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

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Abstract

The purpose of the study is to develop our understanding on the interplay between MNEs and informal institutions on firm - industry level. The interplay here refers to how responses to institutions develop in a particular context and how this development is interrelated to stakeholders' reactions and activities. To study this interplay between MNE and informal institutions, we draw on literature on institutional complexity as well as co-evolutionary perspective. We present two case vignettes on MNEs' post entry strategies and behaviors in their new host markets. With the help of these two case examples, we aim to gain new insight on how and under what conditions informal institutions of the host market may push MNEs to alter their initial strategies and behaviors on the market; and on the other hand, on how and under what conditions MNEs' strategies and behaviors may catalyst change in the host market informal institutions.

INTRODUCTION

The impact of institutions – “the rules of the game in a society” (North, 1990 p.3) – on multinational enterprises (MNEs) has long been an important topic in international business (IB) studies (Ahmadijian, 2016; Holmes et al., 2013), and institutions’ influence on firms’ strategies and performance has been emphasized (Meyer et al., 2009; Peng et al. 2009; Peng et al., 2008). For instance, scholars have studied how differences on 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 behavior of MNEs (Ang et al., 2015; Kostova & Zaheer, 1999; Meyer et al., 2009).

However, there are certain weaknesses in research in this field. First, the predominantly empirical IB research on institutions has relied on rather simple representations of institutional differences and MNEs’ responses on 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 of institutions and the large variety of firms’ behaviors while responding to them (Ahmadjian, 2016).

Secondly, IB research has mostly focused on formal institutions, or the written rules and constraints (e.g. laws, regulations and formal agreements), while informal institutions, referring to the usually unwritten but socially shared rules and constraints, have received much less attention (Sauerwald & Peng, 2013). Nevertheless, leading scholars in the field agree that both formal and informal institutions affect companies (North, 1990; Scott, 2007; Sauerwald & Peng, 2013; Peng et al., 2009).

Thirdly, IB research in the field has mostly followed 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, 997). In contrast to this deterministic neoinstitutional view, Kostova et al. (2008) emphasize the importance for broadening the theoretical lens to better acknowledge the important agency role of MNEs through which they partially construct their institutional environments. Hence, Kostova et al. (2008) call for more sophisticated theory building within institutional perspective by multidisciplinary approaches and by stepping away from pure positivism and empiricism.

In this study, we take notice of the above mentioned shortcomings of previous research and focus on the interplay between MNEs and informal institutions on firm - industry level. The interplay here refers to how responses to institutions develop in a particular context and how this development is interrelated to stakeholders' reactions and activities. The dynamics stemming from the local business environment and those of the country of origin environment can involve conflicts and contradicting interests that are then manipulated by the respective stakeholders and business actors (Bitektine, 2008). Thus, institutional change on industry level can result from changes in resource endowments or internal contradiction within the field (such as entry of an MNE) or from changes on higher-level societal institutional logics or external institutional logics of some other field (Thornton et al., 2013).

To study this interplay between MNE and informal institutions, we draw on literature on institutional complexity as well as co-evolutionary perspective. Institutional complexity suggests that organizations face contradictory and overlapping institutional demands and thus need to have multiple strategies to cope with them. These contradictions are solved at different levels, ranging from regional to individual. MNEs are in unique position as they are embedded in multiple institutional contexts and are therefore able to take notice and apply different strategies in relation to local firms. 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. Regnér and Edman (2014) focused on strategic responses specific for MNEs and recognized four strategic responses by which MNE subunits shape, transpose and evade institutions as the seek to gain competitive advantage: innovation, arbitrage, circumvention, and adaptation. These strategies are specific for MNEs due to their multinationality and foreignness, and the institutional ambiguity of the host environment. Hence, MNEs are not only influenced by the host country institutions but have also agency in relation to them (Regnér and Edman, 2014; Greenwood et al., 2010).

The co-evoluationary perspective (e.g. Baum & Singh, 1994; Lewin & Volberda, 1999; Karademir & Yaprak, 2012) offers insight to study this dynamics between MNEs and their institutional contexts. The co-evolutionary perspective focuses on the dynamic interrelationships between organizations and their environments, leading to continuous spiral of shaping of organizational forms and actions and reshaping of environments (Baum & Singh, 1994; Karademir & Yaprak, 2012). However, when studying the interplay between MNE and local institutional environment, and the changes unfolding both in MNE actions and in the institutional context, it is necessary to consider the reactions triggered by the MNE entry in the host-market actors and other local stakeholders. Bitektine (2008) identified three legitimacy manipulation strategies that established organizational populations use to prevent, eradicate or palliate the new entrants' impact: (1) changing the relative importance of legitimacy dimensions, (2) raising the legitimacy threshold and (3) altering perceptions of competitors' performance. Therefore, we consider that both institutional change and change in MNEs' activities are 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 behaviors in their new host markets. With the help of these two case examples, we aim to gain new insight on how and under what conditions informal institutions of the host market may push MNEs to alter their initial strategies and behaviors on the market; and on the other hand, on how and under what conditions MNEs' strategies and behaviors may catalyst change in the host market informal 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 deals with a German discount supermarket chain Lidl's entry to Finland in 2002, and the other case example describes Finnish industrial bakery company Fazer Bakeries' entry to Russia in 1997. In both cases, the foreign entrant had to modify its strategies and behaviors to comply with the informal institutional environment of the host country and host field, but at the same time, both companies have also induced changes in the informal institutional landscape of the host market.

The paper proceeds as following: We begin with a brief overview on institutional perspective in IB research and introduce the central concepts of the study. We then present a new theoretical framework on 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 foreign entries on two separate host countries and industries, and the following changes resulted in the interplay between the particular MNE and host industry informal institutional environment. The case vignettes are then discussed in line with relevant theory. Finally, the paper ends with conclusions and suggestions for further studies.

THEORETICAL FRAMEWORK

MNE and informal institutions

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

In order to further study and understand institutions Scott (2001) divided institutions into three pillars: regulative, normative and cultural-cognitive. These three pillars can be reflected with the division done by North (1990) into formal and informal constraints. Here the regulative pillar reflects with the formal constraints (Gelbuda et al., 2008) and the normative and cultural-cognitive pillars with the informal constraints (Orr and Scott, 2008). The aim in both categorizations is to distinguish the tacit knowledge and influence from more explicit knowledge and influence, as the nature of knowledge impacts the transaction costs in North's approach and 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 to firm level internal and external contracts (North, 1990; Scott, 2001; Dunning and Lundan, 2008; Orr and Scott, 2008). Informal institutions again, comprise of informal norms and values, standards, roles, conventions, practices, traditions and customs defining goals and appropriate ways to achieve them (North, 1990; Scott, 2001; Xu and Shenkar, 2002; Orr and Scott, 2008), and of shared beliefs, identities, schemas and mental models, in other words the operating mechanisms of the mind (North 1990, Scott 2001; Ang, Benischke, and Doh, 2015). Institutional approaches also share an assumption that formal and informal institutions are interconnected and inseparable. Meaning that in order to fully understand interplay of institutions and MNE it is necessary to understand the influence of both formal and informal institutions. As previous studies have largely focused on formal institutions, our focus will be on informal institutions and their interplay with MNEs.

Informal institutions in IB studies have usually been considered equal to culture (JIBS call for paper; Holms, Miller, Hitt & Salamador, 2011). However, this largely simplifies the concept of informal institutions. In addition, the level of study in IB literature is mostly on national level and thus use of aggregated measures is rather common, applying Hofstede's or Globe dimensions. In order to further understand the interplay between MNE and informal institutions, the next chapter focuses on institutional change.

MNEs, stakeholder responses and the change of informal institutions

The co-evolutionary perspective offers a view to understand the dynamic nature of organizations and their institutional environments (Karademir & Yaprak, 2012). The term co-evolution can be defined as joint outcome of managerial intentionality, environment, and institutional effects (Lewin & Volberda, 1999: Karademir & Danisman, 2007). The co-evolutionary perspective is interested in how organizations influence their environments and how organizational environments that are comprised of other organizations and populations, in turn, influence those organizations (Baum & Singh, 1994; Lewin & Volberda, 1999). The co-evolution can take place in multiple levels: within firms i.e. on micro level, or between firms and their markets, i.e. on 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.

According to 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 gradually measured in decades or centuries. It can proceed incrementally being hardly visible to the participants, or abruptly as dramatic episodes changing radically 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* of institutional logics refers to replacing 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 rather stretches than modifies the institutionalized understandings by incorporating external dimensions, endogenously reinforcing logics, shifting from one field to another or decreasing logics scope (Thornton et al., 2012; Micelotta et al., 2017).

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

This study builds on this conceptualization of change, and views that the change can be seen as an interplay between MNE entering a new market and local stakeholders responding to the activities of the MNE. The acceptance or rejection of the MNE activities by the local stakeholders will then either require further response from the MNE or change the host field informal institutions (figure 1). In other words, stakeholder responses determine to what extent an MNE needs to adapt its activities in order to gain legitimacy in the host environment and to what extent MNE is able to trigger change in the host field institutional environment.

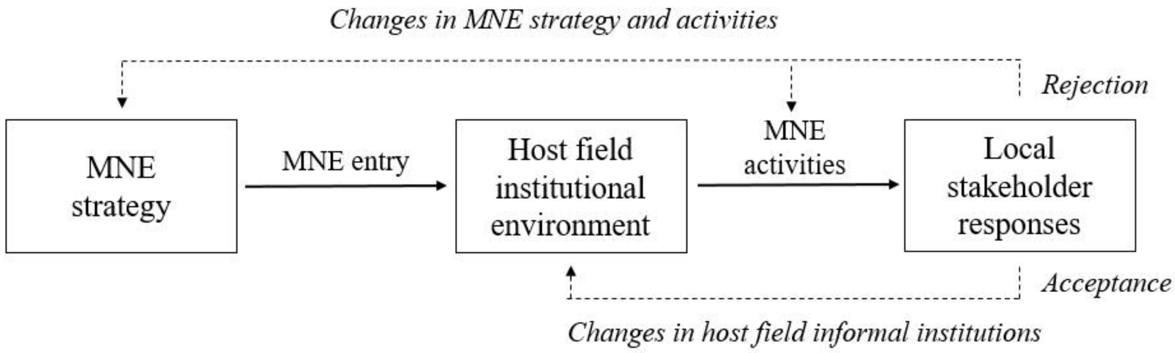

Figure 1: The role of stakeholder responses in the interplay between MNE and host field informal institutions.

As MNEs enter the host market they will bring with them new practices and taken-for-granted assumptions. Thus in order for the MNE to gain legitimacy it needs to respond to the institutional pressures stemming from the host field. Oliver (1991) identified five strategic responses to institutional pressures acquiescence, compromise, avoidance, defiance and manipulation. These strategies include different level of activity and intentionality. Orr and Scott (2008) added a sixth strategic approach of educate, to highlight the learning and teaching of both parties when compared the manipulation in which the roles are more set.

These responses then trigger further reactions in the local host-market actors. Bitektine (2008) has studied these legitimacy manipulation strategies that established organizational populations use to prevent, eradicate or palliate the new entrants' 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.

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

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

EXPLORING THE INTERPLAY BETWEEN MNE AND HOST INDUSTRY INFORMAL INSTITUTIONS

In order to gain new insight in the interrelationships between MNEs post entry behavior and host industry informal institutions we first present two brief case vignettes. They both deal with situations where a foreign MNC entered the particular field in the host country as the first foreign company. Both case descriptions here are based on previously published material such as case studies, research articles, newspaper articles, and company websites.

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

Case Lidl Finland

Lidl - a German discount supermarket chain that operates in about 30 countries internationally - entered Finland in 2002 as the first international company in Finnish food retail sector (Peltonen, 2006) by opening 10 stores in different parts of Finland. The company expanded its chain aggressively during the first few years in Finland. In June 2006, it already had 100 stores, and the number of stores has continued to grow, although more modestly. Today, Lidl Finland has over 170 stores and it 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 cheaper prices was even expected to win over 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 in loss. (Tuormaa & Vihma, 2008; Lidl Suomi - Wikipedia). In 2008, there were even speculations in the media that the company would withdrew from Finland (Tuormaa & Vihma, 2008). Even though that scenario was not realized, it had become clear that the standardized approach the company applied in all its markets, did not work in Finland as expected. Indeed, before the company managed to turn its operations profitable in the Finnish market, it introduced considerable changes concerning all 4 Ps (product, price, place and promotion) in its marketing mix, and even additional Ps referring to physical evidence and people (cf. Wentland & Graf, 2017; Peltonen, 2006; Geppert et al., 2015).

Product: When Lidl entered Finland, it carried a selection of 800 products of which only few were Finnish or familiar brands to the Finnish public. As the company followed the hard discounter business model, most products were imported and only few fresh products were offered. (Wentland & Graf, 2017; Nalbantoglu, 2014). However, from the beginning Lidl was familiar with some cultural traits of grocery shopping in Finland. For instance, instead of offering pallets of UHT milk placed somewhere between flour and sugar, it offered its private label fresh and efrigerated milk 'Milbona', which was packed in milk cartons similar to Finnish equivalents (Wentland & Graf, 2017). Nevertheless, the company had not anticipated Finnish consumers' strong appreciation of domestic products over cheaper prices. Hence, by 2008 Lidl had increased its product selection considerably to 1300 items, mostly by adding domestic products and same brands that could be found in the shelves of its Finnish competitors (Wentland & Graf, 2017).

Over the years, Lidl Finland moved away from being a place for supplementary shopping into a primary shopping place for groceries (Tuormaa & Vihma, 2008). In 2010, Lidl introduced its in-store bakeries causing its rivals to lose one of their competitive advantages. Lidl Finland made also bakery product innovations and launched its Eat Away concept in 2013. Around the same time, it added a large variety of fresh fish products to its selection, and started to provide its stores with fresh meat, fruits and vegetables seven days a week, hence also on Sundays. This was something its local competitors were not able to do (Wentland & Graf, 2017). Lidl also brought many products to their assortment that the local grocery stores did have, for instance prosciutto, breast of duck, proper bratwurst and from time to time, even local specialties. This has forced domestic competitors to widen their assortments (Tuormaa & Vihma, 2008).

Price: Since its entry, Lidl Finland has competed against domestic retailers by offering lower prices (Tuormaa & Vihma, 2008). In order to compete with the foreign entrant, Finnish grocery chains started to develop their own private-label segments. By the end of 2004, Lidl’s arrival to Finland had led to an overall price decrease of ten percent. Despite offering its private labels cheaper than domestic competitors, the same items cost less in Lidl stores in Germany. This is explained by the smaller volumes, and higher energy prices, salaries, transportation costs and taxation in Finland. (Wentland & Graf, 2017). However, in Finland, Lidl is still cheaper than its local competitors (Nalbantoglu, 2018). The low prices in Lidl are based on its strong negotiation power in sourcing. However, Lidl’s Finnish suppliers do not complain, as the purchasing strategy of Lidl is anyway considered to be fairer towards the suppliers than the Finnish competitors’ style. Lidl negotiates low prices for its purchases but then carries the risk of unsold products by itself, whereas the Finnish retailers build partnerships with their suppliers and base their purchases on consumer demand: if the items are not sold, the suppliers have to carry the losses (Tuormaa & Vihma, 2008).

Place: Quite surprisingly, Lidl did not start its entry to Finland from the capital area. Instead, the first stores were opened in small towns all over the country (Wentland & Graf, 2017). Municipalities were eager to sell it building plots in order to diminish the power of the largest domestic retail chains (Tuormaa & Vihma, 2008). During the first few years, Lidl expanded aggressively and opened on approximately 30 new stores per year. In 2006, the company had a network of over 100 stores and two distribution centers in Finland. (Wentland & Graf, 2017.) Soon after its entry to Finland, Lidl started to create synergies with other companies. Since then, new stores have often been opened in proximity of for instance, petrol filling stations, competing retail hypermarkets, Alko stores (the state monopoly for retail of wines and strong alcohol products in Finland) and in shopping centers (Wentland & Graf, 2017; Tuormaa & Vihma, 2008).

Promotion: When Lidl entered Finland, it kept its communications minimal. For instance, when the customers and media became curious about the suppliers of Lidl's products marked as "Produced in Finland", it became clear that Lidl had instructed its local partners not to give any comments, while the company itself also refused to say a word. Thus, the company's initial encounters with public gave it a restrained and secretive image, not appreciated by Finns, who value straightforward, direct and honest communication as a national virtue (Wentland & Graf, 2017).

When it comes to advertising, Lidl soon noticed that Finns are fervent newspaper subscribers. Hence, unlike in Germany, in Finland the company decided to advertise actively in newspapers. In addition, it started to send weekly brochures to potential customers living close to its stores. 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. Lidl has also used celebrity endorsement in its marketing communications. For instance, it introduced a barbeque championship competition featuring a Finnish celebrity chef. This sort of sales promotion event has not been organized by Lidl in any other country (Wentland & Graf, 2017).

Physical evidence: 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 of domestic competitors which all looked more or less similar with one another. One major difference between Lidl and its domestic competitors was the design of the checkout counters. Lidl introduced the short counters typical in Germany, where people are used to scoop up their groceries back into the shopping cart and pack them elsewhere. However, in Finland checkout counters are longer and customers are accustomed to pack their bags directly at the counter

(Wentland & Graf, 2017). Finnish shoppers just would not adapt to the short checkout counters in Lidl stores. Finally in 2008, after six years 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 with checkout counters cost Lidl 5 million Euros (Nalbantoglu, 2014).

The checkout counters have not been the only thing that Lidl had to adapt in its physical environment in Finland. For instance, in the beginning of its operations in Finland, credit cards were not accepted as a payment method. This was surprising to Finnish consumers, who were used to being able to pay with credit cards everywhere. Later, Lidl made a complete turnaround in its attitude towards modern payment technology. In 2011, it introduced contactless Near Field Communication payment in all its stores. Later, Finnish competitors followed Lidl's example (Wentland & Graf, 2017).

Lidl has also renewed the appearance of its stores in Finland. Whereas earlier the Lidl stores were similar in every country, the company has later decided to adapt the store interior and layout to suit local tastes. In Finland, Lidl stores were changed to have a more open and light look. Furthermore, the layout of the stores was change to resemble its domestic competitors' stores by for instance moving fresh fruits and vegetables closer to the store entry, as its customers preferred (Nalbantoglu, 2016).

People: In Germany, Lidl has a negative reputation as an employer treating its employees badly and trying to stop them from unionizing (Tuormaa & Vihma, 2008). A few months after starting its operation in Finland, Lidl received bad publicity also in Finnish media, concerning mismanagement of human resources. According to media reports, Lidl had hired a lot of staff with short contacts, which in some cases were not renewed. Also the contracts themselves included peculiarities, as they, for example, prohibited the disclosure of salary information.

This was exceptional, as in the Finnish system salaries are determined by collective bargaining process. Also issues related to store managers' incompetence in making working hour schemes, extreme control over workers' daily performance, routine check-ups among personnel to reveal possible thefts, and overall paternalistic attitudes among line managers were reported (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 the 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 with authoritarian management style, excessive use of warnings, a lack of trust and communication, strict hierarchy and an oppressive working atmosphere, was relaxed by time, a mdore autonomy was given to Finnish workers and managers. This led to more constructive employment relations. (Geppert et al., 2015.) Indeed, the Finnish services union (PAM) has but good things to say about Lidl (Nalbantoglu, 2014): the company managers have been able to learn from criticism and modify their policies, which at the moment are similar to those of other retailers in Finland. Furthermore, in respect to some issues like training, Lidl is now more advanced than the Finnish national model (Geppert et al., 2015; Tuormaa & Vihma, 2008).

Case Fazer Bakeries in St. Petersburg, Russia

The other case example of this study consists of the entry of Fazer Bakeries to St. Petersburg, Russia. Fazer Bakeries is a division of the Fazer Group, a Finnish multinational operating in bakery, confectionary and food services fields. Today, Fazer Bakeries is one of the leading bakery companies in the Baltic region with bakeries in Finland, Sweden, Russia, and the three Baltic countries (Fazer.com).

In 1997, Fazer Bakeries entered St. Petersburg, Russia, by a 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 ten years after the acquisition, the company had doubled its market share and became a market leader in St. Petersburg and its surroundings (Pelto, 2013). Today, the market share of Hlebny Dom in St. Petersburg region is approximately 35 percent and it is also the leading company within the bakery industry in the whole of Russia, and the only significant foreign actor in the field (Kaartemo & Pelto, 2017; Smirnova et al., 2014).

Since its entry to St. Petersburg, Fazer Bakeries has in many ways developed the local bakery sector while at the same time, it has also adapted its operations to suit the local institutional environment. This interplay is described next by focusing on the various elements of marketing mix.

Product: At the time of the entry, St. Petersburg bakery sector was still characterized by the Soviet heritage, although the bakeries had been privatized a few years earlier. Regional markets consisted of few large bakeries that were specialized to produce only certain types of bread according to state Gos-plans. Consequently, consumers had very limited choices due to the low number of bread varieties available. Bread was sold as a bulk product and consumers did not know the producer of the bread they purchased, as bread was neither packaged nor labeled (Kropotov, 2002; Pelto, 2013; Smirnova et al., 2014).

Immediately after its entry, Fazer invested heavily in Hlebny Dom and with the renewed production lines, it was able to introduce new types of products to the market. It was the first company who started to produce prepackaged and sliced bread in the market. Some of the new products launched were based on product transfers from Finland, for instance single-portion bread, but most products were adapted to suit the local taste. In addition, new products were also developed locally in Hlebny Dom. The new products were warmly welcomed by both consumers and especially large retailers. Whereas Hlebny Dom's product range consisted of approximately 30 different product titles at the time of Fazer's acquisition, less than ten years later, it had grown more than tenfold, reaching 320 product titles. With the modern production lines and know-how from Fazer, Hlebny Dom was able to increase the quality of its products. Especially the modern retail chains appreciated the products with consistently high quality. (Kaartemo & Pelto, 2017; Pelto, 2013). As local bakeries followed and imitated the foreign entrant's actions, St. Petersburg bread market developed into the leading bakery market in Russia, in regards to the overall quality and innovativeness of the products (Smirnova et al., 2014; Pelto, 2013). These changes in the local market were astonishing. For instance, while 90 percent of bread products were sold unpackaged in 1999, just four years later the share of unpacked bread was only 10 percent (Kaartemo & Pelto, 2017).

Price: With the new types of products launched to the market, Hlebny Dom has been able to acquire higher margins, while keeping the prices of traditional product types relative low and even fixed at the times of economic crises, as part of the city's social programme (Pelto, 2013). However, in general the heavy investments made on production technology and product quality have made the price level of bread in St. Petersburg market higher than elsewhere in Russia, including Moscow. Whereas in Moscow, the market players focus on price competition and fight over the governmental orders of standardized products, price competition in St. Petersburg's market is less intense. In St. Petersburg, local industrial organization, where Hlebny Dom has taken actively part, has had a strong role in advocating the industry's interests for instance against the increasing power of retail chains (Smirnova et al., 2014; Pelto, 2013).

Place: At the time of Fazer 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 on the market, Hlebny Dom took the decision to treat these types of retailers as the most important customer category earlier than its competitors. Fazer had brought key account management knowledge to the company, due to which Hlebny Dom was able to serve the emerging retail chains better than their local competitors. Hence, in 2006, the share from 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 Hlebny Dom was the creation of a new distribution system. At the time of Fazer's entry, the products of all St. Petersburg bakeries were distributed by a monopolistic transport service provider, HlebTrans. The bread was distributed in wooden crates that were loaded on metal trolleys and into trucks, and required a lot of manual labor when emptied onto store shelves. As the system was unreliable, unhygienic and inefficient. Hence, in 1999 Hlebny Dom launched EUR 6 million in-house logistics system. New plastic bread crates were developed together with the crate provider and the company acquired its own fleet of modern delivery trucks. The new logistics system redesign involved the entire crate movement process, with such functions as customer returns and cleaning. The new logistics system enabled higher levels of customer service, and it instantly became the company's major competitive advantage. The system has since become a local standard for bread deliveries as retail chains started to demand it from other bakeries. Hence, domestic competitors in St. Petersburg but also in other regions have since imitated the concept (Kaartemo & Pelto, 2017).

Promotion: Fazer made major changes in sales and marketing of Hlebny Dom's products, as it created both sales and marketing organizations for the company. Fazer Bakeries introduced the idea to start actively selling and marketing bread, which was something completely new for the market at the time. Hence, Hlebny Dom invested in advertising and began to pay attention to branding. However, the Fazer brand that was well-known in Finland and also utilized in

Estonia and Latvia, was not introduced to Russia. It was considered better not to use of a foreign brand for food stuff, especially for bread that is so very important for Russians. Instead, a local image was believed to be beneficial, and the company name Hlebny Dom (i.e. Bread House) was chosen to be employed also as the product brand in Russia. Following Hlebny Dom's examples, also the local bakeries have started to build their brands. (Pelto, 2013.)

People: After the acquisition by Fazer, the existing managers of Hlebny Dom continued to run the company. However, multiple changes were made to the organizational structure of the company as it was gradually renewed according to the Western style. During the process, new Russian personnel was recruited. They were all Russians, and no Finnish expatriates were employed. In addition, Fazer has also offered various types of training to Hlebny Dom's staff. Hlebny Dom's educated and trained staff have since interested other employers, and several persons have been hired by other foreign companies and even local competitors. In this way, the new organizational practices brought in by the foreign entrant have likely spread to some local companies. Although some staff mobility inevitable, in addition to competitive salaries, Hlebny Dom has introduced also nonmonetary incentives to retain talented people in the company. These include for instance helping personnel with apartments and offering local managers job rotation possibilities inside the Fazer Group's international organization in Europe.

The production personnel of Hlebny Dom in St. Petersburg has not been eager to change jobs as long as their wages are at the market level. Being a market leader and having a foreign owner, Hlebny Dom has been to be a secure employer in employees' eyes. Among the workers' collective at Hlebny Dom, Fazer is considered a socially oriented company taking good care of its workforce. Hence, the investor's good relations with the workers' collective are important for the smooth operation. In addition, Fazer had not tried to implement any changes to the organizational culture of Hlebny Dom (Pelto, 2013).

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

The two cases presented above offer quite different examples on the interplay between the focal MNE and the host country and industry informal institutions. The first case company 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 the first few years in Finland. For instance, consumers did not like the foreign product assortment even when their prices were lower than those of domestic competitors'; customers were annoyed by the short checkout counters making it difficult to pack their purchases by the counter, and the layout and looks of the stores were considered messy by Finnish consumers.

The lack of communication of the foreign newcomer in Finnish media made the public suspicious and created a secretive image for the firm. When the mismanagement of human resources caught the eye of labor union and media, it further harmed the image of Lidl in Finland. The following figure 2 summarizes these stakeholder responses to Lidl's entry to Finland and consequent changes both in its activities as well as in the informal institutional environment of the host field.

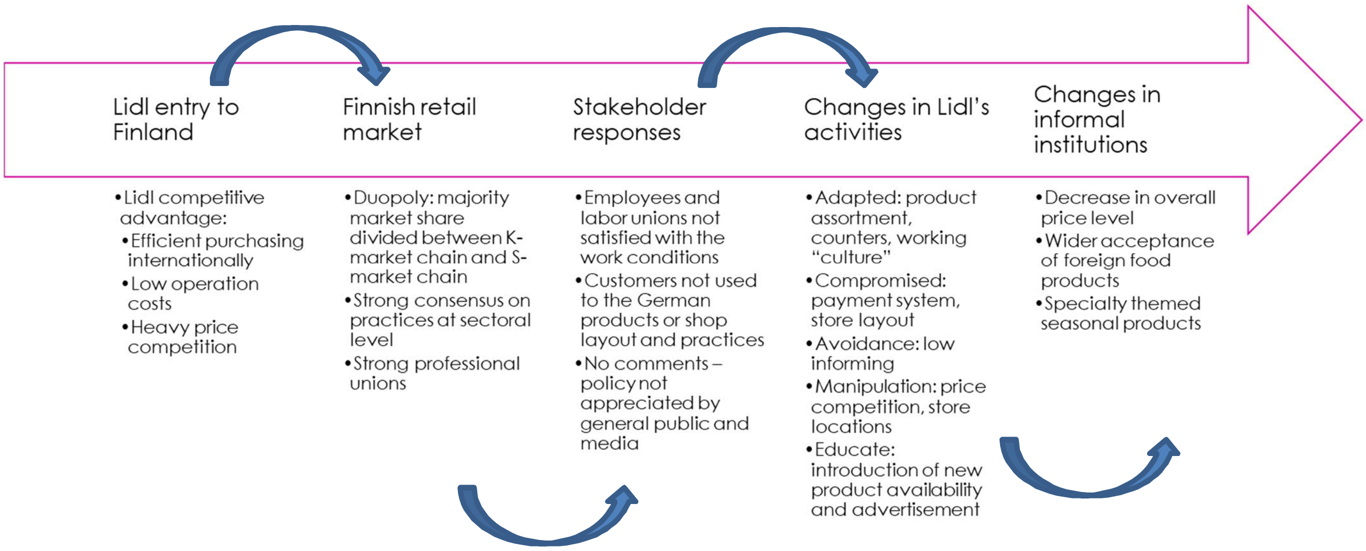

Figure 2: Stakeholder responses to Lidl's entry to Finland and the interplay between company activities and informal institutions

Hence, it took some time and a large amount 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 profitable. HR problems were sorted out with the help of active communication with the labor union, and today Lidl is considered as a good employer in the retail sector. Consumers' "voting with their feet" was eventually taken into account and the company decided to adapt to Finnish consumers preferences. Hence, product range was widened by Finnish products and familiar brands, checkout counters were changed to the Finnish style, and even store layout was modified to please the local consumers. Furthermore, smart and humorous advertising campaign was launched 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 a well-established actor in the Finnish market. Its entry had 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 for affordable price and demand for wider product assortments from their grocery retailers.

The second case example covered Fazer Bakeries entry into St. Petersburg, Russia, during a turbulent era of economic and institutional transition from planned to market economy. Fazer adapted its operations, including management practices and product recipes, to suit the local environment, while at the same time, it introduced a number of new-to-the-market practices. These practices included for instance introduction of packaged and branded bread on 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 the following figure 3.

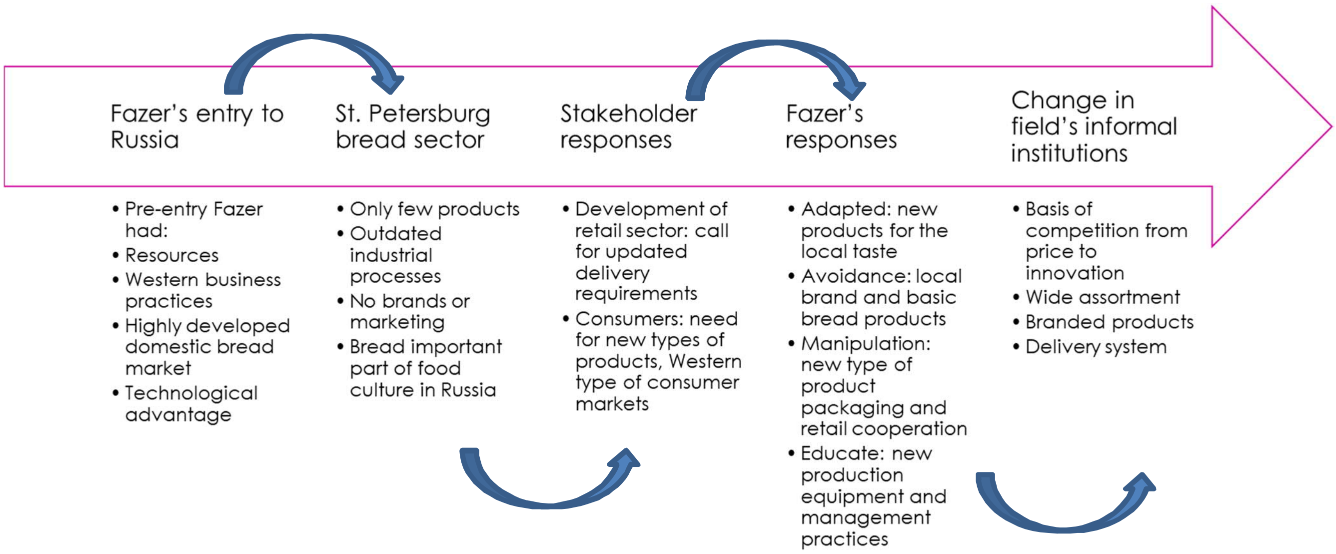

Figure 3: Stakeholder responses to Fazer's entry to Russia and the interplay between company activities and informal institutions

Due to these positive stakeholder responses, local competitors started to follow Hlebny Dom's examples: they launched similar products on the market and adopted a similar distribution system. The system became a local standard for bread distribution, as retail chains stared to require it from all bakeries, also in other Russian regions. Hence, Fazer's entry to St. Petersburg ended up changing the informal institutional environment of the local bakery sector. It influenced on what types of bread are consumed, how bread is sold and delivered, and how bakery companies in St. Petersburg compete with each other, 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 is analyzed by concentrating on how MNEs' responses to institutions develop in a particular context and how this development is interrelated to stakeholders' reactions and activities. As a result of this interplay, 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 case examples, we showed how informal institutions of the host market may push MNEs to alter their initial strategies and behaviors on the market; and on the other hand, on how MNEs' strategies and behaviors may catalyst change in the host market informal institutions. The two case examples presented in this paper, both represent first foreign entries into their particular host fields in the host countries. The case vignettes illustrated 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 to Finland with the standardization strategy of its foreign operations, the stakeholder responses were in many respect 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 to St. Petersburg, Russia, serves as quite a different example of an MNE's entry catalyzing various changes the host field informal institutional environment. The positive stakeholder responses were to large extent due to the institutional environment's transition process: the market lacked strong actors, and knowledge on how to operate under market economy's conditions. Hence, practices brought by the foreign entrant were often superior for serving the needs of local stakeholders, such as consumers and newly emerging retail chains.

Based on these two case vignettes, it seems 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 the informal institutions of the host field and how much it needs to adapt its practices to gain legitimacy in the host field. In situations, where the informal institutional environment of the host field 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' (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 informal institutional environment of the host field, as illustrated in the Fazer Bakeries' case. The new types of practices brought in by the foreign entrant created positive responses in local stakeholders. This gave rise to isomorphic effects as local actors in the field adapted similar practices, which became, thus, institutionalized in the host field.

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