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Stakeholder responses and the interplay between MNE post-entry behaviour and host country informal institutions

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Abstract

The purpose of the study is to develop an understanding of the interplay between multinational enterprises (MNEs) and informal institutions on a firm–industry level. ‘Interplay’ here means how responses to institutions develop in a particular context and how this development is interrelated with stakeholders’ reactions and activities. To study this interplay between MNEs and informal institutions, we draw on literature on institutional complexity, as well as on a co-evolutionary perspective. Two case vignettes are presented on MNEs’ post-entry strategies and behaviours in their new host markets, with a view to understanding how and under what conditions informal institutions in the host market may compel MNEs to alter their initial strategies and behaviours in the market and, on the other hand, how and under what conditions MNEs’ strategies and behaviours may act as catalysts of change in these informal institutions.

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INTRODUCTION

The impact of institutions – 'the rules of the game in a society' (North, 1990, p. 3) – on multinational enterprises (MNEs), specifically on their strategies and performance, has long been an important topic in international business (IB) studies (Ahmadijian, 2016; Holmes et al., 2013; Meyer et al., 2009; Peng et al. 2009; Peng et al., 2008). For instance, scholars have studied how differences in host and home country institutions affect MNEs' decisions on market entry and entry modes, and how conflicting legitimacy pressures in home and host markets affect the structure and behaviour of MNEs (Ang et al., 2015; Kostova & Zaheer, 1999; Meyer et al., 2009).

However, there are gaps in the research. First, the predominantly empirical IB research on institutions has relied on rather simple representations of institutional differences and MNEs' responses to them (Ahmadjian, 2016). Studies have often viewed institutions as 'variables' or single parameters constraining business decisions (Hitt, 2016; Jackson & Deeg, 2008), thus failing to capture the complexity of cross-national differences between institutions and the large variety of firms' responses to them (Ahmadjian, 2016).

Second, IB research has mostly focused on formal institutions or the written rules and constraints pertaining to them (e.g. laws, regulations and formal agreements), whereas informal institutions, with their usually unwritten but socially shared rules and constraints, have received much less attention (Sauerwald & Peng, 2013). Nevertheless, there is widespread agreement that both formal and informal institutions affect companies' circumstances and behaviour (North, 1990; Scott, 2007; Sauerwald & Peng, 2013; Peng et al., 2009).

Third, IB research in the field has mostly taken the line of a deterministic neoinstitutionalism (e.g. Scott, 2008; DiMaggio & Powell, 1991), according to which 'organizational survival is determined by the extent of alignment with the institutional environment; hence, organizations have to comply with external pressures' (Kostova et al., 2008, 1997). In contrast, Kostova et al. (2008) emphasize the importance of broadening the theoretical scope to better acknowledge the agency of MNEs in partially constructing their institutional environments. Hence, Kostova et al. (2008) call for the development of more sophisticated theory from an institutional perspective, employing multidisciplinary approaches and stepping away from pure positivism and empiricism.

In this study, the above-mentioned shortcomings of previous research are acknowledged, and focus is placed on the interplay between MNEs and informal institutions on the firm–industry level. 'Interplay' here is taken to mean how responses to institutions develop in a particular context and how this development is interrelated with stakeholders' reactions and activities. The dynamics stemming from the local business environment and from the country of origin can involve conflicts and contradictory interests that are then manipulated by the respective stakeholders and business actors (Bitektine, 2008). On the industry level, institutional change can result from changes in resource endowments or internal contradictions within the field (such as the entry of a MNE) or from changes in higher-level societal institutional logics or external institutional logics in some other field (Thornton et al., 2012). MNEs are in a unique position, as they are embedded in multiple institutional contexts and are therefore able to apply different strategies in relation to local firms.

For the purposes of the present study, the literature on institutional logics (Thornton et al., 2012; Friedland & Alford, 1991), as well as on a co-evolutionary perspective (Lewin & Volberda, 1999), has been reviewed. Society can be seen as an inter-institutional system comprising multiple competing institutional logics (Thornton et al., 2012). Therefore, organizations face contradictory and overlapping institutional demands and need to have multiple strategies to cope with them (Greenwood et al., 2011). These contradictions are solved at different levels, ranging from the regional to the individual, and thus institutional change is patently more versatile than just a change from one set of rules to another.

The co-evolutionary perspective (e.g. Baum & Singh, 1994; Lewin & Volberda, 1999; Karademir & Yaprak, 2012) focuses on the dynamic interrelationships between organizations and their environments, leading to a continuous spiral of shaping of organizational forms and actions and reshaping of environments (Baum & Singh, 1994; Karademir & Yaprak, 2012). Therefore, both institutional change and changes in MNEs' activities must be regarded as interconnected processes that are influenced by the responses of local stakeholders.

To further develop our theoretical framework, we present two case vignettes on MNEs' post-entry strategies and behaviours in their new host markets. These will help us to understand how and under what conditions informal institutions of the host market may compel MNEs to alter their initial strategies and behaviours in the market and, on the other hand, how and under what conditions MNEs' strategies and behaviours may act as a catalyst for change in these institutions. We follow the critical realist ontology (e.g. Easton, 2010; Sayer, 2000) and abductive approach for theory development (e.g. Welch et al., 2011; Easton, 2010).

The first example is the entry of Lidl, a German discount supermarket chain, into Finland in 2002. The other is the entry of Fazer Bakeries, a Finnish industrial bakery company, into Russia in 1997. In both cases, the foreign entrant had to modify its strategies and behaviours to comply with the informal institutional environment of the host country and field but, at the same time, both companies also induced changes in that environment.

The paper is structured as follows. We begin with a brief overview of the institutional perspective in IB research and introduce the central concepts of the study. We then present a new theoretical framework for the role of stakeholder responses in the interplay between changes in MNE activities and the local informal institutional environment. The idea of the framework is further illustrated by presenting two case vignettes on the entry of foreign MNEs into two separate host countries and industries and the changes that resulted in the interplay between the MNE and host country's informal institutional environment. The cases are then discussed in the context of relevant theory. The paper ends with conclusions and suggestions for further studies.

THEORETICAL FRAMEWORK

MNEs and informal institutions

It is generally assumed that institutions have a significant influence on an organization's decision-making process, behaviour and hence its structure, and that organizations and individuals can possess agency to influence institutions (Ang, Benischke & Doh, 2015; Greenwood et al., 2011; Dacin, Goodstein & Scott, 2002). As MNEs operate in multiple institutional contexts, they need to gain legitimacy in different institutional environments. Hence, they face contradictory pressures from the markets in which they operate (Kostova & Roth, 2002).

In order to further understand institutions, Scott (2001) divided institutions into three pillars: regulative, normative and cultural–cognitive. These three pillars can be matched up with the division proposed by North (1990) into formal and informal constraints. The regulative pillar corresponds to formal constraints (Gelbuda et al., 2008) and the normative and cultural–cognitive pillars are aligned with informal constraints (Orr & Scott, 2008). The aim in both categorizations is to distinguish tacit from more explicit knowledge and influence, as the nature of knowledge impacts on the transaction costs in North's approach and on the gaining of legitimacy in Scott's approach (Karhu, 2013).

Formal institutions include laws and regulations, extending from transnational and national levels to local regimes and firm-level internal and external contracts (North, 1990; Scott, 2001; Dunning & Lundan, 2008; Orr & Scott, 2008). Informal institutions comprise informal norms and values, standards, roles, conventions, practices, traditions and customs that define goals and appropriate ways to achieve them (North, 1990; Scott, 2001; Xu & Shenkar, 2002; Orr & Scott, 2008), as well as shared beliefs, identities, schemas and mental models, in other words, the operating mechanisms of the mind (North, 1990; Scott, 2001; Ang, Benischke & Doh, 2015). Institutional approaches also share an assumption that formal and informal institutions are interconnected and inseparable. This means that, in order to fully understand the interplay between institutions and MNEs, it is necessary to consider the influence of both formal and informal institutions. Whereas previous IB studies have largely focused on formal institutions, the present focus will be on informal institutions.

Informal institutions in IB studies have usually been considered equal to culture (JIBS call for papers 2018; Holms, Miller, Hitt & Salmador, 2011). However, this largely oversimplifies the concept of informal institutions. Moreover, research in IB literature is mostly on a national level and thus the use of aggregated measures is rather common, applying Hofstede's cultural dimensions theory or the GLOBE cultural dimensions.

MNEs, stakeholder responses and changes in informal institutions

According to the institutional logics perspective (e.g. Thornton et al., 2012; Micelotta et al., 2017), institutional change in a field (sector) can proceed from micro levels (interpersonal and sub-organizational) to the most macro levels (societal and global). The change can take place in relatively brief and concentrated periods or be gradually measured in decades or centuries. It can proceed incrementally, being hardly visible to the participants, or abruptly, as dramatic episodes that radically change the former logics (Dacin et al., 2002).

Previous literature has identified two distinct types of change: transformational and developmental (Thornton et al., 2012; Micelotta et al., 2017). *Transformational change* in institutional logics means replacing one logic with another (Thornton et al., 2012). Thus, the change is significant and modifies the shared understanding of what is accepted and valued in the field (Micelotta et al., 2017). *Developmental change* is narrower in its scope and stretches rather than modifies the institutionalized understandings, by incorporating external dimensions, endogenously reinforcing logics, shifting from one field to another or decreasing the scope of the logics (Thornton et al., 2012; Micelotta et al., 2017).

These changes can unfold at different paces. Revolutionary change takes place relatively fast, owing to external macro-level dynamics that interrupt the maintenance of prevailing institutional logics. Here, change is driven by an external shock and/or by the deliberate actions of change agents (Micelotta et al., 2017). Evolutionary change is slower and is triggered by relatively slow societal changes, the purposeful introduction of modest innovations by change agents and/or cumulative changes of practice at the field level (Micelotta et al., 2017). Thus, institutional change at this level can be the result of intentional activity to change institutions or unintentional actions in which the actors take part, having other aims.

The co-evolutionary perspective offers an insight into the dynamic nature of organizations and their institutional environments, characterized by the adaptation and selection process (Karademir & Yaprak, 2012). The term ‘co-evolution’ may be defined as the joint outcome of managerial intentionality, environment and institutional effects (Lewin & Volberda, 1999: Karademir & Danisman, 2007). The co-evolutionary perspective explores how organizations influence their environments and how environments that consist of other organizations and populations in turn influence those organizations (Baum & Singh, 1994; Lewin & Volberda, 1999). The co-evolution can take place at multiple levels: within firms, i.e. on the micro level, or between firms and their markets, i.e. on the macro level (McKelvey, 1997; Karademir &

Yaprak, 2012). According to Rodrigues and Child (2003), the nature of co-evolution requires also sector, i.e. meso-level, considerations, as the interactions between institutional regimes and a company's actions produce isomorphic effects, meaning that the conditions affecting the sector's performance are shared by its member firms and other related stakeholders.

However, different stakeholders do not necessarily respond similarly to the changes in conditions (Ahmadjian et al., 2016; Greenwood et al., 2011), as stakeholders (businesses, policy makers and societal actors) belong to various related sectors embedded in different institutional logics (Owen-Smith & Powell, 2008). For example, the grocery retail sector is related to food wholesale and manufacturing, import and export regulations, incidents related to food production (such as the BSE, or 'mad cow disease', outbreak at the beginning of the 2000s, which influenced meat production and sales) and changes in consumer habits stemming from growing concerns related to climate change and thus increasing the popularity of a vegetarian diet. Therefore, the development of the retail sector is influenced by multiple stakeholders embedded in different institutional logics, where changes may not directly influence the individual retailer but may influence the sector and hence require responses from the individual retailer.

This study suggests that institutional change can emerge from the interplay between a MNE entering a new market and local stakeholders responding to its activities. The acceptance or rejection of the MNE's activities by the local stakeholders will then either require a further response from the MNE or change the informal institutions in the host field (Figure 1). In other words, stakeholder responses determine to what extent a MNE needs to adapt its activities in order to gain legitimacy in the host environment and to what extent it is able to trigger change in the host field institutional environment.

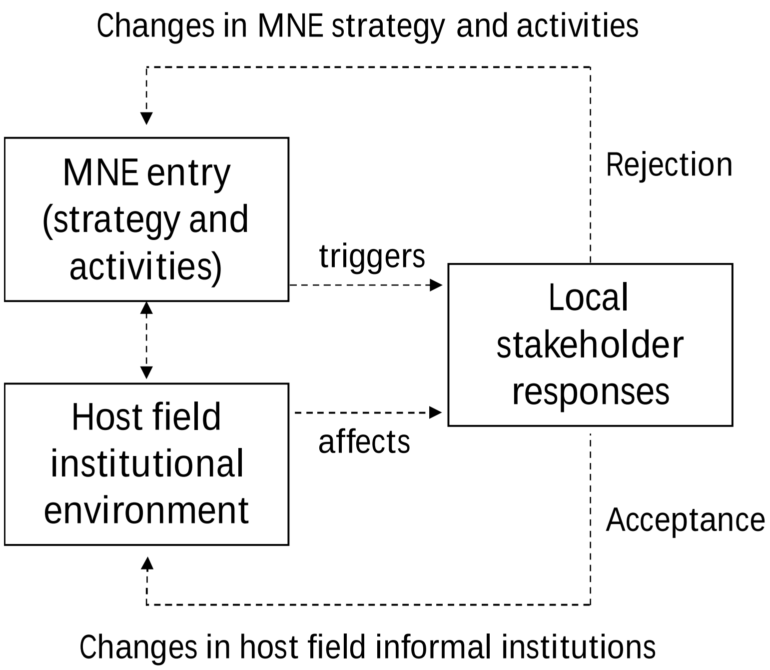

Figure 1: The role of stakeholder responses in the interplay between a MNE and informal institutions in the host field.

As MNEs enter the host market, they will bring with them new practices and assumptions. Thus, in order for an MNE to gain legitimacy, it needs to respond to the institutional pressures stemming from the host field. In her already classic article, Oliver (1991) identified five strategic responses to institutional pressures: acquiescence, compromise, avoidance, defiance and manipulation. These strategies include different levels of activity and intentionality. Orr and Scott (2008) added a sixth strategic approach, namely educate, to highlight the learning and teaching that both parties experience, compared to the manipulation in which the roles are more set. Regnér and Edman (2014), on the other hand, focused on four strategic responses by which MNE subunits shape, transpose and evade institutions as they seek to gain competitive advantage: innovation, arbitrage, circumvention and adaptation. These strategies are specific for MNEs because of their multinationality and foreignness and the institutional ambiguity of the host environment. Hence, not only are MNEs influenced by the host country institutions but they also have agency in relation to them (Regnér & Edman, 2014; Greenwood et al., 2010).

These responses then trigger further reactions in the local host market actors. Bitektine (2008) has studied the legitimacy manipulation strategies that established organizations use to prevent, eradicate or palliate a new entrant's impact. Three strategies were identified: (1) changing the relative importance of legitimacy dimensions, (2) raising the legitimacy threshold and (3) altering perceptions of competitors' performance. Thus, the local context cannot be seen only as a simple selection of the environment, but is a more complex process of dynamic relationships that accept or reject the emerging changes.

Legitimacy is developed in a particular context and its development is connected with stakeholders' reactions and activities. This is in line with Stinchcombe's (1965) claim that there is no such thing as automatic acceptance by local stakeholders; on the other hand, as Bangara et al.'s study (2012) indicates, there is also no such thing as automatic rejection. Thus, there is a continuum of entry-process acceptance that is influenced by various forces and aspects beyond regulations and tariffs. In MNE research, the concept of local legitimacy, which considers the local values and the social consequences of MNE activities, is applied to examine the presence of the MNE and its desirability, acceptance and support at the local level (Reimann et al., 2012). The dynamics stemming from the host field and those of the environment in the country of origin can involve conflicts and contradictory interests that are then manipulated by the respective stakeholders and business actors (Bitektine, 2008, 2011).

This study explores the interaction between MNEs and informal institutions as a co-evolutionary change process at the field (sector) level. The MNE activities and local stakeholders' responses form an interplay that can change the host field's informal institutions and/or require adaptations to the MNE's activities and strategy.

EXPLORING THE INTERPLAY BETWEEN MNES AND INFORMAL INSTITUTIONS IN THE HOST INDUSTRY

In order to contextualize and further our research, we present two case vignettes, both of which describe a situation in which a foreign MNE entered a particular field in the host country as the first foreign company. Both descriptions are based on previously published materials such as case studies, research articles, newspaper articles and company websites.

The first example is the entry of Lidl, a German discount supermarket chain, into Finland in 2002, while the second describes the entry of Fazer Bakeries, a Finnish industrial bakery company, into Russia in 1997. In both cases, the foreign entrant had to modify its strategies and behaviours to comply with the informal institutional environment of the host country and host field; at the same time, both companies also induced changes in that environment.

Lidl, Finland

Lidl, a German discount supermarket chain that operates in about 30 countries around the world, entered Finland in 2002 as the first international company in the Finnish food retail sector (Peltonen, 2006), opening 10 stores in different parts of Finland. The company expanded its chain aggressively during the first few years in Finland. By June 2006, it already had 100 stores, and the number of stores has continued to grow, although at a more modest pace. Today, Lidl Finland has over 170 stores and is the third largest grocery retailer in Finland, with a market share of 9.3 percent (Lidl Suomi, Wikipedia).

Being the first grocery retailer to follow the ‘hard discounter’ business model (see e.g. Geppert et al., 2015) in Finland, the newcomer, with its cheaper prices, was expected to outdo its local competitors (Tuormaa & Vihma, 2008). However, despite the aggressive expansion of the chain after its entry, the first few years in Finland were not easy. The market share stayed under five percent and, until 2009, the company operated at a loss (Tuormaa & Vihma, 2008; Lidl Suomi, Wikipedia). In 2008, there was even speculation in the media that the company would withdraw from Finland (Tuormaa & Vihma, 2008). Although this did not happen, it had become clear that the standard approach the company used in all its other markets did not work in Finland as expected. Indeed, before the company managed to turn its operations to profit in the Finnish market, it needed to take into account the responses of various stakeholder groups and make considerable changes to its activities (cf. Wentland & Graf, 2017; Peltonen, 2006; Geppert et al., 2015).

Media: When Lidl entered Finland, it kept its communications minimal. For instance, when the media became curious about the suppliers of Lidl's own-label products marked as 'Produced in Finland', it became clear that Lidl had instructed its local partners not to make any comments, and the company itself also refused to say a word. Thus, the company's initial encounters with the public made it seem restrained and secretive, qualities not appreciated by Finns, for whom straightforward, direct and honest communication is held as a national virtue (Wentland & Graf, 2017; Lidl on Saksan salaperäisin…, 2004; Snellman, 2002). Furthermore, a few months after its entry, Lidl received negative publicity in the Finnish media for its alleged mismanagement of human resources (Peltonen, 2006). To counter the bad reputation it thus acquired (e.g. Snellman, 2002), the company had to change its 'no comment' policy. Today, Lidl Finland no longer avoids the media. Following its more open communication and changes in its activities, Lidl Finland has come to be regarded as a responsible retailer and employer (Lidl Suomi, Wikipedia).

Municipalities: Surprisingly, Lidl's first entry point in Finland was not the capital city. Instead, the first stores were opened in small towns all over the country (Wentland & Graf, 2017). Municipalities were eager to sell the company building plots in order to diminish the relative power of the largest domestic retail chains (Tuormaa & Vihma, 2008). During the first few years, Lidl expanded aggressively, opening approximately 30 new stores per year. In 2006, the company had a network of over 100 stores and two distribution centres in Finland (Wentland & Graf, 2017).

Employees and labour unions: In Germany, Lidl had a reputation for treating its employees badly and trying to stop them from unionizing (Tuormaa & Vihma, 2008). After its entry into Finland, Lidl was accused there too of mismanagement of human resources (HR). For instance, it had hired a lot of staff on short contacts, which in some cases were not renewed. Also, the contracts themselves included peculiarities, such as prohibiting the disclosure of salary information. This was exceptional, as salaries in the Finnish system are determined by a collective bargaining process. Also, issues were reported relating to store managers' incompetence and inadequacy in devising schemes of working hours, exercising extreme control over workers' daily performance, instituting routine checks of personnel to detect possible thefts and promulgating overall paternalistic attitudes among line managers (Peltonen, 2006).

However, the HR problems that Lidl initially faced in Finland were resolved by the involvement of the Finnish services union (PAM) and industry safety delegate. For instance, after the intervention of the union over unpaid overtime, Lidl introduced an automatic clock-in system, and the intervention by the industry safety delegate helped to resolve the issue of work breaks. Hence, the initial 'German influence', characterized by an authoritarian management style, excessive use of warnings, a lack of trust and communication, a strict hierarchy and an oppressive working atmosphere, was relaxed over time, as more autonomy was given to Finnish workers and managers. This led to more constructive employment relations (Geppert et al., 2015). Indeed, the PAM now has nothing but good things to say about Lidl (Nalbantoglu, 2014): the company managers have been able to learn from criticism and modify their policies, such that they are similar to those of other retailers in Finland. Furthermore, in respect of some issues such as training, Lidl is now more advanced than other Finnish retailers nationally (Geppert et al., 2015; Tuormaa & Vihma, 2008).

Consumers: When Lidl entered Finland, it carried a range of 800 products, of which only a few were Finnish or familiar to Finnish consumers. Most products were imported and only a few fresh products were offered (Wentland & Graf, 2017; Nalbantoglu, 2014). Although Lidl was, from the beginning, familiar with some cultural traits of grocery shopping in Finland, it had not anticipated Finnish consumers' strong preference for domestic products over cheaper prices. Accordingly, by 2008 Lidl had increased its product range to 1,300 items, mostly by adding domestic products and brands that could be found on the shelves of its Finnish competitors (Wentland & Graf, 2017). Over the years, Lidl Finland ceased to be a place for supplementary shopping and became a primary destination for buying groceries (Tuormaa & Vihma, 2008).

In the beginning, Lidl stores in Finland were very similar to those elsewhere. The distinctive buildings, layout and furnishing of Lidl stores set them apart from domestic competitors. One major difference was the design of the checkout counters. Lidl introduced the short counters that are typical in Germany, where people are used to scooping their groceries back into their shopping trolley and packing them elsewhere. However, in Finland, customers are accustomed to packing their bags directly at the counter (Wentland & Graf, 2017) and simply would not adapt to the short checkout counters. Finally, in 2008, after six years of trying to teach Finnish people how to use the short counters, Lidl headquarters gave in and the company started to replace the short counters with longer ones, similar to those of domestic competitors. The mistake involving the checkout counters cost Lidl 5 million euros (Nalbantoglu, 2014). Lidl has also renewed its stores' interiors and layouts to suit local tastes, creating a more open and lighter look and moving the fresh fruits and vegetables closer to the store entrance (Nalbantoglu, 2016).

These were not the only things that Lidl had to adapt in Finland in response to customers' preferences. At the beginning of its operations in Finland, credit cards were not accepted as a payment method: Finnish consumers were used to being able to pay with credit cards everywhere. Later, Lidl made a complete U-turn in its attitude to modern payment technology (Wentland & Graf, 2017).

With regard to advertising, Lidl soon noticed that Finns are fervent subscribers to newspapers. Hence, unlike in Germany, in Finland the company decided to advertise actively in newspapers. However, it was the smart and humorous TV advertisement campaign introduced in 2011 that turned out to be a real image makeover for Lidl in Finland (Wentland & Graf, 2017).

Competitors: Although Lidl initially had a very different (discount store) strategy from its local competitors, the changes it has since made to please Finnish customers has made it more similar to domestic retailers. For instance, in 2010, Lidl introduced its in-store bakeries, thus depriving its rivals of one of their competitive advantages. Around the same time, it added a large variety of fresh fish products to its range and started to provide its stores with fresh meat, fruits and vegetables every day of the week, including Sundays. This was something its local competitors were not able to do (Wentland & Graf, 2017). Lidl also brought many products into its range that the local grocery stores did not have, for instance prosciutto, breast of duck, proper bratwurst and, from time to time, even local specialties, forcing domestic competitors to follow suit (Tuormaa & Vihma, 2008).

Since its entry, Lidl Finland has competed against domestic retailers mainly by offering lower prices (Tuormaa & Vihma, 2008). In order to compete, Finnish grocery chains started to develop own-label ranges. By the end of 2004, Lidl's arrival in Finland had led to an overall price decrease of 10 percent throughout the retail sector. Despite offering its own labels cheaper than its domestic competitors, the same items cost less in Lidl stores in Germany. This is because of the smaller volumes and higher energy prices, salaries, transport costs and taxation in Finland (Wentland & Graf, 2017). However, in Finland, Lidl is still cheaper than its local competitors (Nalbantoglu, 2018).

Suppliers: Lidl is able to offer its low prices thanks to its strong negotiating power in sourcing. However, there have been no complaints from Lidl's Finnish suppliers, as the company's purchasing strategy is considered to be fairer to them than that of its Finnish competitors. Lidl negotiates low prices for its purchases but then accepts the sole risk of unsold products, whereas the Finnish retailers build partnerships with their suppliers and base their purchases on consumer demand: if the items are not sold, it is the suppliers that have to carry the losses (Tuormaa & Vihma, 2008).

Fazer Bakeries, Russia

Fazer Bakeries is a division of the Fazer Group, a Finnish multinational operating in bakery, confectionery and food services. Fazer Bakeries has become one of the leading bakery companies in the Baltic Sea region, with outlets in Finland, Sweden, Russia and the three Baltic states (Fazer.com).

In 1997, Fazer Bakeries entered St. Petersburg, Russia, by the friendly acquisition of a local industrial bakery, Hlebny Dom, which at that time was the second largest bakery in St. Petersburg with a market share of approximately 15 percent. In less than 10 years, the company had doubled its market share and become a market leader in St. Petersburg and its surroundings (Pelto, 2013). Today, Hlebny Dom has a market share of approximately 35 percent in the St. Petersburg region and is not only the leading company in the bakery industry in the whole of Russia but also the only significant foreign actor in the field (Kaartemo & Pelto, 2017; Smirnova et al., 2014).

Since its entry into St. Petersburg, Fazer Bakeries has developed the local bakery sector in many ways while at the same time adapting its operations to suit the local institutional environment.

Media: When Fazer Bakeries acquired Hlebny Dom, it sparked rumours in the yellow media about its intentions. It was feared that Fazer Bakeries would appropriate capital from the acquired company. Hlebny Dom’s PR department worked hard to quell these rumours. The company even published an article in a local newspaper about the positive effects of the acquisition. Later, the company received positive publicity in the local media, thanks in part to its social programmes in the city of St. Petersburg. In 1999, Hlebny Dom received an award for best company in the St. Petersburg food sector and, in 2004, the company was given another award at the Kremlin (Pelto, 2013).

Municipality and local authorities: Fazer’s entry into Russia required many interactions with local authorities, such as the competitions authority and customs. At the beginning especially, working with the local authorities was sometimes slow and difficult. However, in general, the relationships between Hlebny Dom and Fazer and the authorities in St. Petersburg have been good: right from the start, city governors were present at the launch of new production lines, and the company has supported and actively participated in the city’s social programmes, which involved keeping the prices of traditional bread types low and even fixed at times of economic crises. Other bakeries have followed suit. The fact that Fazer has been active in such projects has clearly helped to maintain good relationships with the city’s administration. Fazer has also been politically active, lobbying at meetings of the Finnish and Russian intergovernmental committee (Pelto, 2013).

Employees and the workers’ collective: After the acquisition by Fazer, the existing managers of Hlebny Dom continued to run the company. However, several changes were made to the organizational structure of the company as it was gradually remodelled in Western style. During the process, new Russian personnel were recruited and no Finnish expatriates were employed. Fazer has also offered various types of training to Hlebny Dom's staff, such that these employees have attracted the interest of other employers and several have been hired by other foreign companies and even local competitors. The new organizational practices brought in by the foreign entrant have likely spread to some local companies in this way. Although some staff mobility was inevitable, in addition to competitive salaries, Hlebny Dom has also introduced non-monetary incentives to retain talented people in the company. These include helping personnel find and rent apartments and offering local managers job rotation possibilities inside the Fazer Group's international organization in Europe.

Staff engaged in production at Hlebny Dom in St. Petersburg have not been keen to change jobs while their wages have stayed at the market level. Being a market leader and having a foreign owner, Hlebny Dom has been regarded as an employer that offers job security. In the workers' collective at Hlebny Dom, Fazer is considered a socially oriented company that takes good care of its workforce. Hence, the investor's good relations with the workers' collective are important for smooth operation. In addition, Fazer has not tried to implement any changes to the organizational culture of Hlebny Dom (Pelto, 2013).

Consumers: At the time of the entry, St. Petersburg's bakery sector was still characterized by the Soviet heritage, although the bakeries had been privatized a few years earlier. Regional markets consisted of a few large bakeries that specialized in producing only certain types of bread in accordance with the orders of the state Gosplans (state planning committees). Consequently, consumer choice was very limited. Bread was sold in bulk and consumers did not know the producer of the bread they purchased, as the bread was neither packaged nor labelled (Kropotov, 2002; Pelto, 2013; Smirnova et al., 2014).

Immediately after its entry, Fazer invested heavily in Hlebny Dom and opened new production lines that enabled it to introduce new types of products to the market. It was the first company to produce pre-packaged and sliced bread. Some of the new products launched were transfers from Finland, for instance single-portion bread, but most products were adapted to suit local tastes. In addition, Hlebny Dom developed new products locally, which were warmly welcomed by consumers. Whereas Hlebny Dom’s product range consisted of approximately 30 different product labels at the time of Fazer’s acquisition, within less than 10 years it had grown more than tenfold, boasting 320 product labels. Moreover, with its modern production lines and know-how from Fazer, Hlebny Dom was able to increase the quality of its products and hence to notch up higher margins, while keeping the prices of traditional product types relatively low (Kaartemo & Pelto, 2017; Pelto, 2013).

Fazer made significant changes also in marketing Hlebny Dom’s products. The company invested in advertising and began to pay attention to branding. Although the Fazer brand was well known in Finland and also used in Estonia and Latvia, it was not introduced to Russia, as it was deemed advisable not to use a foreign brand for foodstuffs, especially for the bread that has such importance for Russians, but instead to use a local image. Accordingly, the name Hlebny Dom (‘bread house’) was chosen as the product brand in Russia (Kaartemo & Pelto, 2017; Pelto, 2013).

Retailers: At the time of Fazer’s entry to St. Petersburg, the retail sector was still underdeveloped and dominated by traditional retail concepts, and bread was bought mostly from traditional bread stores or Soviet-style general grocery stores (Kropotov, 2002; Louhivuori, 2006; Pelto, 2013). However, as modern retail concepts began to appear in the market, Hlebny Dom decided to treat these types of retailers as its most important customer category earlier than its competitors did. Fazer introduced the idea of the active marketing of bread, which was completely new for the market at that time. Furthermore, Fazer brought key account management knowledge to Hlebny Dom, as a result of which the company was able to serve the emerging retail chains better than its local competitors. The consistently high product quality was also noticed and appreciated by the retailers, especially by the modern retail chains (Kaartemo & Pelto, 2017; Pelto, 2013). Hence, in 2006, the share of retail chains in Hlebny Dom's sales was well in excess of 60 percent (Pelto, 2013).

One major change introduced by Fazer Bakeries into its Russian subsidiary was a new distribution system. At the time of Fazer's entry, the products of all St. Petersburg bakeries were delivered by HlebTrans, which held a monopoly in the transport of goods. The bread was distributed in wooden crates that were loaded on metal trolleys and into trucks, which required a lot of manual labour to empty on to store shelves. As the system was unreliable, unhygienic and inefficient, in 1999 Hlebny Dom launched a six million euro in-house logistics system. New plastic bread crates were developed in collaboration with a crate provider, and the company acquired its own fleet of modern delivery trucks. The logistics system redesign involved the entire crate movement process, with such functions as customer returns and cleaning, enabling higher levels of customer service. It instantly became the company's major competitive advantage and has since become a local standard for bread deliveries, as retail chains started to demand it from other bakeries. Hence, domestic competitors, not only in St. Petersburg but also in other regions, have since copied the concept (Degbey & Pelto, 2013; Kaartemo & Pelto, 2017).

Competitors: Local bakeries have watched and imitated the foreign entrant's actions carefully. They have started to market and brand their own products, brought similar products to those of Hlebny Dom to the market and improved their product quality. Consequently, the St. Petersburg bread market has become the leading bakery market in Russia in terms of the overall quality and innovativeness of its products (Smirnova et al., 2014; Pelto, 2013). These changes in the local market have been astonishing. For instance, while 90 percent of bread products were sold unpackaged and unbranded in 1999, just four years later, unpackaged bread accounted for only 10 percent of sales (Kaartemo & Pelto, 2017).

However, the heavy investments in production technology and product quality have raised the price of bread in St. Petersburg higher than elsewhere in Russia, including Moscow. Whereas in Moscow the market players focus on price competition and fight over government orders for standardized products, the price competition in St. Petersburg is less intense. In St. Petersburg, competitors have also cooperated with one another in the local industrial organization, where Hlebny Dom has taken an active part. The organization has had a strong role in advocating the industry's interests in the face of the increasing power of retail chains (Smirnova et al., 2014; Pelto, 2013).

Suppliers: When Fazer introduced new types of products to Hlebny Dom's product portfolio, it was initially difficult to find suppliers for particular products in Russia. However, as new suppliers appeared, the majority of raw materials were acquired locally. The company has developed its own suppliers, by setting strict quality requirements and introducing systematic quality control. Although no formal training or technology transfer has been offered to local suppliers, Hlebny Dom wanted to have close cooperation with the suppliers and has been able to help them develop their technology by utilizing its network relations, for example in Finland. In some cases, local suppliers have made considerable changes to their production to meet increasing quality requirements set by Fazer. Relationships with raw-materials suppliers have become more long-term-oriented, partner-like and systematic (Degbey & Pelto, 2013; Pelto, 2013).

<u>The interplay between the companies in the two case studies and informal institutions in the host industry</u>

The two cases presented above offer quite different examples of the interplay between the focal MNE and the informal institutions of the host country and industry. The first company studied, Lidl, entered Finland with a very standardized approach. However, many of the new-to-the-market practices were not accepted by local stakeholders and the company faced severe difficulties during its first few years in Finland. For instance, consumers did not like the foreign product range, even when the prices were lower than those of domestic competitors'; customers were irritated at not being able to pack their purchases at the short checkout counters; and the layout and look of the stores were considered messy. The lack of communication by the foreign newcomer made the firm appear suspect and secretive. The apparent mismanagement of human resources further harmed the image of Lidl in Finland.

Figure 2 summarizes stakeholder responses to Lidl's entry into Finland and consequent changes both in its activities and in the informal institutional environment of the host field.

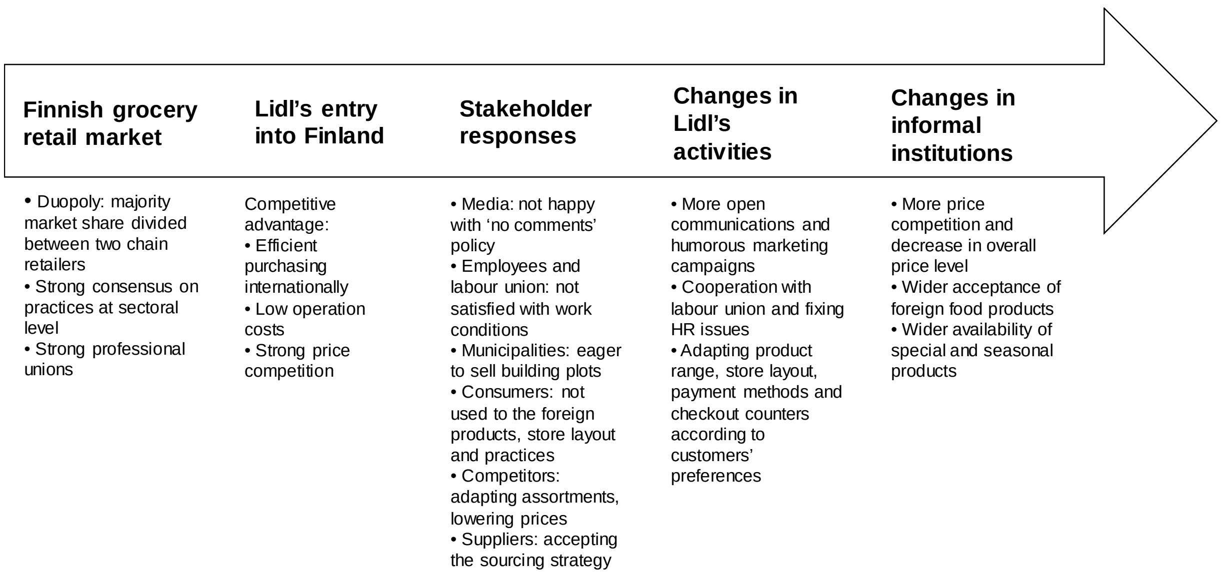

Figure 2: Stakeholder responses to Lidl's entry into Finland and the interplay between company activities and informal institutions.

Hence, it took some time and a large number of changes in Lidl's strategies and practices before it was able to gain legitimacy in the eyes of Finnish stakeholders and turn its performance to profit. HR problems were sorted out by means of active communication with the labour union, and today Lidl is considered a good employer in the retail sector. The company eventually responded to consumers 'voting with their feet' and decided to adapt to Finnish consumers' preferences. The product range was widened, checkout counters were changed to the Finnish style and even the store layout was modified to please local consumers. Furthermore, a smart and humorous advertising campaign served to dispel the mistrust and suspiciousness of Finnish consumers towards the foreign retailer.

Although Lidl had to adapt in many ways to the informal institutional environment of the Finnish grocery retail sector before its operations became profitable, the company is now well established in the Finnish market. Its entry also induced some changes to the informal institutional environment in the Finnish grocery retail market. For instance, Lidl has taught Finnish consumers to expect good quality at affordable prices and to demand a wider product range from their grocery retailers.

Fazer Bakeries entered St. Petersburg, Russia, during a turbulent era of economic and institutional transition from a planned to a market economy. Fazer adapted its operations, including management practices and product recipes, to suit the local environment, while at the same time bringing in a number of new-to-the-market practices, including, for instance, the introduction of packaged and branded bread to the market and the creation of a new distribution system for Hlebny Dom. The new practices were welcomed by the local stakeholders, i.e. consumers and retailers, as summarized in Figure 3.

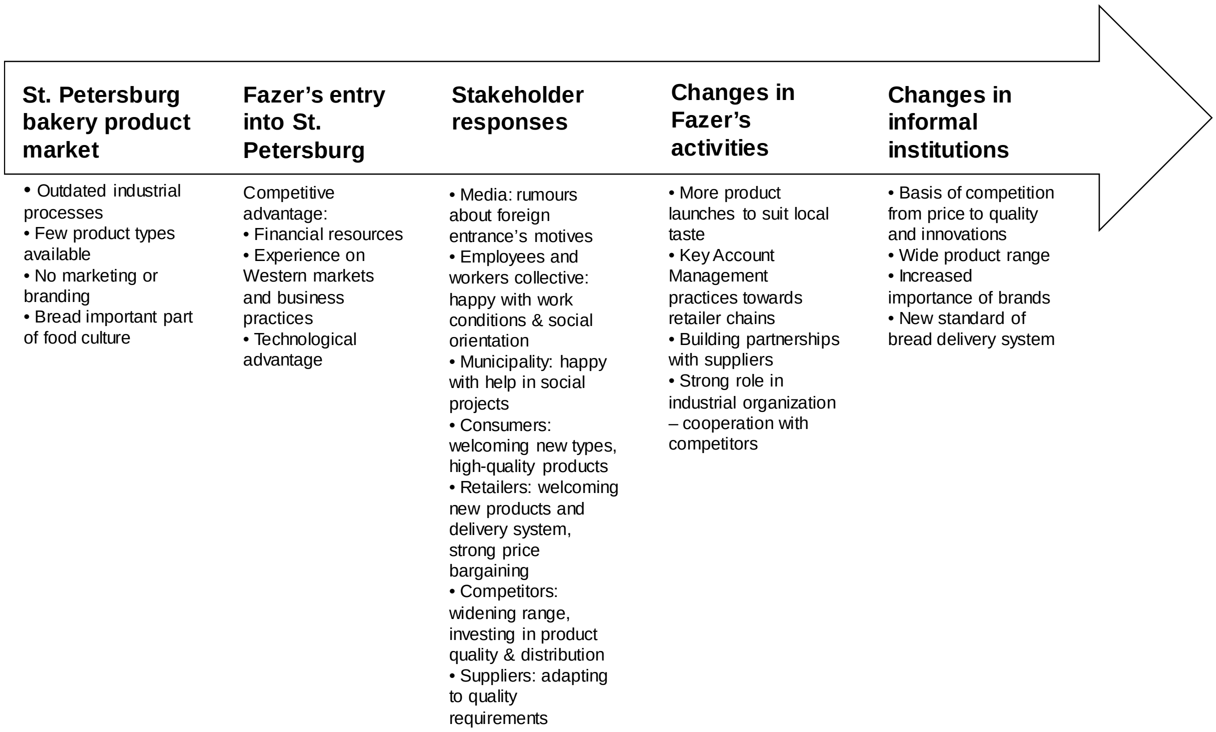

Figure 3: Stakeholder responses to Fazer's entry into Russia and the interplay between company activities and informal institutions.

Thanks to these positive stakeholder responses, local competitors started to follow Hlebny Dom's examples: they launched similar products on to the market and adopted a similar distribution system, which became a local standard for bread distribution, as retail chains started to require it from all bakeries, in other Russian regions also. Hence, Fazer's entry into St. Petersburg ended up changing the informal institutional environment of the local bakery sector. It had an influence on what types of bread are consumed, how bread is sold and delivered and how bakery companies in St. Petersburg compete with one another – not so much on prices but on innovative and high-quality products.

DISCUSSION AND CONCLUSIONS

This study focused on the interplay between MNEs and informal institutions of the host country and industry. The interplay was analysed by concentrating on how MNEs' responses to institutions develop in a particular context and how this development is interwoven with stakeholders' reactions and activities, as a result of which both the strategies and practices of MNEs as well as the informal institutions of the host field may undergo changes. With the help of two cases, we showed how informal institutions of the host market may nudge MNEs into altering their initial strategies and behaviours in the market and, on the other hand, how MNEs' strategies and behaviours may act as a catalyst for change in these informal institutions, for instance in shopping habits, consumer tastes, product ranges, the nature of competition and normative rules within the sector. The two examples presented both represent first foreign entries into their particular fields in the host countries. They illustrate how, depending on the initial strategies of the foreign entrant, as well as the prevailing institutional environment of the host field, the stakeholder responses were very different.

In the case of Lidl's entry into Finland with the standardization strategy of its foreign operations, the stakeholder responses were in many respects rather negative. As the Finnish grocery retail sector was dominated by only a couple of strong, well-established domestic actors, it proved to be difficult for a foreign entrant to introduce different practices to the market. Hence, Lidl's operations in Finland became profitable only after it changed its strategy and started to adapt to the local informal institutional environment.

The case of Fazer Bakeries entry into St. Petersburg, Russia, serves as quite a different example of a MNE's entry acting as a catalyst for various changes in the host field's informal institutional environment. The positive stakeholder responses were, to a large extent, attributable to the institutional environment's transition process: the market lacked strong actors and knowledge of how to operate under the conditions of a market economy. Hence, the practices brought by the foreign entrant were often superior in terms of serving the needs of local stakeholders, such as consumers and newly emerging retail chains.

These two cases demonstrate that the prevailing institutional context of the host field has a significant impact on how much a single foreign entrant is able to trigger change in its informal institutions and how much it needs to adapt its practices to gain legitimacy in that field. In situations where the informal institutional environment is well established, a foreign entrant is more likely to be forced to adapt its practices to fit the local informal institutions, as illustrated by the Lidl case. This is in line with Greenwood and Hinings's (1996) notion that, the more organizations are coupled to a prevailing organizational template in a highly structured institutional context, the more they resist change. On the other hand, in situations where the informal institutional environment of the host sector is not well established, even a single foreign entry may trigger significant changes in that environment, as illustrated in the Fazer Bakeries case. The new types of practices introduced by the foreign entrant created positive responses from local stakeholders. This gave rise to isomorphic effects, as local actors in the field adopted similar practices, which thus became institutionalized in the host field.

Viewing a MNE's interaction with its local institutional environment as a dynamic between the different stakeholders offers promising avenues for future research. The sector level is where the potential capability advantages of MNEs as multiple embedded and networked organizations come into play. Future research could study in greater depth the triggers and stakeholder responses to a particular entry within the sector, and analyse the mechanisms and patterns of institutional change taking place in both formal and informal institutions.

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