exemplar visual map of narrative analysis.

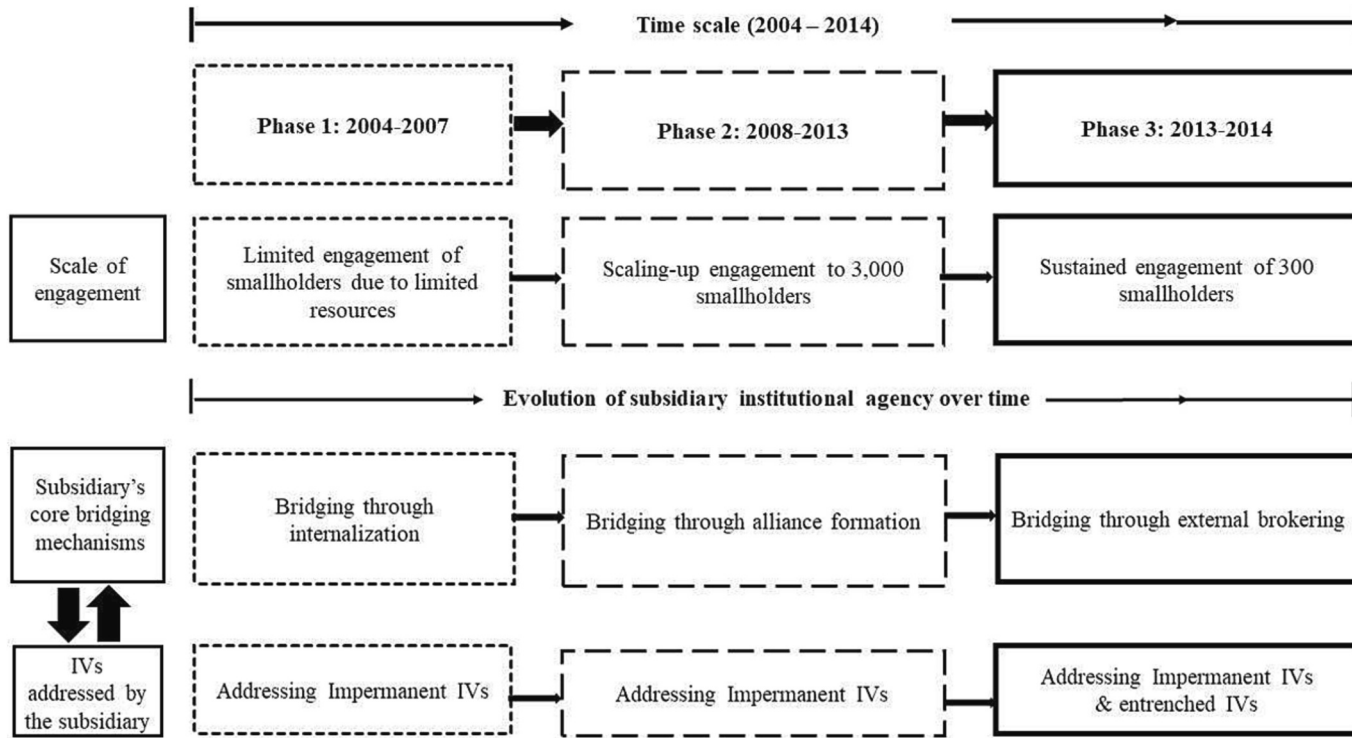


Fig. 3. Practice-driven process for smallholders' GVC integration.



elements in the data (second-order themes). We then developed more abstract descriptions of the process through which the subsidiary integrated a broad base of smallholders into its GVC. We aggregated the themes (Gioia et al., 2013) into (i) *bridging through internalization*; (ii) *bridging through alliance formation*; and (iii) *bridging through external brokering*. We looked for similarities and differences across all initial codes. For example, we had three first-order codes which illustrated the limited access to training, quality inputs, finance, poor coordination, and challenges in contract enforcement. We coded these as ‘experiencing IVs’. Some of the voids appeared more historically rooted and challenging to address than others, which led to our conceptualization of different modalities of voids. We also looked for (dis)similarities across the second-order codes in the aggregation of themes. The analytic process was not linear, i.e., first-order categories, second-order themes and aggregate dimensions changed throughout iterations of data collection, analysis and critical discussions amongst the research team, until we reached the data structure presented in Fig. 1.

The data structure and narrative analysis informed one another with the final narratives developed in iterations throughout the research process. First, we developed chronological accounts that described the subsidiary’s experience of sourcing from smallholders at different points in time. Second, we closely explored the GDA public-private partnership that represented HJHE’s first attempt to engage a critical mass of smallholders in its GVC and contrasted this narrative with others that described smallholders’ engagement before and after the GDA. Third, we traced the ways in which the subsidiary addressed IVs between 2004 and 2014 and mobilized its external business networks over time. Case narratives were verified through iterations of data collection and analysis. We critically assimilated multiple narratives, supported by the use of visual maps (e.g. Fig. 2) (Fachin and Langley, 2017) until we arrived at the final narrative.

### 3.4. Trustworthiness

Trustworthiness in interpretive research is essential to the development of credible, pragmatic and theoretically useful insights into the phenomenon of interest (Shah and Corley, 2006). Trustworthiness is a cumulative process, i.e., it needs to be observed in every step (Lincoln and Guba, 1985). Credibility was maintained through the first author’s extensive engagement with informants and the study context through documentary analysis and interviews with key stakeholders. This involved triangulation of respondents and data types. Details related to sampling, informants’ confidentiality and data management were designed ahead of data collection to ensure dependability of data and results. We capitalized on our different roles vis-à-vis the empirical context (Gioia et al., 2010; Ciulli et al., 2019). Different positionalities of the team within fieldwork helped counter potential bias resulting from the insider/outsider position of the first author. For instance, the first author was submerged in the context, data collection and analysis. Throughout the process of data collection, the second author critically discussed and reflected on first-order categories and preliminary sets of second-order themes. This process offered insights into additional data and/or new ways of looking at data which fuelled further iterations of data collection and analysis. The third author then independently reviewed the latest iteration of data codes that were reviewed by the second author. Two versions of the semi-final data structure and narratives—by the first two authors and the third author independently—were contrasted. We undertook critical discussions until a consensus was reached on the final data structure and narrative.

## 4. Findings

Our data demonstrate that the process through which HJHE engaged smallholders in its GVC developed over 10 years. We divide this process into three temporal phases to reflect the evolution of HJHE external networks and the scale of smallholders’ engagement (Fig. 3). Phase-1 (2004–2008): *Bridging through internalization* (where engagement with smallholders was limited); Phase-2 (2008–2013): *Bridging through alliance formation* to scale-up smallholder engagement; and Phase-3 (2013–2014): *Bridging through external brokering* to sustain smallholder engagement.

### 4.1. Phase-1 (2004–2008): bridging through internalization (limited engagement)

In Phase-1, HJHE emphasized bridging through internalization of activities as a key approach to dealing with institutional voids given limited resources. It aimed to minimize transactions costs by working with large suppliers. Large farmers were capable of adopting the Heinz Good Agricultural Practices (Heinz-GAP) quality standards. This was not the case for smallholders in spot markets, which limited HJHE’s engagement with them. For instance, HJHE experienced labor-market voids where smallholders’ weak skill development and training resulted in poor quality, efficiency and productivity. This was estimated to be three times less than that experienced with medium and large farms. Smallholders tended to be unwilling to invest in skill development and/or new technology as returns on such investments were perceived to be low. Higher levels of education and training were required to upgrade basic production tasks and perform new GVC tasks, such as quality control.

HJHE also experienced product-market voids in terms of smallholders’ access to quality seeds and fertilizers. With reduced government subsidies on agricultural inputs, smallholders relied on private input suppliers. Quality was difficult to ascertain given the relatively limited enforcement of quality control measures. Counterfeit inputs degraded quality, disqualifying smallholders’ crops of GVC standards.

These IVs further restricted HJHE’s engagement with smallholders to a limited number of small farmers who approached the company and participated in the company’s own training program. This internalization strategy helped qualify smallholders for Heinz-GAP by upgrading their agricultural skills and production quality. HJHE offered smallholders access to fertilizers and quality seedlings through certified suppliers in the LVC, to counter the scarcity of quality processing, as opposed to fresh tomato seedlings in the market. These services were only available to contracted farmers.

By 2008, HJHE was estimated to utilize only 17 % of its potential capacity due to shortages of suitable tomato varieties. This was a lost opportunity for HJHE as smallholders, who dominate tomato production in Egypt, were only engaged with on a limited scale (see Table 2). Bridging a critical mass of smallholders in LVCs to GVCs was a challenge to achieve through internalization due to limited resources. Thus, in phase-2, HJHE adopted a strategy of bridging through alliance formation to scale-up smallholder engagement.

**Table 2**

Illustrative evidence from interviews and archival material.

Illustrative evidence	Interviews	Archives
Phase-1 (2004–2008): Bridging through internalization (limited engagement):		
<ul style="list-style-type: none"> <li>• “Heinz’s investment in Egypt has been driven by the objective of accessing local supplies, and by market-seeking motives in view of growing local and regional markets. On the supply-side, Egypt is ranked as the world’s fifth largest producer of tomatoes, an attraction for the world’s leading producer of tomato-based products”.</li> </ul>		(El-Shinnawy and Handoussa, 2004: 118–9)
<ul style="list-style-type: none"> <li>• “The [spot] market is problematic because we do not know what pesticides were used by the [small] farmer, how the tomatoes were grown... (these details) are important to determine the Maximum Residue Level... of pesticides in the (tomato) fruit”</li> </ul>	HM	
<ul style="list-style-type: none"> <li>• “There is a problem in the [seed] varieties imported into Egypt... [for example] there are imported varieties ... sold at relatively high prices to small farmers... but these tend to be the product of some of the lowest quality breeders”.</li> </ul>	AC	
<ul style="list-style-type: none"> <li>• “(to find out whether the fertilizer is counterfeit) I try the new fertilizer on a very small area first and I keep an eye on the plant, if it gets burnt then I know that the fertilizer is counterfeit...”</li> </ul>	SF	
<ul style="list-style-type: none"> <li>• “He (a small farmer) heard about the Heinz Good Agriculture Program and asked to participate... After faithfully attending seminars and studying Heinz’s agriculture handbooks, Emad purchased five acres of HeinzSeed plug transplants. He... experienced a transplant survival rate of 99 %, far greater than the local average of less than 65 %”.</li> </ul>		(H.J. Heinz, 2009: 82)
Phase-2 (2008–2013): Bridging through alliance formation (scaling-up engagement):		
<ul style="list-style-type: none"> <li>• “Heinz, an American firm, currently exports ketchup from Egypt duty free to COMESA and to Europe. From the US, Heinz would have to pay import duties on ketchup, which could be up to 15 percent”</li> </ul>		(Shahin, 2014: 2)
<ul style="list-style-type: none"> <li>• “We wanted to have 4000 tons per day to be supplied to factories with the idea of benefiting small farmers by increasing their income. The idea is for (H.J.)Heinz (in Egypt) to purchase the tomatoes from small farmers while USAID offers technical assistance”</li> </ul>	UA	
<ul style="list-style-type: none"> <li>• “ACDI/VOCA has joined with the H.J. Heinz Company and USAID to form... a public-private partnership designed to catalyze the potential for process tomato production and value-added horticulture in Egypt”</li> </ul>		(Christiansen et al., 2011: 38).
<ul style="list-style-type: none"> <li>• “The (agricultural) engineer needs to visit, say 40 small farms... so we could later trace the daily performance of each small farmer... before harvest we take samples of tomatoes to test them for pesticide residues, chemicals and so forth to make sure the final product is safe and meets quality standards”</li> </ul>	HM	
<ul style="list-style-type: none"> <li>• “We (GDA team) used to offer (farmers) recommendations when designing the contract, for example, not to sell the whole produce, to offer them some flexibility”</li> </ul>	UA	
<ul style="list-style-type: none"> <li>• “Each farmer received around 3000 EGP not in cash but [in-kind] in the form of seedlings, fertilizers and pesticides in addition to technical assistance”</li> </ul>	FA	
Phase-3 (2013–2014): Bridging through external brokering (sustaining engagement):		
<ul style="list-style-type: none"> <li>• “Out of the 3000 trained [through the 4000 tons per day project] around 10 % are still working with the company (sustainably) but some of them opt in and out [of contracting with HJHE depending on market prices of tomatoes and other crops]”</li> </ul>	HM	
<ul style="list-style-type: none"> <li>• “The evaluation team could not find any successful and/or sustainable partnership with processors (and farmer associations) established by the project, after the project ended”.</li> </ul>		(BLUE, 2016: 25)
<ul style="list-style-type: none"> <li>• “I (HJHE) found someone to replace the (farmer) association and I worked with him... I looked for someone from within the farmer association [a Professionally trained trader]...the (professionally trained trader) manages relationships with them (smallholders)”</li> </ul>	HM	
<ul style="list-style-type: none"> <li>• “I [am willing] to contract with Mr. X (the trader)...[but not directly with the food processor due to the flexibility of and trust in the trader]”</li> </ul>	SF	
<ul style="list-style-type: none"> <li>• “[smallholders] contract with me [professionally trained trader]... if the market price is higher, then [I advise]: ‘sell your tomatoes there, if the price is not higher (in the market), then I have contracts with several companies and I can sell your tomatoes (to any of these companies)’... I know from where and how I will supply (companies) with these (tomatoes)”</li> </ul>	PTT	
<ul style="list-style-type: none"> <li>• “(my) 3 acres yielded 82 tons but, God likes the persistent servant, I used to visit him (the agricultural engineer) everyday [to ask for support in the field]”</li> </ul>	SF	

#### 4.2. Phase-2 (2008–2013): bridging through alliance formation (scaling-up engagement)

HJHE aimed to expand its productive capacity in Egypt to benefit from the untapped potential of becoming a regional export hub beyond the Middle East. Throughout phase-2, HJHE expanded its exports to the Common Market for East and Southern Africa (COMESA) and Europe. Exporting from Egypt to regional markets was cost-effective. For instance, Egypt's duty-free access to COMESA saved H.J.Heinz as much as 15 % on import duties. Such growth plans were facilitated by bridging through alliance formation, a major one of which was that forged with USAID, supported by ACDI/VOCA technical assistance, to source Heinz-GAP tomatoes from almost 3000 Egyptian smallholders. This was followed by a US\$ 62.1 million investment to acquire the remaining 49 % share in HJHE in 2010 (Heinz, 2011: 53).

The alliance addressed many of the challenges that hindered smallholders' entry into GVCs. For instance, product-market voids were addressed through a large-scale provision of quality inputs, e.g., pesticides, fertilizers and Heinz-GAP seedlings, that would meet the company's private and international standards. This was facilitated by the GDA which worked closely with certified input suppliers. Relationships with the latter were sustained beyond phase-2. Labor-market voids were addressed through a large-scale provision of technical support. HJHE and ACDI/VOCA collaboratively trained smallholders to become GAP certified and hence GVC-qualified. Technical assistance was delivered in cooperation with local technicians, who were initially trained by HJHE and ACDI/VOCA, to appeal to local smallholders. Close inspection programs were adopted, with agricultural engineers visiting smallholders on a (bi)weekly basis to develop individual reports of smallholders' performance and tomato growth rates. The process ensured full traceability to meet H.J.Heinz's standards in which field histories, field GPS positions and other details were recorded in a global database to ensure food safety. These initiatives helped the alliance address product-market voids which hindered smallholders' ability to invest in high quality inputs and/or upgrading required for high quality production in GVCs. By the end of the alliance, modern agricultural techniques were adopted by 85 % of participating smallholders, tomato production doubled, tomato losses due to inefficient harvest/post-harvest practices decreased by 20 %, and the growing season was extended by 150 days per year.

The alliance enabled HJHE to bridge a critical mass of smallholders in LVCs to GVCs. However, these results were not sustained beyond the alliance for two key reasons. First, subsidiary intervention failed to address IVs that were historically rooted in the socio-political structure of the market. These included weak farmer associations (*labor-market voids*), which limited the level of smallholders' collective organization. HJHE relied on the transmission of complex information to producers via intermediaries. The alliance aimed to build the capacities of participating farmer associations by training their staff to mediate between the company and smallholders. Farmer associations were trained to organize smallholders, assist with forward contracts, and facilitate the delivery of input supplies. Nevertheless, these changes challenged the local socio-political structure that has historically shaped the governance of farmer associations in Egypt. Farmer associations experienced state intervention since 1952 limiting their role, collective representation and legal capacities. As a result, farmer associations developed an unfavorable reputation of poor business skills and ineffective bureaucracy. Weak trust between farmer associations and private agribusinesses was exacerbated by weak levels of contract enforcement (*regulatory voids*). Moreover, the staff in these associations were neither capable of—due to rooted weak collective organization—nor willing to change the status quo and hence did not maintain developments achieved as a result of the alliance beyond phase-2.

Second, HJHE's alliance with USAID did not engage with smallholders' traditional values and practices. The alliance closely supervised agricultural processes over the lifetime of the project. However, after the alliance came to an end, many smallholders reverted to their traditional agricultural practices which they perceived to be superior to modern techniques. Many smallholders prided themselves in traditional agricultural practices that were inherited through generations. When probed into the reasons for agreeing to participate in the alliance, they reported the attractiveness of benefits, such as in-kind provisions of input supplies which indirectly contributed to lowering their financial burdens. The relatively high contract prices offered to smallholders were also attractive. In addition, HJHE offered economic incentives to encourage smallholders to engage in forward contracts. For instance, it compensated smallholders for unexpected market price increases above the original/agreed contract price. It removed penalties on redundant/unsuitable tomatoes and offered bonuses for meeting quotas. Smallholders' engagement in forward contracts throughout phase-2 was relatively high, but it subsequently dropped. Smallholders preferred dealing with traders in spot-markets over forward contracts with MNEs (see Table 2).

Contract farming is generally unpopular amongst smallholders as they (i) prefer immediate returns and potential benefits from price fluctuations in spot-markets, and (ii) worry about the extent to which their contract is honored. The latter issue is related to the regulatory void of limited contract enforcement. Smallholders prefer to sell their produce in spot markets that are valued for their flexibility and fast returns. Therefore, as the alliance came to an end and the incentives to work with the company were reduced, smallholders reverted to their traditional agricultural and marketing practices. In other words, the subsidiary's bridging through alliance formation did not result in fundamental changes in smallholders' values.

Bridging through alliance formation proved to be an effective void intervention strategy that facilitated the scaling-up smallholders' engagement; however, results were not sustainable. By the end of the alliance, HJHE faced two key challenges: i) farmer associations reverted to their original ineffective structures, and ii) smallholders reverted to their traditional agricultural practices. To address these key challenges, the subsidiary displayed institutional agency by bridging through external brokering in phase-3.

#### 4.3. Phase-3 (2013–2014): bridging through external brokering (sustaining engagement)

Some members of farmer associations who participated in the alliance were found to be keen on developing independent links with agribusinesses as intermediaries/traders. In LVCs, informal traders dominated marketing channels and were increasingly trusted by smallholders, instead of farmer associations, as the main source of information, marketing and financial support. This represented an

opportunity for both HJHE and the professionally-trained traders, i.e., farmer association members who received professional training throughout the alliance in phase-2. For HJHE, it captured the opportunity to address the challenges it faced at the end of phase-2 by bridging through external brokering, i.e., using professionally-trained traders. For professionally-trained traders, the training they received on the alliance qualified them to act as traders and capitalize on commissions paid for brokering between firms and smallholders.

HJHE selected trustworthy, accountable and capable traders to facilitate the management of HJHE relationships with smallholders in different ways. First, professionally-trained traders were perceived to be more capable of this intermediation than farmer associations given their flexibility and efficiency. Professionally-trained traders simplified complex information on technical and quality standards, supported smallholders to observe these and performed other activities previously undertaken by farmer associations in phase-2. Thus, through the support of HJHE, professionally-trained traders offered smallholders access to quality input supplies such as pesticides and machinery. They also supported smallholders' limited access to financial resources. For example, with HJHE support, they facilitated repayments for seedlings and delivery of tomatoes to HJHE and delivered HJHE compensations for any price differentials between spot-markets and forward contracts.

Second, professionally-trained traders had a deep understanding of LVC socio-cultural dynamics. This helped them address informal institutions, e.g., the value perceived in traditional agricultural techniques. Smallholders looked up to professionally-trained traders as clever farmers who managed to do business with private firms whilst 'respecting' their heritage. This encouraged smallholders to be more receptive to the advice given by local 'role models' on modern agricultural techniques. Both professionally-trained traders and smallholders shared the same sub-cultural norms and, in some instances, were members of the same family and/or extended family which was key to establishing trust.

Third, professionally-trained traders played an important role in contract enforcement. The subsidiary attempted to meet smallholders' expectations for profit margins and other arrangements, such as transport of crops to factories, with the assistance of these intermediaries. For example, unlike other companies, HJHE adhered to the agreed contract price even when market rates dropped. Disputes and/or failure to honor contracts were resolved informally through professionally-trained traders and/or with respectable figures in the community rather than through courts. This helped HJHE maintain a favorable reputation within the LVC.

From the completion of GDA in June 2013 until the end of 2014 (before the KraftHeinz merger in 2015), HJHE retained around 10 % of the GAP certified smallholders from phase-2. This was perceived to be an important achievement for the subsidiary which succeeded in engaging a critical mass of smallholders in its GVC. The 10-year long process was supported by HJHE's IV intervention efforts by bridging through internalization, alliance formation and external brokering.

## 5. Discussion

Drawing on the case study, we present a process model of how IVs are experienced and enacted by HJHE subsidiary, as voids and practices co-evolve (Fig. 3). The model depicts the bridging activities of a local subsidiary to LVC actors to external networks, expansion of external networks to scale-up smallholders' engagement and strengthening of external networks to sustain smallholder engagement in response to different impermanent and entrenched voids experienced over time. The subsidiary alternated bridging activities in response to changes in its strategic direction and the external environment. In Phase-1, it engaged a limited number of smallholders via bridging through internalization. This strategy sufficed the subsidiary's goals at the time but could not support the subsidiary's ambitions to develop into a regional export hub. In phase-2, the subsidiary capitalized on the untapped potential of sourcing from a larger base of tomato small farmers in Egypt. This change in strategy coincided with the aftermath of the 2007/2008 food crisis when ODAs were particularly keen on integrating small farmers into GVCs to tackle the global risks of food insecurity. The subsidiary benefited from this opportunity by forming an alliance with USAID to integrate 3000 tomato small farmers into its GVCs through the 5-year GDA project. The GDA worked with the subsidiary to address what we label as impermanent institutional voids—institutional weaknesses that are relatively detached from the historically-rooted socio-political structure of the host country—encountered in the process of integrating smallholders in LVCs into GVCs albeit to varying degrees of sustainability. In phase-3, the subsidiary shifted from bridging through alliance formation to bridging through external brokering in an attempt to sustain some of the successes achieved in phase-2. The subsidiary addressed some of the challenges related to what we label as entrenched institutional voids—institutional weaknesses that are rooted in the predominant socio-political structures of the host country—such as smallholders' cultural attitudes and practices, through the use of professionally-trained traders as external brokers. At the end of this ten-year period, the subsidiary successfully integrated a critical mass of smallholders into its GVC in a relatively sustainable manner through a constellation of complementary bridging activities in response to IVs.

### 5.1. Theoretical contributions

The contributions of the study to the GVC and international business literatures are twofold. First, we extend the GVC literature by delineating the role of MNE subsidiaries in bridging LVCs to GVCs. Our findings show the significance of subsidiary institutional agency that shifts the dominant HQ-centered focus in the GVC literature (Birkinshaw, 1996; Ambos et al., 2010; Fuller and Phelps, 2018). Subsidiaries have a significant role in developing business relationships with external stakeholders which requires long term-commitment of resources and that could lead to the development of 'social or personal bonds' with host-country stakeholders (Forgren, 2004: 26). As subsidiaries become externally embedded in their local environment, they gain resource independence from HQ and, as lead firms themselves, contribute to GVC upgrading (Ramirez et al., 2018; Lee et al., 2019). As our findings demonstrate, this is a dynamic process that draws on transactional and relational bridging activities in response to IVs. HJHE's position in the MNE's GVC

activities was strengthened through ‘bottom-up value creation’ (Lee et al., 2019: 9). Thus, our study extends existing works on the role of clustering and subsidiary mode of governance in LVC integration by explicating the process by which a subsidiary engages with local institutions in an emerging economy (Lema et al., 2015; Choksy et al., 2017; Ramirez et al., 2018; Lee et al., 2019).

Second, we advance the debate on IVs in international business. Our model demonstrates that IVs enable agency as they are enacted. While a growing number of scholars acknowledge that institutional voids offer ‘opportunity spaces’ for social actors (e.g., Mair et al., 2012; Saka-Helmhout, 2020), they perceive institutional voids as independent of the experience of organizations enacting them. Our findings shed light on a conscious and frequently wilful tendency of organizations to disregard the limitations of regulatory, product and labor market voids and try out solutions that may challenge or align with distinct host-country institutions, and then observe and deal with the results. By showing the microlevel origins of how IVs provide opportunities, we provide a fresh perspective on voids that addresses the recent critique of its ethnocentric conceptualization that implies a Western bias towards institutions in developing countries as constraining organizational action (Bothello et al., 2019).

## 5.2. Managerial and policy implications

Our study shows that organizations are constrained in their actions by host-country institutions in which they are embedded, but that they are also enabled to exploit the potential in reconciling the differences between their strategic aims and social reality. Being cognizant of this interplay can help organizations to strategize for change and also offer room for experimentation. Our results stress the importance of local subsidiary managers’ role in addressing resource allocation under the constraints of IVs.

The allocation of resources to address entrenched IVs is an ineffective use of resources as these are not likely to be managed in a relatively sustainable manner. Managers would benefit from adapting practices to both entrenched and impermanent IVs in emerging economies through, for instance, reliance on informal institutions in order to integrate local stakeholders. For instance, HJHE adapted to weak farmer associations by relying on informal bonding mechanisms by using professionally-trained traders. Professionally-trained traders enabled HJHE to sustain the integration of a critical mass of smallholders in phase-3. In contrast, resources invested in addressing impermanent IVs is an effective use of resources. It can contribute to positive externalities in host markets and ultimately contribute to SDG targets. Our analysis showed that advances in skill development and training were maintained through reliance on trust relations to appoint and train local agricultural engineers to follow up with local smallholders. Through effective business relationships, subsidiary managers can address different modalities of IVs involved in integrating LVC small suppliers into GVCs and thus improve their efficiency and sustainability.

Policy makers are equally likely to benefit from our study’s findings. MNEs have largely been criticized for their narrow economic outlook on social development (e.g., Alcadipani and de Oliveira Medeiros, 2020). There is also the critical need for emerging countries to tackle social problems. Hence, our findings offer insight into the role subsidiaries play in integrating LVCs that can aid policy formulation in connecting subsidiaries to farmers and endorsing skills development and standard setting to address SDGs. Policy makers can incentivize the initiatives of subsidiaries as groundwork for broader systemic socio-economic transformation.

## 5.3. Limitations

Our research is not without its limitations. First, although our single processual case study helped unravel micro-level practices of LVC integration by an MNE subsidiary, it is distinct to emerging economies that share similar boundary conditions to Egypt. The interactions between the subsidiary and varieties of institutional systems within which subsidiaries operate can offer new insights into potential economic upgrading opportunities and challenges. We, therefore, invite further investigations of subsidiary institutional agency in a wider set of institutional systems to enrich the discussion on the role that subsidiaries play in the integration of LVCs into GVCs.

A second limitation is that we studied the engagement with IVs from the perspective of a subsidiary, i.e., an intervening agent. This intervening agent can be considered a resourceful player in the global marketplace. Institutional theory has long been critiqued for being biased towards resourceful players (Lawrence et al., 2002) and scholarly interest in fringe stakeholders has increased over the past decade (Hart and Sharma, 2004; Chowdury et al., 2018). Given that voids are contentious spaces (van Wijk et al., 2019), there is thus an urgent need to study more closely the role of fringe players in IV engagement.

Finally, we have not incorporated, in our analysis, how the subsidiary’s process of upgrading impacts the mode of governance of the subsidiary’s interactions both internally i.e., within the MNE as well as externally i.e., with the stakeholders that form its business network.

## 6. Conclusion and suggestions for future research

In this study, we unpack the ways in which subsidiaries display institutional agency in LVC upgrading and integration. We address the limited attention paid to subsidiaries’ bridging practices in the GVC literature by developing a practice-driven model for the integration of a critical mass of small producers in LVCs into GVCs. We also contribute to the discussion on IVs in international business by introducing two types of modalities of—impermanent and entrenched—IVs which are useful in assessing the extent to which firms effectively address IVs. Focusing on HJHE’s LVC upgrading and integration efforts, we explain how a constellation of bridging activities evolved through a dynamic process of engaging with voids.

We hope that our study inspires further research on how IVs and practices influence each other when actors face contradictions between practices embedded in particular host country institutions and social reality that hampers the achievement of their strategic

aims. To this end, we encourage future research to look closely at the strategic role of subsidiaries, which is crucial in determining the diversity of upgrading processes a subsidiary may engage in. The role of governance should also be addressed as it is the cornerstone of the effective implementation of SDGs. In this realm, future research can also build on our findings to unpack the role of informal institutions to advance our understanding of the specific means through which such institutions facilitate the upgrading and integration of LVCs in settings characterized by institutional voids.

### Data availability

The data that has been used is confidential.

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