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A Blessing and a Curse: Institutional Embeddedness of Longstanding MNE Subsidiaries in Emerging Markets

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ABSTRACT This article examines the institutional strategies of multinational enterprises (MNEs) operating in an emerging market, drawing attention to how longstanding foreign subsidiaries proactively negotiate their involvement with socio-political actors. We build on institutional logics to explain how MNE subsidiaries develop sustained political, cultural, and cognitive embeddedness. Using an inductive, interpretive study of four century-old Dutch MNE subsidiaries with a colonial legacy in Indonesia, we examine these three dimensions of the institutional environment, finding that local employees embedded in both the MNE and the host country sets of logics – rather than expatriate managers – most effectively facilitated sustained institutional embeddedness. Our findings also suggest that embedding practices in host institutional contexts and developing structures that align with host institutional expectations provided a platform for the unfolding of institutional strategies by local employees. However, MNE subsidiaries face contrasting logics between home and host country institutions, placing significant strains on MNEs' ability to enact change.

Keywords: MNE subsidiaries, institutional logics, institutional agency, institutional embeddedness, emerging markets

INTRODUCTION

Non-market strategy is crucial for all firms operating in emerging markets, but especially for MNE subsidiaries that face additional barriers to achieve the institutional embeddedness needed for long term survival (Marquis and Raynard, 2015; Regnér and Edman, 2014; Sun et al., 2010, 2021). The non-market activities of MNE subsidiaries typically

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aim to reduce or avoid competitive disadvantages originating from institutional barriers, such as discriminatory policies and cultural differences, and from resources foreign firms lack, including political ties and market knowledge (Doh et al., 2012; Mellahi et al., 2016). Through local engagement with host country socio-political actors, such as governments, policymakers, industry associations, NGOs, and civil society, MNE subsidiaries negotiate their involvement in the local 'rules of the game' (North, 1991) ranging from full compliance to opportunistic manipulation (Saka-Helmhout, 2020). Nowhere are these non-market engagements more important than in emerging markets, where institutions are complex and often differ fundamentally from institutions in developed countries (Marquis and Raynard, 2015; Newenham-Kahindi and Stevens, 2018).

MNE subsidiaries in emerging markets are confronted with competing and often incompatible multiple institutional logics (Saka-Helmhout et al., 2016). Institutional logics are defined as a set of socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules (Thornton and Ocasio, 1999; Thornton et al., 2012) that determine institutionally appropriate conduct for market and nonmarket activities (Newenham-Kahindi and Stevens, 2018). Increasingly, MNE subsidiaries in emerging markets face pressure to conform to local institutional demands (Minbaeva et al., 2021) that sometimes contradict their home country values, beliefs, and rules, and make isomorphic behaviours impossible or undesirable (Newenham-Kahindi and Stevens, 2018).

The embeddedness of subsidiaries in host markets is a key activity for the MNE (e.g., Meyer et al., 2011), yet we do not have a clear understanding of how this works or what are its consequences for longstanding MNE subsidiaries faced with dual institutional logics (Meyer et al., 2020; Newenham-Kahindi and Stevens, 2018; Saka-Helmhout, 2020). International business (IB) theory suggests that new MNE entrants behave according to clear mandates set by corporate headquarters and executed primarily by expatriates as agents of the MNE. These practices and strategies reflect the institutional logics of the MNE's headquarters/home country. Attempts by these firms to make changes to the local institutional logics in the host country could be perceived as unwanted and illegitimate meddling into the laws, norms, and identity of the host environment and its actors (Newenham-Kahindi and Stevens, 2018).

As subsidiaries mature, the workforce and ways of operating become more localized and their institutional strategies become more like those of indigenous firms (Kostova and Zaheer, 1999), albeit with greater resources and more legitimacy (Pant and Ramachandran, 2017). Dominant, longstanding MNEs, exposed to alternative arrangements and logics, can influence local institutions through their coordination with host country stakeholders (Greenwood and Suddaby, 2006; Fortwengel and Jackson, 2016). However, this is underexplored in the IB literature, with few studies examining how longstanding MNE subsidiaries, faced with multiple and sometimes conflicting institutional home country/host country logics develop institutional strategies to navigate the complex and unfamiliar institutional context of a host country.

The IB literature gives limited attention to theory development relating to longstanding subsidiaries (Meyer et al., 2020), despite the opportunity to advance scholarship on the institutional logics perspective within an IB context (Pant and Ramachandran, 2017). Especially in emerging markets, longstanding MNEs face additional challenges in contrast to new MNE entrants and indigenous firms as they often contribute financial

resources and talent to the headquarters' operations. We aim to address this gap in the literature in our study of four Dutch MNE subsidiaries with a colonial legacy operating in the consumer goods industry in Indonesia. The question we seek to address is: *How do longstanding MNE subsidiaries with a colonial legacy develop appropriate institutional strategies to sustain their institutional embeddedness?*

Consistent with the role of embeddedness as both an enabling and a constraining force in the institutional logics literature (Thornton and Ocasio, 2008), we treat the host institutional environment as only partially malleable rather than either completely rigid or fully fluid. This is an important and nuanced distinction, recognizing the constraints and pressures that MNEs face from their headquarters and home country institutions if they attempt to engage in isomorphic behaviour abroad (Stevens et al., 2016). Earlier work on institutional logics suggests a role for foreign MNEs: actors who create and modify the institutions in which they are embedded (Newenham-Kahindi and Stevens, 2018). At the same time, foreign firms do not have complete autonomy – the institutions in which they are embedded constrain the direction and nature of their attempted changes. This is especially salient when conflicting logics cause 'institutional friction' (Shenkar, 2001, 2012) – the tension and discord that can arise when actors from different institutional backgrounds come into contact (Stevens and Shenkar, 2012). Hence, MNEs must develop appropriate institutional strategies in host markets to resolve the problems created by such friction.

To answer our research question, we used multiple inductive, interpretive case studies to examine the mechanisms that facilitated sustained institutional embeddedness of four Dutch MNE subsidiaries. We find that competing institutional logics gave rise to friction, which was overcome primarily by local employees embedded in both sets of competing logics, rather than expatriate managers as agents of the MNE. While embedding practices in host institutional contexts and developing structures that align with host institutional expectations is often understood as isomorphism, we find that such embeddedness provided a platform for the unfolding of institutional strategies by knowledgeable local employees. The firms adopted a broad range of institutional strategies depending on the nature of potentially conflicting institutional logics. At the same time, MNE subsidiaries face the obstacle that MNE/home country and host country institutions have contrasting logics about how activities 'should' be thought of and conducted. These contrasting logics place significant strains on MNE's ability to enact change.

Our article contributes to the IB literature and the broader organizational literature in examining MNEs in the context of a colonial legacy, which offers a unique opportunity to explore the institutional strategies that longstanding foreign subsidiaries adopt to sustain their institutional embeddedness (McGaughey et al., 2016; Pant and Ramachandran, 2017; Saka-Helmhout, 2020). We extend prior literature by accounting for the institutional complexity faced by longstanding subsidiaries in their host environment (Pant and Ramachandran, 2017; Saka-Helmhout et al., 2016), which allows us to consider how and why actors react to different and potentially conflicting institutional logics (e.g., Thornton and Ocasio, 1999). We add to existing literature by identifying and providing rich details of institutional strategies that are applied by longstanding MNE to bridge the conflicting logics of the MNE/home country and the host country. Finally, we discuss

the differences in institutional strategies between new MNE entrants and longstanding MNE subsidiaries.

In doing so, we aim to change the way we think about how MNEs embed themselves in host countries. Existing research is generally associated with isomorphism, or merely reactive engagement with diverse regulatory rules or political hazards (Kostova and Zaheer, 1999; Saka-Helmhout et al., 2016). Institutions are typically treated as uni-dimensional variables (e.g., Cheng and Huang, 2020), and focus on how the direct effects of home–host country differences explain MNE activity. Yet, our findings suggest that it is not simply differences between institutions that MNEs need to manage, but also institutional friction that result from conflicting institutional logics about how the same activity ‘should’ be conducted. Uncovering the nature of the conflicting logics MNEs experience allows us to better understand the immense challenges for foreign firms operating in complex host country environments and the significant firm-level variance in their capability to enact change.

Finally, advancing the micro-foundations of nonmarket strategy, we offer insights into the micro-sociological processes through which MNEs proactively negotiate their involvement with socio-political actors to develop sustained institutional embeddedness. While recent studies consider how firms can integrate controversial political activities and socially responsible activities (den Hond et al., 2014; Lock and Seele, 2016), pointing to the institutional context as a source of alignment (Girschik, 2020), they have not unpacked the processes through which such alignment is constructed. We find that MNE managers co-construct new relations and practices with the socio-political actors with whom they work, thereby rendering self-interested involvement socially responsible and thus legitimate. The relational work underlying an MNE’s positioning as a responsible company thus also protects its competitive position.

THEORETICAL FOUNDATIONS: INSTITUTIONAL THEORY

Organizations are embedded in formal institutions (i.e., laws and regulations) and informal institutions (i.e., norms of behaviour, conventions, and self-imposed codes of conduct), also referred to as the ‘rules of the game’. These institutions, along with enforcement mechanisms, affect firm and individual behavior (Aguilera and Grøgaard, 2019). Early work on embeddedness positioned institutions as structures that shape patterns of behaviour, thereby explaining the convergence of firm and managerial practices within the same institutional environment, eventually leading to isomorphism (DiMaggio and Powell, 1983). Meyer and Rowan (1977) pioneered a new institutionalism by asking ‘why organizations become isomorphic?’. The authors determined that organizational success depends on conforming to society’s formal and informal institutions, which provides organizations with legitimacy in their host country.

Foreign MNEs can face challenges when not conforming to local practices (Zaheer, 1995), sometimes even resulting in ‘an inability to function’ (Ahmadjian, 2016, p. 23). Many foreign MNEs abroad are disadvantaged compared to their local equivalents. This institutional distance is typically viewed as costly for MNE subsidiaries operating in host

country settings, sometimes even leading to expropriation (Moschieri et al., this issue). As a response, MNEs subsidiaries often develop institutional strategies to counter the adverse effects of institutional difference.

Institutional Strategies

Institutional strategies are the actions carried out by individuals and organizations to create, maintain, and disrupt institutions by constructing identities, developing interorganizational networks, embedding, routinizing, and disconnecting sanctions (Saka-Helmout, 2020). Studies suggest that the effective management of the institutional environment requires adaptation and active agency by firms. Recent work explains different types of institutional strategies, for example, Marquis and Raynard (2015) identify relational, infrastructure-building, and socio-cultural bridging as institutional strategies to navigate institutionally diverse settings. Furthermore, Regnér and Edman (2014) suggest MNEs may exploit institutional settings as strategic opportunities for competitive advantage through ‘imaginative and vigorously proactive MNE subunit managers who purposefully engage with complex local business institutions by shaping, transposing or evading institutions’ (p. 297). Thus, agency is inherent in and arises from actors’ relationships and interactions with other actors and the institutional environment (Faulconbridge and Muzio, 2016).

Recently, IB scholars have debated the extent to which actors can influence institutions (McGaughey et al., 2016). For instance, ‘institutional entrepreneurs’ have been described as heroic actors with seemingly unlimited agency, while others seek the ‘middle ground’ of embedded agency. Greenwood and Suddaby (2006) show that the big five accounting firms could initiate practices beyond accounting because they were able to bridge the boundaries that exposed them to contradicting logics. This has relevance for longstanding, ‘dominant’ MNEs that have the legitimacy of an international elite allowing them to instigate institutional change.

It remains unclear how MNEs might navigate and change complex institutional environments in their host country, given that efforts at shaping institutions are likely to be perceived as interfering in the rules, norms, and identity of the host environment (Kostova et al., 2008). Attempts by MNEs to change institutions are unlikely to be embraced by actors committed to existing ways of doing things. The literature on institutional strategies highlights that enacting change is not an easy or predictable process as it is ripe with politics and ongoing negotiation (e.g., Fortwengel and Jackson, 2016).

Institutional Logics

Institutional logics evolved from the neo-institutionalism perspective on conformity and isomorphism (Aguilera and Grøgaard, 2019). Institutional logics aim to explain how individual and organizational actors navigate, are influenced by, and create and modify the institutional structures around them (Thornton et al., 2012). Logics not only provide rule-like structures that constrain organizations and individuals but also opportunities for actors to change existing structures and practices (Thornton et al., 2012).

While the literature on institutional logics is established in organization studies, it is still nascent in the IB literature (Thornton and Ocasio, 2008; Thornton et al., 2012). MNE subsidiaries provide an ideal setting in which to explore institutional logics because they are forced to respond to potentially conflicting sets of logics, that is the tension between MNE/home country and host country contexts. Pant and Ramachandran (2017) explore how a long-established MNE subsidiary strategically managed its organizational identity over time by balancing the MNE network logics and the host country logics as bases for the organizational self.

In this article, we interpret the MNE/home country and host country contexts as representing two distinct institutional logics. Table I summarizes some implications of the conflicting logics of the MNEs' network and host country. Consistent with the pattern matching technique for the capture of institutional logics in a qualitative study (Reay and Jones, 2016), we populated the fields of the table by drawing upon literature on institutional logics (e.g., Newenham-Kahindi and Stevens, 2018; Pant and Ramachandran, 2017; Thornton, 2004; Thornton et al., 2012) and literature

Table I. Contradictory institutional logics in the context of the MNE subsidiary in Indonesia

<i>Key characteristics</i>	<i>MNE logic</i>	<i>Host country logic</i>
Ideology	Managerial capitalism	A mix of market and welfare capitalism
Strategy	Global integration	Local responsiveness
Economic activities	Transactional	Relational
Religion	Promoting diversity, including all religions, although global management generally separates between business and religion	Predominantly Islam
Human resources	Combination of talent from home, host and third country nationals	Promotion of local employees; senior management consist of host country nationals
Source of legitimacy	Performance in the MNE network; consistency with home country norms or regulations	History of local engagement; embeddedness in local context; local listing; compliance with local regulations
Source of identity	Multinational enterprise	Host country, localized identity
Focus of interest	Financial performance	Impactful projects and initiatives in line with host country needs; leadership in local markets
Source of authority	Formal hierarchies expressed through corporate HQ, supervision by corporate board of directors	Supervision by subsidiary board of directors consisting of host country nationals
Time cycles	Cycles of subsidiary director tenures; annual results announcements	Tenure of government; periods of demographic/economic/social continuity

specific to our context (e.g., Dieleman and Sachs, 2008; Dieleman and Widjaja, 2019; Van Marrewijk, 2004).

The dual embeddedness of MNE subsidiaries means they are aware of choices that may not be consistent with the political, cultural, and cognitive dimensions of host countries (Kostova et al., 2008; Regnér and Edman, 2014). When institutions have contrasting logic about how the same activity should be conducted, ‘institutional friction’ may arise (Stevens and Shenkar, 2012). Recognizing the role of embeddedness as both an enabling and a constraining force in the institutional logics literature (Thornton and Ocasio, 2008), we discuss the challenges MNE subsidiaries face when they embed themselves within the political, cultural, and cognitive dimensions of host country institutions (Cheng and Huang, 2020; Fortwengel and Jackson, 2016).

Political embeddedness in emerging markets has been shown to reduce the liability of foreignness, provide opportunities for affecting regulatory policies, mitigate various political and contractual risks, and improve access to resources, information, and political favours (Carney et al., 2016; Hillman et al., 2004; Okhmatovskiy, 2010; Sun et al., 2010). For instance, Carney et al. (2016) demonstrate how access to local government officials through partnerships, the use of local experience and local achievements, and developing structures that align with host institutional expectations can help build trust and legitimacy in the creation of new institutional logics in host countries. However, MNEs from developed markets often think of economic and political activities in transactional terms, whereas in emerging markets, personal, long-term relations are required for cooperative nonmarket relationships (Hillman and Hitt, 1999; Newenham-Kahindi and Stevens, 2018). Furthermore, close political relationships and politicians taking up seats on corporate boards are increasingly considered as controversial in developed markets, but common and accepted in emerging markets (Okhmatovskiy, 2010).

Compared to new MNE entrants, longstanding MNE subsidiaries with deep country experience and associated social and political ties with the political elite are likely to better withstand political shocks (Frynas et al., 2006; Mbalyohere and Lawton, 2018; Pant and Ramachandran, 2017). However, political embeddedness may be costly, with Sun et al. (2010), for example, suggesting that over-embeddedness of an early entrant in the local political system may become a liability after market liberalization has taken place. Advantages gained from years of relationship-building can disappear when government regime change takes place (Dieleman and Boddewyn, 2012).

Cultural embeddedness refers to the role of shared, culturally embedded understanding, beliefs and preferences between individuals (Cheng and Huang, 2020; Thornton and Ocasio, 2008). It also includes an understanding of the institutional logics governing the practices, rules, values, and assumptions as well as religion that guide behaviours (Thornton et al., 2012). The institutional logics perspective considers markets and culture as interrelated and interdependent. This underscores the difficulty MNEs encounter when faced with the task of attempting to learn a new and complicated set of logics (Webb et al., 2010). As subsidiaries gain more experience in the host country, they can adopt hybrid practices embedded in competing logics of the MNE’s home country and the host society (Newenham-Kahindi and Stevens, 2018).

One key element of managing a conflicting set of institutional logics is the subsidiary leader (Pant and Ramachandran, 2017) who mediates not only between headquarters and

the subsidiary but also between the subsidiary and the external environment (Birkinshaw et al., 2017). MNEs typically appoint home country expatriate managers to maintain parent-company control or hire locally to increase local legitimacy (Xu et al., 2021). In culturally distant countries, MNEs may prefer local employees (Shin et al., 2017; Wilkinson et al., 2008) because of potential concerns about the effects of expatriates on legitimacy in the local market (Peng, 2012). Building on the cultural tightness/looseness concept (Gelfand et al., 2006), Shin et al. (2017) show how expatriate effectiveness depends on cultural distance. Expatriate managers from loose cultures who work in a subsidiary in a tight culture may struggle to learn about and adapt to the relatively large cultural distance between the two countries (Minbaeva et al., 2021). As subsidiaries mature, ethnocentric staffing policies are often replaced by more progressive, polycentric, and geocentric attitudes (Caligiuri and Stroh, 1995). Mature subsidiaries employ mostly local employees who embody local cultural norms and practices, which is effective for bridging cultural differences.

Cognitive embeddedness describes the similarities of actors in terms of beliefs, of what is important and what are acceptable solutions. Foreign subsidiaries benefit from their network in sensing opportunities, mobilizing local resources and knowledge (possibly also through connections to political players), or embracing local logics. At the individual level, studies have examined the concept of cognitive framing, which seeks to understand how individuals mobilize legitimizing elements to support their non-institutionalized ideas (Boxenbaum, 2014). Individuals rely on familiar, schema-driven information processing and engage in deliberate problem-solving and sensemaking (Saka-Helmout, 2020). The ambiguity that arises from conflicting logics also requires additional cognitive efforts by managers to analyse and make sense of the environment, strategize what needs to be adapted and to what extent, and maintain a discourse internally and externally to shape mutual perceptions about cultural differences and appropriateness (Kostova and Beugelsdijk, 2021).

At the organizational level, the institutional logics perspective provides an overarching view of how institutional systems shape organizational cognition (Friedland and Alford, 1991; Thornton and Ocasio, 1999; Thornton et al., 2012), as well as subsidiary identity formation and change (Pant and Ramachandran, 2017). Identity is considered essential to understanding an MNE subsidiary's interactions with home and host country stakeholders (Saka-Helmout, 2020). Subsidiaries leverage their identities to reconcile competing logics (Edman, 2016; Pant and Ramachandran, 2017). For instance, Pant and Ramachandran (2017) looked at identity duality in the Indian subsidiary of Unilever, and demonstrate how the subsidiary was able to proactively adjust its identities over time to gain competitive advantage in the host country. The company's longstanding presence in the country reflected its British origins, associated with colonialism, but was able to construct novel claims of complementarities (logic bridging) in response to the Indian government's requirement for MNEs operating in India to demonstrate their relevance.

This growing body of research both in IB and the broader organizational literature indicates the value of taking an institutional logics perspective to our research question of how firms might achieve the institutional embeddedness needed for long-term survival. This approach suggests that firms may experience conflicts between their own

institutional logics and those of a host country, and that to overcome these conflicting logics MNE subsidiaries strategize on what needs to be adapted and to what extent while working within two conflicting set of logics (Webb et al., 2010).

RESEARCH SETTING AND APPROACH

The context of our study is the institutional embeddedness of four longstanding Dutch consumer goods MNEs with colonial roots in Indonesia. Indonesia's institutional environment is typical of emerging markets in some ways but also unique due to strong economic nationalism and cultural traditions (Van Marrewijk, 2004). The Indonesian context is remarkably complex given the multitude of cultures, languages, ethnic and religious diversity, as well as differences in the use of personal networks, time-related issues, management practices, delivery of criticism, and transfer of knowledge (Brandt, 1997; Marrewijk, 2004).

Extant research explains how political support in colonies creates first mover advantages (Frynas et al., 2006). Prior to independence in 1949, Dutch firms entering Indonesia benefitted from a 'politically sympathetic environment' (Sluyterman and Bouwens, 2015, p. 105) in which the colonial government had, at least partially, recreated its own administration and institutions. However, post-independence, Dutch assets were nationalized, and expatriates sent home. In the 1960s, the Indonesian government softened its position, opening up to Dutch companies, partly because the Government did not have the technical capabilities to operate the factories (Sluyterman, 2017). However, Indonesia's independence gave rise to new challenges for doing business in Indonesia, where an 'Indonesianization' movement (i.e., decolonization, White, 2012) aims to wrest control from Dutch firms and develop indigenous firms. Dutch firms have had to deal with tensions, nationalistic rhetoric, policies requiring more involvement of local managers, restrictions on the transfer of profits, and raised import duties. White (2012) notes that the unpredictable and unsettled political economy of post-colonial Indonesia means that the balance of advantage lies not with the MNE but with the host state and society.

We seek to understand MNEs' embeddedness via an in-depth exploratory understanding of 'being there' through an inductive approach (Welch et al., 2011). We chose a multiple case study approach, involving observations, interviews, and archival research to gain a more nuanced understanding of the underlying mechanisms that led to deep institutional embeddedness (Miles et al., 2014). Multiple cases can create opportunities to triangulate findings and to augment external validity. This approach is considered appropriate to the study of the Indonesian context, a highly trust-based society, generally based on personal and social relationships (Dieleman and Widjaja, 2019).

Case Selection

We adopted criterion sampling, a strategy of purposeful sampling (Miles et al., 2014). Case firms had to be (i) subsidiaries of Dutch MNEs (ii) operating in the manufacturing industry, (iii) market leaders, (iv) of significant size (>500 local employees), and (v) have

extensive experience in Indonesia as the focus is on MNEs that are deeply embedded in the host country. During our initial stage interviews with the MNEs, we asked how important linkages to socio-political actors were to maintain embeddedness in Indonesia. The MNEs all confirmed that their embeddedness in the (local) institutional environment through relational work had been the key determining factor for their continued success in the Indonesian market.

Given our focus on institutional embeddedness and socio-political relationships, we believe that longstanding consumer goods manufacturing subsidiaries are particularly well-suited to generate novel insights. Manufacturing subsidiaries operate in a complex environment in emerging markets, with multiple diverse stakeholders, including local suppliers, governments, regulators, and environmental NGOs. The cases are presented in more detail in Table II.

Our sample firms share several characteristics (see Appendix for case descriptions). Firstly, the firms have colonial roots, are wholly owned operations and, although one operates as a joint venture company, it is 95 per cent owned by the Dutch and its local partner is not involved in daily management. Secondly, all firms have reached a significant presence in the country, spanning all densely populated islands, and collaborate with numerous distributors and retailers in local networks. Third, the firms are longstanding, are involved in diversified activities and are market leaders in at least one category, thus they possess a 'dominant position'. Hence, our focus is on institutional strategies including those that involve agency and institutional embeddedness of dominant, longstanding MNEs.

Data Collection and Analysis

The data were collected from multiple sources at different stages. Beginning in 2017, we conducted our first stage interviews with gatekeepers, creating an initial narrative of each case guided by a set of general questions. The resulting initial narrative was sent to the first stage participants for feedback, which resulted in minor modifications based on their comments.

On-the-ground observation and interviews were conducted on a full-time basis between April and August 2018 in Jakarta where the firms were headquartered. The researcher negotiated access to the European Business Chamber of Commerce in Indonesia, which included a working space and access to staff and networking events during the fieldwork period, as well as continued support to remain informed of relevant events and outcomes in the years following the end of the formal data collection period. Most participants held senior positions, such as directors and vice presidents so were familiar with strategy formation (see Table III). All expatriate managers and several local managers had previously worked at the firms' Dutch HQ and the questions posed related to the challenges they had faced in the Indonesian market. In all cases, the researcher was able to interview at least one former employee. Additional interviews were conducted with subsidiary managers via Zoom and Skype between April 2019 and June 2021 totaling 33 formal interviews – with an average duration of 60 minutes each. Formally scheduled interviews included MNE expatriates (13), local employees of MNEs (10), and experts (10), in addition to another 45 more informal

Table II. Summary of the profiles of the cases in the study

<i>Firm/categories</i>	<i>First Class Dairy</i>	<i>Holland Beer Company</i>	<i>Universal Global Goods</i>	<i>Primus Technics</i>
Global HQ	Netherlands	Netherlands	Netherlands	Netherlands
Industry	Dairy products	Beverages	Branded consumer products	Consumer electronics, medical equipment
Employees global	50,000–100,000	50,000–100,000	>100,000	>100,000
Employees Indonesia	2,000–5,000	500–1000	5,000–10,000	2,000–5,000
Year of establishment	1970s (Exporting since 1920s)	1930s	1930s	1940s (Exporting since 1890s)
Ownership mode	Joint venture (95% owned by Dutch parent organization)	Wholly owned subsidiary	Wholly owned subsidiary	Wholly owned subsidiary

Table III. Interview data gathered

<i>Cases</i>	<i>Number of interviews</i>	<i>Participants positions</i>	<i>Indonesian (I), Dutch (D) or other (O)</i>	<i>Tenure (Years at subsidiary)</i>	<i>Length interview (hrs)</i>
First Class Dairy	5	Operations Director	O	3–5	1.5
		HR Director	I	>10	1.5
		Corporate Affairs Director	I	5–10	1
		Finance Manager	D	1–2	1.5
		Former Country Director	D	5–10	3
Universal Global Goods	7	Head of External Affairs	I	5–10	1
		Head of Communication	I	5–10	1
		Head of Foundation	I	>10	1.5
		Import Export Manager	I	3–5	1
		Finance Director	D	2	1
		Former Government Affairs Manager	I	2–5	2
		Former Director	O	2–5	1
Holland Beer Company	7	Country Director (2013-2019)	O	3–5	1
		Country Director (2019-2021)	D	1–2	1
		Finance Director	O	3–5	0.5
		Supply Chain Director	D	1–2	1
		Marketing Director	I	>10	1.5
		Former Commissioner	D	5–10	1.5
		Former Country Director	D	1–2	1
Primus Technics	4	Head of Marketing	I	3–5	1.5
		Corporate Comm. Manager	I	1–5	1.5
		Former Sales Manager	D	5–10	1
		Former Country Director	O	5–10	1.5

conversations with suitable parties, such as representatives of embassies and trade associations, industry experts, consultants, government officials, and academics. The first author also travelled to the Netherlands in 2019 to interview former country directors who had since returned to headquarters.

The interviews were conducted in Indonesian, Dutch, and English depending on the preference of the participants, with the aim of capturing the informants' voice and perception of their experience (Gioia et al., 2013). While transcribing the interviews in English, we frequently asked for a second opinion from native speakers. We aimed to interview at least five respondents within each firm to increase the internal validity of each case, except for one firm where only four interviews were possible. The interview evidence was supplemented by external documents.

Our triangulation efforts also included the use of archival data, such as annual reports, press releases, media accounts, and parliamentary proceedings, as well as searching in databases, such as Euromonitor and Frost and Sullivan, and popular newspapers in the region (e.g., *The Jakarta Post*) for news stories about the firms and associated people using databases (see Table IV). The number of files on each of the main cases ranged between 35 and 45, which helped to corroborate evidence from the interviews. We also had access to MNEs' archival information, providing information about strategies, activities, and responses to local issues.

To further enhance the quality of sense making, validity and reliability, the main analysis and interpretation phase was followed by additional interviews to discuss the findings with participants and to clarify and strengthen the quality of emerging theorization (Welch et al., 2011).

Each of the four cases was analysed separately, and then the cross-case analysis was carried out (Miles et al., 2014). For each case, we synthesized the interview data, internal documents, and newspaper reports to produce a coding scheme using NVivo

Table IV. Other data gathered

<i>Outsiders</i>	<i>Number</i>	<i>Participants</i>
Formally scheduled interview	10	Chambers of commerce staff, lawyers, consultants, and corporate managers from MNEs
Informal shorter conversations	45	Academics, lawyers, consultants, embassy representatives and corporate managers representing local and international firms, government officials
Reports		
Public	20	Annual reports from (approx. five per case)
	17	Parliamentary proceedings
	163	Media articles (approx. 40 per case)
Internal	4	Strategic documents (received from interviewees)
	40	Press releases (approx. 10 per case)
Seminars and other events	35	Events attended

(version 12.6.1). The cross-comparison included a search for similarities and differences with respect to the dynamics of the interactions between MNEs and local socio-political actors.

After developing the 33 first-order categories, relationships were identified across categories and consolidated into nine second-order themes to develop, relate, and separate categories (Strauss and Corbin, 1998). We then aggregated the second-order concepts into three overarching theoretical dimensions. At this stage, the linkages and processes between different constructs started to emerge, which enabled the researcher to further develop the data structure (see Figure 1) (Gioia et al., 2013). To further ensure the validity of the analysis, the findings were discussed with three colleagues, as well as with two participants, to generate alternative explanations. The institutional logics literature helped us to make sense of the data, and we integrated ideas from these literatures into our emerging theoretical framework. This process led to core themes, which constituted specific mechanisms that led to sustained institutional embeddedness.

The findings emerged through an iterative rather than linear process, with our prior understanding shaping our research question, leading to interesting insights from the field, and causing us to look afresh at the academic literature. We started from prior research and knowledge of the research context where the Dutch MNE subsidiaries were longstanding organizations preceded by a long colonial history and we saw the firms' long history of operating in the country as both beneficial and constraining because of conflicting institutional logics between the MNEs' home and host countries.

FINDINGS

In this section, we present our findings with a focus on the mechanisms that facilitated sustained institutional embeddedness. We start by examining some of the challenges the studied MNE subsidiaries have faced in Indonesia not only because of their colonial roots, but also due to a conflicting set of institutional logics. We discuss these conflicting logics in terms of the three strategically interconnected dimensions of the institutional environment: political embeddedness, cultural embeddedness, and cognitive embeddedness. While the MNEs were relatively successful in maintaining their institutional embeddedness, the firms were constrained when friction arose. Furthermore, we highlight the differences in the firms' institutional strategies, discussing the factors that led to successful embeddedness for some firms and failure for others.

Challenges Faced in Indonesia

Indonesia's relationship with its former colonial ruler remains delicate (Van Marrewijk, 2004; Sluyterman, 2017). Informal (e.g., nationalist rhetoric) and formal (e.g., restrictive regulations) disruptions are frequent and negatively influence perceptions of Dutch MNEs and their license to operate. Participants explained how the government often makes sudden unpredictable changes to the rules and that nationalist policies are often directly targeted at foreign MNEs. A former Subsidiary Director of PT noted that *'Someone stood up during a press conference and said, "You bloody Dutch, you*

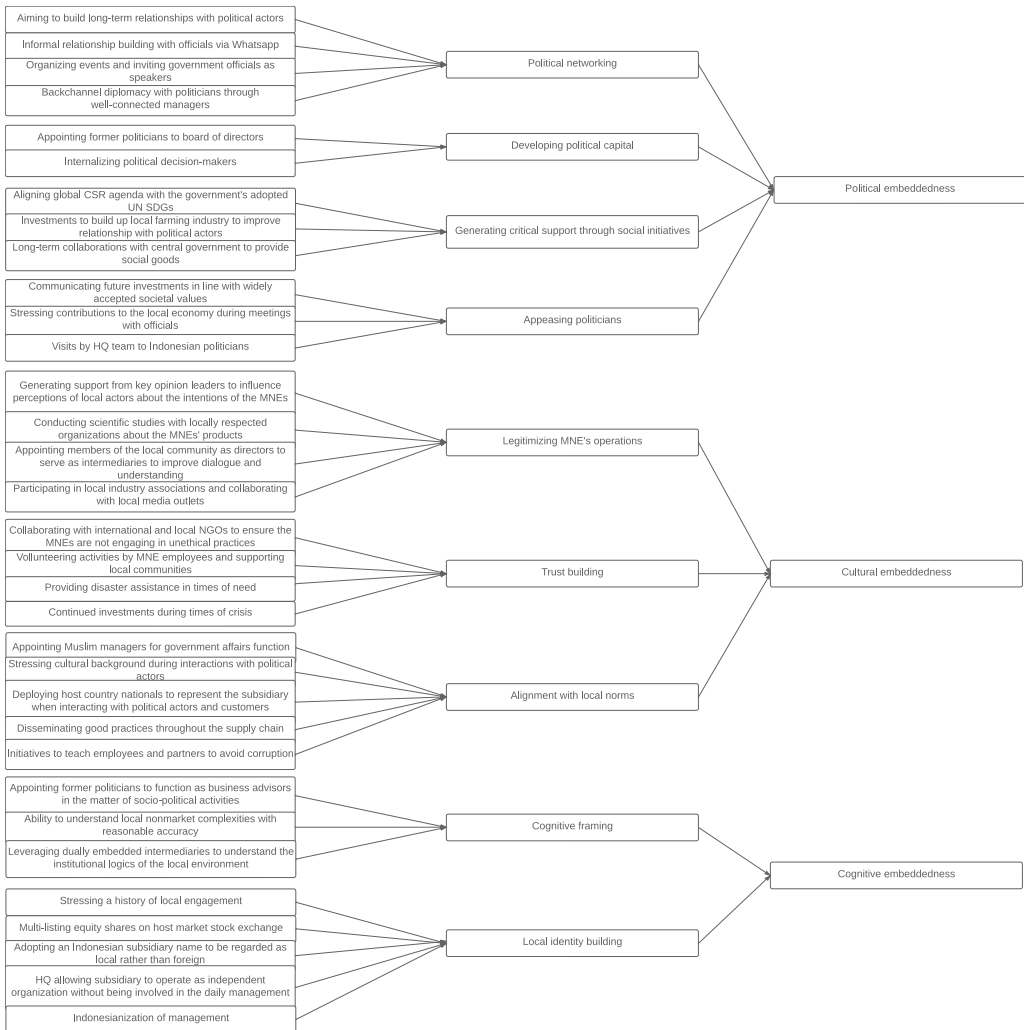


Figure 1. Data structure

raped and pillaged our country, you should pack up and go home”, while the cameras were rolling. Participants also hinted that they were reluctant to question established norms. In addition, they noted that being too critical of the government could irreparably damage a firm’s legitimacy.

The foreign MNEs encountered different competing logics governing the practices, assumptions, values, and rules regarding not only identity but also culture, religion, and the value of social ties over more instrumental, transactional exchanges (Newenham-Kahindi and Stevens, 2018). In many cases, these competing logics involved deep-rooted and taken-for-granted beliefs, values, and practices, making isomorphism difficult, particularly for expatriates whose institutional logics were influenced to a great extent by their home country (Thornton et al., 2012). As one expatriate director stated:

What I have learned is that if you look through your European glasses ... if you just want to be a global business based on our European values, that is difficult here ... Countries like Indonesia start saying if you keep trying to force your European values on us, you are simply not welcome here ... Internally we have a lot of discussion about that. Things like equal rights, LGBT, diversity, and inclusion, they don't appreciate that here. This is tricky because back home we are receiving pressure on these matters. (UGG, CFO)

The underlying assumptions, beliefs, and values are deep-rooted in not only the local environment but also the MNEs themselves, reflecting their identity and purpose (Thornton and Ocasio, 1999). Dutch MNEs in the past relied on expatriate managers (Sluyterman, 2017), and while this has changed more recently, partly due to regulations, expatriates continued to struggle to fully understand and empathize with local beliefs and norms, as evidenced in the following quote by HBC's Country Director:

We, and I'm talking about expats, will never really understand how things work here. The informal networks, the politics, culture, religion, and things you can or cannot do are very difficult for outsiders to navigate. Most of our board members are therefore locals; they are people who understand the country very well.

These quotes also demonstrate the need to leverage local employees as a go-between to assist MNEs to better understand the host country environment. However, the relational, informal nature of doing business was not always accepted by corporate headquarters, which focused on economic activities as transactional rather than relational, with the ultimate goal of making a profit. In Indonesia corruption is rife and foreign firms must be aware of the global consequences of their local actions:

The starting point are our mission, vision, and code of business principles. They give us guidelines for how to operate in Indonesia. And we do that within our norms and values. Yet we need to find a way to stay competitive in a country that has a lot of corruption ... We have to be very strict because when you slip, you will risk ... consequences not only here in Indonesia but also for our shareholders in the Netherlands. (PT, Former Country Director)

This quote demonstrates the difficulties in using isomorphism strategies to achieve legitimacy in a firm's host market. Foreign MNEs must balance their desire to become legitimate in a host country with the need to remain legitimate in their home country (Kostova and Zaheer, 1999).

Corporate headquarters aimed to standardize management practices related to topics such as transparency, diversity, ethics, and environmental protection not only for local employees but also for supply chain partners. Despite HQ's policies to promote diversity, including all religions, the separation between business and religion at headquarters was in stark contrast to Indonesia, where Islam played a pervasive role in the business environment. The implications of this were outlined by HBC's CFO:

Traditionally, Indonesia has been a very tolerant country for different religions and customs. From that background, there has always been the space to brew alcohol because there was a market for Christians, Buddhist, Hindus, tourists, or expats, but also many Muslims were drinking beer. So, the question is not so much how we become legitimate, because we already had it, the question is more about how our position changes in the way Indonesia is changing. Recently, there is a lot of attention for Muslim issues, such as alcohol and LGBT and a few other things. The government is increasingly imposing restrictions on the sale of alcohol. And if the fundamentalist win during the next election, they may well restrict alcohol altogether. (HBC, CFO)

This quote demonstrates the friction (Shenkar, 2001) that arises when firms with different institutional backgrounds confront each other. Both expatriate and local employees highlighted the difficulty in advocating and implementing diversity policies because they are considered to be sensitive by host country stakeholders. For instance, UGG had received backlash from political parties over the alleged selling of a rainbow-coloured product. Soon after, it released a statement that it did not sell the product, stressing its long history in the country and that it respects the cultural and religious values and norms in Indonesia. Participants from HBC, PT and FCD confirmed the need to be cautious when implementing policies that may conflict with the prevailing culture, norms, and values. Several international news outlets have criticized the firms' inconsistent adoption of diversity policies.

Overall, it was quite complex for the studied firms to exert agency in the Indonesian market not only because of their shared colonial history, but also because of different institutional logics that dictate contradictory (and often incompatible) set of logics. For a foreign firm, these complex and competing logics place significant strains on their ability not only to influence but also to conform to the surroundings. Next, we discuss the mechanisms through which political, cultural, and cognitive embedding took place while working within two often conflicting institutional logics (see Figure 1).

Political Embeddedness

Political networking. We found that social relationships play a crucial role in constructing MNEs' involvement in Indonesia's political sphere, where, according to HBC's former Country Director, '*In the end, everything boils down to government relations*'. Political relationships required embedding practices in host contexts through networking with relevant stakeholders and bridging institutional differences through day-to-day interactions. Despite pressure from headquarters to keep political relations 'above board', local subsidiary managers were typically allowed to embed themselves in different circles that decide the rules of the game both for formal (via industry associations and with local governments) and informal (via backchannel diplomacy with officials) institutions. For instance, subsidiary managers of all firms took up leading roles by serving as board members in the industry associations they had joined. Relationships with government officials were built informally through platforms such as WhatsApp, and formally by inviting government officials to events at the Indonesian headquarters. As one director

explained:

We can't imagine this in the Netherlands that you are in WhatsApp contact with a minister. Here if the government calls you for a meeting, they call you for a meeting in the morning and you must appear that same day. Sometimes the invitation comes through WhatsApp, or even in the group chat. So, it's about having your network and spending enough time on stakeholder management ... In the Netherlands there are clear rules ... here in Indonesia it is all about having the right networks. (HBC, Country Director)

The formalized, bureaucratic nature of government interactions in the Netherlands stood in stark contrast to the informal, personal nature of Indonesian political relations. Generally, due to their extensive experience, the MNEs understood the need to pursue political strategies across issues and over the long-term, rather than on a case-by-case basis, so that when regulatory issues arose, the contacts and resources needed to influence policymakers are already in place.

Managers agreed that active participation in institutional networks was indispensable for generating political support. They prioritized developing structures that align with host institutional expectations before attempting to influence restrictive policies. For instance, participants considered it critical to first develop personal relations, stressing local employment and local achievements that facilitated trust and legitimacy. As a result of their political embeddedness, the firms were often invited to discuss and give feedback about the implications with the regulators directly. This way the firms generally could push practices, standards, norms, and regulations that support their survival in the host country. These same firms actively intended to change local institutions, or create new ones when absent, to match them with internal standards set by headquarters. Because the MNEs built the required formal and informal networks and possessed resources (i.e., financial, human, or knowledge), influencing local institutions became feasible. Thus, embedding structures in the host country environment does not merely generate constraints on agency but also provides opportunities to create and modify the institutions in which they are embedded (Garud et al., 2007; Newenham-Kahindi and Stevens, 2018).

Developing political capital. Two case firm (HBC and UGG) appointed former politicians to their supervisory board, which is common practice for Indonesian firms, but often frowned upon in the firms' home country. Appointing high-profile ex-politicians to the board may provide greater networking opportunities:

To give us insights about the culture, political dynamics, and their perspectives of why things are ... they have their network of contacts that would basically do the introductions, and because they write the letter as an introduction for a meeting, it will help us get the meeting. (HBC, Country Director)

This is termed 'board political capital' (Hillman, 2005), representing not only directors' human capital in terms of government knowledge and experience, but also

their social capital or connections to government decision-makers. It also allows firms to make sense of the local political environment and understand its complexities and nuances.

Interestingly, one of the participants, UGG's Head of External Affairs, recently '*took a sabbatical to work for a year at the government's investment coordinating board*', which oversees policy development and implementation, and reports directly to the president. The participant informed us that the insights gained were invaluable for navigating the political environment. Furthermore, in the late 1990s, President Suharto asked HBC's subsidiary director to join his cabinet, and continued, with Suharto's permission, to run the company while also being a government minister. However, this '*got us into a lot of trouble later*' (HBC, Former Director) and after mounting pressure from home country stakeholders (because this contravened home country norms), he stepped down from his role at HBC. This reiterates the difficulties MNEs face when engaging in activities abroad that are inconsistent with home country norms (Kostova and Zaheer, 1999).

Gaining critical support through social initiatives. One way to bridge conflicting logics is by demonstrating how MNEs may assist in managing important social problems, and in taking part in collaborative projects with social and political actors. The Indonesian government's recent legislative attempt to mandate corporate social responsibility (CSR) funding implementation signals increasing government and societal expectations of organizations. While the firms lobbied against the proposed legislation, they also did not want to be seen as opposing CSR initiatives, so they responded with an 'unbranded approach', collaborating with lobbying organizations and financing independent organizations to conduct and communicate research supporting their interests.

At the same time, the firms were increasingly partnering with the host government and NGOs to improve local conditions. While the MNEs' activities appear to be targeted explicitly at improving the wellbeing of the general population, they are also clearly aimed at legitimacy. For example, FCD's initiative to train young farmers, given the ageing farmer population. With the support of home and host governments, FCD built a modernized farm where Indonesian farmers receive training from Dutch farmers to improve efficiency and boost milk quality and productivity. In turn, FCD gained increased power and influence when dealing with political actors:

The director-general of the Ministry of Industry was a keynote speaker at our Young Farmers Academy because one of the government's challenges is the ageing population of the farmers. They are very impressed because not many of the private sector firms want to collaborate with local farmers in Indonesia. Of course, we sell this program to the Ministry of Agriculture, and we say that we have worked with the local farmers. Now we are involved with the ministry in a discussion to create a regulation on the fresh milk. (FCD, Corporate Affairs Director)

This is one of several examples where embedding practices in host institutional contexts and developing structures that align with host institutional expectations created

opportunities to influence policy. The MNEs attempted to influence decisions by applying their expertise, offering advice, making investments, and taking part in important projects with a long-term impact on society. In turn, this freed them from some regulative constraints and allowed the firms to become involved in policymaking.

Appeasing politicians. Respondents from the MNEs also highlighted that during meetings with political actors, it was necessary to emphasize their firms' contributions to the local economy through tax contributions, sourcing materials locally, and providing employment opportunities for locals. The firms were aware of the way in which foreign governments accord legitimacy to foreign firms and communicating future investments helped to build cooperative relationships. Examples include HBC's investment in a new factory producing non-alcoholic beverages and UGG's recent announcement of plans to build a recycling factory. Top management teams from all firms regularly visited Indonesia to meet with Indonesian politicians. According to PT's Former Country Director,

My Dutch director regularly came over to Indonesia to talk to the Indonesian Government, shake hands and demonstrate that we are committed. Of course, they wanted us to create more jobs and make new investments, but it is also very important to meet in person and to get to know each other. It was about giving respect and building trust. These visits were always appreciated by the Government.

These visits were made to bridge two sets of logics: to meet the institutional expectations of the host market and to demonstrate an emotional commitment to host country logics. Conflicts can be resolved through relational emotions involving respect and trust, which can help people from diverse institutional contexts work together (Toubiana and Zietsma, 2017).

Cultural Embeddedness

Legitimizing. PT adopted a strategy of gaining support from medical associations, who are considered to be KOLs. With their support, PT targeted political decision-makers about the functionality and technology of its products and services, as well as their potential to support the government in attaining the Sustainable Development Goals (SDGs). FCD also approached medical experts, such as nutritionists, midwives, pediatricians, and medical doctors, as opinion leaders to help create awareness about the importance of dairy in a healthy diet, given that Indonesia traditionally does not have a milk-consuming culture. These experts assisted FCD in influencing the prevailing norms, values, and behavior of society.

HBC operates in a heavily regulated market, which does not permit firms that produce alcoholic beverages to advertise their products openly. Instead, HBC supported beer enthusiasts and culinary experts through knowledge sharing, for example, sending brewers to speak at events and via financial donations. This provided a unique way of reaching consumers in an area where local logics see beer consumption as '*frowned upon*' (CFO), and in some conservative parts of the country, illegal. For this reason, HBC recently,

'appointed a Muslim director to our board, he helps us understand how to communicate our story towards our stakeholders ... with respect for religion' (Country Director). Here local employees of foreign MNEs, as well as outside agents, can serve as intermediaries to improve dialogue and understanding between the MNE and the community.

Trust building. Bridging competing logics requires building trust with relevant stakeholders, such as the government and general public. While trust is generally seen as a dyadic concept, actors can also gain a higher level of trust from society through having a good general reputation (Elg et al., 2015). The studied firms developed relationships with major NGOs, such as Oxfam Novib and UNICEF, and have become members of the United Nations Global Compact to increase trust in their brands and to stress that they are not involved in ethically questionable working practices. Furthermore, all firms involve the government actively in CSR projects aligned with the SDGs, which were adopted by the Indonesian government in 2015. This positioning is important for increasing trustworthiness and is a good example of where logics align, with entering into collaborations to increase mutual trust and understanding.

Other MNE strategies to develop trust in the host society include, for instance, providing financial assistance in times of natural disasters, such as the earthquake in Lombok in 2018. The firms also devoted considerable resources to developing the communities surrounding their factories. For instance, FCD, HBC, and UGG provided nutritional support for children, partnering with local organizations. Furthermore, the firms offered work for local labor, and FCD and UGG trained women in skills to earn extra income. Managers of these same firms also volunteered in local schools and participated in community clean ups. Such programs were regarded by management as especially valuable in the development of good relations with residents and community leaders.

Our analysis suggests that the MNEs' long-term relationships with the national and local government actors was crucial to achieving trust and that this also involved exercising influence over institutions. During the financial crisis of the late 1990s, many MNEs left the country. Not only did participants from all firms stress that their long-term commitment to the country was a crucial factor in developing trust, but managers from HBC and PT specifically mentioned that their continued investments throughout the financial crisis had built commitment trust in the eyes of the government.

Alignment with local norms. The firms understood the importance of local norms and customs, and aspects such as religion and ethnicity played an important role in developing relationships with political actors and overcoming cultural differences. Cultural background (religion), geographical location (a particular city or island), and education (school or university) play a role in the firms' planning process, as Indonesians are known to base decisions on a personal basis. Participants emphasized the importance of cultural awareness in establishing relationships with government representatives:

Culture matters, you need to be smart to read the situation because a similar cultural background will influence the way you communicate with the government.

For example, interactions with someone from North Sumatra will be different than, for instance, a Javanese. Before we meet a government official, we know in which university he graduated, we know his culture, which dialect he speaks, his political party ... all these things create an informal conversation that helps finally to convey your message. You have to find the sweet spot of that person. Of course, if you are coming from the same school or city... suddenly you become friends and then you can have a conversation about how things work. (UGG, Head of Government Affairs)

This quote demonstrates that individuals embedded in both sets of logics allow foreign MNEs to navigate, and even take advantage of, the complex multitude of cultures, languages, and ethnicities in the region. Aligning practices with local expectations facilitated cooperative relationships with the government. MNEs subsidiaries not only aligned practices in line with host country norms and expectations, but also matched standards set by headquarters, for example, by disseminating practices throughout their value chain. Thus, aligning with local norms also involves transferring what works well in their home country to the host environment. Many of these efforts were perceived by the government and partners as developing business standards in the host country, and therefore the firms faced little opposition:

We often organize training days with distribution partners, to teach them about good accounting practices and how to sell more. They are often small and have traditional ways of working. We have international standards which we must uphold, so we help them with that. The government welcomes this. Recently they [the government] asked us to organize tours for local business owners to our factories, so they are more aware of safety standards. (FCD, Operations Director)

Thus, in contrast to the challenges the subsidiaries faced in implementing diversity policies, due to their size, experience and legitimacy, the government encouraged these same firms to improve operating standards. Furthermore, UGG organized seminars for employees and partners about their ethical standards, particularly concerning dealings with the government. The government also encouraged MNEs to introduce initiatives to develop Indonesian firms, such as building up the local farming industry and sharing good accounting practices, but also providing tours for local business owners at the MNEs' factories to demonstrate the firm's high health and safety standards. These are good examples of initiatives where the government as well as local business partners were keen to learn from the MNEs:

The government often asks us to come up with initiatives to stimulate small and medium-size and large enterprises and promote employment. But also, they have asked us to share good accounting practices with our partners. We work with thousands of distributors and over a million retailers throughout the country. They know we can make a real impact. (UGG, CFO)

These quotes suggest that foreign MNEs are often valued precisely because they are different and unique, which may increase institutional standards (Cantwell et al., 2010). The firms profited from spaces of inconsistencies, to push practices, standards, norms, and regulations that favor their survival in the host country.

Cognitive Embeddedness

Cognitive framing. Given the heightened tensions and different forms of challenges faced by MNEs, expatriate managers acknowledged the importance of leveraging local employees' knowledge, particularly for government relations, to understand the complex logics governing the practices, assumptions, values, and rules of the host government. Embedded in both the local environment as well as the MNEs' hierarchy, these individuals, were able to help the studied firms to better understand the host country environment, and to help socio-political actors better understand the foreign MNE as a local actor with respect for cultural values:

One of the key things of my job is that you should know the government and that the government knows who you are and who you represent. So, I spend a lot of time making sense of all the different opinions of the decision makers within the government. We do a lot of stakeholder mapping, and we have discussions within the government affairs team about what we anticipate they will do next. (UGG, Government Affairs Manager)

Ongoing dialogue and consultation with officials were reported as critical, allowing local managers to interpret the many voices and opinions within the government. Local managers understood not only how to establish relationships with government officials but also the way in which these relationships were altered with changes in government or the 'mood' of government officials. For instance, HBC's Country Director noted, *'I don't think we will be able to reverse the law with the current administration, but we may try again after the election'*. HBC and UGG employed former politicians on their advisory board who were considered particularly suited to gauge what was described by one expatriate as *'the incredibly opaque structure of the government, it's almost impossible to navigate as an outsider'* (Former Country Director, PT). Generally, expatriate managers and global headquarters found it difficult to understand – let alone influence – government structures. While headquarters produced guidelines on how to engage with foreign governments, local managers were given autonomy to operate in line with local logics, that is, develop close, personal relationships with government officials. Managers' cognitive response strategies when faced with multiple institutional demands can be defined as 'cognitive framing' (Saka-Helmout, 2020).

Local identity building. The MNEs were allowed to reinvest in Indonesia in the 1960s provided the firms undertook immediate steps to 'Indonesianize' the management of the local subsidiary. Adopting a local subsidiary name is one example of how our sample firms developed structures that align with host institutional expectations. All firms stressed their history of local engagement as part of their local identity. For example, at FCD's subsidiary headquarters, the country logo was prominently displayed with the

text ‘celebrating 95 years in Indonesia’ (own translation). Furthermore, one local director noted:

We are in a very fortunate position because we established many years ago in the 1930s ... The colonial sentiment is not such a big issue anymore ... we are very much an Indonesian company. Also, 15 per cent of the shares are listed here. Many Indonesians, especially the new millennials ... see many Indonesians’ working there, they know our products ... we have been there ever since they were born. I think the roots and history in Indonesia makes us part of Indonesia. And that is the narrative we communicate to our stakeholders. (UGG, Head of Government Affairs)

This quote demonstrates that a long history accompanied by localization can be leveraged as an advantage. As part of building their local identity, UGG and HBC have listed equity shares on the Jakarta Stock Exchange, helping the firms to be regarded, to some extent, as local firms in the eyes of political actors, the public, and the media. This shows that host country actors, such as the government, may view firms as (to some extent) local, or, at least, localized, which can help firms to manage the perceptions of local actors. It also deepens the firm’s embeddedness by leveraging the advantages associated with bonding with institutions in a different context.

While Dutch MNEs have, in the past, been criticized for a lack of inclusion in their Indonesian subsidiaries, such as failing to promote local managers (Sluyterman, 2017), nearly all of the case study MNEs’ staff are Indonesian, including most of their most senior managers and board members. While UGG and HBC have appointed an Indonesian country director (CEO) in the past, expatriates (from India and Malaysia respectively), were at the head of the firms during the data collection period. However, FCD and PT appointed their first Indonesian CEOs in 2014 and 2015, respectively. As the MNEs matured, ethnocentric policies and attitudes have been gradually replaced by more progressive, polycentric attitudes (Caligiuri and Stroh, 1995). In our sample firms, the question was about the contribution of expatriates rather than vice versa.

Headquarters understood that it was necessary to develop locally appropriate ways of working, and to appoint host-country nationals at senior levels to clarify the implicit, yet ambiguous, cognitive and interpretation logics held by actors in the host country. Due to the complexity of local operations, the Indonesian subsidiaries enjoy a significant degree of autonomy in their day-to-day management. Headquarters restricted their remit to a limited range of decisions, such as the general direction of the business, top appointments, and major investments, although these too are made in full consultation with the subsidiaries.

DISCUSSION

Our discussion of institutional embeddedness by longstanding foreign subsidiaries addresses the unique challenges faced by MNEs attempting to engage with host

institutions (Kostova et al., 2008). Existing research often downplays MNEs' responses to institutional complexity, failing to consider individual and organizational agency (Cantwell et al., 2010; Regnér and Edman, 2014; Saka-Helmout, 2020). This approach relies on isomorphism to explain the direct effects of home-host country differences in political, cultural, and cognitive institutions on MNE activity (e.g., Cheng and Huang, 2020). Our findings suggest that it is not simply differences between institutions that affect MNEs, but also conflicting institutional logics that generate friction (Shenkar, 2001, 2012) (see Figure 2). Friction occasionally led to conflict and challenges for the firms in our study.

New MNE entrants typically rely on isomorphism strategies to blend in, by using practices similar to those of their local counterparts, consistent with local cultural norms (Rosenzweig and Nohria, 1994; Salomon and Wu, 2012; Zaheer, 1995). Our longstanding MNE subsidiaries adopted a broad range of institutional strategies, ranging from isomorphism to more proactive and manipulative institutional strategies depending on the nature of potentially conflicting institutional logics. Table V illustrates the firms' institutional responses to several issues that caused friction.

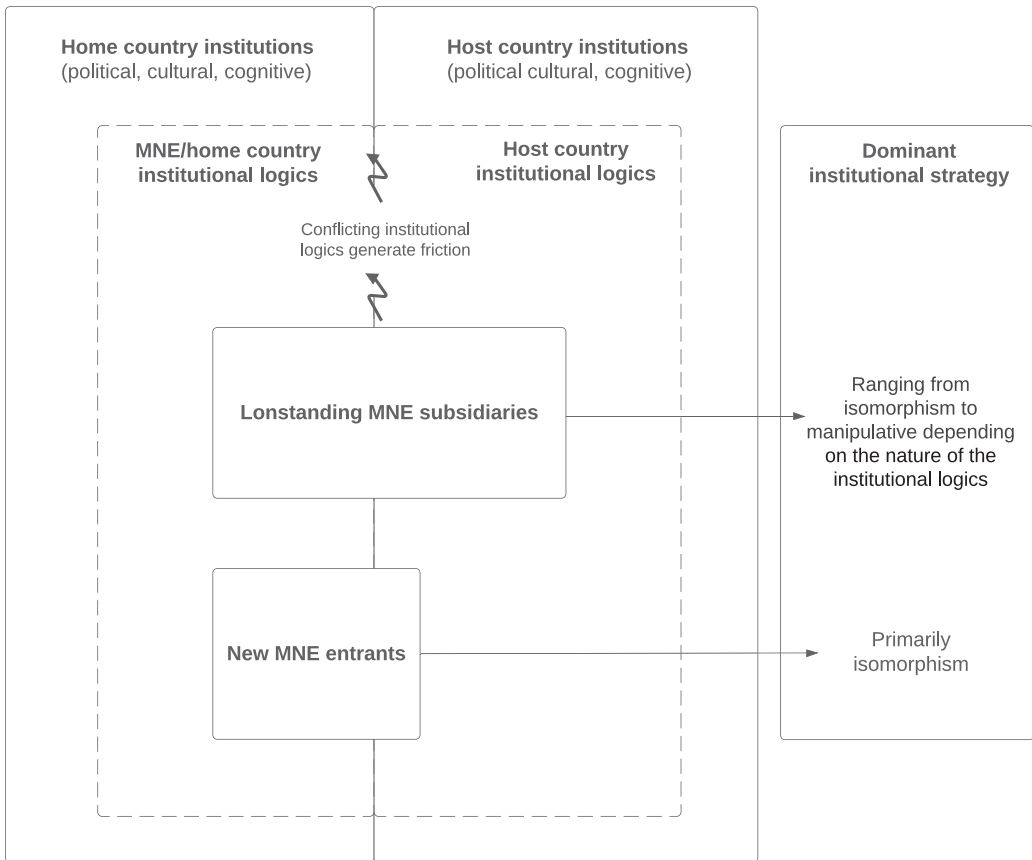


Figure 2. Institutional strategies in response to conflicting institutional logics

Table V. MNE responses to conflicting institutional logics

<i>Conflicting institutional logics generate friction'</i>	<i>Institutional responses</i>
Corruption: widespread in Indonesia but against home country norms and regulations	Subsidiaries follow MNE/home country logic not only by adopting strict codes of conduct, but also by actively influencing norms to increase transparency and avoid corruption of value chain partners
Alcohol: accepted in the home country but not by many host-country socio-political actors for religious reasons. Increasingly the host government is attempting to restrict or ban the consumption of alcohol	The firm sought to influence host country regulations by lobbying against policies that limit or ban the consumption of alcohol. Hiring Muslim managers from the local community and former politicians increased the firm's ability to do so. The firm also actively strived to influence consumer attitudes towards the consumption of alcohol because socio-political actors, are likely to reflect on consumer attitudes
Diversity policies: home country stakeholders expect MNEs to adopt and promote non-discrimination diversity policies while this is not accepted by host country stakeholders	Home country diversity policies (e.g, LGBT) may be contrary to local beliefs. In such cases, subsidiaries require the autonomy to deal sensitively with local politicians and religious groups, possibly by conforming to local norms
Economic activities: At headquarters, economic activities are conducted in a more formal, transactional way, while in Indonesia, long-term, personal relations are valued	Despite headquarters producing reports including guidelines on how to engage with foreign governments, local managers were given autonomy to operate in line with the local logics, i.e., develop close, personal relationships with government officials
Ideology: managerial capitalism versus a mix of market and welfare capitalism	While the firms invested major resources to improve conditions in society, when the government tried to mandate companies to allocate a percentage of their profits to CSR, the firms secretly lobbied against it. Thus, the firms were willing to invest in the country, but on their own terms. These activities were strategically leveraged in their interactions with political actors

Longstanding MNE subsidiaries are uniquely situated to deploy institutional strategies that more fully embrace institutional frictions. By being institutionally embedded and having proven a strong commitment to local communities, our case firms developed institutional strategies that allowed them to simultaneously navigate the contrasting institutional logics of the MNE/home country and the host country by, for example, proactively trying to shape – directly and/or indirectly – how challenges are framed and how political actors think about issues. These response strategies are based on a long-term institutional embeddedness that strategically shape the MNE subsidiaries' processes and decisions including hiring, resourcing, or networking.

Our study suggests that MNE subsidiaries are active agents sometimes able to break through existing institutional barriers (Marquis and Raynard, 2015). Political, cultural, and cognitive embeddedness allowed to reconcile conflicting home-host country pressures (Cheng and Huang, 2020). Embedding people and resources in the political

system and collecting information about politicians, their positions, and the needs of society (i.e., voters), helped firms to develop political strategies that affect public policy (Hillman and Wan, 2005). While these practices are implemented to some extent in the firms' home country, their informal and opaque nature has drawn criticism in recent years from the media. Similarly, the instrumental nature of CSR investments and how they are exploited in host markets can spark controversy, damaging legitimacy (Kim et al., 2018).

For cultural embeddedness, we identify underlying mechanisms of legitimating, trust-building, and alignment between norms. We show how longstanding MNEs operate in a region characterized by a complex multitude of cultures, languages, and ethnicities – typically considered a liability of foreignness (Newenham-Kahindi and Stevens, 2018). However, our case study firms strategically leveraged subnational heterogeneities by hiring local employees to establish personal, cooperative relationships with politicians, and to act as a bridge between the MNE and the local community.

Applying the cultural tightness/looseness concept (Gelfand et al., 2006) to our study, overcoming the tight norms and associated perceptions of locals regarding outsiders can be challenging, especially where there is resentment and skepticism on the part of the host country to the home country of MNEs (Sluyterman, 2017). In the case of the firms studied, this suggests that Dutch expatriates would likely be perceived as outsiders, regardless of their behavioural adjustments. By detailing and theorizing the micro-sociological processes through which foreign subsidiaries from a loose culture proactively negotiated their involvement with socio-political actors from a tight culture, the study extends our understanding of the role of intermediaries when faced with multiple and sometimes conflicting institutional demands. We found that local employees acting as intermediaries between foreign companies and local communities have internalized local cultural norms and practices that are in line with these deeply held values and therefore are most effective for bridging conflicting logics (Newenham-Kahindi and Stevens, 2018).

We found that managers' cognitive responses to multiple institutional demands require continuous engagement, reflection, and identification with the host country. Our study explicates mechanisms that show that cognitive embeddedness is not about best practice as frequently identified in the literature, but that adopting a local mindset by immersing in the local context, taking on local norms to legitimize actions, and becoming an active member of the community is a common element for all our longstanding subsidiaries. Embeddedness requires cognitive lateral immersion into local cultural and political norms rather than tolerance for local deviations by the MNE headquarters. Richer mental models acquired through the experience of diverse decision-making in varied locations may allow subsidiary leaders to access paradoxical reasoning (Pant and Ramachandran, 2017).

Foreign MNE subsidiaries are also embedded in their parents' corporate networks, causing them to differ from their locally embedded peers (Schotter et al., 2017). Subsidiaries are thus exposed simultaneously to the influence of multiple institutional logics and can access an array of appropriate organizational identities to construct their distinctive self-conceptualization (Pant and Ramachandran, 2017; Thornton et al., 2012). Research on MNE subsidiaries faced with a home-country-based

disadvantage suggest that greater subsidiary autonomy delegation assists these firms in performing learning functions necessary in overcoming institutional voids (Wang et al., 2014). Our longstanding MNE subsidiaries were allowed a significant degree of autonomy in their management and were encouraged to develop a local identity, supporting their ability to manage the local context. As the negative sentiment towards Dutch firms lessened over time, the firms' Indonesian identity became increasingly associated with respect for people, organizations, and the environment. By taking part in important social projects with a long-term impact on the conditions in the local society, the studied firms were able to reconstruct their organizational identity as a corporate citizen with social responsibilities and respect for cultural values. These activities also meant that the firms would become associated with influential local actors, which, in turn, helped their ability to influence perceptions of host country actors about the intentions of the MNEs (Elg et al., 2015).

CONCLUSION

This study addresses the unique challenges faced by longstanding MNE subsidiaries with a colonial legacy attempting to influence institutions abroad. We found that the institutional embeddedness of our longstanding subsidiaries was both a blessing (i.e., due to their extensive political experience and reputational benefits) and a curse; the conflicting logics placed significant strain on the foreign firms' ability to enact change. We believe that this study demonstrates the promise of an institutional logics approach to this important IB concern, and the value of the international context for researchers interested in institutional logics.

Our study advances the institutional logics literature by considering longstanding MNE subsidiaries in emerging markets that face different challenges from both new entrants and local firms. The maturity of institutional strategies that manage and leverage the nonmarket relationship in the host country is helpful to understand how deep institutional embeddedness allows the MNE subsidiary to exercise a restricted degree of agency; albeit limited by the international nature of the MNE subsidiary. Thus, based on the nature of potentially conflicting institutional logics, our identification of institutional strategies used by longstanding subsidiaries adds to the questions of how and why actors react to different institutional logics (e.g., Thornton and Ocasio, 1999).

Although there is a substantial body of work on how multiple institutional logics are managed in emerging organizational fields (e.g., the case of new social entrepreneurship hybrids), there is little understanding of how actors do so in persistent institutional orders where tensions between contradictory logics are ongoing. Our study utilizes the context of dominant, established MNE subsidiaries to identify institutional strategies as core tools that help manage these tensions. This study considers other actors as participants in the company's institutional strategies. Local MNE employees embedded in both sets of logics, as well as outside agents, such as health experts, government officials, and non-political NGOs may emerge as guardians of morally legitimate practices (Elg et al., 2015; Girschik, 2020). Thus, as MNEs negotiate their involvement, they need to

extend organizational support and assume responsibilities beyond their immediate business interests. Our study also adds to recent work on how MNEs in emerging markets can develop social goods to operate in environments of extensive institutional voids (see Liedong et al., 2020).

Our overarching aim is to change the way we think about how MNEs embed themselves in host countries. The international expansion of firms raises specific issues in the analysis of the embeddedness process; for instance, how individual and organizational actors balance demands from the home and the host country institutions (Meyer et al., 2011; Minbaeva et al., 2021) and whether and to what extent they adopt practices that resemble those of their local counterparts (Bourmault and Siegel, 2021). Our findings suggest that embedding practices in host institutional contexts and developing structures that align with host institutional expectations, while generally viewed as isomorphism, provide a platform for enacting change. Dominant, deeply embedded MNEs can, at times, initiate change when logics align, because they have the legitimacy, networks, and resources to realize this (Greenwood and Suddaby, 2006). Thus, the embeddedness of foreign actors does not contradict their active role (Garud et al., 2007). For instance, the MNEs developed initiatives to support SMEs, share good practices with local supply chain partners and organize tours for local business owners about safety standards in the firms' factories. Like Cantwell et al.'s (2010, p. 572) argument, the case firms were 'valued for their differences from local actors, which increase local variety, and not just for their capacity to conform with or adjust to local norms of behavior'. While the Indonesian context represents a complex environment for MNEs coming from advanced economies, this very same challenging environment creates space for an active response to inconsistencies. Inconsistencies can be seen as opportunities in the institutional environment (Gao et al., 2017).

More broadly, our findings contribute to the IB literature as a whole. In response to calls for a more nuanced understanding of how MNEs co-evolve with their environment (Cantwell et al., 2010; Kostova et al., 2008; Regnér and Edman, 2014), our findings suggest that MNEs are unique entities, both enabled and constrained by their home country origins. Our findings have implications for firm internationalization and suggests the need to look not just at MNEs' initial foreign entry strategy, but also at the dynamic processes that unfold over time. We also believe that our approach, which treats the institutional environment as only partially malleable rather than either completely rigid or fully fluid, has implications for other IB domains, including international strategy, political strategies, cross-cultural management, and strategic corporate social sustainability.

Furthermore, advancing the micro-foundations of nonmarket strategy, we offer insights into the micro-sociological processes through which the MNEs proactively negotiated their involvement with socio-political actors to develop sustained institutional embeddedness. Nonmarket strategy research has long treated separately controversial political activities that advance business interests on the one hand, and socially responsible activities that foster the company's legitimacy on the other (Mellahi et al., 2016). Recent contributions have turned to the question of how firms can integrate these activities to create value for both business and society (den Hond et al., 2014). Our contextually grounded study explicates how MNEs go about this by providing new insights

into how personal relations and resources play a crucial role in MNEs' involvement with socio-political actors in emerging markets.

From a practice perspective, our research is focused to some extent on the subsidiary leader. Our work contributes to a better understanding of the contemporary significance of boundary spanners on the global–local tension central to MNEs (Birkinshaw et al., 2017). Leaders in subsidiaries forge independent relationships within and beyond the corporate network to explore and exploit local initiatives. Boundary spanners are essential to the MNE's ability to create novel strategies by recombining multiple sets of assets dispersed across intra-and inter-organizational boundaries (Schotter et al., 2017) and to reduce potential dysfunctional conflict in headquarter–subsidiary relationships (Schotter and Beamish, 2011). Subsidiary boundary spanners must strike a balance between conflicting demands (Schotter and Beamish, 2011), requiring paradoxical thinking to integrate the complex tasks involved in managing fundamental differences in MNEs' home and host country logics (Pant and Ramachandran, 2017).

In addition to its theoretical insights, our findings provide useful guidelines for MNE managers. In addition to the concept of boundary spanners outlined above, the study demonstrates that during a firm's expansion in a culturally different market, it is important to consider its role in society, as well as the development of relationships in the business and the socio-political market. Without the necessary support of key host country actors, it is difficult to be accepted. Armed with such insights, subsidiary managers will have a higher chance of succeeding in emerging markets with turbulent institutional contexts.

The study offers rich opportunities for future research. The notion of conflicting institutional logics is a common concern for MNEs; hence, we would expect the general findings to be transferable to emerging country contexts other than Indonesia. We would also expect there to be important differences between contexts about which logics create friction and the exact ways in which actors behave to manage conflicting logics. In addition, our sample focuses on longstanding MNE subsidiaries from the Netherlands. Home country variation, particularly where there is no colonial history, may add interesting dimensions to research on institutional embeddedness. In turn, a historical analysis of MNEs with a colonial legacy could add depth by exploring the characteristics of specific national settings.

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APPENDIX

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

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

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

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