

How MNEs Manage Their Institutional Context in the BRIC Markets

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ABSTRACT

A number of studies have been performed to analyse how MNEs develop appropriate strategies for managing the institutionally different contexts on various markets. However, we still know rather little about how MNEs manage different institutional pressures when they operate in emerging markets. This paper is based upon a qualitative, in-depth study of three Swedish MNEs in four BRIC-markets. We analyse how MNEs perceive and approach regulative, normative and cultural-cognitive pressures. We investigate to what extent managers have a proactive or a reactive approach and whether they base their decision making on localized or standardised corporate practices. We also make a comparative analysis of the firms' pattern of behaviour in the four markets. We conclude that there are strong similarities among MNEs strategies in the four markets; the firms tend to adapt to normative and cognitive forces, have a proactive approach is based on local practices. Finally, the paper also presents a number of new insights about MNE managers' views and activities in these markets.

Key words: Institutional theory, MNEs, emerging markets, proactive vs. reactive, organizational practices

INTRODUCTION

The ability to grow and develop a sustainable, long term position in emerging markets is regarded as a key strategic factor for MNEs (Cavusgil et al. 2013), while it is also recognized that cultural and contextual forces are one of the major challenges as MNEs enter foreign markets (Bartlett and Ghoshal 2000; Elg et al. 2008; Zaheer 1995). Considering that these aspects are emphasized in the literature, it is remarkable that we still know rather little about how MNEs navigate through and manage different institutional environments when they operate in emerging markets. Most emerging markets are in a phase of transition, where values and structures are changing. This makes it more likely for MNEs to be able to proactively influence the institutional environment in these markets than on Western markets with more stable institutions. However, there are also especially significant cultural differences between MNEs home markets and emerging markets, and consequently the perspective of local employees, and other critical stakeholders can often be expected to diverge more from corporate practices than is the case in different Western markets.

Institutional theory has been used in order to analyse how MNEs can develop appropriate strategies for managing the culturally different market contexts on various foreign markets (Andersen et al. 2009; Dacin et al. 2002; Tan and Wang 2011). It offers an increased understanding of the norms, values and structures of the local environment and of the pressures that firms have to understand and deal with in order to develop a competitive and legitimate position (Busenitz et al. 2000; Deligonul et al. 2013; Peng 2012). Furthermore, Kostova (1999) argued that each market will have its own Country Institutional Profile (CIP), that MNEs need to manage. This paper will especially discuss institutional factors and how firms manage them on emerging markets.

When discussing how firms perceive institutional forces, we will focus on two specific dimensions. The first one concerns compliance with vs. influencing institutional environments and whether firms will regard the institutional context as something given or something that they can proactively change through different activities. Existing theory offers contradictory standpoints with regards to this. Institutional theory tends to assume that different institutional structures are shaped through a long term process and that firms mainly have to adapt and comply with them in order to be legitimate (DiMaggio and Powell 1983; Ranson et al. 1980). On the other hand, some recent studies have found that MNEs are strong and influential enough to have their own strategic choices that also include changing institutional arrangements in foreign markets (Boddewyn and Brewer 1994; Child and Tsai 2005; Hadjikhani et al. 2012). We contribute by offering an in-depth understanding of how institutional forces on emerging markets are perceived by managers and to what extent they have a proactive vs a reactive view.

Another main dimension discussed in the literature is to what extent corporate values and practices have an impact on subsidiaries in culturally different markets and how they relate to local values and conditions (Kostova and Roth 2002). We develop the knowledge regarding this further by investigating the impact that local and corporate practices have upon managers on the local emerging markets. Our research sheds further light on the role that corporate and local practices have and to what extent they guide managers' behaviour and beliefs on emerging markets.

Furthermore, in spite of the ideas of Kostova (1999) and others, the literature often discusses emerging markets as one single phenomenon, assuming that MNEs develop a certain strategic approach for these markets. In recent years, the BRIC-markets (Brazil, Russia, India and China) have been regarded as the strategically most important and relatively

more developed emerging markets. At the same time, these markets belong to completely different parts of the world, based upon different cultures, economic realities and political systems. Consequently, it has also been found that the social, political and business realities that MNEs face in a certain emerging market may be quite heterogeneous (Hadjikhani et al. 2012). By studying these four markets we are able to offer new insights on how the institutional context interacts with MNEs. We will show that there are significant differences between how firms perceive and manage the institutional context and also identify some themes and patterns that appear to be of a more general nature.

We investigate these issues using qualitative case studies of three Swedish MNEs in the BRIC-markets. Our overall aim is to analyse how MNEs perceive and approach the institutional context in these four markets. We endeavour to answer the following research questions;

- How do MNEs managers perceive and approach institutional forces in emerging markets?
- Do MNE employees regard institutional factors as something that determines their actions and opportunities or as something that can be influenced by the firm, alone or in collaboration with other actors?
- To what extent their activities are influenced by local context and to what extent by corporate practices and values.
- Are there considerable differences between the four BRIC-markets with regards to how firms perceive and manage the institutional environment?

By addressing these questions we will also identify themes that characterize MNEs' approach to institutional context in relatively advanced emerging markets, based upon the aspects explained above. We have investigated three Swedish MNEs on the four BRIC-markets using interviews with local managers and partners, observations and secondary

material. The interviews have especially focused upon how managers perceive and manage these market in terms of threats and opportunities, how they manage these threats and opportunities, their relationships with significant local stakeholders, different factors that influence market conditions and the logic behind different actions taken on the local market.

THEORETICAL BACKGROUND

Meyer and Rowan (1977) argued that acknowledging practices and values is as critical as different financial and competitive dimensions, because complying with and adapting to the institutional environment provide a firm with legitimacy in the society where it operates. When firms and managers adapt to different expectations, rules and values in the society they become institutionalized. The literature discusses this in terms of coercive, mimetic and normative forces that create isomorphism (DiMaggio and Powell 1983; Yeniyurt et al. 2009). Furthermore, the organizational field was developed as a concept that describes groups of organizations that belong to the same environment and are shaped by the same institutional forces (DiMaggio and Powell 1983; Meyer and Scott 1983). For example, an organizational field can be a certain sector of the society or a certain type of industry. Institutions also shape organizational behaviour through cognitive maps and interpretive schemes (Ranson et al. 1980).

All in all, a general assumption would thus be that institutional forces push MNEs towards adaptation and their possibilities to influence and change the institutional context are very limited (c.f. Boddewyn and Doh 2011; North 1990; Ranson et al. 1980). However, literature on international business and management has questioned the emphasis put on stability and compliance to institutional norms and expectations (Kostova et al. 2008). One argument is that MNEs act in a number of markets that are quite different in terms of their institutional environment. They can therefore not be treated as units that belong to a certain

organizational field. The issue is rather to see to what extent they will comply with a set of varying local conditions and institutional pressures (Peng 2012; Roth and Kostova 2003; Tan and Wang 2011). Several studies also discuss the relationship between stability and change. For example, Greenwood and Hinings (1996) discussed the existence of convergence as well as change. They suggest that in the early development of an organizational field, technical performance requirements are more important while institutional pressures become more salient in later stages. Furthermore, Child et al. (2007) discuss institutional entrepreneurship as a way of influencing different institutional forces in China.

In a way emerging markets can be regarded to be in early stage of business developments, and therefore firms may be more likely to influence institutional factors. At the same time several emerging markets, such as China, are based on ancient cultural values and traditions. Consequently, one theme in the international management literature also focuses upon how MNEs use their power and political position in order to influence and change their institutional environments and change them in favour of corporate interests (Blumentritt and Rehbein 2008; Child and Tsai 2005; Djelic et al. 2005). One argument is that due to the fact that MNEs usually have a strong power base and can offer unique knowledge and resources, they are also in a position to proactively influence local institutional conditions (Bondy et al. 2012; Child and Tsai 2005). Djelic et al. (2005) also confirm that MNEs actively shape institutional environments in markets they operate in.

Kostova et al. (2008) discuss how multinationals can achieve local legitimacy and influence institutional conditions through interactions with local prominent actors. Dacin et al. (2007) further discuss how firms can achieve legitimacy by using strategic alliances as a means of conforming to local values as well as to influence them, while Lucea (2010) discusses how relationships to well established non-market actors may reduce the demand for

local compliance. Boddewyn and Brewer (1994) discuss institutional aspects on state level and the influence of different political relationships arguing that firms can use different ways of interacting with political actors, based on different degrees of compliance vs. trying to influence and change conditions., Boddewyn and Doh (2011) also investigates how collaboration with government actors and NGOs can help firms to manage local institutional challenges.

Furthermore, the literature usually assumes that an MNE is governed by a set of institutionalized norms and rules and a specific organizational culture (Hill 2006; Kostova and Zaheer 1999), as well as by the strategies and competitive priorities of the organization (Hirsch and Lounsbury 1997). As stressed by Boddewyn and Doh (2011) the firm thus has to manage tensions between national institutional structures and corporate ones. It can be critical for MNEs to be able to transfer certain properties and practices of the firm to a new market (Kostova 1999). Consistency with regards to market strategy, use of internal capabilities, brand image, etc., is also of strategic importance. At the same time, foreign managers may experience that they are forced to follow practices that are not effective on that particular market and that they have little freedom to adapt to local conditions.

Consequently, one central issue of research is how an MNE's subsidiary will balance between locally institutionalized practices and the institutionalized organizational practices of the head office. Organizational practices can be defined as "...particular ways of conducting organizational functions that have evolved over time under the influence of an organization's history, people, interests, and actions that have become institutionalized in the organization" (Kostova 1999, p. 309). Activities on a certain market need to be in line with the internal practices of the MNE. These contradictory pressures influence a firm's behaviour in that particular setting (Kostova et al. 2008). According to Yang and Rivers (2009) an MNE is

more likely to find it necessary to adapt to local practices in a country where there are greater institutional differences as compared to the home market.

Kostova (1999) elaborated further upon the transfer of practices between markets for an MNE, emphasizing that the institutional environments are likely to differ between markets. Accordingly, she suggested the use of CIPs in order to map and compare national markets. Her original framework further incorporated a social, organizational and relational level in order to understand the transfer of practices. Busenitz et al. (2000) discuss institutional profiles for entrepreneurship, Parboteeah et al. (2008) discuss gender roles from an institutional perspective while Andersen et al. (2009) and Deligonul et al. (2013) discuss buyer-seller relationships. We will draw upon Kostova's ideas in the sense that we investigate internal organizational perspectives as well as a firm's relationships to business actors and a broader societal level, when studying the role of local vs corporate practices.

The CIP construct is based upon three institutional pillars introduced by Scott (2013) and the suggestion that the social environment of a certain country can be described by a regulative, a normative and a cognitive dimension that have different influence on the implementation and internalization of practice in a subsidiary (Kostova and Roth 2002). Several other studies have also been based upon Scott's three dimensions (Andersen et al. 2009; Busenitz et al. 2000; Child et al. 2007). Our study uses these three dimensions in order to characterize the institutional environment in the four BRIC-markets, and how it is perceived and managed by MNEs and their business partners.

The regulative pillar is based on formalized rules and regulation (Scott 2013) - but also on how laws and legal contracts are actually enforced, to what extent a government may intervene by subsidizing or otherwise manipulating a certain economic area, or whether actors can influence or avoid regulations through corruption or other means (Roth and Kostova

2003; Yang and Rivers 2009). Earlier research has shown that the quality and reliability of a government may have a major impact on an MNEs actions and strategic decisions (Oh and Oetzel 2011).

The normative pillar concerns values and norms indicating what is desirable and how things should be done based on the expectations in a society and what is considered to be a legitimate behaviour, in accordance with moral standards (Scott 2013). Actors will also have different roles that are linked to different types of expected behaviour and aspired goals. This is exemplified by different positions that exist in organizations and the different types of roles and expectations associated with them. Another example is that actors within a business network or a certain industry will usually have different roles and are expected to carry out certain tasks. There are also different expectations concerning long term orientation, the level of support, quality and dependability between business partners in a value chain (Andersen et al. 2009). These norms can be developed through continuous interactions over a longer time period, or introduced by, for example, trade associations. As a firm enters a foreign market it may be necessary both to comply with institutionalized norms within the industry, and to alter and develop them in accordance with the firm's strategy and business system (Deligonul et al. 2013; Ghauri et al. 2008).

The third pillar was originally named "Cultural-cognitive" by Scott (2013) because it emphasizes the taken-for-granted views and understandings shared by a certain population, and the importance of shared cultural frameworks. This pillar is reinforced by mimetic behaviour and different types of symbols that have a shared meaning, and broadly considers how reality is constructed by actors in a society. One example is the phenomenon liability of foreignness (Zaheer 1995) and the shared belief that domestic firms may be more reliable. Another one is that large international corporations as such may be regarded with large

suspicion especially on developing markets (Child and Rodrigues 2003). On the other hand, some groups in emerging markets may perceive foreign brands as more reliable and a symbol of modern life. Earlier studies have also identified the educational level and the general knowledge in the society as an important part of this pillar. Parboteeah et al. (2008) discuss how an educational system that embraces modern world values may support gender equality, while Busenitz et al. (2000) discuss how knowledge about the business world and how to start a new business may influence beliefs regarding entrepreneurship.

INSERT FIGURE 1 ABOUT HERE

Figure 1 summarizes our theoretical perspective. We assume that each country market will be shaped by a set of regulative, normative, and cultural-cognitive forces. However, our focus is on how these forces are perceived by MNEs actors and to what extent they recognize the three pillars when acting on the local market. Furthermore, we assume that these actions can be either proactive, aiming to influence or change market conditions, or reactive – thus aiming to comply with and adapt to institutional forces. Finally, we will consider to what extent the views and activities on the local market are driven by corporate practices vs local practices and conditions.

RESEARCH METHOD

This study will thus investigate how the institutional environment is perceived by Swedish MNEs in the four BRIC-markets. We study their view upon interactions with business partners, social and political actors as well as other strategic activities performed to strengthen the firms' brands and competitive positions. Considering the exploratory nature of our study, we use an inductive qualitative approach as suggested by several scholars for this type of studies (Ghauri and Grønhaug 2010; Yin 2003). We decided to use case study approach with

in-depth interviews with the managers who deal with these challenges to achieve an in-depth understanding (Eisenhardt and Graebner 2007). The firms have been studied at headquarter level as well as through field studies in the four markets where we have interviewed managers on different levels as well as gathered various types of secondary material.

When selecting the case companies, one main principle was that they should represent different types of industries, including consumer products as well as industrial products, and also industries based upon providing tangible as well as intangible values. We also considered it important to choose companies that had clearly developed corporate strategies and values that they strive to transfer to the different local markets. Otherwise it would become difficult to investigate the corporate/local dimension. Another criterion was that we aimed to study firms that were successful in expanding globally and were present in most of the four BRIC markets. Based upon these criteria and also the fact that a substantial access was required, the firms presented below were chosen.

While all the case companies are of a moderate size they can nevertheless be considered to be market leaders and technological pioneers within their business areas. Axis Communications has its head office in Lund and offers network video solutions for professional installations. It was founded in 1984 and is today the global market leader in digital video cameras for security purposes. It has been driving the on-going shift from analogue to digital video surveillance and it was the first company in the world to launch a network camera in 1996. The products and solutions are especially made to be suitable for security surveillance and remote monitoring. They are based on innovative, open technology platforms largely developed within the firm. Axis is present in more than 30 countries, and operates through collaborations with partners in about 180 countries. The firm has been very

successful in driving the demand for network cameras and the firms' sales have increased by an average of 26% annually during the last five years.

Tetra Pak was founded in 1951 by Ruben Rausing and was originally headquartered in Sweden for more than 50 years. He developed the first aseptic packaging technology that could retain the colour, texture, natural taste and nutritional value of liquid food for up to 12 months, without the need for preservatives or refrigeration. Today, the company is part of the Tetra Laval Group, headquartered in Switzerland. The company employs more than 22.000 people worldwide, operating in more than 170 countries with 39 marketing companies and 79 sales offices. Dairy products are the central category to Tetra Pak's business and through their expertise in both the packaging and processing of milk the company can offer its customers a complete solution from the cow to the filled pack. Apart from the dairy category, juices, nectars, spirits and soft drinks are also important categories. Moreover, Tetra Pak offers chilled packages for e.g. pasteurized milk or yoghurts and introduced the first carton based food package in which food that is traditionally packed in cans, glass or pouches stays fresh for up to 24 month. Tetra Pak has defined the category of aseptic packaging and in many countries Tetra Pak is a synonym for carton food packages.

Thule Group was founded in 1942 but started to focus on products for sports and utility transportation in the early sixties. It is the world leader within the area of sports and utility transportation. The firm develops, manufactures and markets load carriers accessories, tow bar systems, trailers, etc., for consumers as well as business customers. Lately it has also broadened the scope and focused on, for example, bags and lap top cases. The firm has approximately 3,400 employees and more than 50 production and sales locations worldwide. Net sales for 2012 amounted to 5.8 Bio SEK (0,6 Bio euro) in 2012. The firm focuses mostly on Thule as the premium brand but also controls brands such as Case logic and König.

The empirical analysis is primarily based upon the interviews that we have done with managers in China and Brazil, Russia, India and China. The sample includes respondents from the three Swedish firms as well as with business partners on these markets. As a first step 14 interviews with managers at the headquarters in Sweden helped us to get a deeper understanding of the corporate values and practices that we were aiming to trace in the local markets. We then conducted interviews with 81 managers on the four markets. These interviewees were either local managers within the Swedish MNEs, or represented business partners such as customers or strategic alliance partners. The interviews lasted between 45 minutes and 2 ½ hours. The study is also based upon substantial secondary data such as strategic documents, brand manuals and other types of corporate material that is distributed to local subsidiaries in order to guide and support their activities.

We can also mention that differences between respondents from the three firms with regards to their emphasis on the three institutional pillars were very marginal. Therefore, they will not be discussed and compared below.

In order not to influence the respondents, the interviews were based upon broad questions and topics. We usually started by asking the respondents to describe local market conditions, challenges and opportunities, and how they worked strategically in order to manage different contexts. We then asked more specifically about how they collaborate with business partners in the value chain, the nature of these collaborations, and about current challenges and issues that were especially critical for the collaborations. We also discussed local rules and regulations and how they were managed by the firm and to what extent different network collaborations could be used to support the firm. The discussions were also driven by the particular examples and topics brought up by the managers. All interviews were recorded and transcribed by the authors.

NVIVO10 has been used for coding and as a support in our analyses of the empirical material. This, we argue, makes our qualitative analysis more transparent and systematic (Ghauri and Firth 2009; Sinkovics et al. 2008) . All interviews were first coded in order to identify statements referring to the three institutional pillars. As a second step, all these quotes were coded based upon whether they expressed a pro-active or re-active view and whether managers justified their opinions based upon corporate or local practices.

Statements referring to laws, rules and regulations, government interference through different types of support or obstacles were coded as regulative. A statement was coded as normative when it discussed norms, rules and expectations that governed the firm's market relationships, as well as issues related to quality and dependability in different business relationships and what different stakeholders expected from of the firm. When respondents stressed aspects related to general perceptions and assumptions in the society, concerning, for example, national identity, values and norms related to a certain brand, knowledge about products or technology, the views and opinions of certain groups in the society, the statement were coded as cognitive.

In addition, statements were coded as proactive when the respondents expressed an intention to question and influence an institutional force, while statements regarding how to adapt to certain institutional forces and statements treating institutional factors as a fact were coded as reactive. The local/corporate dimension focused upon how respondents accounted for their different views and for how the firm approached a certain environmental force. When respondents mainly referred to local factors when explaining their perceptions or the actions taken by the company it was regarded as based on local practices. On the other hand, when someone justified beliefs and actions using corporate rules, brand values or referring to

directives from headquarter management we considered it to be based on respective MNE corporate practices.

All in all 2300 statements from interviews were coded based on the three institutional pillars, and then further coded along the dimensions proactive/reactive and local/corporate. It should be stressed that the coding and categorization of the empirical work is a qualitative task performed by the authors. The relative frequencies discovered in the empirical material are also not the main focus of our study. At the same time, a common approach for a qualitative analysis is to identify recurrent themes and underlying assumptions that are frequent in the empirical material. The use of NVIVO has helped us to make such an analysis on a very extensive material in a systematic way. It also helps us to critically challenge our own pre-assumptions with regards to the structure and content of the material. As argued by Sinkovics et al. (2008) international business research is characterized by multiple environment and data sets, and NVIVO thus helps to make the qualitative approach more transparent and trustworthy.

Below, we discuss the statements referring to the three different institutional pillars, and also to what degree respondents linked these statements to proactive vs. reactive approaches and to local vs. corporate practices. We will also discuss differences and similarities between the three markets. After that we will present some more general themes with regards to how the actors perceive the institutional factors and act upon them.

INSTITUTIONAL PATTERNS AND MARKET DIFFERENCES

First it should be noticed that the results concern managers' perceptions, how they refer to different institutional forces and explain their views in their statements. The results do not measure, for example, to what extent each institutional pillar influences organizational performance. However, we argue that the respondents' views as expressed in the interviews

are likely to help us to understand their behaviour and explain how MNEs approach the institutional context on these markets. Below we will start by discussing some general patterns that were found in the aggregated material on all the four markets. However, there were also some recurrent differences between the markets with regards to managers' perceptions. These differences will also be elaborated upon below.

When managers discussed their external environment and different strategic challenges, they mostly refer to either normative or cultural-cognitive aspects when discussing market characteristics, different constraints and expectations, and how they interact with customers and business partners. Regulative issues were brought up much less frequently. However, this does not necessarily mean that they are less important than normative and cognitive aspects.

INSERT FIGURE 2 ABOUT HERE

Another possible interpretation is that respondents perceive them to be less related to their competitive positions and strategic activities, and experience that they have little influence on how rules and regulations are enforced. This interpretation may also be supported by the fact that regulative institutional aspects are more often commented on in reactive statements and attitudes than proactive ones. When analysing how the actors perceive and deal with the institutional context, we found that a proactive approach was especially stressed when discussing cognitive forces. This is illustrated by Figure 2, which shows the distribution of proactive and reactive statements with regards to the three pillars. A proactive approach was also slightly more common than a reactive one when the managers discussed normative aspects. Overall, our study thus suggests that MNE managers will put the most emphasis on influencing cultural-cognitive institutional forces on the BRIC-markets, and that

they also believe that they are able to influence normative constraints to a considerable extent, while mainly reacting upon regulative forces.

INSERT FIGURE 3 ABOUT HERE

The pattern regarding the role of local vs. corporate practices is more homogeneous (Figure 3). Local practices play a main role when managers discuss all the three institutional pillars, meaning that they were more often guided by local considerations rather than directives from corporate practices. For example, the local culture was referred to much more often than corporate culture or brand values when explaining a certain activity or decision taken by an MNE. It is especially noticeable that when respondents discussed regulative forces, corporate practices such as global strategic priorities were hardly considered. Instead, it became a matter of how to fit in to the local environment.

INSERT FIGURE 4 ABOUT HERE

In spite of a number of general trends in our material, we have also identified some differences between the markets that we have studied. More specifically, the four countries can be put in two different rather homogeneous groups that show different patterns. One group consists of China and Russia. On these two markets, the normative pillar was stressed to a larger extent, while managers in Brazil and India referred more to cognitive forces when discussing their external institutional environment. The latter also expressed a more proactive view when discussing how to approach different institutional factors, and emphasized corporate culture and practices to a larger extent when explaining the logic behind different activities. The perspective expressed by Chinese and Russian managers thus especially stressed local values and conditions, and the influence of the local institutional environment.

THEMES AND RESPONSES TO INSTITUTIONAL PRESSURES

There were also some, recurrent patterns in our material that we found across the country markets. We therefore concluded that it is meaningful to try to identify themes within the aggregated material with regards to how the actors perceive and deal with the institutional forces on at least the four BRIC-markets but possibly also for other emerging markets. For each of the three institutional dimensions we will present main themes that were often brought up, and that illustrate how these firms deal with the institutional forces. Themes frequently brought up in the interviews often concerned both how to approach the market in terms of proactive and reactive responses, and arguments based upon either corporate or local practices. Figure 4 summarizes the most significant themes found in the empirical material, capturing the proactive/reactive dimension as well as the local/corporate one.

INSERT FIGURE 5 ABOUT HERE

Our earlier analyses showed that the emphasis on a proactive approach was especially significant when discussing cognitive forces, while our results suggest that respondents found it more difficult to have a proactive approach to normative forces, and regulative forces were mainly approached reactively. In other words, respondents appear to believe that they are especially likely to be successful in influencing and changing cognitive institutional structures and much less likely to change regulative structures, such as laws and regulations or how government actors enforce regulative matters in the society. This is also reflected in the different themes.

While the firms in our study suggest that regulative forces are influenced to a lesser extent than the other two, it was still apparent that formal regulations as well as relationships with the government were considered important. One local matter often stressed was the complexity of laws, regulations and taxes, and the different levels of legal structures – from

national laws to local regulations that could sometimes be interpreted rather arbitrarily by local decision makers. In China, for example, the complexity and the opportunities for local political actors to add different restrictions were considered a main issue.

... they release a local standard and require all manufacturers to meet this. But we don't know this before, only when it was released. ... now they just have a new standard. We spent a lot of time with a local partner to meet this standard. I believe that there will be some new coming out because China's export is not good and they want to protect their local manufacturers. So I believe there will be more, new standards coming out. This is a risk for us. (MNE manager, China)

When proactive responses were discussed, respondents usually would stress that the firms did nothing alone, but together with partners that have a stronger local network and a higher degree of legitimacy in the local market. Furthermore, a reactive approach was often considered more suitable, based on the argument that foreign firms that challenge local regulative structures can be regarded as unwilling to fit in with the local society, and would thus undermine their legitimacy.

In addition, managers frequently expressed an uncertainty regarding the nature of political involvement and the concern that political actors might favour and support certain businesses. In many cases, managers claimed that local business was favoured through subsidies or by how rules and regulations were actually enforced. A typical example is India where a lot of regulations have been enforced to protect local businesses and to govern, in detail, how business is supposed to be done.

"It [government regulations] influences dramatically because now it is said that a supplier should have two different agreements, a supplier agreement and marketing agreement. With the supplier agreement they cannot offer more than 10% discount on the

volume to the retailer. Of course before the law some customers had 3% or 5% or someone else had 13% discount, but now all of them has 10% as a must.” (MNE manager, India)

Another example is how government deals with applications and permission for doing different market related activities. Managers often stressed that this could be very difficult if you do not have the proper government relationships or if the firm is not at least partly run by someone who is close to the government. Again, this stresses the importance of having local partners with a more extensive network of contacts.

Normative aspects were often brought up when discussing what can and should be expected from business partners and different types of market relationships. MNEs acted proactively in this respect to shape their local distribution networks to fit in with their strategic approach and to develop shared norms and routines with their local partners. Quite often the MNEs could not rely on such existing normative structures. Instead they had to deal with the challenge of identifying the relevant business partners, establishing relationships to them and driving their behaviour in a direction that corresponded with the desired norms and routines for executing different tasks in the channel. This can be a significant challenge:

“We are trying to look into this for next year, to do some kind of exhibition kit. The problem is, the retailers might want to have it, but when it comes they also need to work with it and that is normally not the case. They want the tools but they are not always prepared to invest the human resource time which would be necessary. This is why we have the partner program. We are giving them a lot of things but we can also pressure them a bit to actually use it. It is a mix of carrot and whip. We give them attention on the internet, we give them exhibition, campaigns, tools and on the other hand, they actually have to do it and invest. But it is not always the reality.” (MNE manager, Russia)

However, managers also stressed that their activities had to balance the proactive approach with a respect for existing, institutionalized views upon how to do business. The norms may be more or less based upon a long or a short term perspective for example on business relationships, the need to develop personal ties, keep time margin and quality standards, practices concerning to what extent relationships should be based on honesty and to what degree it is acceptable to behave opportunistically.

Another theme related to normative structures highlights different expectations regarding what the market needs, wants and requires from the firm. For example, respondents stressed that it was important to explain to customers the advantages of reliable, high quality products. This can concern the final consumer markets as well as the firm's business partners. Here, a main challenge often brought up was that it is difficult to convince business partners that the final customers appreciate the values offered by the MNEs products. Several interviews with partners stressed this aspect and those respondents tended to find it advisable for our focal companies to develop low price/low quality alternatives because this would be more appreciated by the market.

“...the general mass is really feeling that they are too expensive. That is where the message is internally going to the corporation saying that 'Is there a way to really categorize developing markets and have a portfolio or a price that is a little different?'. Because I have to get into the mass market. That is something that we have not been very successful and we are trying push corporate into understanding it from the local need.

(Local distributor, India)

To some extent, local managers in the firms also shared this local view and questioned corporate strategy and the values that their brands were built upon. Finding a bridge between corporate strategy and local beliefs regarding this aspect still appears to be a major challenge.

It can be an especially critical barrier for the corporate managers, since the important role of local values and conditions were stressed very much by almost all respondents regardless of market and firm.

Cultural-Cognitive forces are based upon socially constructed, taken-for-granted views and understandings. This dimension especially stresses how cultural frameworks influence beliefs and behaviour. Here, the educational level in the society and the general knowledge about a certain phenomenon can be especially considered (Busenitz et al. 2000; Parboteeah et al. 2008). One central theme often brought up was the challenge of getting local understanding of the technological advantages included in the MNE's market offering.

Regardless of firm and market, the interviews thus brought up the importance of proactively educating the market about this, and the barriers created by the initial level of understanding. For example, the interviews with different firms as well as their partners stressed the importance of convincing different stakeholders through; arranging workshops for partners (Axis Communication), educate farmers and government officials about health aspects (Tetra Pak) and developing incentives and support for retailers (Thule). It is likely that this challenge is much more emphasized on emerging markets than when an MNE positions the brand and the products in western markets.

“...But it's also very important that the end user understand all the benefits of video surveillance, that it's not only security there is much more benefits. And the knowledge and education of people in this field is really low we can see it from attending the events and talking to key retailers even.” (MNE manager Russia)

Managers frequently also implied that many western MNEs may not adapt enough to local culture regarding how to do business and that this can create problems. The empirical material highlights the strengths of local beliefs regarding the role and importance of local

business vs. the advantages and threats represented by foreign MNEs. This was discussed by a large number of respondents. Arguments revealed scepticism against western MNEs and their lack of respects for local values and traditions. This view appeared both when interviewing local firm managers and when talking to their business partners. At the same time the value of supporting the local community was often stressed, along with the emphasis on locally established cultural values. However, sometimes respondents also brought up beliefs in general about foreign products, country of origin effects and beliefs about Sweden as standing for high quality values and honesty. For example, managers often liked to stress the Swedish origins of the firms when discussing with partners, customers and even government. Some local managers especially stressed this and the implications of working with MNEs from different western countries:

“if you learn to be successful here you need to invest locally and come here, open the office, hire local people according to laws and if you don’t do the basic things and do taxes in the right way and think about the long term run for a subsidiary, you are not going to be successful. I think this is the way the Swedish companies work, they are long term oriented and this is the key success factor for them in Brazil. And they are also relationship oriented. I have been learning a lot about the Swedish culture but I have been working all my life for American companies and there are big differences. (Partner manager, Brazil)

At the same time, Brazilian respondents often argued that America was regarded as having the image as the most desirable country to resemble and to refer to. Therefore it was, for example, a major strength if a firm could show that the products had been established in America, supported by American retailers, etc. In China, on the other hand, a number of respondents argued that it was strength if their products could somehow be associated with New Zealand because it was connected with healthy and high quality values. All in all, this

means that firms could sometimes proactively use country of origin effects to drive market change, but that they simultaneously have to show a great respect for local cultural values.

Furthermore, the firms strived to become legitimate actors in the local context through involvement in significant social projects. For example, Tetra Pak was involved in local school feeding programmes while simultaneously educating local stakeholders about the advantages with their packaging technology with regards to keeping milk and other liquids fresh and free from bacteria. Furthermore, collaborating with NGOs on social issues was a key thing:

“Last year we did a launch event in all cities where we have offices. We tied up with one NGO who could help us to reach out to smaller NGOs where there is a need for the slum children or kids of waste pickers to improve. We thought of connecting to those people on the first level because on the environment side we work a lot with waste pickers, we educate them through NGOs to separate TP cartons. Because in India you don’t get 2 bags to separate the waste, we educate them and tell them that selling them they even get a better price than if they just sell it with the mixed waste. (MNE manager India)

The importance of brand values and the broader rationales behind consumption was another central theme. Regardless of the country of origin, a certain brand may have a positive or negative connotation. In all markets, respondents discussed how consumers as well as industrial buyers tended to believe more in certain brands than in others, and that sometimes business partners considered whether it was positive for them to associate their brands to those of our focal firms. All in all, we observed that respondents have discussed different types of rationales and beliefs that will govern customers. They may be more or less obvious but firms have to relate to them when deciding how to communicate and build a position.

These beliefs that influence buying decisions are mostly based upon established local cultural values.

“... So it is a different proposition to work here compared to other nations. It is very difficult for anyone to perceive. When they make juice, they don't serve it after half an hour because they feel it gets bad. For them it is almost impossible to imagine how something can be stored for 6 months and still be fresh without any preservatives when you can't even leave it for half an hour before it starts separating or is not as nice as it probably was 15 minutes back. That is the different paradigm and it is very difficult to break (customer, India)

This quote also relates to the role and structure of the communication channels on the markets, because they have a major influence on the prevailing cognitive-cultural profile of a country. It was clear that different channels, such as TV, newspapers, electronic media, etc., were stressed on all markets but in different ways. In Brazil, for example, communication through media, relationships to reporters, and the ability to gain support from established, trusted communication channels was a major theme. Here, respondents also described the role of media in a different way than was the case in, for example, China and Russia. This may be due to the fact that the countries have different political systems and different tolerance for free media. In any case, however, the understanding of and respect for local media and how it can be used, was a central and strong theme in the material.

DISCUSSION AND CONCLUSIONS

Although this study is an exploratory investigation based upon in-depth studies of Swedish companies, our study is comprehensive includes four markets and all in all eleven case studies. It can thus provide a strong basis for theory development. Firstly, our research suggests that firms may not need to have completely different strategies for dealing with the

institutional context in different BRIC markets. The actions taken, as well as the results of those actions, are relatively similar; this is a rather unique finding.

However, Brazil stood out as different MNE managers had a stronger cultural-cognitive orientation, put more emphasis on a proactive approach and were more inclined to emphasize corporate values. On the other hand, Managers behaviour in Russia and China were especially similar with a stronger emphasis on the following of norms and local practices and in making adaptations. One possible explanation is that the latter two countries may be shaped by a different political system that has less room for individual initiatives and tolerance against the questioning of rules and norms are deeply rooted and institutionalized in the society. China seems to work on a very long-term central planning based on Confucianism and Taoism where respect for the hierarchy and seniority is rooted into the system. In Brazil on the other hand, regulations are based more on short-term planning and regional social values. Chinese culture is rather homogeneous based on the above philosophical thinking, while Brazilian culture is rather heterogeneous within the country based on the background of different regions and social classes. Both regulatory and cognitive pillars are also influenced by the different levels of economic development in these countries. Our understanding is that due to the central planning and long-term perspective, China has been able to have a sustained economic development and poverty alleviation that encourages people to be somewhat more receptive to institutional supremacy.

The differences between the countries regarding local practices may be related to Kostova and Roth (2002). They found that corporate practices will have a stronger role when the distance between corporate and local practices is smaller. It is likely that there may be an even larger distance between Swedish corporate practices and local practices in China than is the case for Brazil. At the same time it should be stressed that Kostova and Roth focused upon

the transfer of corporate practices per se, and to what extent they were referred to by managers when they tried to justify different strategic activities.

In general, however, our research suggests that local practices have a strong influence upon managers in MNE subsidiaries on the BRIC-markets, and that they tend to overshadow corporate practices. At the same time, there was a strong orientation towards having a proactive approach when dealing with normative and cultural-cognitive ones. This study also suggests that MNEs, especially focusing on proactively changing cultural-cognitive structures, consider the firm as a local citizen. The firms tended to have a slightly less proactive approach when dealing with normative pressures. However, in all markets the firms stressed the need to change the behaviour of partners in the value chain and to introduce new ways to cooperate. Few statements also stressed a proactive approach with regards to regulative forces.

Throughout our study, a general aspect was also the balance between achieving change and maintaining local legitimacy. This may also explain why the approach to regulative pressures is more reactive among the firms. A main challenge is to understand and recognize those institutional structures that are deeply rooted in the local community and to avoid challenging them in a way that undermines the firm's legitimacy. It may be considered to be especially risky from a point of legitimacy to challenge legal structures and the enforcement of laws and regulations by government officials. At the same time, it may be possible to approach especially problematic ones if the firm is able to mobilize locals with a stronger network and a higher degree of legitimacy. The idea of achieving legitimacy by being linked to highly respected local actors is also supported by Child and Tsai (2005). They show how MNEs can increase their legitimacy and local influence through collaborating with NGOs and other organizations that have credibility and respect.

Our research illustrates how institutional theory can help us to analyse challenges on culturally different emerging markets and how MNEs perceive different local structures. Earlier studies offer a lot of insight with regards to different country specific matters and how they relate to legal, normative and cultural forces (e.g. Hadjikhani et al. 2012). However, our approach offers a unique opportunity to make a comparative analysis of the four BRIC markets, and it illustrates how firms approach a broad number of stakeholders to achieve legitimacy at the same time as they try to drive their interests and manage local institutional pressures. It should also be noted that 76 out of the 81 interviewed respondents were from the local markets, and thus only five expats were included in our material. It is reasonable to assume that a local office dominated by expats would have a different attitude with regards to, for example, the role of local vs corporate practices. On the other hand, these firms have been successful in driving new foreign markets and becoming locally integrated, and it is likely that the strong local focus is one explanation behind their success. Nevertheless, our research shows how MNEs can become embedded in different social and organizational structures in emerging markets (cf. Greenwood and Hinings 1996) and that this embeddedness can explain the strategies and activities performed by foreign firms.

One should also consider that all the three studied firms based their business strategy upon innovative technologies developed in-house and offering new values to the market. This means that a more proactive strategy is required compared to, for example, firms on FMCG markets that work with well-known established industries and that are not based upon technological innovations.

It is also possible that Swedish firms have a different corporate culture and a different global approach, allowing for a stronger local orientation among managers. Sweden is a small country, with a strong international orientation and corporate managers are used to the idea

that Swedish culture and language is usually unknown on other markets. Managers from, for example, American, UK or French firms may thus have a different view. Finally, there is the question of whether the observed patterns can be observed only in the emerging markets studied here, or if a study of mature markets would lead to similar results. We argue that it is likely that a more proactive approach will be more effective on emerging markets that are in a state of change and transition, and that they may require a stronger consideration of local practices due to the cultural differences. However, differences between various types of emerging and western markets, industries and origins of MNEs with regards to institutional approach is a direction that requires a substantial amount of further research.

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FIGURE 1.

Theoretical Approach.

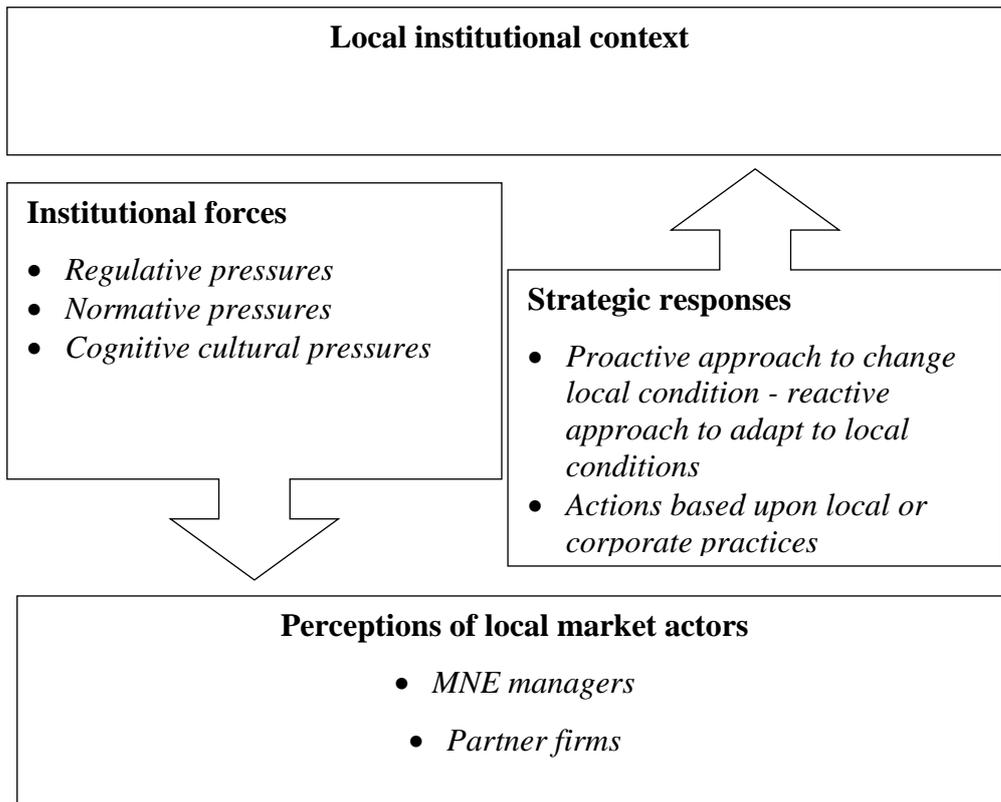
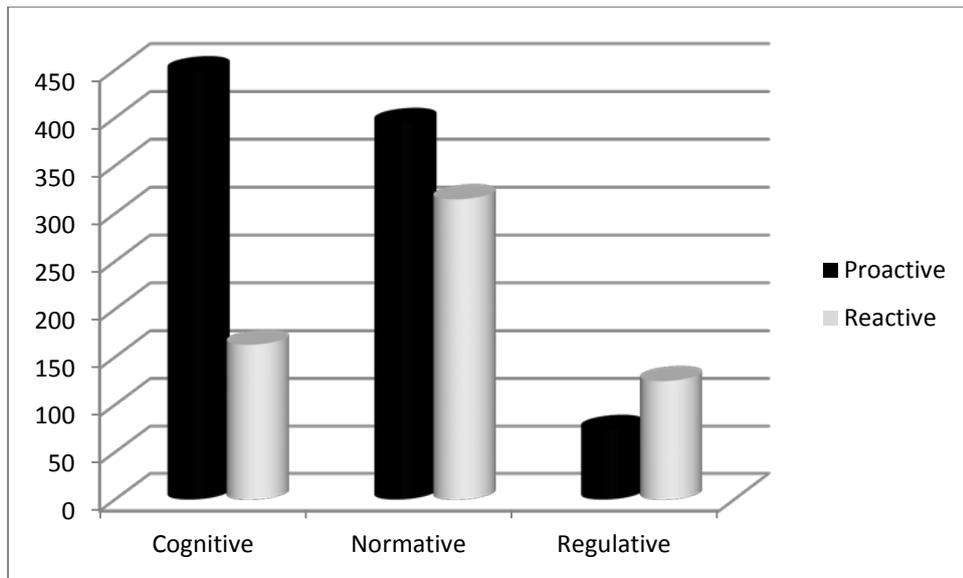


FIGURE 2.

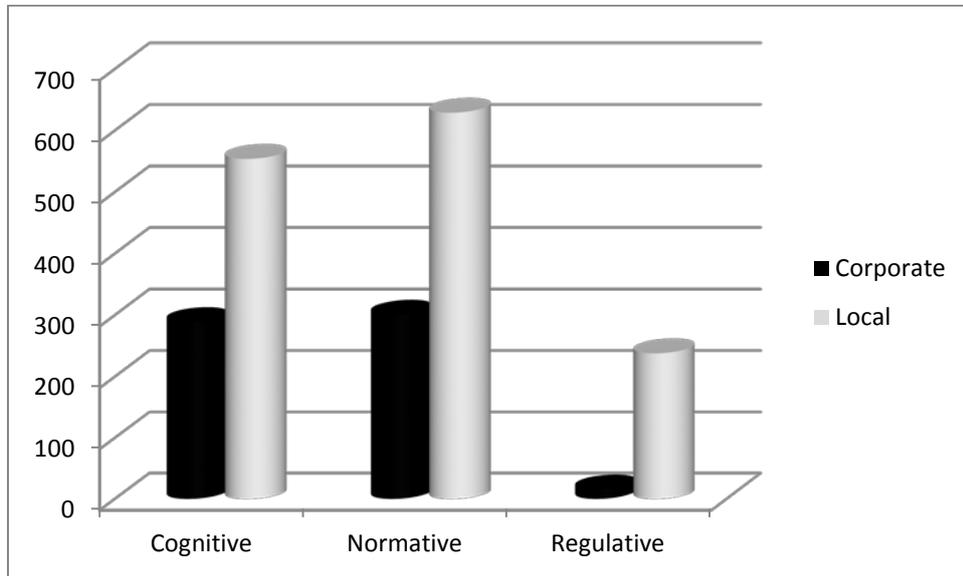
Emphasis on Proactive vs Reactive Approach for the Three Pillars.*



* Distribution of the total number of coded statements.

FIGURE 3.

Emphasis on Local vs Corporate Practices for the Three Pillars.*



* Distribution of the total number of coded statements.

FIGURE 4.

Institutional tendencies for the four markets.

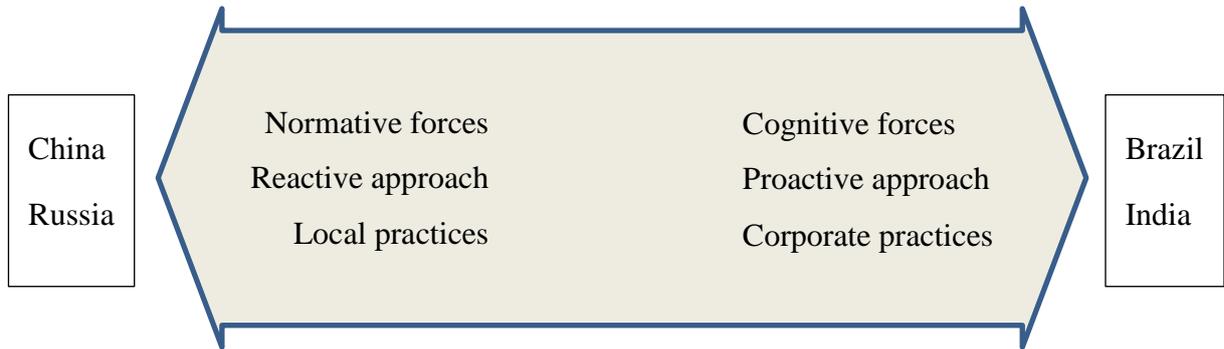


FIGURE 5.

Significant Institutional Themes Identified Empirically

