



MNE institutional advantage: How subunits shape, transpose and evade host country institutions

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Abstract

Scholars increasingly emphasize the impact of institutions on multinational enterprises (MNEs), but the opposite relationship has attracted less research – that is, MNE agency in relation to institutions. Based on a comparative case study of six MNEs from the United States and Sweden, this paper remedies this. It explores and explicates MNE subunits' *strategic responses* to host country institutional constraints and opportunities in five different regions. A new-institutional approach is adopted, which allows for an investigation of MNE subunit agency in relation to normative and cognitive institutions, as well as regulative ones. This fine-grained analysis reveals not only *what* kinds of responses MNE subunits invoke, but *why* and *how* they are able to respond. We identify four strategic responses by which subunits shape, transpose and evade institutions in the pursuit of competitive advantage: *Innovation, Arbitrage, Circumvention* and *Adaptation*. These responses are driven by three key enablers: *multinationality, foreignness* and *institutional ambiguity* – that serve to enhance and heighten three mechanisms: *reflexivity, role expectations* and *resources*. By linking the enablers and the mechanisms to specific types of strategic responses in a framework and typology, the paper not only contributes to emerging research on the interplay between MNEs, institutions and strategy, but to strategy practice.

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INTRODUCTION

Applying both economic (North, 1990) and organizational (Scott, 2008) institutional theories, international management research has witnessed an increasing interest in the impact of institutions on multinational enterprise (MNE) activities and behaviors (Cantwell, Dunning, & Lundan, 2010; Henisz & Swaminathan, 2008; Jackson & Deeg, 2008). Recognizing that MNEs are unique in simultaneously operating across multiple institutional environments, researchers have investigated how country-level institutions and institutional distance affect entry mode behavior (Davis, Desai, & Francis, 2000; Lu, 2002; Meyer, Estrin, Bhaumik, & Peng, 2009), performance (Chacar, Newburry, & Vissa, 2010), learning (Ghoshal, 1988; Henisz & Delios, 2002), legitimacy (Chan & Makino,

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2007; Kostova & Zaheer, 1999) and the transfer of strategic practices (Kostova & Roth, 2002).

While these works have opened up an exciting new area of inquiry, scholars have also lamented the absence of agency in institutional analyses of the MNE (Kostova, Roth, & Dacin, 2008; Phillips & Tracey, 2009; Phillips, Tracey, & Karra, 2009; Saka-Helmhout & Geppert, 2011). Even as they highlight the important role played by institutional contexts, extant studies say relatively little about how MNEs and their subunits respond strategically to host country institutions. Nor do they identify the drivers that underlie such response strategies. Although several studies investigate the impact of institutional factors on entry mode strategies (Brouthers, 2002; Xu & Shenkar, 2002), these studies generally maintain a focus on static structure (e.g., joint venture vs wholly owned subsidiaries) and a narrow emphasis on how institutional constraints can be reduced and legitimacy increased. Moreover, responses to institutions have predominantly been considered on the level of the MNE and corporate management, as opposed to subunit and subsidiary manager level (cf. Xu & Shenkar, 2002). As a result, there is a dearth of studies that investigate how subsidiaries and subunits respond to local institutional contexts.

The limited number of studies that do address MNE subsidiary agency in relation to institutions have focused on the adaptation of home-country practices to local institutional settings (Gooderham, Nordhaug, & Ringdal, 1998; Kostova & Roth, 2002) or on processes of translation underlying globalization and trans-national institution building (Djelic & Quack, 2003). There has, however, been little if any explicit emphasis on how such agency may link to the advantages of the MNE in host countries. This is despite recent research suggesting not only that MNEs may have advantages in responding to institutions compared with domestic firms (Kostova et al., 2008), but that experimental processes in MNE subsidiaries are where the main drivers of such responses lie (Cantwell et al., 2010). It would thus be of great interest to understand the unique traits that provide MNEs with an institutional advantage over domestic firms.

Against this background and various calls for research on MNE responses in relation to institutions (Cantwell et al., 2010; Kostova et al., 2008, 2009; Phillips et al., 2009), this paper identifies specific MNE *strategic responses* to institutions, as well as their underlying mechanisms and enablers. The paper specifically addresses the following questions: Do MNE

subunits employ strategic responses to institutions? If so, what do these look like, that is, what are the different types of strategic responses? Why are MNEs able to provide these responses, that is, what are the enablers? How do MNEs respond to institutions, that is, what are the primary mechanisms? Finally, are these responses, enablers and mechanisms unique to MNEs, composing a particular advantage over domestic actors?

We address these questions by exploring how the subunits of six different MNEs from the United States and Sweden responded to local institutions in five different regions. Our study contributes to international management by identifying not only in what way MNE subunits respond to institutional settings, but also delineating the underlying enablers and mechanisms of such responses. We find that while MNEs are exposed to highly complex pressure across regulative, normative and cognitive institutions, they also respond forcefully. We identify four distinct MNE strategic responses, implemented using three specific mechanisms. These mechanisms are enabled both by the MNE's unique social position across and within countries, as well as the degree of ambiguity in the local organizational field. By identifying these enablers and the mechanisms they engender, our work breaks new ground in identifying how MNEs garner competitive advantage *vis-à-vis* local actors, by shaping, transposing and evading institutions.

In addition to contributing to international management, our study also offers insights for organization theorists by extending research on agency in relation to institutions in a multinational context. In doing so we delineate conditions for enhanced strategic responses to institutions and also illustrate possible boundary conditions. We contribute to strategic management by illustrating the importance of managing institutional and social factors for achieving competitive advantage, and by delineating what the underlying mechanisms of such management processes may look like. By building on recent developments in neoinstitutional theory and integrating these with insights on MNE strategic responses, we seek to strengthen the linkage between international management studies and institutional and strategic management theories (cf. Cantwell & Brannen, 2011).

THEORY AND RESEARCH OBJECTIVE

Institutions and MNEs

Central to the recent focus on institutions among international management scholars is the realization that context has a direct influence on the strategies



of MNEs (Jackson & Deeg, 2008; Mudambi & Navarra, 2002; Peng, Wang, & Jiang, 2008). While regulatory, normative and cultural-cognitive institutions arguably shape the operating conditions faced by any firm (Scott, 2008), scholars have suggested MNEs may be particularly exposed to these effects because they span multiple contexts and national boundaries (Westney, 1993; Morgan, Kristensen, & Whitley, 2001). Consequently, multiple studies have explored how local institutional conditions, as well as the institutional distance between home and host country, affect the competitive strategies of MNEs (Boubakri, Mansi, & Saffar, 2013; Chung & Beamish, 2005; Henisz & Delios, 2001; Kostova, 1997; Kostova & Roth, 2002; Lu, 2002; Meyer & Nguyen, 2005; Xu & Shenkar, 2002).

While these studies make important contributions to our understanding of how MNEs relate to local institutions, areas for further inquiry remain. First, many extant studies have operationalized institutions on the country level, focusing in particular on the political, legal and societal aspects of institutions (Brockman, Rui, & Zou, 2013; Meyer, 2001; Peng et al., 2008; Wan, 2005; Jackson & Deeg, 2008). This macro level of analysis, however, fails to take into account the industry-specific normative and cognitive institutional challenges that MNEs often encounter when entering host countries (Orr & Scott, 2008). Examining institutions on the level of the country thus risks excluding important insights that can be gained by analyzing the specific context within which the MNE subunit conducts business (Phillips et al., 2009; Saka-Helmhout & Geppert, 2011).

Second, drawing on the classic tenets of institutional economics (North, 1990; 2005) and new-institutionalism in organization theory (DiMaggio & Powell, 1983; Meyer & Rowan, 1977), a majority of studies view institutions as constraints that increase operating costs for the MNE (Eden & Miller, 2004; Rosenzweig & Nohria, 1994). Consequently, scholars have predominantly focused on how firms reduce institutionally driven transaction costs through their choice of country markets, ownership strategies and entry modes (Brouthers & Brouthers, 2000; Chan & Makino, 2007; Meyer et al., 2009; Xu & Shenkar, 2002). Viewing institutions as entrenched and largely immobile facets of the environment, extant research has particularly emphasized how firms either adapt to or offset pressures for conformity with firm-specific advantages (Zaheer, 1995). There has been far less emphasis on how MNEs proactively engage with and strategize around their institutional environment.

In one of the few exceptions to the dominant view of institutions as inertial macro-level constraints, Saka-Helmhout and Geppert (2011) explore varying forms of active agency employed by local subsidiary managers introducing new products and practices into host country markets. This study is important both because it identifies an MNE advantage in responding to institutions, and because it places the locus of this response at the subunit level, thereby adding to the growing recognition that local subunits play important roles in MNE activities in general (Rugman & Verbeke, 2001; Andersson, Forsgren, & Holm, 2002, 2007; Almeida & Phene, 2004) and in the development of firm-specific advantages in particular (Birkinshaw & Morrison, 1996; Ghoshal & Nohria, 1989; Gupta & Govindarajan, 1994; Roth & Morrison, 1992). A more precise focus on the subunit level is particularly vital, as the MNEs' response to extraordinary institutions (Kostova & Zaheer, 1999) often lies at the industry or business-specific level (Kostova et al., 2008; Phillips et al., 2009). Building on these initial efforts, this paper seeks to understand the dynamics between MNEs and host country institutions by exploring responses on the subunit level.

A New-Institutional Approach to MNE Subunit Agency

To explore agency on the subunit level, we explicitly adopt a new-institutional framework (Greenwood et al., 2008; Scott, 2008). Starting with DiMaggio (1988), new-institutionalists have devoted considerable attention to various forms of agency, ranging from the muscular and purposive actions of institutional entrepreneurs (Barley & Tolbert, 1997; Greenwood & Suddaby, 2006; Maguire, Hardy, & Lawrence, 2004) to the reproduction of institutionalized routines by deeply embedded actors (Lounsbury & Crumley, 2007). Most recently, the institutional work literature has identified how the purposiveness of agency varies, ranging from passive and routinized iterations on the one hand to highly calculative projective agency on the other (Battilana & D'Aunno, 2009). A primary purpose of this paper is to *identify different types of strategic responses* – that is, the more calculative and projective forms of agency (cf. Saka-Helmhout & Geppert, 2011) – that MNEs employ *vis-à-vis* institutional environments.

Following Oliver we define *strategic responses* as “the strategic behaviors that organizations employ in direct response to the institutional processes that affect them” (Oliver, 1991: 145). This definition explicitly views conformity and acquiescence as possible forms of strategic agency; it hence departs

from definitions that primarily emphasize actions that either deviate from and challenge prevailing institutions (e.g., DiMaggio, 1988; Maguire, Hardy, & Lawrence, 2004), or specifically seek to maintain them (Lawrence, 1999; Lawrence & Suddaby, 2006). We use Oliver's broader definition because for most foreign entrants, conformity with local institutions is not an example of taken-for-granted behavior and habit, but rather an explicit form of strategic agency (Kostova & Zaheer, 1999; Luo, Shenkar, & Nyaw, 2002; Saka-Helmhout & Geppert, 2011).

The new-institutional approach to agency is particularly useful for our purposes for several reasons. First, new-institutionalism explicitly recognizes that institutions are multifaceted and operate along not only the regulative, but also normative and cognitive "pillars" (Scott, 2008); such non-regulatory institutions often constitute the most challenging aspects of foreign operations (Orr & Scott, 2008). Second, while a view of agency linked to new-institutionalism allows for a more fine-grained analysis, the three pillars also provide a framework for generalizing findings, both across our empirical cases and *vis-à-vis* theory at large. Finally, as our emphasis is on subunit agency in response to local institutions we are less interested in how differences in home and host country institutional environments provide strategic advantage (as is often the focus in comparative institutional analysis, e.g., Jackson & Deeg, 2008), and more concerned with identifying common strategies that can be employed by all MNE subunits, regardless of home country, when interacting with host country institutions.

Enablers and Mechanisms of Agency: Why and How Organizations are Able to Respond to Institutional Conditions

As scholars recognize the organizational capacity for taking purposive action *vis-à-vis* institutions, their focus has increasingly shifted towards understanding *why* such responses arise, that is, what their underlying enablers are. To date, research has largely focused on two enabling factors of strategic responses to institutions: the organization's social position, and the field-level conditions (Battilana, Leca, & Boxenbaum, 2009). *Boundary-spanning social positions*, that is, those that cross multiple institutional fields, can enable agency by exposing actors to alternative logics, practices and norms, as well as status-specific expectations from local actors (Rao, Monin, & Durand, 2003; Sauder, 2008). By contrast, *marginal and fringe social positions* within a field can enable agency by limiting the organization's embeddedness

in local networks, thereby reducing pressures to maintain established norms and practices (D'Aunno, Sutton, & Price, 1991; Lawrence & Suddaby, 2006; Leblebici, Salancik, Copay, & King, 1991; Scott, 2008: 102).

In turn, the broader *field conditions* of the institutional environment can enable agency by providing actors with greater room for maneuverability and action. Specifically, institutional fields characterized by significant ambiguity and uncertainty (Lawrence, Suddaby, & Leca, 2009; Seo & Creed, 2002) can provide greater opportunities for actors to employ political and social skills to engender change (Fligstein, 1997). Similarly, actors may be more prone to identify and leverage institutional contradictions (Creed, DeJordy, & Lok, 2010) in fields that operate on multiple, and competing, logics (Greenwood, Diaz, Li, & Lorente, 2010). Conversely, more innovative forms of agency may also arise in highly stable fields, since these are easier to interpret and understand (Beckert, 1999).

Social positions and field conditions hence enable strategic responses because they provide organizations with opportunities to leverage particular *mechanisms* of agency. These include (but are not limited to) the ability to see beyond current normative and cognitive constraints (Bourdieu, 1977, 1990; Emirbayer & Mische, 1998; Giddens, 1976; Sewell, 1992), heterogeneous pressure for conformity (Leblebici et al., 1991; Zuckerman, 1999), and access to particular capabilities, assets, relationships and networks (Greenwood & Suddaby, 2006). These more specific mechanisms provide insight into *how* organizations are able to engage in strategic responses to institutions.

In identifying enabling factors and their underlying mechanisms, the vast majority of extant research has focused on purely domestic actors. Notably, such enabling factors and mechanisms have clear parallels to key traits that set MNE apart from domestic actors. To begin with, MNEs are, by their very definition, boundary-spanning organizations, with significant exposure to alternative practices, norms and behaviors (Ghoshal & Bartlett, 1990; Meyer, Mudambi, & Narula, 2011; Molina, 2012; Rosenzweig & Singh, 1991; Westney, 1993). Second, the subunits of MNEs often inhabit marginal or weakly embedded positions in host country institutions and networks (cf. Mezas, 2002). While this outsider position may result in increased pressures for conformity (Kostova & Zaheer, 1999; Rosenzweig & Singh, 1991), it may also mitigate expectations of isomorphism (Kostova et al., 2008;



Shi & Hoskisson, 2012), allowing MNEs to challenge local norms and behaviors (Edman, 2009). Finally, by virtue of their search for new market opportunities, MNEs often enter institutional environments characterized by significant heterogeneity, uncertainty and ambiguity (Meyer, 2001; Meyer, Estrin, Bhaumik, & Peng, 2009; Clark & Geppert, 2011; Molina, 2012; Coeurderoy & Gordon, 2008; Jackson & Deeg, 2008).

Viewed in light of new-institutional theory, these studies suggest the MNEs' unique social positions, as well as their exposure to ambiguous field conditions, may strengthen their ability to undertake strategic responses to institutions that are unavailable to domestic players, thereby resulting in a particular institutional advantage (Kostova et al., 2008, 2009; Phillips et al., 2009). This potential for agency *vis-à-vis* institutional host country environments and advantage over domestic competitors may play an important part in the overall corporate strategy of the MNE. To date, however, few studies have sought to explore how MNEs actively respond to host country institutions. While there is general recognition that the MNE's boundary-spanning may be advantageous (cf. Grant, 1987), there is little insight into exactly how this specific trait contributes to the MNEs ability to respond to host country environments. This paper contributes to filling this research gap. Specifically, our aim is to explore *what* kinds of responses MNE subunits invoke *vis-à-vis* host country institutional environments, *why* they are able to respond (i.e., their enabling underpinnings), and *how* they undertake the responses (i.e., the specific mechanisms).

RESEARCH DESIGN AND METHODS

Given both the explorative nature of our study, and our intention to extend existing theory, we follow recent calls for qualitative methods and pluralist approaches in international business research (Birkinshaw, Brannen, & Tung, 2011; Welch, Piekkari, Plakoyiannaki, & Paavilainen-Mantymaki, 2011) by employing a comparative retrospective multiple case study design (Eisenhardt, 1989; Langley, 1999). This approach was suitable because it allowed us to explore site-specific contexts, as well as mechanisms (Stake, 1994; Yin, 1994); both of these were crucial, given our focus on cultural and institutional effects which vary in industries across different countries (Marschan-Piekkari & Welch, 2004).

We chose subunits as the level of analysis because our interest lies primarily in how responses are

created in specific institutional settings; this is often the work of subunits dealing with local business-specific regulations, norms and customs (Regné, 2003; Saka-Helmhout & Geppert, 2011), as opposed to work at global headquarters (Birkinshaw, 1997; Orr & Scott, 2008). In particular, it has recently been suggested that this level of analysis is most relevant when trying to determine MNE idiosyncrasies in relation to institutions (Kostova et al., 2008) and that MNE subunits may be particularly relevant when managing host country institutions (Cantwell et al., 2010). Our unit of analysis is thus the MNE subunits' diverse responses to institutional pressures. Note that we made observations across a variety of subunit and subsidiary types and that we collectively label them "subunits". Below we outline the case-selection criteria used to ensure sufficient variety in responses.

Case Selection

Although we ground our study in an institutional framework, the explorative nature of the work meant that we had few *a priori* criteria to guide our initial case selection, other than that the cases should embody situations in which firms actively responded to host country institutions. Given the tacit and taken-for-granted nature of institutions, Schneiberg and Clemens (2006) suggest that institutional interactions are most visible during times of upheaval and change, when prevailing behaviors and norms are challenged.

We therefore purposely chose to focus on firms introducing new products, services and practices because such actions often provoke institutional conflict and exceptions, thereby triggering purposive responses on the part of MNEs (Orr & Scott, 2008); this approach made the strategic responses to institutions more observable. Given the ambiguous and multifaceted nature of institutional settings, we deliberately searched for cases where MNEs responded to all three of Scott's (2008) institutional pillars. Our case selection follows previous work on institutions and MNE behavior (Kostova & Roth, 2002; Orr & Scott, 2008; Xu & Shenkar, 2002), and recognizes the complex and multilevel nature of institutions.

We explicitly focused on cases wherein MNEs had introduced novel and norm-deviant practices. Based on interviews within 12 different multinationals conducted for two earlier research projects, we wrote up case narratives outlining major challenges and opportunities faced by MNEs introducing novel products and practices into new environmental contexts. From these we identified six cases wherein the

Table 1 Firms, geographical markets, products/services and institutional conditions

Company	Industry	Objective	Host market(s)	Salient institutional conditions
AGA (Sweden)	Industrial Gas	Introduction of Western sales, distribution and marketing formats for industrial gas	Eastern Europe	Lack of or extreme uncertainty regarding product regulations, sales and distribution practices and norms in emerging host markets
Autoliv (Sweden/US)	Automotive supplier	Introduction of new airbag product	Continental Europe	Product seen as unnecessary and expensive by car manufacturers in host countries since mandatory seatbelt regulations were already in place
Citibank (US)	Banking and Finance	Introduction of new lending product	Japan	New lending format ran counter to norms and assumptions dominant in the Japanese banking industry; opposed by local competitors
Ericsson (Sweden)	Telecommunications	Introduction of mobile telephony systems	Southeast Asia	Product seen as less appropriate since it interfered with existing radio frequencies (often of military use) and fixed telephony; unclear standards and lack of regulation in host markets
The Hartford (US)	Life Insurance and Consumer Finance	Introduction of new distribution strategy	Japan	Existing norms and regulations impeded firm's ability to introduce its distribution format
Pharmacia (Sweden/US)	Pharmaceuticals	Introduction of unique and novel smoking-cessation product	Anglo-Saxon markets (Canada, UK & US)	Product ran counter to normative and cognitive foundations in host markets; seen as illegitimate and questionable. Lack of regulations and standards

MNEs' introduction of new products and practices resulted in interactions *vis-à-vis* local regulatory, normative and/or cognitive institutions. This type of focused theoretical sample of multiple cases allows for a replication logic in which cases are treated as experiments from which inferences are made, producing stronger theoretical generalizations (de Vaus, 2001; Yin, 1994). The six cases permit variation in external conditions by representing product and service introductions into various markets – including the United States, Japan, the EU and Southeast Asia – and by representing various industries, products and services, ranging from pharmaceuticals to automotive components to financial services. Table 1 provides a summary of the six firms and their host markets, products/services and institutional conditions. As responding to institutions sometimes involve rather sensitive strategies, one selection requirement was that interviewees were willing to share delicate information and that rich archival data was available. To ensure this requirement, one trade-off was that our cases differed in their timing, including some from the mid- to late 1990s (AGA, Autoliv, Citibank and Pharmacia) and

some from the late 1990s and early 2000s (Ericsson, The Hartford).

Data Collection and Validity

The case studies were primarily composed of first-hand interviews, augmented by secondary sources including company documents, industry association studies and statistics, newspaper clippings and annual reports. We conducted background interviews to identify key informants (usually subsidiary presidents, heads of local product units or practice and managers at headquarters with responsibility for certain regions and projects), who subsequently introduced us to further interview subjects. We interviewed an average of 13 informants per company and the interviews lasted 1–2.5 h. To reduce potential bias and ensure diverse views of institutional conditions and responses, we conducted interviews with not only subunit managers but also headquarters staff and external experts (including analysts, industry associations, customers and competitors). In total, we conducted 110 interviews at various stages between 1998 and 2008, of which a third primarily concerned the respondents' views of

Table 2 Overview of data sources

Company	Annual reports	Other secondary sources (company histories, company internal documents, industry reports, press releases, etc.)	Number of informants interviewed ^a	Informants interviewed by type
AGA	17	11	5	Corporate executives: 2 Business unit /project managers: 2
Autoliv	18	20	15	Corporate Executives: 4 Business unit /project managers: 5
Citibank Japan	3	11	19	Corporate executives: 3 Business unit /project managers: 11 External experts: 5
LM Ericsson	20	14	22	Corporate executives: 3 Business unit /project managers: 7 External experts: 8
The Hartford	1	35	7	Corporate executives: 3 External experts: 4
Pharmacia	30	8	16	Corporate executives: 5 Business unit /project managers: 6 Business development managers: 2 External experts: 3

^aSome informants were interviewed twice.

institutional conditions and responses, while the remainder of the interviews concerned this together with wider MNE strategic considerations. Our archival search employed public media sources like newspapers and magazines, as well as internal company documents, industry analyses and annual reports, as shown in Table 2.

All interviews were recorded and transcribed, except in a few instances when this was not possible. Interviews conducted in non-English languages were translated and double-checked by native speakers. Interview data was coded and organized inductively into subject categories. Our approach was qualitative and interpretative: we did not count words and sentences but rather sought to draw conclusions about meanings, mechanisms and actions from the available data (Langley, 1999). We began by using detailed coding, essentially summarizing individual bits of data and information; this yielded several hundred categories per firm. During multiple coding iterations we extracted and evaluated diverse units of coded data and checked consistencies in the emerging codes; as the analysis progressed, categories were

combined and refined to form higher order themes and constructs. As data collection was split between the two authors, codes and data classifications were critically examined and challenged by the author not involved in a particular data collection.

Because the research was exploratory in nature, we iterated between data collection, coding and theorizing throughout the project, revisiting old data and gathering new information which was subsequently added to existing findings (Dubois & Gadde, 2002). Emerging concepts were evaluated by actively searching for contradictory information through a refutation strategy (Spiggle, 1994), as well as by assembling data in temporal order using a process-tracing approach (Gerring, 2004). Building on the data collection and sorting, we developed individual case analyses for each firm, ranging in length from 20 to 40 pages, which were validated by informants. We subsequently used cross-case comparative analysis, contrasting the firms across multiple categories (Gerring, 2004; Miles & Huberman, 1994). The between-case approach increased external validity by both sharpening findings from the within-case

studies, and generating new concepts from the systematic combination of various case aspects (Adcock & Collier, 2001; Collier & Mahon, 1993).

Data Coding and Analysis

Our findings emerged in a three-stage process. In the first stage we constructed firm-specific narratives to identify the extent and type of institutional conditions faced by each MNE subunit. Separating the institutional conditions according to Scott's pillars – that is, regulative, normative and cognitive – we identified 16 distinct institutional conditions (6 regulatory, 6 normative and 4 cognitive) where MNEs used strategic responses. As the first column in Table 3 shows, these various institutional conditions involved considerable uncertainty and complexity for the MNE. While all firms face some degree of complexity and heterogeneity when challenging institutional settings, the findings suggest complexity may be particularly severe for MNEs.

In the second stage of the analysis, we sought to identify the strategic responses MNEs employed in dealing with each of the 16 institutional conditions, as well as the responses' enabling factors and their underlying mechanisms. Figure 1 outlines the progression of data coding, categorization and analytical dimensions, and thus includes the raw data coding in the first column. The figure provides a bridge between our method, data, findings and emergent constructs. As Figure 1 indicates, our data analysis in this stage was guided by our three overarching research questions: *What* were the MNE responses to the institutional conditions? *Why* were they able to undertake these responses? *How* did they implement these responses?

We began by sorting data from the narratives into descriptive categories based on these three overarching research questions. Because the three research questions address different levels of abstraction (ranging from the broader typology of strategic responses, down to the more specific underlying mechanisms), we posed all three questions *to each data point*. Table 3 provides concrete evidence of this analytical process. For example, as the table indicates, a quote from The Hartford's experience in dealing with regulative institutions provided insight not only into *what* the MNE's strategic response was ("Worked to change existing institutions") but also *why* the firm was able to do this (thanks to its "International status") and more specifically *how* (by "Leveraged local audience expectations"). While these categories naturally bore some resemblance to each other, they each sought to answer one of the specific questions of *what*, *why* and

how the MNEs responded to various institutional conditions.

We subsequently sorted the categories into three overarching themes, depending on which of the three research questions they addressed, as shown in column three of Figure 1. Once the second-order themes reached theoretical saturation we compared the categories across cases to identify similarities and differences. This analysis led to the conceptualization of our three overarching dimensions: *strategic responses* to institutional complexity, the multiple *enablers* of these strategic responses, and the particular *mechanisms* underlying the strategic responses. The answers to our *what*, *why* and *how* questions thus compose our principal constructs, as shown in the fourth column of Figure 1.

In the final stage of the analysis, we continued the cross-case analysis to identify how particular responses, enablers and mechanisms were interrelated. This analytical process involved iterating between the codified and sorted data, the narrative cases and pre-existing studies of agency. Based on this iteration, we developed propositions for how the various enablers and mechanisms are interrelated and result in various strategic responses by subunits in institutional environments.

FINDINGS: A TYPOLOGY OF MNE STRATEGIC RESPONSES TO INSTITUTIONS

As indicated in Figure 1, our analysis identified four distinct strategic responses types: *Innovation* responses sought to create and/or change host country institutions. *Arbitrage* responses sought to exploit differences between host and home (or third-country) settings. *Circumvention* responses involved sidestepping and effectively dodging the demands of local institutions. Finally, the *Adaptation* responses sought to conform to the institutions of a host country.

In addition, we also identified three unique *enablers* of these responses. First, we found that responses were enabled by the MNEs' *multinationality*; through its boundary-spanning multinational social positions, the MNE is exposed to alternative regulations, norms and understandings. Second, we found that responses were also enabled by the MNE's *foreignness* in host country institutions. Foreignness effectively amounted to a weakly embedded outsider social position in host country institutions and networks. This foreignness trait is also unique for the MNE and different in kind, like the case of multinationality. Finally, host country field conditions also enabled the strategic responses in the form of the MNE's extensive exposure to institutional uncertainty and ambiguity.

Table 3 Representative quotes and first-order categorization by research question

Institutional conditions	Representative quotes from case narratives	Representative first-order categorization of narrative data in response to research questions		
		What did the subunit do?	Why was the subunit able to do this?	How did the subunit do this?
<i>AGA regulative and normative</i> (A,B): Ambiguity due to collapse of industrial gas regulations and normative assumptions in virtually all aspects	"...we repeated similar things everywhere ... we moved from the first wave of efforts in the East [to the second] and then we will move into a third...explicit knowledge transfer is crucial...and now we are travelling to China and do the same thing..." (AGA manager)	<i>Introduced institutions established elsewhere</i>	<i>Had experience from other institutional locations; Uncertainty in local institutional environment</i>	<i>Transferred institutional knowledge; seeing beyond existing institutions</i>
<i>AGA cognitive</i> (C): Little understanding of Western industrial gas sales and distribution formats	"...we solved it step by step and...we did it in a rather smooth way...when in Rome you must do as the Romans...and adapt" (AGA manager)	<i>Adapted to local institutions</i>	<i>Low acceptance as foreign firm</i>	<i>Followed local audience expectations</i>
<i>Autoliv regulative</i> (D): Lack of airbag regulation; uncertainty as to whether it would develop	"We did not use lobbying or work with legislators...It is the [US] legislation...that propelled it..." "The US legislation was significant and distinct event influencing this [airbag introduction]"	<i>Introduced institutions established elsewhere</i>	<i>Had experience from other institutional locations</i>	<i>Transferred institutional knowledge; seeing beyond existing institutions</i>
<i>Autoliv normative</i> (E): Airbags viewed as too large, unnecessary and inappropriate	"...we produced airbags for Volvo's US car... [then we] developed...airbag[s] for Europe [cars]" (Autoliv manager)	<i>Adapted to fit locally institutionalized norms</i>	<i>Had experience from other institutional locations</i>	<i>Transferred institutional knowledge; seeing beyond existing institutions</i>
<i>Autoliv cognitive</i> (F): Difficult to understand any need for airbags	"...European consumers started to question why they were not protected in the same way [w. airbags]"	<i>Introduced institutions established elsewhere</i>	<i>Had experience from other institutional locations; Uncertainty in local institutional environment</i>	<i>Transferred institutional knowledge</i>
<i>Citibank regulative</i> (G): Existing regulations unclear; syndication possibly illegal	"It takes effort to explain to the market, to investors and borrowers...but [the products] will be adopted when they make sense" (Citibank manager)	<i>Worked to change existing institutions</i>	<i>Had experience from other institutional locations</i>	<i>Seeing beyond existing institutions</i>
<i>Citibank normative</i> (H): Loan syndication unknown, potentially inappropriate	"As a foreign bank you don't hesitate to propose something or to do something. The Japanese banks will get into situations maybe they shouldn't because of relationships...we won't" (Citibank manager)	<i>Sought to be outside host country institutions</i>	<i>Was outsider, not part of local institutions; uncertainty in the local institutional environment</i>	<i>Leveraged local audience expectations</i>

Table 3: (Continued)

Institutional conditions	Representative quotes from case narratives	Representative first-order categorization of narrative data in response to research questions		
<i>Citibank cognitive</i> (I): mechanisms of loan syndication not understood	"People have different expectations of foreign and Japanese firms...we don't really compete with them. We [are] outside the system but still respectable...do things [they] couldn't" (Citibank manager)	<i>Sought to be outside host country institutions</i>	<i>Was outsider, not part of local institutions</i>	<i>Leveraged local audience expectations</i>
<i>Ericsson regulative institutions</i> (J): Lack of radio/mobile telephony regulations; radio spectrums prohibited	"[we]...believed in walking the talk...worked in different directions, influencing standards, influenced authorities, influenced corporations...making sure the standards suited us in some way" (Ericsson manager)	<i>Worked to change existing institutions</i>	<i>Had experience from other institutional locations</i>	<i>Used international status to influence local actors; Seeing beyond existing institutions</i>
<i>Ericsson normative</i> (K): Negative attitudes towards telephony based on radio	"...we had knowledge few had on the world market...we had people travelling around Asia talking to...powerful people in the military...convincing them..." (Ericsson manager)	<i>Worked to change existing institutions</i>	<i>Had international status; Had experience from other institutional locations</i>	<i>Used international status to influence local actors; recognizing alternative institutions</i>
<i>Hartford regulative</i> (L): Existing regulations did not support distribution format	"We worked with the FSA...they knew we were number one in the US, so that helped us a lot...we got in the door" (Hartford manager)	<i>Worked to change existing institutions</i>	<i>Had international status</i>	<i>Leveraged local audience expectations</i>
<i>Hartford normative</i> (M): Distribution format seen as inappropriate	"We happen to have an insurance license, but we're in the business of doing something else...our main competitors are bank deposits and investment trusts" (The Hartford manager)	<i>Ignored local institutional norms</i>	<i>Ambiguity about industry membership</i>	<i>Leveraged local uncertainty about firm's position</i>
<i>Pharmacia regulative</i> (N): No regulatory framework in place to support nicotine chewing gum	"...what we have done, based on our knowledge in medication and registration functions, is rather remarkable...we wrote the FDA guidelines" (Pharmacia manager)	<i>Created new institutions in the host country</i>	<i>Had experience from other institutional locations</i>	<i>Transferred institutional experience and knowledge</i>
<i>Pharmacia cognitive and normative</i> (O,P): Nicotine as medication difficult to understand and viewed as inappropriate	"...we had a very strong vision for how to boost Nicorette globally and the whole smoking cessation market...it is a form of visionary fore-checking..." (Pharmacia manager)	<i>Created new institutions in the host country</i>	<i>Had experience from other institutional locations</i>	<i>Transfer of institutional experience and knowledge; recognizing alternative institutions</i>

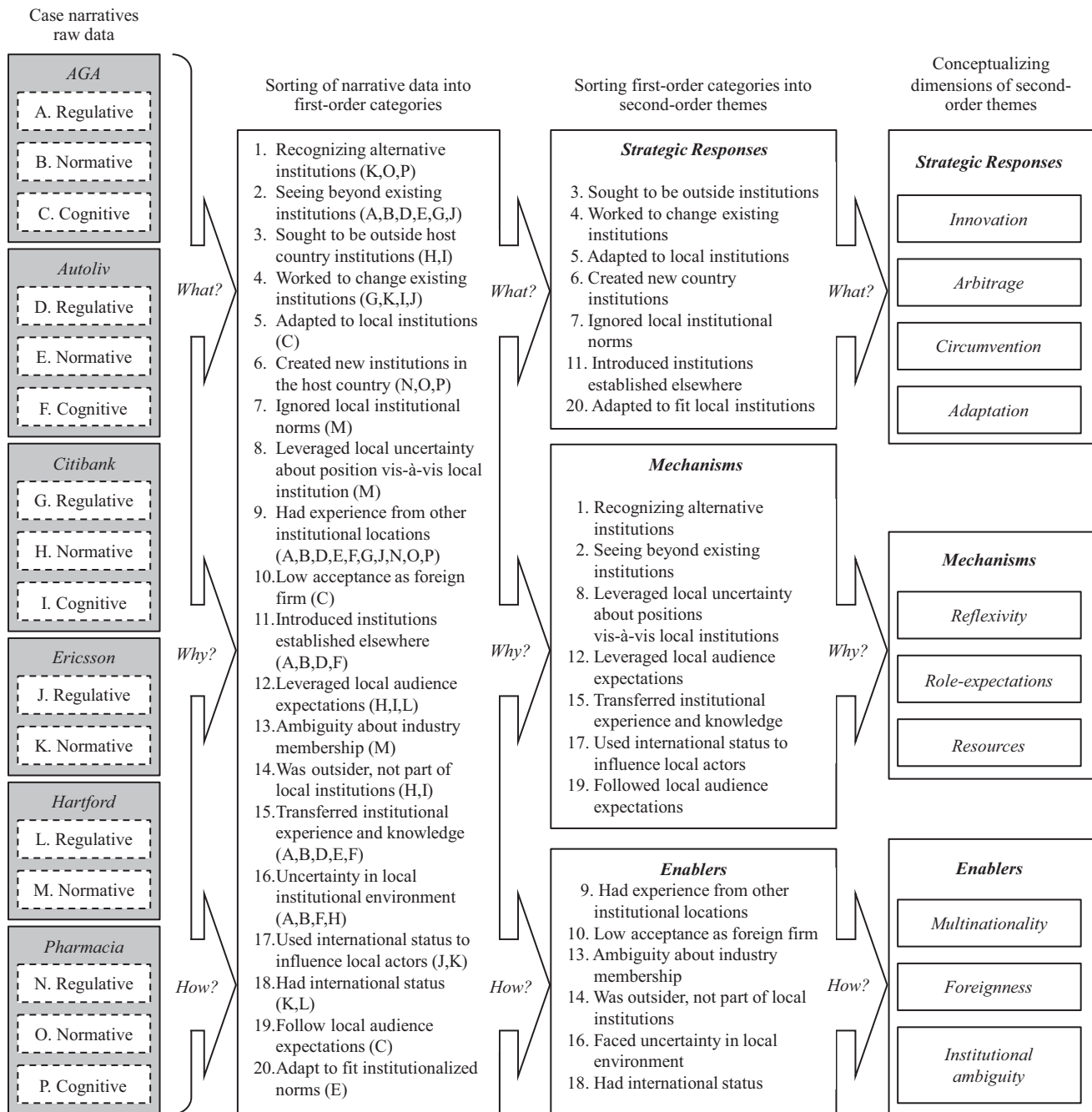


Figure 1 Progression of data coding, categorizations and analytical themes and dimensions.

In contrast to multinationality and foreignness, the MNE's greater exposure to ambiguous institutional environments is a difference in *degree* rather than *kind*, but the elevated exposure to institutional ambiguity appears to offer the MNEs greater opportunity for engaging in strategic responses. In summary, we found that the responses were enabled by both the MNEs' unique social positions – that is, their multinationality and foreignness – and by

host country field conditions – that is, the level of institutional ambiguity.

Focusing more specifically on *how* these enablers underpinned the strategic responses, we found that multinationality, foreignness and host country institutional ambiguity enhanced three mechanisms that underlie strategic responses. First, we found that MNEs leveraged *reflexivity*, that is, the ability to see beyond local norms, cognitions and regulatory

conditions of their surrounding host country environments. Reflexivity allowed MNE subunits to recognize institutional differences and contradictions to a far greater extent than their local competitors; this in turn made it possible for the MNE subunits to identify opportunities for agency in relation to institutions, as well as possible deviations from prevailing norms and practices.

Second, we found that the enablers resulted in MNE-specific *role expectations*, that is, different audience assumptions and beliefs about the MNE subunits. These role expectations resulted in different regulative, normative and cognitive conditions, effectively allowing the MNEs to engage with local institutions in a different manner, as compared with local domestic actors. Finally, multinationality, foreignness and exposure to ambiguous institutional environments also provided MNEs room to transfer *resources* from MNE operations in other organizational fields, including institutional experiences, knowledge, social skills and capital. In sum, the MNEs built on three mechanisms in their strategic responses: (1) increased reflexivity (i.e., the ability to see beyond current norms and regulations); (2) differentiated role expectations (i.e., particular assumptions and beliefs about what the organizations could legitimately do); and (3) transfer of institutional resources (i.e., assets and/or practices from diverse institutional settings).

Combining these insights, our analysis suggests MNE subunits crafted different strategic responses by drawing on diverse mechanisms that were enabled by their multinationality and foreignness, as well as their exposure to institutional ambiguity in the host country. Table 4 provides an overview of the strategic response typology and the linkage between the *strategic responses*, the *enabling factors* including social positions and host country field conditions, and the underlying *mechanisms* employed in each response. By linking the enablers and the mechanisms to the strategic responses, we highlight how MNEs have particular institutional advantages in shaping, transposing and evading host country institutions. Below we discuss these findings in greater detail.

Institutional Innovation

In institutional innovation, MNEs respond to institutional complexity by *purposely seeking to work with and create new institutions, and/or change prevailing institutions*. They are primarily able to do this by relying on increased *reflexivity*, *role expectations* and *resources* that accrue from their *boundary-spanning multinationality* positions. In this strategic response, the institutions

of the host country are relatively fixed and clearly demarcated; MNEs hence do not actively leverage ambiguities in local field conditions when engaging in institutional innovation, but instead build on stable extant institutions or the lack of them. In our study, the institutional innovation approach is most clearly exemplified by Ericsson and Pharmacia's approaches to the institutions of their host country markets; in addition, The Hartford and Citibank used institutional innovation when dealing with the regulatory pillar of host country institutions.

Ericsson's introduction of mobile telephony into Southeast Asia

When Ericsson entered Southeast Asian telecom markets in the mid- to late 1990s, after having established strong positions in Europe, it faced several institutional challenges and complexities. As in the case of Europe in the late 1980s, the regulations of most countries "provided no room for mobile telecommunications", beyond that of the military; hence, it was technically illegal to introduce handheld portable phones. In terms of societal norms, clients in host countries – including both governments and individual consumers – were uncertain as to the value and necessity of mobile telecommunications, much as they had been in Europe initially. To overcome these challenges, Ericsson worked with different constituents to change norms and regulations to support its mobile telephony business. As two managers observed:

[W]e were very early...we travelled around Asia and tried with officials...people with power...traditionally the military...asked for a small part in radio for private use...we were very early in the markets...we circled our competitors...we were very proactive.

It was individuals that worked broadly on all frontiers; from components to laws and regulations...all of us we traveled the world, to standardization organizations, etc.

Ericsson hence overcame challenging regulative conditions by actively helping local governments develop the rules, technical requirements and legal standards necessary for mobile telephony. Ericsson's ability to do this stemmed from its significant exposure to institutions in multiple country contexts. The company had gained valuable experience working with regulatory bodies and authorities when setting up mobile telephony systems in the Middle East, Continental Europe and Scandinavia. By absorbing insights from these events and building up a stock of institutional knowledge and capabilities, Ericsson became an expert at establishing host country mobile

Table 4 MNE strategic responses: Definitions, enabling factors and primary mechanisms

Strategic responses		Innovation	Arbitrage	Circumvention	Adaptation
		Purposely changing or creating local institutions	Leveraging differences in host vs home and third-country institutions	Leveraging ambiguities and outsider social position in host country environments	Conforming to local institutional pressures
<i>Enabling factors</i>	<i>Social position</i>	Boundary-spanning through <i>Multinationality</i>	Boundary-spanning through <i>Multinationality</i>	Weak embeddedness due to <i>Foreignness</i>	Weak embeddedness due to <i>Foreignness</i>
	<i>Field conditions</i>	<i>Low ambiguity</i> ; transparent and coherent institutions	<i>High ambiguity</i> ; existence of institutional contradictions	<i>High ambiguity</i> ; existence of institutional contradictions	<i>Low ambiguity</i> ; transparent and coherent institutions
<i>Mechanisms</i>	<i>Reflexivity</i>	High: Ability to see institutional differences key to identifying innovation opportunities	High: Ability to see institutional differences and contradictions key to identifying arbitrage opportunities	High: Ability to see institutional contradictions key to identifying circumvention opportunities	Low: Ability to see institutional differences and contradictions less important in adaptation
	<i>Role expectations</i>	High: Local expectations on the MNE to introduce new practices permits local institution-building	Low: Local actors' assumptions and beliefs about the MNE less important in arbitrage	High: Local actors' assumptions of outsidership provide greater room to defy prevailing practices	High: Local actors' assumptions and expectations of adaptation precludes active attempts to change or defy institutions
	<i>Resources</i>	High: Transfer of alternative institutional experiences and knowledge supports institution-building	High: Transfer of alternative institutional experiences and knowledge makes arbitrage possible	Low: Transfer of institutional experiences and knowledge less important in circumvention	Low: Transfer of institutional experiences and knowledge less important in adaptation

telephony regulations. As reported by one Ericsson manager:

We placed people out there, those with home [country] knowledge, moved them to new locations...it was very challenging in some countries.

[T]he Ministries answered they did not have 450 MHz available...our people became acquainted with them and worked with them...located opportunities in their frequency plans.

Pharmacia's introduction of Nicorette into the United States

In introducing the anti-smoking product Nicorette into the United States, Pharmacia similarly faced a lack of regulations. In particular, there was considerable confusion as to which regulatory body had jurisdiction over the product, since authorities were uncertain whether a nicotine chewing gum should be considered a food or a drug. In addition to the regulatory hurdles, the product itself was considered highly illegitimate by virtually all actors. Nicotine was viewed as a poison and an anathema to the pharmaceutical industry; this was reflected in the norms of medical practices, the cognitive mind-sets of doctors, and the regulations of the Food and Drug Administration (FDA). Doctors and pharmacists had difficulty understanding how nicotine could be considered a medication, as well as how and if it could be used to reduce smoking. This made it almost impossible for the company to find a business partner since no one quite understood the product. As one central figure in the original venture noted:

We had a long-standing relationship with...[pharmaceutical corporation] Warner Lambert, who [also] owned the world's largest manufacturer of chewing gum...they lost interest... they felt that selling a chewing gum containing a poison might have an adverse effect on their ordinary market. (Fernö, 1994: 1224)

Like Ericsson, Pharmacia sought to overcome these institutional constraints by working intensively to influence regulations and norms and gain support for their smoking-cessation product Nicorette. This included work both among individual doctors and other medical practitioners, and on the level of the FDA. Notably, this was an explicit tactic, as one of the architects behind the entry noted:

[W]e had a very strong vision for how to boost Nicorette globally and the whole smoking cessation market...it is a form of visionary fore-checking.

[B]uilding a market...and providing product information through...sales, conferences and advertising in industry press. Physicians and pharmacists were the target...the goal...[was] to create a market.

Pharmacia not only gained the FDA's confidence in delineating the US regulation regarding smoking cessation, it managed to advance even further compared with other markets by registering the product as "Nicotine polacrilex" (from polymethacrylic acid) rather than "Nicotine chewing gum", which was considered less legitimate in the industry. In informing the FDA and helping it rewrite regulations, Pharmacia relied on experience from both its home-country and other host-country institutional environments. A Pharmacia manager reported:

[W]hat we have done, based on our knowledge in medication and registration functions, is rather remarkable...we wrote the FDA guidelines.

In line with Ericsson, Pharmacia's efforts thus stemmed from its boundary-spanning multinational position, particularly its efforts at working with regulators in its home country of Sweden. The Ericsson and Pharmacia cases illustrate not only to what extent they influenced and changed institutions, but how they initiated and created them from scratch.

The Hartford's introduction of variable annuities sales through banks in Japan

In the case of The Hartford's introduction of variable annuities into Japan, the primary institutional challenge stemmed from what the company perceived as overly restrictive regulations on sales channels. In particular, The Hartford's strategy relied on selling its investment-oriented insurance products through independent financial advisors, including banks and securities companies; the extant regulatory framework, however, prohibited sales of insurance products through financial institutions. Like Ericsson and Pharmacia, The Hartford was able to overcome this institutional hurdle by actively working with local regulators, convincing them to reclassify variable annuities as a mutual fund-type product, which could be distributed through banks and securities companies. The primary reason the firm was able to do this was its experience from the US institutional environment, and the regulators' recognition of The Hartford as a leading firm in its home market. As one manager noted:

We worked with regulators...we convinced them that the product should be categorized as a mutual fund...and I think, they recognized that we were number one in the US...they recognized our expertise and knowledge of regulations and the market.



Citibank's introduction of loan syndication into Japan

When Citibank sought to introduce loan syndication onto the local Japanese financial services market, one of its biggest challenges consisted of convincing local customers of the value of the new product. Loan syndication, a lending format in which multiple banks jointly lend to individual borrowers, ran counter to many of the fundamental characteristics of Japan's pre-existing bilateral lending tradition (Scher, 1998). Consequently, customers were uncertain about the value and merits of the new practice. Citibank overcame this uncertainty by educating customers about loan syndication's financial benefits. The ability to do so came from the company's experience of overcoming similar normative constraints in other countries, as one manager noted:

Being the first company to try something new is always difficult, but we took our knowledge of being first anywhere, in any market, and we explained to customers, pointed out the benefits. So, this is a company that has been doing loan syndication for 20 years, so introducing it was not a problem.

Mechanisms and enabling factors of institutional innovation: Reflexivity, role expectations and resources through multinationality and low institutional ambiguity

In each of the above cases, the focal firms faced very clear regulatory and normative constraints from host country institutions. To overcome these constraints, the firms purposively sought to innovate by introducing new regulations, norms and values that would engender greater acceptance for their products. Notably, innovation and change in institutions can occur through spillovers from foreign entrants and incremental learning; by defining innovation as a *purposive* attempt at change, we exclude such spillover effects.

The cases highlight how the active implementation of new institutions was primarily enabled by the combination of the MNE subunit's boundary-spanning social positions as a multinationals, and the low ambiguity of the host country institutional environment (see Table 4; column 1, rows 1 and 2). Specifically, the subsidiary's boundary-spanning social position engendered three underlying mechanisms that were key to institutional innovation: *reflexivity* over alternative institutions, transfer of institutional *resources* and specific *role-expectations* on the part of local audiences.

Reflexivity was central to institutional innovation, as the MNEs' boundary-spanning activities in numerous institutional settings not only made them see

beyond immediate constraints, but also made them recognize the potential for changing extant institutions (see Table 4; column 1, row 3). For example, Ericsson could see beyond the normative and regulative resistance to mobile telephone systems and locate opportunities in the new markets. Pharmacia's advantage was that it was able to see beyond the classification of nicotine as a poison and an illegitimate drug and instead envision nicotine as a medical treatment. Likewise, The Hartford and Citibank saw the Japanese regulations from the perspective of their presence in many other markets and thus managed to influence regulators.

The transfer of institutional resources was in turn crucial to institutional innovation because it provided MNEs with a template on which to base their institutional innovation (see Table 4; column 1, row 5). For example, both Ericsson and Pharmacia changed local regulatory institutions by drawing on their institutional experience and practices from home and other host countries. The Hartford similarly introduced ideas from its home market, as did Citibank in drawing on its experience of "being first anywhere" to educate and convince local constituents. As these examples suggest, these resources were available to the firms because of their boundary-spanning social positions and multinationality. Only through transfer of institutional resources from multiple institutional locations and markets, were these firms able to develop the insights and knowledge to introduce particular regulations, norms and cognitive models into the host countries. Naturally, capital resources relating to institutional change also played a role. Pharmacia, for example, faced several years of lobbying and discussion before it was able to convince local regulators and doctors of the value of Nicorette; Ericsson similarly invested significant time and energy in convincing local regulators not only of the merit of its technology, but also of how the market should be structured.

Finally, role expectations were also critical for institutional innovation because they provided MNEs with the legitimacy and status needed to challenge prevailing regulations, norms and mental models (see Table 4, column 1, row 4). For example, Ericsson gained access to key regulators and was able to introduce its mobile system ideas largely thanks to its reputation as a world leading telecommunications firm. Similarly, The Hartford's reputation as being the number one seller of variable annuities in the United States helped them initiate regulatory discussions with Japanese officials. The expectations of local audiences on the MNEs' thus played a

central role in their ability to introduce new institutions. In the case of our MNEs, these unique role-expectations were a direct result of their boundary-spanning positions, and the expectations and assumptions placed on them as large multinational entities.

Notably, the innovation response was also enabled by the low ambiguity of institutional conditions in each of the subunits' host country markets. Specifically, the lack of institutional ambiguity meant that reflexivity around *discrepancies* and *contradictions* in the institutional settings was not an important mechanism underpinning institutional innovation. Instead, low ambiguity made it easier for the MNE subunits to engage in institutional innovation by relying on reflexivity, resources and role-expectations directly related to their multinationality.

In the case of Pharmacia, for example the unambiguous *lack* of FDA regulation of nicotine products made it easy for the firm to directly apply its knowledge from other markets. Pharmacia's success hence did not depend on any unique or idiosyncratic part of US regulations, but rather on resources and role-expectations accruing from its boundary-spanning position and that they could build new institutions without having to steer and balance between diverging institutional perspectives. Similarly, the strategic responses of Ericsson, Citibank and The Hartford drew on their reflexivity over and knowledge about alternative institutions based on their multinationality, as opposed to reflexivity around institutional contradictions.

Institutional Arbitrage

In the institutional arbitrage response strategy, MNEs *leveraged differences in institutions* of home and host country contexts. In contrast to the innovation response, institutional arbitrage was enabled by both the MNE's boundary-spanning position and ambiguities in local field conditions. Our cases suggest *reflexivity* and *resources* are important mechanisms underlying institutional arbitrage, while role expectations are less important. We found particular evidence of arbitrage responses in the cases of Autoliv's introduction of airbags in Europe with regulative and cognitive institutions, as well as AGA's interaction with regulative and normative institutions surrounding industrial gas in Eastern Europe.

Autoliv's introduction of airbags into Europe

One of the salient challenges faced by Autoliv in its attempts to introduce airbags to the European market

was the lack of recognition and acceptance of the new product. Although car safety was a strong norm among European car consumers, this had also resulted in an earlier focus on seatbelts; consequently, car manufacturers had little understanding for introducing yet another safety device. For Autoliv, this problem was a repeat of the situation it had faced in the US market in the late 1980s and early 1990s a few years earlier: US car manufacturers had broadly opposed the introduction of airbags, calling them "red herrings" and "a complete waste of time"; this opposition was overcome by relying on the introduction of new safety legislation. This experience from the US market benefitted the firm when dealing with similar opposition from European car manufacturers. In addition, the company was also able to take advantage of growing ambiguities in European end-consumers' understandings of safety. As continental drivers became increasingly aware of the use of airbags in the United States and in US-made cars, they actively began to question why European automobiles did not have similar features. Autoliv was able to leverage these increasing contradictions to its advantage. As one senior manager noted:

The established [European car-] manufacturers...did not believe in it...tried to combat it...European consumers started to question why they were not protected in the same way...[but] we produced airbags for Volvo's US cars...the American type.

Building on their experience from the strongly negative US car manufacturers and their realization that European consumers still valued safety, Autoliv managed to introduce airbags, as one manager echoed:

[W]e were successful with the European airbag concept... [with] a "face bag"...an add-on safety system.... We created the market!

AGA's introduction of new industrial gas distribution formats into Eastern Europe

AGA's entry into Eastern Europe in the years after the fall of communism was characterized by considerable uncertainty and turbulence. While old institutions had been discredited, new ones had yet to take their place: this was true in the regulative, normative and cognitive domains. For AGA, the uncertainty arose in particular from the underdeveloped nature of the local distribution system; while there was little ambiguity in terms of its underlying product (industrial gas), there was considerable confusion as to the norms and practices



of how industrial gas should be stored, transported and distributed and what the dominant regulatory framework was. In AGA's case virtually all dimensions were complex. As two managers noted:

How would the state-owned gas monopolies be divided up? ...Which parts were offered to foreigners? How would the general industry structure, our customers, be re-formed and privatized?

The other issue was...the continuous problems with authorities...with bottled gases...they were constantly concerned.

In response to these uncertainties, AGA chose to base its distribution practices on the regulatory and normative institutions governing gas-distribution practices in Western Europe. While these regulations were not the *de facto* standards of its Eastern European markets, there was nothing to prevent the firm from following them in its daily operations (unlike, e.g., in the cases of Ericsson, Pharmacia, The Hartford and Citibank, discussed above). In doing so, the firm not only overcame the uncertainties of the local markets, it also managed to gain a competitive edge, thanks to the more developed nature of the Western distribution practices. AGA's arbitrage response thus built on *both* its boundary-spanning social position as a multinational, and the opportunities that arose due to the ambiguities and uncertainty of local field conditions. As one manager noted:

Besides the headquarters' staff support...we had a "god parenting" sponsorship system...where each new subsidiary was supported by an established subsidiary [in the West].

Mechanisms and enabling factors of institutional arbitrage: Reflexivity and resources through multinationality and high institutional ambiguity

The cases suggest that AGA and Autoliv's institutional arbitrage responses were enabled by both their social positions as boundary-spanning multinationals, and the particular field conditions including high level of ambiguity in the host country institutional environment (see Table 4; column 2, rows 1 and 2). As the above examples demonstrate, an institutional arbitrage strategic response calls for exploiting differences in institutional environments. Specifically, the boundary-spanning multinational position gave the firms access to important resources in the form of alternative institutional templates (see Table 4; column 2, row 5); it was thanks to these templates that AGA was able to implement its gas distribution format, and that Autoliv was able to propose the adoption of airbags. For example, AGA's

gas distribution practices were institutionalized and taken for granted in Western Europe both legally and cognitively; at the same time, however, they constituted an institutional novelty to newly opened markets in Eastern Europe. In the case of Autoliv, airbags had become an established norm in the United States, but an emergent – and contested – idea in the European market. By leveraging institutional and building on the transfer of institutional resources, both of these actors were able to introduce their new products.

To engage in arbitrage responses, however, MNEs must be able to recognize the institutional ambiguities and voids in host countries. As a result, reflexivity constitutes an important mechanism alongside resources, for MNEs engaging in institutional arbitrage (see Table 4; column 2, row 3). In the specific case of AGA and Autoliv, the two companies had the reflexive capability to effectively identify and leverage the contradictions and ambiguities of their specific host country institutional environment. This reflexivity mechanism was enabled by the companies' boundary-spanning multinationality, but also by the contradictions and ambiguities of the host country institutional environment. Hence, AGA's and Autoliv's ability to introduce new ideas that challenged the existing institution was also dependent on host country field conditions. In both cases, host country institutional conditions exhibited considerable uncertainty and ambiguity, with particular institutional voids: AGA was hence able to introduce its new gas distribution format into Eastern Europe precisely because hitherto taken-for-granted practices and regulations had lost their legitimacy. For Autoliv, the combination of institutional experience from the US airbag market and the pre-existing experiences in car safety, in conjunction with its diverse constituents' inconsistent understandings of airbags (car manufacturers opposing and customers supporting them), opened up a unique opportunity to introduce airbags in Europe.

In contrast to the case of institutional innovation, where firms simply introduced new innovations on top of pre-existing institutions or lack thereof, institutional arbitrage relies on introducing practices in response to particular ambiguities and institutional voids in local field conditions. Importantly, the role of local institutional ambiguities constitutes the main difference between innovation and arbitrage strategic responses. In the case of innovation, firms draw on their transfer of institutional resources from multiple institutional environments to *change extant* institutions; institutional conditions are hence the

object of their acting and do not provide for response opportunities as such. In the case of arbitrage, however, the response opportunity arises from *already pre-existing* institutional ambiguities; in this case, local institutional conditions are hence the *subject* – that is, the source – of their agency.

Institutional Circumvention

While institutional arbitrage connotes a response where an MNE actively leverages *differences* in institutional pressures, our third strategic response – institutional circumvention – constitutes scenarios where MNEs *avoid* institutional pressures. While extant studies in international management have highlighted how firms avoid institutional pressures by relying on firm-specific capabilities and assets, our case is somewhat different. The circumvention strategy constitutes a response where *firms leverage both the ambiguities of host country environments, and their social position as a foreign outsider*. These factors enable the circumvention strategy because they result in both particular *role-expectations* among domestic actors, and because they provide the MNEs with *reflexivity* and the ability to identify ambiguities in the host country institutional environment. Among our cases, Citibank and The Hartford's responses to host country normative and cognitive institutions are clear examples of a circumvention strategy.

Citibank's introduction of loan syndication into Japan

One of the constraints Citibank faced when introducing loan syndication onto the Japanese market was that the new practice ran counter to many of the deeply institutionalized norms and practices of Japan's pre-existing lending format, known as the main-bank system. For example, while loan syndication was predicated on joint lending by multiple banks, fees for arranging banks and the trading of loans on a secondary market, Japan's main-bank system was built on the notion of bilateral lending with low interest and no loan trading. Consequently, the new practice faced significant normative and cognitive constraints among customers steeped in the ways of the main-bank system; moreover, an arcane usury law raised the possibility that the new practice might even technically be illegal.

While these institutional constraints prohibited many of Citibank's domestic competitors from introducing the practice, they did not prevent Citibank from doing so. A major reason for this was ambiguity in the local institutional environment. Specifically, while Japanese banks were expected to maintain pre-existing practices, Citibank and other

foreign entities were seen as uncertain elements and hence given greater leeway to challenge local norms, practices and products. As one manager noted:

[Y]ou could be outside the system, but still viable...you could solve political problems in a way that Japanese banks couldn't...if you think of the domestic [Japanese] banks, if one of them upset the apple cart, that would have been a huge deal.

The difference in customer perceptions and expectations on the banks is also evident in the words of a Japanese bank manager:

[W]hen the foreign financial institutions did loan syndications in Japan, customers did not expect these banks, the foreign banks, to take the same share of lending on their books as the Japanese banks had. In the case of the foreign banks, the role of arranger and lender was seen as separate.

Notably, the introduction of loan syndication was not the first time that Citibank had taken advantage of its position as an outsider firm; in fact, the company had come to recognize that it played a particular role or position in the local market, enabling it to often introduce new product innovations. In sum, Citibank's ability to evade and circumvent the normative opposition to loan syndication was grounded in both institutional ambiguities in host country field conditions, and its outsider position as a foreign firm.

The Hartford's introduction of variable annuities into Japan

Like Citibank, The Hartford also faced considerable opposition to its introduction of variable annuities. While this product already existed on the Japanese market, it was largely characterized by stable annual returns; by contrast, The Hartford's variable annuities were investment-oriented and thus similar to mutual funds. The company also sought to sell them via banks and securities companies. These novelties resulted in not only regulative constraints discussed under the heading of institutional innovation, but also normative opposition, particularly within the Japanese life insurance. One president of a Japanese life insurance company even went as far as to write to the US life insurance association, complaining that The Hartford's variable annuities were "investment products and...not fit for a safety-oriented industry like life insurance".

Like Citibank, The Hartford nonetheless deviated from these expectations and norms, actively marketing its investment products through banks and securities companies. The reason for this was the



significant uncertainty and ambiguity that surrounded both its identity and stature as a life insurance company. As a foreign entity that had entered Japan relatively recently, The Hartford was not an active member of the Japanese Life Insurance Association; nor had it adopted the strategy of a large dedicated sales force preferred by many local actors. This set the firm apart from many of its domestic competitors. Moreover, with its emphasis on products that were very similar to mutual funds, the company often seemed less of an insurance firm and more of a securities company. As one manager noted:

Do you see the word insurance in our name? No, it's not there...that's because we are not an insurance company...we are an investment company which happens to have a life insurance license, but we are not an insurance company, we're an investment company.

The outsider position of The Hartford, and the distance between its product distribution strategies and those of the main-stay Japanese firms, is further evidenced in a response from a manager at a Japanese insurance company, who noted:

Hartford's products are too risky...that's their problem, you can't sell...insurance like that.

Another manager of a Japanese insurer explained:

That style of things doesn't work here in Japan; it's not how this market functions.

Like Citibank, The Hartford managed to circumvent pressures for institutional conformity by relying on ambiguities and uncertainty in the institutional setting. Notably, the firm's ability to leverage this heterogeneity was not based on its global institutional experience, but rather on the local subsidiary's foreignness and outsider position in the Japanese institutional environment. Recall that Japanese life insurance companies had significant experience of variable annuities and were also aware of alternative sales formats used in the United States and other areas; yet they were deeply embedded in the prevailing norms and logics of the Japanese insurance market, hence they were largely unwilling or unable to act on their knowledge. On account of its foreignness and uncertain status, The Hartford did not face the same isomorphic pressure to conform to traditional practices of the Japanese life insurance industry; as a result, the firm was able to break from local norms and practices to introduce the new practice.

Mechanisms and enabling factors of institutional circumvention: Reflexivity and role expectations through foreignness and reflexivity due to high institutional ambiguity

The circumvention response relied on leveraging both high institutional ambiguities in local field conditions, and the outsider social position that comes from foreignness (see Table 4; column 3, rows 1 and 2). These factors enabled two mechanisms that were crucial for institutional circumvention: *reflexivity* and *role-expectations*.

As the preceding cases show, reflexivity was crucial because it allowed the MNEs to recognize institutional voids and opportunities available in the host country (see Table 4; column 3, row 3). In the case of Citibank's introduction of loan syndication, most customers remained firmly embedded in the behaviors and mind-sets of the pre-existing bilateral lending system, even after the bank had helped establish new regulations. Citibank's reflexivity enabled it to see beyond these constraining norms and mental models, to envision alternative institutions and lending formats. The Hartford's introduction of variable annuities similarly involved identifying blind spots for new distribution norms, beyond the taken-for-granted norms of Japanese life insurers. Notably, Citibank and The Hartford's reflexivity were not primarily a result of the firms' boundary-spanning social positions as multinationals. In fact, many of their domestic Japanese competitors were active in the international market; hence they too were aware of alternative regulations, norms and mental models. What enhanced Citibank and The Hartford's reflexivity was instead their position as outsiders in the local Japanese market. By being less embedded in local norms and mental models, the firms were able to look beyond prevailing institutional constraints. Reflexivity was therefore enabled both by local ambiguities and their foreign and outsider position.

Role expectations were also a particularly important mechanism underlying circumvention responses (see Table 4; column 3, row 4). When Japanese banks sought to introduce loan syndication, for example, they faced considerable opposition from domestic clients, who viewed the new practice as illegitimate and falling outside the expectations applied to traditional Japanese banks. As a foreign bank, Citibank did not face these role expectations; it was therefore able to break from institutionalized practices in ways that Japanese banks could not (e.g., by selling loans to third-parties). Similarly, The Hartford's lack of embeddedness in the local Japanese life insurance industry made it easier for the

firm to act on the idea of selling insurance through banks; this idea was, by contrast, an anathema to Japanese insurers, who complained that “life insurance is a safety-oriented product” and should not be sold through investment companies.

Notably, transfer of institutional resources did not constitute a key mechanism in circumvention responses. Citibank and The Hartford’s strategy was to circumnavigate extant host country norms and cognitions, not change them. As a result, they did not actively leverage institutional experience or knowledge available from their boundary-spanning multinationality. This stands in stark contrast with the institutional innovation responses they employed when dealing with the host country regulative institutions, as discussed earlier. In this case, resource transfer of institutional experience and knowledge was crucial, given that the underlying approach was aimed at actively altering pre-existing laws and regulations.

Institutional Adaptation

Our final strategic response corresponds to the well-established adaptation strategy in previous international business literature (Bartlett & Ghoshal, 1989). In this response, MNEs actively conform to host country institutions. The primary mechanism that drives this response is the *role-expectations* the MNE faces from foreign actors and they are in turn enabled by its social position as a foreign outsider. In our cases, AGA’s responses to host country cognitive institutions are a clear example of this response type and Autoliv’s response to normative institutions is also of this type.

AGA’s introduction of new industrial gas distribution formats into Eastern Europe

While AGA used an institutional arbitrage response to introduce distribution formats taken from Western Europe, it also balanced this approach with explicit attempts to adapt its behaviors and strategies to prevailing local understandings and interpretations. In particular, the company recognized that not all of the practices used in Western Europe were applicable to its Eastern European markets; moreover, several of the Western European markets’ institutions served to constrain the firms’ opportunities in the local market and put it at a disadvantage to other competitors. In response, AGA balanced its reliance on arbitrage with practical adaptations to local norms and practices. For example, in each market they tried to figure out the norms that prevailed and based on

this used a rather pragmatic approach in adapting to current conditions while being aware that these could quickly change as norms and markets evolved. Notably, these adaptations were primarily the result of work done by local subunits, which actively sought to gather institutional knowledge in the local environment. As noted by the AGA managers:

We found out things, traveled around and asked things... recruited people that had worked for the old monopolies.

Politicians in the various countries were important sources of information.

Autoliv’s introduction of airbags into Europe

Similar to the case of AGA, Autoliv was able to use institutional arbitrage responses to overcome cognitive opposition to airbags among its European consumers, yet the company also faced normative constraints stemming in particular from the size and character of its products. European norms and regulations delineated smaller and more compact cars. In addition, local producers accustomed to the regular use of seatbelts were skeptical about introducing US-sized large airbags into their vehicles. In response to these constraints, Autoliv developed smaller airbags that fit with the expectations and norms of local car manufacturers. Notably, in doing this it primarily relied on its European subsidiaries, all of whom had close connections with local car manufacturers and an intimate understanding of domestic consumers’ needs. As one manager explained:

[C]ar manufacturers...did not believe in it...[then we] developed a particular airbag for Europe...a face bag since people wears belts in Europe.

As the above cases suggest, adaptation need not necessarily imply an emasculation of firm-specific advantages or a reduction in competitive advantage. While extant literature largely paints isomorphism and local adaptation as a cost, AGA and Autoliv derived significant benefits from adapting to local norms. Adaptation may thus be a source of advantage, especially if the institutions of the host country are more beneficial than those of the home country.

Mechanisms and enabling factors of institutional adaptation: Role expectations through a foreign social position and low ambiguity in host country field conditions

The AGA and Autoliv cases indicate that the MNE subsidiary’s social position as a foreign actor in the host country institutional environment, as well as the low ambiguity in host country institutions enabled this response (see Table 4; column 4, rows 1 and 2).

Role-expectation serves as the primary mechanism underlying adaptation responses.

Specifically, the foreign social-position enables particular role-expectations because it leads to assumptions of conformity and adaptation (see Table 4; column 4, row 4). In both the AGA and Autoliv cases, their status as outsiders and foreign entrants brought scrutiny from local players who were suspicious of the foreign products. These role-expectations hence served as the primary mechanisms that motivated AGA and Autoliv to adapt their behaviors and products to pre-existing norms (including, e.g., the size and format of airbags, or the contracting behaviors of the local gas industry). In this way, the foreign social role resulted in particular role-expectations that underpinned adaptation responses.

It is important to note that role-expectation underlying adaptation strategies are different from those underpinning circumvention strategies. In the latter case, a foreign social position results in *weaker* audience expectations of conformity and adaption; in the former case, the foreign social position results in *stronger* expectations of conformity. Our cases suggest that this difference depends on the level of ambiguity in host country field conditions. High field ambiguity provides more room for heterogeneity, thus opening up for greater acceptance of institutional deviance; this was the case in both the Japanese life insurance industry and the Japanese lending market. In cases where ambiguity is low, however, firms will face greater pressures for conformity as the institutional constraints are transparent and coherent. For AGA and Autoliv, the normative and cognitive ambiguity was low, that is, there were clear expectations and behavioral norms. As a result, their role-expectations emphasized conformity and adaptation.

In adaptation responses, neither reflexivity nor transfer of institutional resources appeared to be important mechanisms. More specifically, firms did not leverage their ability to reflect on local institutions because their emphasis was on conformity, as opposed to identifying institutional ambiguities and contradictions. Moreover, they did not leverage their access to alternative institutional experiences and knowledge because their objective was not to create new institutions, but rather to adapt to existing templates.

A Typology and Framework of MNE Subunit Strategy Responses

Taken together, the above four classifications constitute specific MNE *strategic responses* to institutions, which we inductively developed from our comparative case research, showing how the MNE subunits

shaped, transposed and evaded institutions. Why were the MNE subunits able to respond so actively with a wide range of strategic responses in relation to institutions? As reflected in prior research, circumstances that enable agency in relation to institutions include actor's social position within an organizational field and the field conditions (Battilana et al., 2009). Accordingly, as noted above and shown in Table 4, the strategic responses were facilitated by three MNE-specific *enablers*: (1) the MNE's boundary-spanning position as a multinational (multinationality); (2) the MNE subunit's weakly embedded foreignness position in the host country (foreignness); and (3) the MNE's exposure to ambiguity in the host country institutional environment (institutional ambiguity). These enablers in turn provide for three *mechanisms* through which the strategic responses are implemented: reflexivity, resources and role expectations. While these mechanisms are available to all actors, including local ones, they are strengthened by the MNE-specific enablers. The framework shows how particular MNE enablers enhance the mechanisms that provide for the strategic responses and thus provides an advantage in relation to local actors. In brief, this *institutional advantage* is grounded in two differences in kind compared with domestic actors, which are combined with the level of institutional ambiguity in the host country.

Based on our findings and presentations in Table 4 we can present four propositions with regard to the strategic responses. *Innovation* strategic responses focused on purposely changing and creating local institutions and built on the MNEs boundary-spanning multinational social positions that strengthen all three mechanisms: resources, reflexivity and role expectations. For example, one manager in The Hartford commented on exploiting their prior US experiences in influencing regulators, "We worked with regulators...they knew we had the experience from the US". Our findings thus suggest:

Proposition 1: The greater the role-expectations of change, transfer of institutional resources, and the reflexivity to see institutional differences enabled by boundary-spanning multinationality, the more likely the MNE subunit is to pursue an innovation response.

Arbitrage responses, which leverage differences in host vs home and third-country institutions, exploit both opportunities for leveraging host country institutional ambiguities and MNE boundary-spanning multinational social positions. This response is on the one hand strengthened by the transfer of institutional

resources and on the other hand by the reflexivity to see institutional differences and contradictions. As one AGA manager related to the institutional ambiguity “if you enter a market that has not been a market in 70 years, there cannot be any clear routines or regulations” and as another AGA manager noted regarding their exploitation of this ambiguous situation when building on their prior experiences, “the idea was...to enter as in the West, first bottled and then liquid [gas distribution]”. Based on our findings we propose:

Proposition 2: The greater the transfer of institutional resources and the reflexivity to see institutional differences enabled by boundary-spanning multinationality, and the greater the reflexivity to see institutional contradictions enabled by ambiguous host country institutional environments, the more likely the MNE subunit is to pursue an Arbitrage response.

In the case of *Circumvention*, the MNE subunits leveraged ambiguities and their own outsider social position in host country institutions. This response is strengthened by the reflexivity to see institutional contradictions and by role expectations. Citibank’s weakly embedded outsider position in the Japanese banking meant that “customers did not expect [it] to take the same share of lending on their books as Japanese banks had”. As a result, Citibank found it much easier to introduce a new lending format, as compared with domestic banks. We suggest:

Proposition 3: The stronger the role expectations of defiant behavior and the greater the reflexivity enabled by weak embeddedness due to foreignness, and the greater the reflexivity to see institutional contradictions enabled by ambiguous host country institutional environments; the more likely the MNE subunit is to pursue a circumvention response.

Finally, in *Adaptation* responses, MNEs and their subunits submitted to local institutions; building on their foreign social positions and on low ambiguity in field conditions. As observed by an AGA manager, “you can’t expect [routines and practices] to be as in the US...when in Rome you must do as the Romans...and adapt”. Hence, this response primarily relied on role expectations and accordingly we propose:

Proposition 4: The stronger the role expectations of conformity that result from both weak embeddedness due to foreignness, and the lower ambiguity in the host country institutional environment, the more likely the MNE subunit is to pursue an adaptation response.

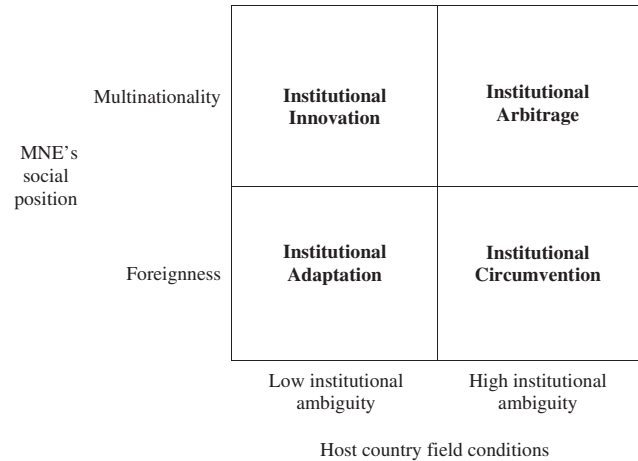


Figure 2 MNE-specific enablers of strategic responsiveness: An MNE strategic response typology.

Figure 2 summarizes our typology and theoretical framework by mapping out the relationship between the MNEs’ social positions, host country field conditions, and the various strategic responses.

DISCUSSION

International management scholars increasingly emphasize the importance of institutions (Cantwell et al., 2010; Henisz & Swaminathan, 2008; Jackson & Deeg, 2008) and the various ways in which they affect MNE activities and practices (Davis et al., 2000; Chacar et al., 2010; Chan & Makino, 2007; Lu, 2002; Meyer et al., 2009; Henisz & Delios, 2002; Kostova & Roth, 2002). However, there has been much less scholarly attention to the opposite relationship – that is, how MNEs interact with institutions and, in particular, the specific strategic response by which MNE subunits engage with local business contexts. Consequently, this study is a rejoinder to calls for research on MNE agency in relation to institutions (Kostova et al., 2008; Phillips & Tracey, 2009) with the central objective of empirically investigating how MNE subunits respond to local institutional settings.

The study contributes to theories on the interrelationship between MNEs and institutions and provides detailed insights into the dynamics of subunit responses to institutions and their underlying enablers and mechanisms. A primary contribution of the study is the introduction of a typology and theoretical framework centered on MNE-specific enablers and mechanisms that describe the dynamics of how MNE subsidiaries and subunits form *proactive* strategies that shape, transpose and evade local industry-specific institutions (see Figure 2 and Table 4). The framework shows how particular MNE-specific enablers enhance



specific mechanisms that provide for diverse strategic responses. These unique MNE enablers (multinationality, foreignness and institutional ambiguity exposure) comprise an MNE institutional advantage over local actors, confirming suggestions of extraordinary MNE agency in relation to institutions (Kostova et al., 2008). It is, however, important to note that while these enablers are necessary to obtain an institutional advantage over domestic actors, advantage is generated depending on the strength they give the mechanisms involved: reflexivity, resources and role expectations. While earlier research has emphasized MNE advantages stemming from firm-specific traits and capabilities (Buckley & Casson, 1976; Doz, Santos, & Williamson, 2001; Vernon, 1979), knowledge transfer (Kogut & Zander, 1993) and knowledge creation (Regnér & Zander, 2011), our institutional advantage, rooted in MNE social positions and field-level ambiguity, has hitherto been largely overlooked.

Besides this core contribution our findings contribute to contemporary research and theory in additional ways. Prior research in international business has often assumed (1) that institutions primarily are *constraints* (Eden & Miller, 2004; Meyer, 2001; Meyer et al., 2009; Rosenzweig & Singh, 1991); (2) that MNEs mostly try to *counter or adapt to* them (Brouthers & Brouthers, 2000; Chan & Makino, 2007; Meyer et al., 2009); (3) that *country-level institutional distance* is the most appropriate level of analysis (Kostova, 1997; Xu & Shenkar, 2002); and (4) that actions in relation to institutions are mainly located in the *corporate level* (Behrman & Grosse, 1990; Ferner, Almond, & Colling, 2005). In contrast, our contributions suggest that these assumptions are too restrictive and may have limited explanatory power when examining how MNEs cope with institutions, as explicated in the following.

First, a key contribution is the insight that institutional settings need not only be constraints as suggested by extant research, but can provide unique opportunities for creating competitive advantage. Indeed, we find that MNE subunits leveraged host country institutions to gain competitive advantage as they exploited existing institutional settings (Arbitrage and Circumvention) and explored and developed entirely new and unique institutions from scratch (Innovation). Firm-specific advantages hence evolved through actively innovating *around* institutions (cf. Cantwell et al., 2010), as opposed to passive counteraction. The course of action we identify explicitly uses institutional settings as a key element when forming strategy and creating

competitive advantage. It is thus not simply a question of trying to handle background institutions through countering measures, but of exploiting institutional settings as strategic opportunities as a basis for competitive advantage (Jonsson & Regnér, 2009). In sum, this contribution suggests a need to fundamentally re-evaluate the assumption that institutions necessarily limit MNE action, in favor of viewing institutional settings as essential foundations for competitive advantage. In this respect, our findings elevate extant institutional (Peng et al., 2008) and non-market-based (Henisz & Delios, 2002) views on strategy, emphasizing how these are not only complementary to but also highly integrative in the creation of competitive advantage.

A second contribution is our conceptualization and specification of four particular MNE strategic responses (Innovation, Arbitrage, Circumvention and Adaptation), which is in sharp contrast to prior research that emphasizes defensive strategies and how MNEs counter or adapt to host country institutions (e.g., Gooderham et al., 1998; Rosenzweig & Singh, 1991; Petersen & Pedersen, 2002). Instead, our study identifies imaginative and vigorously proactive MNE subunit managers who purposefully engage with complex local business institutions by shaping, transposing or evading them.

Finally, our typology and framework also contributes by emphasizing the significant role played by MNE subunits in relation to local business-specific institutions (Phillips et al., 2009; Saka-Helmhout & Geppert, 2011). This contribution is important as prior research has emphasized country-level institutional distances and the role of corporate-level elites in collaborations with industry and state actors. Instead, we delineate the key role that subunits and subsidiaries play in managing local institutional environments and confirm recent arguments which suggest subsidiaries constitute the main drivers in responding to institutions through their autonomous position as variety generators and experimenters (Cantwell et al., 2010).

Although our study is not primarily geared towards institutional theory, it contributes to understandings of institutional plurality, specifically by highlighting the extreme complexity and multiplicity that arises in cases where organizations span multiple environments (Kostova et al., 2008; Kraatz & Block, 2008). The strategic responses that we delineate confirm earlier suggestions that MNEs can have unusual discretion, freedom and agency in responding to their environments (Beckert, 1999; Kostova et al., 2008). We provide insights by explaining how these

responses stretch well beyond stabilizing, creating new or transforming extant institutions as explained by extant theory (DiMaggio, 1988; Lawrence, 1999; Maguire, Hardy, & Lawrence, 2004). Compared with Oliver's (1991) responses we explicate not only focal actors' own strength in resisting (avoidance and defiance), manipulating, conforming (acquiescence) and compromising, but responses that proactively and purposely exploit diversity in own and other's social positions. We make a further contribution to institutional theory by both extending on mechanisms underlying agency – including reflexivity, role expectations and resources – and by identifying how these mechanisms can be enhanced by MNE-specific traits. While these mechanisms also exist for purely domestic players, the MNE-specific enablers we specify significantly enhance agency in relation to institutions. In addition, we find that MNE subunits use both rather experimental and opportunistic (cf. Cantwell et al., 2010), and multiple and heterodox ways when forming the responses as institutional complexity along three institutional pillars prevent *ex ante* choices between them (cf. Binder, 2007). Another insight that diverges from earlier observations is the fact that the same organization can occupy and profit from both central and peripheral embeddedness.

The review of contributions and insights above indicates that our study may also have implications for strategy research that has started to acknowledge that social complexity (Barney, 1991) and institutions (Oliver, 1997) may have important consequences for competitive advantage. Our study not only illustrates how institutions can be sources of strategic opportunity and competitive advantage (Jonsson & Regnér, 2009), but specify the enablers and mechanisms that underlie these opportunities and advantages. This may further advance recent research that proposes that strategy is socially and behaviorally situated (Bromiley & Papenhausen, 2003; Regnér, 2008, 2010, 2012; Whittington, 2006).

While we have made an effort to explore and explicate how MNEs influence institutions and form strategic responses in the best possible way, our study clearly has limitations. First, the usual caution in making generalizations is clearly recommended given the restriction of empirical data to six retrospective case examinations. Even though we have covered MNEs from rather diverse home countries and their introduction of various types of products, services and practices in dissimilar host countries and regions across three institutional pillars, there may be additional combinations that expose other types of strategic responses and dimensions. Second, we

acknowledge that the full complexity of MNE – institutional dynamics – is difficult to capture in a single study. Strategic responses do not take place in a vacuum. For example, multiple constituents and forces are often at play when institutions are created or when they change. While we examined individual MNEs, which were not central actors within the institutional settings (cf. Santos & Eisenhardt, 2009), their success was not necessarily entirely independent of other forces or constituents that could also influence and matter for local institutions. Finally, like other scholars analyzing MNE strategic responses (Henisz & Delios, 2002), we have assumed that MNE subunits act with some intentionality and insight. In light of extant strategy process research, this may seem a strong assumption and indeed, our findings confirm that there was a fair amount of experimentation involved. Nevertheless, in line with behavioral perspectives in strategic management, it is not unreasonable that our firms may have had some insights into social dynamics and behavior that competitors did not realize as easily and quickly (cf. Bromiley & Papenhausen, 2003). It is, however, extremely difficult to fully separate out an individual firm's intentional response to institutions from other effects; in strategic complexity (Schoemaker, 1990) there is a thin line between proactively building strategic positions and backing into them due to more serendipitous forces and necessity (Regnér, 2001). Interestingly, recent research suggests that MNEs may be particularly well-equipped to capture this partly serendipitous process in the creation of competitive advantage (Regnér & Zander, 2011).

Our typology and framework can possibly help structure the dimensions and alternatives involved in managing host country institutional environments and thus assist the formation of strategic responses. It is, however, important to realize that we do not distort the original assumptions of isomorphism and forces of legitimacy around institutions. Indeed, we agree with recent criticisms of institutional entrepreneurship as sometimes exaggerating the malleability and plasticity of institutions and the capacity for firms and managers to change and manipulate those (Powell & Colyvas, 2008). Consequently, we do not claim that MNEs have *carte blanche* in institutional settings, nor do we suggest that any type of action in relation to institutions is possible. As both our findings and those of previous studies show, institutions do act as constraints on MNE actions and they also need to adapt, as one of our strategic responses illustrates. Such constraints, however, have an impact on all



organizations, whether multinational or domestic; the crucial advantage afforded to multinationals is their MNE-specific enablers and how they influence mechanisms and in the end strategic responses. By definition, organizations embedded in local contexts rarely have the capacity for leveraging taken-for-granted norms, practices and routines as they do not have access to these advantages. Finally, while this study illustrates how international management

research has much to gain from further integrating insights from neoinstitutional theory (cf. Cantwell et al., 2010), it also demonstrates how this research can make broader contributions to both institutional and strategic management theory and that the multinational firm is a particularly rich research subject for investigating institutions (Phillips et al., 2009; Roth & Kostova, 2003).

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