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The role of government in Russian MNEs’ internationalisation

Anna Zubkovskaya

A thesis submitted in fulfillment of the requirements for the degree of
Doctor of Philosophy in International Business,
The University of Auckland, 2017.
Abstract

The role of governments from emerging economies in the international activities of emerging market multinational enterprises has intensified significantly. In this study, I examine the role of federal and regional governments in Russian multinational enterprises’ internationalisation. In particular, I investigate how this relationship affects the ability of Russian MNEs to deal with domestic institutional complexity and gain external legitimacy. My theoretical framework is built upon institutional theory in the international business field, and borrows the notion of institutional interplay from political science. I employ a qualitative multiple-case study to examine the relationships between 12 Russian MNEs and the government, and the effects of these relationships on the MNEs’ domestic and international activities. Based on the findings, I demonstrate that Russian MNEs utilise four types of responses to institutional complexity—cooperation, manipulation, avoidance and adaptation—through institutional interplay and their relationship with the government. Further, the findings indicate that the relationship between MNEs and the Russian government can evolve across four different stages: collaborative, submissive, adversarial and collusive. I conclude that Russian MNEs are able to deal with domestic institutional complexity and gain external legitimacy by developing different types of relationships with the federal and regional governments and capitalising on their own organisational attributes. The link between MNEs’ responses to institutional complexity and external legitimacy provides theoretical contributions to institutional theory, and paves the way for future research exploring the influence of the relationship between MNEs and home government on MNEs’ domestic and international activities. In addition, my study offers practical implications for policymakers in Russia, Russian MNEs and foreign MNEs planning to invest in Russia.
Acknowledgements

Firstly, I would like to express my sincere gratitude to Professor Snejina Michailova, my main supervisor and Associate Professor Christina Stringer for all their guidance, endless patience and constructive feedback that enabled me to complete my thesis. I would also like to thank Snejina and Christina for pushing my limits and challenging my thinking and my work. This encouraged me to work harder and taught me to be critical and reflexive towards my own work. Thank you Snejina and Christina for sharing your knowledge and experience with me, equipping me with valuable skills that I will utilise throughout my life.

I would also like to thank the University of Auckland for the financial assistance that they provided to me through the University of Auckland Doctoral Scholarship. A special thank you to all my colleagues at the University of Auckland for their support and meaningful discussions during this research project, which challenged my thinking. I would like to express a deepest thank you to all the participants for taking time and sharing their invaluable knowledge with me.

I would also like to thank my very supportive family. My mother, Tatyana Zubkovskaya for giving me motivation and encouragement during my studies. My sister, Julia and her husband Igor for huge sacrifices that they had to make on the way in order to support me throughout the duration of this research project. I would like to especially thank my late father, Alexander Zubkovskiy, who has always provided me with realistic and wise advice that helped me to achieve my goals.

Finally, I would like to thank my husband, Rob Earl for all his patience, unconditional love and support, which gave me strength to complete this research project. Rob, you have kept me grounded, focused and happy, which I am thankful for.
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<td>CEO</td>
<td>Chief executive officer</td>
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<td>CF</td>
<td>Consent form</td>
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<td>CFO</td>
<td>Chief financial officer</td>
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<td>CIS</td>
<td>Commonwealth of Independent States</td>
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<td>EMNE</td>
<td>Emerging multinational enterprises</td>
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<td>MNEs</td>
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<td>EACU</td>
<td>Eurasian Customs Union</td>
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<td>EE</td>
<td>Emerging economies</td>
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<td>EU</td>
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<td>FDI</td>
<td>Foreign direct investment</td>
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<td>IB</td>
<td>International business</td>
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<td>IFDI</td>
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<td>JV</td>
<td>Joint venture</td>
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<td>LEAN</td>
<td>Lean Education Academic Network</td>
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<td>OFDI</td>
<td>Outward foreign direct investment</td>
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<td>PIS</td>
<td>Participant information sheet</td>
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<td>R&amp;D</td>
<td>Research and development</td>
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<td>SOEs</td>
<td>State-owned enterprises</td>
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Chapter 1: Introduction

1.1 Research Background

In Russia, the federal and regional governments play an active role in Russian multinational enterprises’ (MNEs) international activities (Frye, Yakovlev, & Yasin, 2009; Panibratov, 2016; Zubkovskaya & Michailova, 2014). Russian MNEs establish relationships with both levels of government to deal with the continuously changing domestic institutional environment. Russia offers an interesting context to investigate the internationalisation of Russian MNEs through their relationships with federal and regional governments because of the country’s dynamically shifting institutional environment. Russian MNEs evolve in this environment and adapt their capabilities, and this changes their relationship with the government at both levels. This changing relationship influences the structure of Russia’s institutional environment and the way Russian MNEs navigate domestic institutional complexity and gain legitimacy in foreign markets.

Existing literature on Russian MNEs largely concentrates on their internationalisation entry methods and motivations (Atnashev & Vashakmadze, 2017; Bulatov, 2001; Bulatov, Kuznetsov, Kvashnin, Maltseva, & Seniuk, 2017; Filippov, 2008, 2012; Panibratov, 2010; 2016; Zubkovskaya & Michailova, 2014). During the 1990s, Russian MNEs engaged in illegal capital flight to escape the country’s institutional constraints (Bulatov, 1998). In the early and mid-2000s, the institutional environment has strengthened; as a result, Russian MNEs employed such entry modes as mergers and acquisitions, greenfield and investment into research and development (R&D). Panibratov (2016) states that in 2014, outward foreign direct investment (OFDI) by Russian companies decreased significantly because of increasing institutional uncertainty and political and economic sanctions against Russia. As a result, Russian MNEs sought financial security through capital round-tripping in tax havens including Cyprus, Switzerland, the Netherlands and Bermuda (Bulatov et al., 2017; Panipratov, 2016). These studies provide useful insights into the operations of Russian MNEs in a changing institutional environment. They have learnt to operate in an unstable institutional environment and use that experience to their advantage when they internationalise (Atnashev & Vashakmadze, 2017). I examine the internationalisation through the notion of external legitimacy, because the way organisations gain legitimacy is an important part of internationalisation process (Bangara, Freeman, & Schroder, 2012). I thus investigate how Russian MNEs operate in the domestic institutional environment and use their knowledge and experience to gain external legitimacy.

The focus of existing research on Russian MNEs’ internationalisation has primarily been on MNEs from strategic sectors, such as oil and gas and other natural resource industries (Atnashev &
Vashakmadze, 2017; Liuhto & Vahtra, 2007). The emergence of MNEs in other sectors such as telecommunication, information technology, internet, banking, steel and food and beverage has been notable since the 2000s (Bulatov et al., 2017; Panibratov, 2010; 2012). Despite Russian MNEs’ increased participation in international trade, research on these EMNEs remains scarce (Filippov, 2012; Panibratov, 2010). The internationalisation of Russian MNEs from different sectors varies because these MNEs have different financial capabilities and requires more scholarly attention (Atnashev & Vashakmadze, 2017).

Originally, the internationalisation of Russian MNEs was financed by oligarchs’ core businesses. These core businesses had the financial capabilities to facilitate MNEs’ first internationalisation stage. To sustain their competitive advantage in foreign markets, these MNEs had to refocus their operations on appropriate practices and resources necessary to succeed in foreign markets (Atnashev & Vashakmadze, 2017). Their refocus can be attributed to the unstable institutional environment in Russia because of its global geopolitical position. To isolate themselves from the national image, some Russian MNEs engage in denationalisation as a strategy for handling a complex institutional environment and operating successfully in foreign markets. Denationalisation is achieved by establishing a separate legal entity in a foreign market (Atnashev & Vashakmadze, 2017). Although Russian MNEs try to separate their image from that of Russia, they must still deal with its institutional environment.

Since the early 2000s Russian MNEs have engaged in rapid internationalisation, and some have become global players (Filippov, 2008; Panibratov, 2016), contributing not only to the national economy, but also to global trade (Bulatov et al., 2017; Panibratov, 2012). Their expansion is expected to continue, and their contribution to the global economy is notable, despite Russia’s recent global political position that was negatively impacted as a result of sanctions introduced by the United States (US) and some European Union (EU) countries (Bulatov et al., 2017). Their internationalisation strategies differ, to some extent, to those of MNEs from other (emerging economies) EEs because of their ability to operate and succeed in an underdeveloped institutional environment (Atnashev & Vashakmadze, 2017). Moreover, Bulatov et al. (2017) stated that due to the decrease in trade with the US, Russian MNEs have been heavily investing in Commonwealth of Independent States (CIS) countries. The internationalisation strategies of Russian MNEs vary depending on the industry in which they operate. However, there is a consent in the literature that the Russian Government plays an active role in the internationalisation strategies of Russian MNEs (Atnashev & Vashakmadze, 2017; Panibratov, 2012; 2013; 2016).

Thus, studying the internationalisation and development of MNEs from different sectors is important, because they undertake different internationalisation patents to succeed (Atnashev &
Vashakmadze, 2017). My study contributes to the existing literature on the internationalisation of Russian MNEs in the metallurgical, machine-building, nuclear power and agriculture sectors. MNEs from these sectors all operated during the restructuring of Russia’s institutional environment, and this provides an interesting platform from which to examine how Russian MNEs deal with the domestic institutional environment and facilitate their ability to gain external legitimacy.

MNEs present an exciting context for international business (IB) scholars as, by definition, MNEs must operate in several countries (Dunning, 1981; Stopford & Wells, 1972; Vernon, 1971). Moreover, they deal with various actors (Kostova, Roth, & Dacin, 2008). The relationship between Russia’s federal and regional governments has intensified as a result of re-centralisation (Salikov, 2000; Shah, 2012). Since they must interact with governments at both levels, Russian MNEs are at the centre of the crossroads, intensifying the challenge of their decision-making processes regarding how to respond to intra-institutional complexity. Intra-institutional complexity is referred to as diverging institutional demands that occur within the same market (Meyer & Höllerer, 2016). For the purpose of my thesis, I refer to intra-institutional complexity to institutional complexity within Russia. Although certain principles on the part of both companies and government at both levels could be incompatible, to a certain extent, Russian MNEs have nonetheless experienced rapid internationalisation since the 2000 (Kuznetsov, 2012b). This indicates that Russian MNEs have been able to succeed in an unstable institutional environment (Atnashev & Vashakmadze, 2017). Russian MNEs use their relationships with federal and regional governments to handle Russia’s complex institutional environment and facilitate their international activities.

1.2 Research Motivations

1.2.1 The Relationships between Governments and MNEs Globally

Today, ‘withdrawal and involvement (of the state) are not the alternative. State involvement is a given’ (Evans, 1995, p. 10). The state has always played a significant role in international trade (Finchelstein, 2017), and MNEs play several roles, including representing the nation, being a global player (Karppi, 2007) and participating in shaping the global economy (Dunning & Lundan, 2008). Emerging market multinational enterprises (EMNEs) have increasingly taken part in international trade, which has changed the global business environment (Buckley, Doh, & Benischke, 2017; Peng, Wang, & Jiang, 2008). Multinationals from EEs have attracted substantial attention from IB scholars (Deng 2012; Goldstein, 2007; Guillen & Garcia-Canal 2009). However, their relationships with their home governments remain unclear, and require investigation, as they are a distinct feature of these MNEs (Wang, Hong, Kafouros, & Wright, 2012; Wang, Hong, Kafouros, & Wright, 2018).
A country’s home government plays an important role in the internationalisation of MNEs (Boddewyn, 2016; Li & Ding, 2017; Luo, Xue, & Han, 2010; Malesky & Taussig, 2017; Zheng, Singh, & Mitchell, 2015b). The way EMNEs develop and maintain their relationship with the government can facilitate or hinder EMNEs’ internationalization strategies (Zhang, Marquis, & Qiao, 2016). While home government support can facilitate access to financial and human resources for MNEs (Wang et al., 2012a), it can also negatively affect the internationalisation of MNEs if the home institutional environment is perceived as weak in foreign markets (Luo et al., 2010). In this case, an MNE’s image can be unfavourable, which limits its ability to establish its competitiveness (Wei & Nguyen, 2017) and gain legitimacy (Luo et al., 2017) in a foreign market.

The government’s role in the internationalisation of MNEs has been documented and emphasised in several IB studies (Boddewyn, 2016; Jormanainen & Koveshnikov, 2012; Wang et al., 2012b; Wang et al., 2018). A number have touched on the importance of the Chinese Government in its modernisation and formation of facilitative policies for MNEs (Luo, 2001; Luo et al., 2017; Wang et al., 2012b). The internationalisation of MNEs from Latin America is attributed to their connections with their home government, which provides them with financial support (Aguilera, Ciravegna, Cuervo-Cazurra, & Gonzalez-Perez, 2017). Further, the Indian Government encourages Indian MNEs to internationalise by offering budgetary support (Choudhury & Khanna, 2018). The Russian Government’s increased involvement in Russian MNEs’ international activities has been recognised by IB scholars as a major stimulant of Russian MNEs’ internationalisation (Atnashev & Vashakmadze, 2017; Panibratov, 2016). The relationship between government and MNEs is integral to the way MNEs internationalise, and thus requires further examination (Wang et al., 2018).

The relationship between the home government and MNEs is often reciprocal and takes an exchange-based form (Ring et al., 2005). This means that in exchange for the government’s financial and administrative support, MNEs provide political support and donations to increase the country’s social welfare. This favour exchange is mutually beneficial when the government and MNEs collaborate (Zhang et al., 2016). If the relationship is built on distrust, it can be destructive for MNEs, because they can lose the strategic resources necessary for their internationalisation (Hong, Wang & Kafouros, 2015; Ring et al., 2005). The relationship between the home government and MNEs evolves over time and influences the way MNEs deal with the domestic institutional environment and internationalise.

Government officials at various levels facilitate or hinder MNE operations (Du & Girma, 2010; Luo et al. 2010; Wang, Hong, Kafouros, & Wright, 2012). Central government can affect allocation of and access to financial resources, which are essential for MNEs to internationalise. Local and regional governments can help MNEs overcome administrative constraints related to ineffective
formal institutions (Luo et al., 2010; Wang et al., 2012b). Whether the different levels of government facilitate or hinder the MNE internationalisation process depends on how MNEs manage their relationship with the government (Du & Girma, 2010).

In Russia, the federal and regional governments play an active role in Russian MNEs’ international activities (Frye, Yakovlev, & Yasin, 2009; Panibratov, 2016; Zubkovskaya & Michailova, 2014). Russian MNEs establish relationships with both levels of government to deal with the continuously changing domestic institutional environment. Russia offers an interesting context to investigate the internationalisation of Russian MNEs through their relationships with federal and regional governments because of the country’s dynamically shifting institutional environment. Russian MNEs evolve in this environment and adapt their capabilities, and this changes their relationship with the government at both levels. This changing relationship influences the structure of Russia’s institutional environment and the way Russian MNEs navigate domestic institutional complexity and gain legitimacy in foreign markets.

1.2.2 Interplay between Formal and Informal Institutions

Institutional interplay is influenced by the effectiveness of formal and informal institutions (Helmke & Levitsky, 2004). In IB literature, substantial attention has been paid to formal institutions, which are defined as the written rules of the game, such as laws, regulation and formal agreements (North, 1990). Formal rules are codified, which makes them less challenging to examine than informal institutions, which are unwritten and include shared rules, values and beliefs between different stakeholders (North, 1990). Another possible reason for lack of examination of informal institutions could be the methodological constraints associated with gathering data about informal institutions that could be in conflict with formal rules (Gel’man, 2011; Lebedeva & Shekshnya, 2011). However, this is changing, and scholarly interest in informal institutions’ role in the business environment has been prompted by the rise of EEs (Dau, Chacar, Lyles, & Li., 2018; Holmes et al., 2013; Khanna & Palepu, 2010). MNEs from EEs largely rely on personal relationships to overcome ineffective formal institutions; examining these MNEs is key to understanding how they operate in complex institutional environments (Choudhury & Khanna, 2018).

EMNEs differ from those in developed markets because EEs “have less sophisticated institutional frameworks” (Meyer & Peng, 2016, p. 5). The institutional environments of EEs lack well-defined regulations (Meyer & Peng, 2016), whereas in developed markets, institutional environments have emerged as a result of the countries’ longer history (Hernandez & Guillén, 2018), which means that the political, regulatory and social infrastructure is more developed. This enables IB scholars to study the development of MNEs as a result of their changing institutional environments (Buckley et al., 2017; Hernandez & Guillén, 2018). Since EEs’ institutional environments are not as developed, this
offers excellent opportunities for IB scholars to study their evolution and internationalisation of EMNEs as a result of their shifting institutional environments (Hernandez & Guillén, 2018).

Underdeveloped formal institutions set a precedent for EMNEs to rely more on informal institutions (Peng, 2003). Both formal and informal institutions shape the institutional environment within which MNEs are embedded (North, 1990). Formal and informal institutions co-evolve in their institutional environments (Cantwell, Dunning, & Lundan, 2010; Holmes, Miller, Hitt & Salmador, 2013; Horak & Restel, 2016; Meyer & Peng, 2016)—therefore, studying the interplay between these institutions (hereafter referred to as ‘institutional interplay’) is key to understanding how it creates the strategies MNEs use to conduct business in domestic and foreign markets (Peng et al., 2008). In my thesis, I argue that Russian MNEs utilise different responses to institutional interplay to deal with Russia’s complex institutional environment. The type of institutional interplay responses that MNEs use is influenced by the Russian Government and the relationship that MNEs form with it.

The home government has the power to influence MNEs’ external legitimacy by enhancing or damaging their status and image in foreign markets (Choudhury & Khanna, 2018). External legitimacy is gained by appropriate stakeholders’ validation of MNE actions (Drori & Honig, 2013; Rottig, 2016). The home government is one of the main stakeholders that can convey a certain image of an MNE through media channels (Deephouse, 1996; Deephouse, Bundy, Tost, & Suchman, 2017). To gain external legitimacy, MNEs must manage their key stakeholders’ expectations, which they can achieve by accumulating knowledge about a foreign market’s formal and informal institutions (Kostova & Zaheer, 1999). This knowledge can be generated by MNEs forming a relationship with their own home government, which can help MNEs gain legitimacy in foreign markets. The challenge that MNEs face is how to maintain their own relationship with the home government in a manner that satisfies both the government and its foreign partners.

MNEs’ reliance on informal institutions implies that formal and informal institutions interact, which affects the domestic institutional environment. The formation of formal institutions influences the way organisations use informal institutions (Tsai, 2006). Studying formal and informal institutions separately offers only a partial picture of the institutional environment. Institutional interplay can provide a coherent understanding of how the institutional environment is formed and the way MNEs deal with it to facilitate their internationalisation (Choudhury & Khanna, 2018). I thus examine institutional interplay in Russia and how it shapes the complexity of Russia’s institutional environment.

Russia’s institutional environment has undergone major changes since the early 1990s, when formal institutions were rewritten to give more importance to informal ones (Puffer & McCarthy, 2011; Puffer, McCarthy, & Jaeger, 2016). Since the 1990s, an abundance of laws and regulations have been
introduced. They are often ambiguous, which makes it challenging for Russian organisations to enforce them effectively (Baranov, Malkov, Polishchuk, Rochlitz, & Syunyaev, 2015; Kurlyandskaya et al., 2001). To say that all formal institutions in Russia are ineffective would be an oversimplification—while some laws may be effective for the purpose of a company’s transaction, another could constrain the same transaction. In these circumstances, Russian organisations rely on their relationships with government officials to compensate for ineffective formal institutions.

Russian informal institutions, such as blat/svyazy (personal networks), have been documented in several studies (e.g., Ledeneva, 1998; Lebedeva, 2001; Michailova & Worm, 2003). Ledeneva (1998) and Michailova and Worm (2003) state that networks play a crucial role in Russia’s business environment. Russian managers use personal networks to achieve organisational objectives, distribute services and goods and facilitate everyday business activities (Helmke & Levitsky, 2004; Lebedeva, 2006). In fact, the unwritten rules are widely used in the Russian business environment to navigate the country’s complex institutional environment (Lebedeva, 2006; Puffer et al., 2016).

The development of formal and informal institutions is affected by key actors who contribute to shaping the institutional environment. A home government develops rules and regulations with the aim of providing a stable regulatory environment in which organisations can operate (Boddewyn, 2016; Holmes et al., 2013). The enforcement of these laws and regulations is implemented by the government and organisations (Hafse & Koenig, 1988). While the government has the power to create formal institutions, if the mechanisms for their implementation are weak, organisations capitalise on the informal institutions to facilitate their operations (Meyer & Peng, 2016). The effectiveness of both formal and informal institutions is essential to determining the interplay between them (Helmke & Levitsky, 2004). However, the effectiveness of both types of institutional enforcement is largely influenced by the relationship between MNEs and government. The interplay between formal and informal institutions can enhance existing knowledge of how MNEs operate in domestic and international markets. My study examines the role Russia’s federal and regional governments play in the internationalisation of Russian MNEs. I examine formal institutions in terms of how federal and regional governments exercise their power to enforce existing rules and regulations. Informal institutions are represented by the relationship between the government at both levels and Russian MNEs.

Although conflicts of interest may exist, formal and informal institutions are not mutually exclusive, as they co-exist in particular institutional and sociocultural environments, which means that interest in this phenomenon has grown in IB literature (Calvert, 1995; Cantwell et al., 2010; Chavance, 2008; Dau et al., 2018; Lauth, 2004). Informal institutions, such as personal connections, are widely used by Russian officials and MNEs (Helmke & Levitsky, 2004; Lebedeva, 2001; 2006; Ledeneva, 1998).
This interplay has enabled many MNEs to survive and succeed during Russia’s transitional period from the early 1990s to the early 2000s. The underlying assumption of such institutional interplay illustrates that MNEs, federal and regional governments use formal and informal institutions in their everyday business activities. However, IB literature has not studied how these parties use formal and informal institutional interplay to facilitate internationalisation.

1.2.3 Personal Motivation

In addition to the motivations outlined above, my study has a personal motivation. I was born in Russia and have strong business connections there. Despite being based in New Zealand, I often travel to Russia to maintain these connections, which has inspired my interest in researching Russian MNEs. I grew up observing how Russia’s business environment has shifted, and the constraints that Russian businesses have faced. The lack of effective formal institutions in the 1990s intensified the complexity of the institutional environment, but it also presented opportunities for Russian businesspeople to acquire financial growth. The importance of developing personal relationships with government officials at local, regional and federal levels was essential to capitalising on the opportunities those relationships presented. While they still play an important role, the institutional environment has become more sophisticated in terms of how businesses use these relationships. I am very passionate about this topic, because Russia is my home country; Russian companies and the country’s institutional environment are exciting to examine because they are continuously evolving.

Moreover, being Russian, but having lived outside of Russia for 15 years, mitigated the effect of personal bias during the research process, because I was able to critically examine the situation from an outside perspective. This was an advantage during the data-collection phase, because I understood the culture, people and business etiquette, and was able to adjust my behaviour accordingly.

Further, Russian is my native language, meaning that I was able to analyse domestic sources in Russian, which added depth to my analysis and findings. I also translated all the interview transcripts myself, which helped me detect any discrepancies in the domestic and international literature and in participants’ responses. This was crucial to analysing the data and ensuring that my interpretation of participants’ responses accurately reflected their views. I feel privileged that I could apply my passion for Russia to representing the participants’ views in a respectful manner in my thesis.

1.3 Research Objectives, Questions and Intended Contributions

Based on the research background, context and motivations, the overall objective of my thesis is to investigate how the relationship with federal and regional governments affect the ability of Russian MNEs to deal with intra-institutional complexity and gain external legitimacy. The first objective of
my thesis is to investigate how Russian MNEs deal with institutional complexity in Russia and I argue that they do so by responding to the different types of interplay between formal and informal institutions.

Intra-institutional complexity is defined as “conflicting institutional demands that arise within the same institutional order” (Meyer & Höllerer, 2016: 2). Intra-institutional complexity is a vital part of MNEs’ internationalisation because they first must navigate the domestic institutional environment (Kraatz & Block, 2008; Meyer & Höllerer, 2016). Institutional environment consists of both formal and informal institutions that MNEs use in order to deal with institutional complexity.

North (1990) defines formal institutional as co-defied rules and regulations and informal institutions as unwritten rules, including shared rules, values and beliefs between different stakeholders. Informal institutions in my thesis are represented by the personal relationship between the government at both levels and Russian MNEs. For the purpose of my thesis, I focus on personal connections that CEOs and managers of Russian MNEs establish with the governments as the primary form of informal institutions. Being focused on one form of informal institutions enable me to examine in detail the institutional complexity in Russia and how Russian MNEs deal with it, which is one of the main objectives of my thesis.

Institutional environment consists of formal and informal institutions that co-exist in that environment (Cantwell et al., 2010). MNEs utilise both formal and informal institutions in their operations (Puffer et al., 2016; Tsai, 2016). The interplay between formal and informal institutions is largely effected by the effectiveness of their enforcement (Helmke & Levitsky, 2004). While, the government establishes the regulations and polices (Boddewyn, 2016), the enforcement of these formal institutions is influenced by organisations and the government (Tsai, 2016). Based on the background, context and motivations of my thesis, the first research question is as follows:

1. How do Russian MNEs respond to the interplay between formal and informal institutions to deal with institutional complexity in Russia?

Essentially, the types of interplay between formal and informal institutions influence the outcome of interest in my thesis, which is the ways MNEs deal with institutional complexity in Russia. Because the government and MNEs take part in forming domestic institutional environment (Boddewyn, 2016), the relationship between them influences MNEs’ domestic and international operations.

The second objective of my thesis is to examine how Russian MNEs use their relationship with the Russian Government to facilitate gaining external legitimacy. In particular, I differentiate between the roles of federal and regional governments and how Russian MNEs use their relationship at both
levels to gain external legitimacy. Russian MNEs have long relied on personal networks with the
government officials at different levels in order to facilitate their international activities (Michaelova
& Nichaeva, 2014; Panibratov, 2016). The relationship between government and MNEs constantly
evolves because their interests change (Luo et al., 2017). MNEs form different types of relationship
with the governments, and this becomes problematic to manage, because they must satisfy the
interests of different governments (Luo et al., 2017; Shipilov et al., 2014). It is well established that
government officials at various levels can facilitate or hinder MNEs’ ability to gain external legitimacy (Luo et al., 2017).

Whether different levels of government facilitate or hinder MNEs’ internationalisation is, to a great
extent, depends on how MNEs manage their relationship with these governments (Du & Girma,
2010). Gaining legitimacy is an integral part of internationalisation process (Bangara et al., 2012).
This is particularly relevant for firms from emerging economies because of the institutional changes
they have experienced since the 1990s (Bangara et al., 2012). Therefore, it is important to understand
how the relationships are formed and how MNEs manage them to gain external legitimacy. Russian
MNEs have to be aware of what relationship to develop with the federal and regional governments
to gain external legitimacy. This leads to the second research question:

2. How does Russian MNEs’ relationship with the Russian Government affect their external
legitimacy?

The relationship that Russian MNEs form with governments at different levels influences MNEs’
ability to gain external legitimacy. The outcome of these relationships is whether different types
facilitate or hinder MNEs’ external legitimacy. The way Russian MNEs manage their relationships
with the federal and regional government helps me to examine the interrelationships between the
types of relationships and their influence on Russian MNEs’ ability to gain external legitimacy.

Home governments play an integral role in developing institutional environment in home markets
and MNEs’ international activities (Boddewyn, 2016; Wang et al., 2018). MNEs are bound to obey
the regulations in their home markets despite their international activities. MNEs rely on their
relationships with government at different levels in order to deal with complex institutional
environment (Luo et al., 2017). These relationships can be of strategic advantage to MNEs, if
managed right. Therefore, understanding how MNEs deal with home institutional environments and
develop relationships with their home government can provide valuable insights into MNEs’ ability
to gain legitimacy in foreign markets.

My study’s intended theoretical contributions lie in identifying and documenting how Russian MNEs
use their relationships with federal and regional governments to deal with institutional complexity
and gain external legitimacy. The main argument is that Russian MNEs deal with different types of institutional interplay and engage in pluralistic relationships with the Russian Government at both levels to facilitate their domestic and international operations. The type of relationship that MNEs form with the government can either facilitate or hinder their ability to deal with institutional complexity and gain external legitimacy. I summarise the main contributions of my study below; Chapter 7 features a detailed discussion of these.

The literature on organisational responses to institutional complexity mainly focuses on the way organisations deal with incompatible or conflicting institutional logics (Greenwood et al., 2011; Saka-Helmhout, Deeg, & Greenwood, 2016; Thornton, 2002). I examine this and find that institutional complexity is influenced by the four types of institutional interplay: complementary, accommodating, substitutive and conflicting. The literature suggests that the effectiveness of formal and informal institutions affects institutional interplay configurations (Helmke & Levitsky, 2004). It is problematic to examine institutional interplay through the effectiveness of institutions only, because both formal and informal institutions and their enforcement are influenced by organisations and governments (Tsai, 2016). I find that the relationship between the government and MNEs also influences institutional interplay and, consequently, the level of institutional complexity. Russian MNEs can deal with institutional complexity by using their relationships with federal and regional governments. As a result, I identify four types of responses: cooperation, manipulation, avoidance and adaptation.

Another intended contribution is to provide evidence that the relationship between MNEs and different government levels evolves through different stages: collaborative, submissive, adversarial and collusive. Understanding these stages can enable examination of how MNEs deal with institutional complexity and gain external legitimacy. The relationship between government and MNEs evolves as a result of stakeholders’ various aspirations and interests (Shipilov et al., 2014). I extend existing knowledge on institutional theory in IB by linking each type of relationship to the types of institutional interplay and organisational responses that Russian MNEs utilise to deal with institutional complexity in Russia.

I further intend to illustrate how the relationship between government and MNEs evolves. I found that a collaborative and submissive relationship can allow MNEs to gain external legitimacy, whereas an adversarial and collusive relationship can present barriers to gaining external legitimacy. The different levels of government can affect MNEs’ image and reputation in foreign markets through various channels, including print and online media and word of mouth, which in turn can enhance or damage organisational legitimacy (Deephouse, 1996; Kraatz & Block, 2008). Russian MNEs engage in relationships with federal and regional governments, and can enter different stages
of these relationships with each government to facilitate their ability to gain external legitimacy. This implies that Russian MNEs engage in opportunistic relationships with the government. They must maintain some degree of relationship with the government at both levels, because it affects their operations, their ability to deal with intra-institutional complexity and gain external legitimacy.

1.4 Thesis Outline

The thesis comprises seven chapters. In Chapter 1, I introduce the thesis topic and discuss the research background, context, motivations, objectives and questions. In Chapter 2, I critically review the literature on the government’s role in MNEs’ internationalisation. I begin by analysing the literature addressing the characteristics of the relationship between the government and MNEs, then give an overview of literature on the government’s role in OFDI and finish by focusing on the government’s role in MNEs’ international activities, using the institution-based view. Chapter 3 presents the study’s theoretical foundation, which is developed according to institutional theory in IB (see section 3.1) originating from the disciplines of economics and sociology. To examine how Russian MNEs respond to institutional complexity and gain external legitimacy, I borrow the notion of institutional interplay and legitimacy from political science (see section 3.2). This leads me to develop the theoretical framework presented in section 3.4, where I link institutional interplay and organisational legitimacy and illustrate that the relationship between government and MNEs can affect both. In Chapter 4, I discuss the study methodology, including justification for choosing qualitative research and a qualitative multiple-case study as an appropriate method. I also describe the 12 cases that comprise the study and address the challenges of accessing the field. I then undertake a detailed discussion of the methods, including semi-structured interviews, observations and reflective field notes, that I employed to conduct the fieldwork. I took two field trips—as a result, exiting the field was important part of my fieldwork, and I outline my two exits in Chapter 4. I then explore the interplay between theory and practice. In Chapter 5, I analyse the data and present the findings. I base the analysis and findings on answering the two research questions. In Chapter 6, I discuss my thesis based on the literature review, theoretical foundation, methodology, analysis and findings. In Chapter 7, I conclude the thesis by noting the theoretical and methodological contributions, practical implications, limitations and recommendations for future research.
Chapter 2: Literature Review: The Government’s Role in MNEs’ Internationalisation

The importance of governments to firms’ international activities has been emphasised in several IB studies (Boddewyn, 2016; Guillen & Garcia-Canal, 2009; Murtha & Lenway, 1994; Luo et al., 2010; Pinto, Ferreira, Falaster, Fleury & Fleury, 2017; Ring, Bigley, D’Aunno, & Khanna, 2005). Boddewyn and Brewer (1994) stress that firms engage in political behaviour to achieve their strategic objectives in relation to efficiency, market power and legitimacy. The government affects the development of policies (Murtha & Lenway, 1994) and industries (Spencer, Murtha, & Lenway, 2005), and has authority to exercise its power over organisations by enforcing rules for them (Boddewyn & Brewer, 1994).

The government’s power to enforce rules has changed during the 1990s because MNEs from EEs have become stronger international players (Boddewyn, 2016). The active role of EE governments in MNEs’ international activities has also been highlighted in a number of studies (Luo et al., 2010; Luo et al., 2017; Wang et al., 2012a; Wang et al., 2012b). These MNEs often engage in relational exchange with their home governments, which facilitates their internationalisation (Wang et al., 2012a). The relational exchange is based on reciprocal dependency and, if it is built on distrust and suspicion, it can be destructive for MNEs (Ring et al., 2005). When this happens, the government’s role changes and MNEs can lose the strategic advantages necessary for their internationalisation (Hong et al., 2015). Studying the home government’s role thus allows for deeper understanding of the internationalisation process for MNEs from particular countries (Pinto et al., 2017; Wang et al., 2012).

The literature search focused on the relationships between the government and MNEs and the government’s role in MNEs’ internationalisation. I undertook a systematic literature review using top-tier IB journals for the period 1990–2016 (Table 2.1). As a starting point, I used the lists of top-tier journals in the IB discipline provided by Jormanainen and Koveshnikov (2012) and Luo and Zhang (2016). I then used the top-tier management journals identified by Werner (2002). I excluded any books and book chapters from the literature search and included only academic peer-reviewed journals. Following the journal selection, I identified 14 journals, presented in Table 2.1. These are all respected scholarly journals and ranked in the IB and management disciplines.
Table 2.1: List of journals and number of articles—the government’s role in MNEs’ internationalisation

<table>
<thead>
<tr>
<th>Journal name</th>
<th>Number of articles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academy of Management Perspectives</td>
<td>6</td>
</tr>
<tr>
<td>Academy of Management Proceedings</td>
<td>1</td>
</tr>
<tr>
<td>Academy of Management Journal</td>
<td>14</td>
</tr>
<tr>
<td>Administrative Science Quarterly</td>
<td>4</td>
</tr>
<tr>
<td>Academy of Management Review</td>
<td>23</td>
</tr>
<tr>
<td>International Business Review</td>
<td>15</td>
</tr>
<tr>
<td>Journal of International Business Studies</td>
<td>17</td>
</tr>
<tr>
<td>Journal of International Management</td>
<td>22</td>
</tr>
<tr>
<td>Journal of Management</td>
<td>2</td>
</tr>
<tr>
<td>Journal of Management Studies</td>
<td>21</td>
</tr>
<tr>
<td>Journal of World Business</td>
<td>20</td>
</tr>
<tr>
<td>Management International Review</td>
<td>21</td>
</tr>
<tr>
<td>Strategic Management Journal</td>
<td>24</td>
</tr>
<tr>
<td>Organisational Studies</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>191</td>
</tr>
</tbody>
</table>

To identify the articles examining the government’s role in the internationalisation of MNEs, I used the ProQuest and ScienceDirect databases as electronic search engines. To perform a focused and comprehensive literature search, I used ‘government’ and ‘state’ as keywords, because these two terms are often used interchangeably in IB literature. In conjunction with the keywords, I searched for ‘MNE’ in the article titles and abstracts. I then extended the search to articles that included ‘firms’ and ‘organisations’ in their titles and abstracts because some articles used these terms in relation the government’s role in organisations’ international activities (e.g., Boddewyn & Brewer, 1994; Lawrence, 1999; Ring et al., 1990). These keywords streamlined the search, yet ensured that no articles related to the government’s role in the internationalisation of MNEs in general were missed. Following this search, the total number of articles reviewed was 191.

As a result of the review, I identified three broad topic areas: characteristics of the relationships between governments and firms, the government’s role in foreign direct investment (FDI) and the government’s role in MNEs’ international activities examined through institutional theory. Key themes emerged within each area; these are detailed in Table 2.2. In this chapter, I begin by examining the literature relevant to each topic.
<table>
<thead>
<tr>
<th>Topic Area</th>
<th>Key themes</th>
<th>Study/Studies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Characteristics of relationships between governments and firms</td>
<td>National institutional effect on MNEs’ strategies/strategic choice/strategic positioning</td>
<td>Lenway &amp; Murtha (1994); Murtha &amp; Lenway (1994); Peng et al. (2009); Ring et al. (1990)</td>
</tr>
<tr>
<td></td>
<td>Corporate politics’ capabilities/behaviour/influence identity</td>
<td>Hillman et al. (2004); Lawton et al. (2013)</td>
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<tr>
<td></td>
<td>Corporate political ties</td>
<td>Boubakri et al. (2013); Jia (2014); Jiang &amp; Murray (2008); Puck, Rogers &amp; Mohr (2013); Sun, Mellahi, &amp; Wright (2012); Sun, Mellahi, &amp; Wright (2012); Sun, Mellahi, &amp; Wright (2012);</td>
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<tr>
<td></td>
<td>MNEs influence on political decision-making/institutional structures</td>
<td>Delios (2010); Hillman &amp; Hitt, 1999; Holtbrügge, Berg &amp; Puck (2007); Lawrence (1999); Rizopoulos &amp; Sergakis (2010); Shaffer &amp; Hillman (2000)</td>
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<td></td>
<td>Institutions’ stakeholder relations</td>
<td>Kyj &amp; Kyj (2009)</td>
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<tr>
<td></td>
<td>Host government – MNE relations</td>
<td>Henisz &amp; Zelner (2005); Holburn &amp; Zelner (2010); Luo (2001)</td>
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<tr>
<td>Role of the government in FDI</td>
<td>Government involvement: ownership/ownership decision/</td>
<td>Cui &amp; Jiang (2012); Johnson et al. (2010); Pan, Teng, Supapol, Lu, Huang &amp; Wang (2014); Wang et al. (2012b)</td>
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<td></td>
<td>Government involvement in FDI promotion</td>
<td>Boddewyn (2016); Luo et al. (2010); Wei, Clegg &amp; Ma (2015)</td>
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<tr>
<td></td>
<td>Government involvement in international value-chain activities</td>
<td>Boddewyn &amp; Brewer (1994)</td>
</tr>
<tr>
<td></td>
<td>Government role in innovation and technological development/new industry creation</td>
<td>Mahmood &amp; Rufin (2005); Spencer et al. (2005)</td>
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<tr>
<td></td>
<td>Government role in MNEs’ management and strategies</td>
<td>Ring et al. (2005)</td>
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<tr>
<td></td>
<td>Home country institutions and OFDI</td>
<td>Meyer (2001); Stoian (2013); Thomas et al. (2002); Wang et al. (2012a)</td>
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<tr>
<td></td>
<td>Home country institutions and IFDI</td>
<td>Holmes et al., (2013); Lim (2008); Meyer &amp; Thein (2014); Trevino et al. (2008);</td>
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<tr>
<td>Government involvement in MNEs’ international activities: Institution-based view</td>
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<tr>
<td>State’s influence on organisational failure</td>
<td>Ingram &amp; Simons (2000)</td>
<td></td>
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<tr>
<td>State and SOEs</td>
<td>Hafse &amp; Koenig (1988); Mazzolini (1980)</td>
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<tr>
<td>Institutions and organisational change</td>
<td>D’Aunno et al. (2000); Dacin et al. (2002); Newman (2000) Zietsma &amp; Lawrence (2010)</td>
<td></td>
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<tr>
<td>Institutional forces and HRM</td>
<td>Alakent &amp; Lee (2010); Bjorkman et al. (2008)</td>
<td></td>
</tr>
<tr>
<td>Home government influence on internal and external legitimacy</td>
<td>Drori &amp; Honig (2013); Nell, Puck and Heidenreich (2014)</td>
<td></td>
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<tr>
<td>Institutional effect on corporate governance in Russia</td>
<td>Buck (2003)</td>
<td></td>
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<tr>
<td>Institutional effect on inter-firm relations</td>
<td>Abdi &amp; Aulakh (2012); Weber &amp; Glynn (2006)</td>
<td></td>
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<tr>
<td>Institutional environment and organisational subsidiaries</td>
<td>Rosenzweig &amp; Singh (1991)</td>
<td></td>
</tr>
<tr>
<td>Corruption and MNEs’ subsidiaries strategies</td>
<td>Spencer &amp; Gomez (2011)</td>
<td></td>
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<tr>
<td>Institutions and environmental strategies</td>
<td>Child &amp; Tsai (2005); Hoffman (1999)</td>
<td></td>
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<tr>
<td>Institutions and entry strategies</td>
<td>Meyer &amp; Nguyen (2005)</td>
<td></td>
</tr>
<tr>
<td>Local institutional effect on FDI</td>
<td>Wang et al. (2013)</td>
<td></td>
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</tbody>
</table>
2.1 Characteristics of Relationships between Governments and Firms

2.1.1 Strategic Interactions between Governments and MNEs

One stream of literature addresses the strategic interaction between governments and MNEs (Lenway & Murtha, 1994; Murtha & Lenway, 1994; Peng, Sun, Pinkham, & Chen, 2009; Ring, Lenway, & Govekar, 1990). Murtha and Lenway (1994) examine governments’ organisational capabilities, referred to as the functions of national institutions, and how they affect MNEs. Their view is that governments and MNEs can achieve more if they work collaboratively and make use of each other’s capabilities, including networks and financial and human capital resources. This would benefit MNEs in terms of their growth and internationalisation, and enhance the country’s global competitiveness. Moreover, Lenway and Murtha (1994) state that interactions between governments and companies are largely driven by the unique capabilities of both. The state ability to develop and manage policies lends credibility to governance mechanisms and determines whether home or host governments actually affect MNEs’ strategic choices (Lenway & Murtha, 1994; Ring et al., 1990). MNEs can adjust their behaviour to satisfy, at least partially, both home and host governments (Lenway & Murtha, 1994; Ring et al., 1990).

MNEs’ willingness to engage in collaboration or form affiliations depends on the governments’ ability to continuously create appropriate policies for those MNEs (Lenway & Murtha, 1994) and the degree of government involvement in their operations (Peng et al., 2008). Whether governments are able to develop these capabilities depends on the development of the institutional environment, as well on governments’ and MNEs’ changing interests. Because MNEs operate in multiple environments, they deal with both home and host governments (Wang et al., 2012b) that may have varying capabilities. MNEs make strategic choices based on how substantial and effective the home or host government support is (Ring et al., 1990).

Home and host governments’ interventions in MNEs’ business activities determine, to some extent, their strategic choices, operations and ownership and control, both domestically and internationally (Ring et al., 1990). Much existing literature examines the relationships between host governments and MNEs (Boddewyn & Brewer, 1994; Luo, 2001; Wang, Gu, Tse, & Yim, 2013) and host government and foreign investors (Henisz & Zelner, 2005; Kyj & Kyj, 2009), as opposed to the relationships between home governments and MNEs. Luo (2001) has found that the relationship between the host government and MNEs has been classified as conflictual–adversarial or cooperative. Adversarial relationships have attracted academic attention, particularly the concept of bargaining power in relation to market entry and regulations, where each party represents their own
interests (Henisz & Zelner, 2005). Thus, the outcomes of such relationships may negatively affect MNEs’ operations in general. While host governments expect MNEs to comply with local rules, they dismiss the fact that the rules to which MNEs’ subsidiaries adhere stem from the parent company, which often represents national interests (Boddewyn & Brewer, 1994). The cooperative relationship implies that both parties attain long-term strategic advantages (Luo, 2001), but for these to occur, the government and MNEs must work collectively (Henisz & Zelner, 2005).

Further, governments also have to consider various stakeholders when interacting with MNEs: MNEs themselves, government representatives and society (Henisz & Zelner, 2005; Luo, 2001). Kyj and Kyj (2009) discuss the attributes of stakeholder relationships, which are based on power, legitimacy and urgency of issues to be resolved, and apply it to the Eastern European context. They suggest that the growth of these relationships can also be attributed to building trust, stakeholders’ ability to adapt to one another’s needs and information exchange. The stakeholders may also have different levels of influence over each other, which can weaken or strengthen their possession of the attributes mentioned above (Kyj & Kyj, 2009).

2.1.2 Political Interactions between Governments and MNEs

Another stream of literature emphasises that relationships between governments and MNEs emerge as a result of policy networks (Rizopoulos & Sergakis, 2010), political ties (Puck et al., 2013; Sun et al., 2012) and firm-level political strategies (Holburn & Zelner, 2010; Lawton et al., 2013; Shaffer & Hillman, 2000). This implies that different interest groups engage in an exchange process and a decision-making process that partly influences government-imposed policies (Delios, 2010; Rizopoulos & Sergakis, 2010). Being integrated into a policy network enables MNEs to discuss issues concerning their operations with various governmental actors (Rizopoulos & Sergakis, 2010). However, the outcomes of the exchange process or negotiations depend on MNEs’ structural position within the policy network. If an MNE is not part of the policy network, it will not benefit from political leverage, which is vital when exploring new markets (Rizopoulos & Sergakis, 2010), and it will thus fail to generate valuable political resources and capabilities (Sun et al., 2012). Lawton et al. (2013) add that networks are part of political resources, and firms’ ownership affects the development of firm-level political strategies and capabilities. State-owned enterprises (SOEs) are less likely to develop strong networks to manage political capabilities; by contrast, non-state-owned firms are more likely to invest in forming networks to shape policy formation. MNEs’ political capabilities are influenced by home-country institutional environment (Holburn & Zelner, 2010), which is largely affected by home government and MNEs (Boddewyn, 2016). In order to develop the political capabilities necessary for MNEs’ international business activities, these MNEs need to form relationship with their home government (Wang et al., 2012b).
Although developing corporate political ties and connectedness is often seen as a value-adding activity, it can become a liability for a parent company because of rapid changes, such as the emergence of powerful new domestic and international actors, and shifts in consumer preferences (Du & Girma, 2010; He, Ring, & Boateng, 2016). In this case, being part of the policy network becomes costly and time-consuming, and MNEs cannot withdraw from it easily because of being deeply embedded in the established network (Sun et al., 2012). This can create a barrier to internationalisation.

Nevertheless, Lawrence (1999) proposes that organisations can develop institutional strategies that enable them to manage various institutional structures in the organisational field. In addition, Shaffer and Hillman (2000) state that MNEs must develop political strategies to gain the necessary political resources to implement these strategies. To develop such strategies, MNEs should undertake specific managerial actions and efforts as well as have financial resources that can help organise and manage the firms’ political capabilities by starting the planning early, being able to adapt organisational structure to the regulatory environment and having access to human capital in government circles (Lawton et al., 2013; Shaffer & Hillman, 2000).

Furthermore, MNEs can also employ three different political strategies namely, information strategy, financial incentive strategy and reputation-building strategy, to influence regulatory environment and the actions of political stakeholders (Hillman & Hitt, 1999; Holtbrügge et al., 2007). The information strategy aims at providing political stakeholders with information about MNEs’ preferences for policy or political positions. The most popular technique of information strategy is lobbying by organisations to change policies to suite their needs. MNEs employ financial incentive strategy through financial inducement of political stakeholders, including bribery, to influence their policy decision making. The reputation-building strategy is employed by developing relations with various stakeholders in order to provide them with necessary support, which helps MNEs to create build positive reputation among these stakeholders (Hillman & Hitt, 1999). Holtbrügge et al. (2007) found that financial incentive strategy is most popular in developing economies where institutional environment is relatively weak compared to developed markets. EMNEs are more likely to provide financial support to influence decision making of political stakeholders about regulatory changes. Political and institutional strategies require formation of relations with necessary political stakeholders, including home government, in order to facilitate their competitive advantage (Holtbrügge et al., 2007; Shaffer & Hillman, 2000) and accumulate political connections (Jia, 2014).

Developing relationships with appropriate actors is also a critical factor in establishing strategies that can assist with influencing the government in terms of policy-making and formation of institutional settings (Lawrence, 1999; Lawton et al., 2013; Shaffer & Hillman, 2000). Management and IB
scholars have identified several factors that affect MNEs’ corporate political activities and relationships with the political actors, such as firm size (Boddewyn & Brewer, 1994), ownership (Hafse & Koenig, 1988; Lawton et al., 2013), age (Luo 2001), industry and formal and informal institutions in different countries, as well as the political interests of governmental actors and organisations (Tihanyi & Hegarty, 2007). While these studies provide valuable insights into what factors drive the formation of the relationship between political actors and MNEs, the links between these factors are still under-researched (Hillman, Keim, & Schuler, 2004).

Delios (2010) argues that MNEs operate in multiple environments—thus, instead of developing strategies that influence policies, they should take an active role as “a means by which regulatory standards can be spread across borders” (p. 34). Further, MNEs can engage in proactive or reactive corporate political activities (Hillman et al., 2004). Proactive activities imply a firm’s active involvement in policy decision-making processes to influence governments’ legislative and regulatory procedures. Reactive corporate political behaviour is passive, and includes tracking and complying with regulations and governmental policies (Hillman et al., 2004). The level and type of MNE participation depends on the nature of the issues and competition; however, since organisations operate in multiple institutional environments, their political activities and levels of engagement will vary.

Although developing common regulatory standards could potentially benefit organisations’ international activities, it would be difficult to implement them across organisational units. One reason is that MNEs’ subsidiaries may possess different objectives and interests; thus, having the right human and financial capital may enable them to meet some units’ interests, but not others (Shaffer & Hillman, 2000). One political or institutional strategy will not work for all organisational units, thereby creating intra-firm conflicts. Another reason is that organisations “form their own intraorganisational field, which serves as an institutional environment for their subunits” (Kostova et al, 2008, p. 998). These intra-organisational fields are influenced by interactions between government and organisational actors (Tihanyi & Hegarty, 2007)—hence, MNEs and their units are bound to be influenced by external factors. This invites scholars to examine MNEs and their units and the relationships between them and their home government at the micro level. While generalisations are important and provide significant contributions to the field, studying MNEs as separate units of analysis would provide more nuanced knowledge and facilitate stronger understanding of their international activities.

The existing research represents a plethora of knowledge about relationships between governments and MNEs. However, there remains a lack of comprehension regarding how relationships between home governments and MNEs develop, and how MNEs use different types of relationship with
governments to handle their international activities. Boddewyn (2016) states that relationships between governments and MNEs have become more complex over time, but research has not yet caught up to examine the progression of these relationships.

2.2 Government Involvement in Outward FDI

Governments’ involvement in FDI activities is not a recent phenomenon, and has been highlighted in several studies (Boddewyn, 2016; Lim, 2008; Luo et al., 2010; Trevino, Thomas, & Cullen, 2008; Wang et al., 2012b). Governments in countries of Anglo-Saxon descent tend to take a more behind-the-scenes role, whereas EE governments take a very proactive approach to national economic development and MNE engagement in IB (Mahmood & Rufin, 2005). Government can stimulate and/or constrain OFDI on the part of national MNEs (Boddewyn, 2016; Wei et al., 2015). However, the way governments influence MNEs foreign operations remains under-investigated.

Ring et al. (2005) categorise the government’s role in MNEs’ strategic decision-making as either facilitative or non-facilitative. If the government is willing to develop the necessary capabilities and support organisational goals, it is facilitative. By contrast, if it does not willingly support organisations and government officials behave inadequately in sense of being uncooperative, it is non-facilitative (Ring et al., 2005). Governments’ facilitative role can be conscious and unconscious, the former being financial and regulatory support, and latter in form of overprotection of SOEs and unbalanced support for industry development (Wei et al., 2015). Governments can also serve as primary investors. Johnson, Schnatterly, Johnson and Chiu (2010) examine institutional investors and refer to them as a set of governance mechanisms that help managers mitigate issues associated with ownership and control in financial systems. They further state that institutional investors’ influence on management depends on the investors’ ownership stake and the business ties to management. Moreover, governments have control over and exercise their power with such mechanisms. For instance, sovereign wealth funds are often regarded as a type of investment that is politically driven, because its level and type of disclosure is very low among governments (Johnson et al., 2010). Thus, this type of mechanism may not be considered adequate by other states.

Governance mechanisms also affect FDI inflow into a country (Lim, 2008; Trevino et al., 2008). Home governments’ have the power to influence the domestic investment climate by implementing regulatory policies on entry requirements, ownership, industry, access to information and other factors (Holmes et al., 2013; Khanna & Palepu 2006; 2010; Lim, 2008; Meyer & Thein, 2014). While home governments undertake liberalisation strategies, they tend to protect national strategic industries, which enables local firms to compete with foreign MNEs (Dunning & Lundan, 2008). However, Ingram and Simons (2000) argue that these regulatory tools may discourage local firms from expanding their business activities. Investment promotion policies are important for foreign
investors (Trevino et al., 2008), but MNEs need to be aware of cognitive factors, such as a society’s culture, norms and beliefs (Meyer & Thein, 2014). A vast body of literature exists on the institutional effect of inward FDI. Although this study does not investigate the government’s role in inward FDI, it is important to understand determinants of inward FDI, since this allows for examination of the home institutional environment.

Governments are also central to organisations’ technological development. They allow firms to manage resources and information flow, which is important for developing MNEs and national economies (Mahmood & Rufin, 2005). However, a number of scholars have argued that because of globalisation, MNEs have become part of a global network (Bartlett & Ghoshal, 1992), meaning that technological development occurs at the inter-firm level rather than between government and firms (Spencer et al., 2005). This enables MNEs to seek and allocate resources without a home government’s involvement (Mahmood & Rufin, 2005). Despite this, in practice, MNEs still maintain relationships with the home government, as they largely rely on governmental agencies for their technological development and access to financial and human capital (Lawton et al., 2013; Shaffer & Hillman, 2000). Moreover, MNEs that operate in strategic sectors and were established under the old state structures prefer government involvement to limit the emergence of new firms (Spencer et al., 2005). While these studies make an important contribution to understanding the government’s role in MNEs’ business operations and FDI, they predominantly focus on the firm level or investors’ strategies and decision-making processes, not MNEs’ internationalisation process.

The increased participation of EEs in international trade has encouraged IB scholars to study EEs’ OFDI. The distinct feature of MNEs from EEs is their affiliation with government agencies (Wang et al., 2012b). The shift of EEs such as China, Latin America, India and Russia to open-market economies has stimulates scholarly interest in studying government ownership and its effects on MNEs (Johnson et al., 2010; Wang et al., 2012b). A home government has more control over resource allocation during the MNE internationalisation process. Governments usually use home regulatory systems to constrain and facilitate OFDI (Wang et al., 2012b). A number of studies have investigated the role of the governments and national institutions from EEs in MNEs’ internationalisation process, and this role should be explored further because EE governments take an active role in promoting OFDI (Marinova, Child, & Marinov, 2012; Stoian, 2013; Wang et al., 2012b). Thus, it is important to examine the mechanisms governments use to influence MNEs’ IB activities.

Dunning and Lundan (2008) state that home country governments consider the OFDI of their MNEs “as an integrated part of their competitiveness-enhancing strategy” (p. 694), which makes it more challenging to develop new policies or adjust existing ones. The authors state that home governments
engage in developing macro-organisational policies to intervene in companies’ internationalisation.
Luo et al. (2010) identify a list of institutional support an EE home country government gives MNEs to promote their business activities abroad:

“fiscal incentives (e.g., tax incentives, tax deductions, low-interest loans), (2) insurance against political risk, (3) assisting the private sector in international expansion through government agencies, (4) signing double taxation avoidance agreements, (5) enacting bilateral and regional treaties to protect investment abroad, (6) arranging a bilateral or multi-lateral framework to liberalize investment conditions in host countries, and (7) helping MNEs deal with a host country’s governmental or legislative institutions at the collective level, among others” (p. 69)

Governments can also encourage MNEs from EEs to internationalise by helping them overcome information and transaction costs and resource constraints (Khanna, Palepu, & Sinha, 2005), and by influencing firms’ resource allocation, strategic goals and decisions (Wang et al., 2012b).

Wang et al. (2012b) propose that the degree of government involvement and intervention depends on two determinants: the degree of a firm’s state ownership, and its government affiliation level. Both determinants are idiosyncratic to each firm and have different effects on its internationalisation. Governments have a more direct effect on SOEs through ownership arrangements and on MNEs through the level of government ownership (Pan et al., 2014). Home government has a more indirect effect on private companies by establishing relationships with them. However, these relationships vary at different government levels (Du & Girma, 2010), meaning that MNEs must navigate different institutional arrangements to facilitate varying government objectives and interests. The majority of studies on this topic focus on the state as a whole, as opposed to distinguishing between the different levels of government, although Wang et al. (2012b) argue that government affiliations at different levels (local, regional and federal) have different effects on MNEs’ willingness and ability to internationalise. Thus, studying the relationships between the government at different levels is important, as their roles in and effects on MNEs’ domestic and international activities differ.

Further, as mentioned before, relationships between governments and MNEs are based on political ties and networks with the home government (Rizopoulos & Sergakis, 2010; Sun et al., 2012). Strong networks with the government may also serve as strategic advantages for MNEs, giving them certain privileges in terms of accessing strategic resources (Hennart, 2012), taxes, funding, foreign exchange, customs and more (Luo et al., 2010). A home government can also facilitate negotiation processes with host governments on behalf of a firm. All these factors facilitate MNEs’ internationalisation.

Nonetheless, while there are advantages to having close ties with government, a firm’s own resources and capabilities are also vital to its operations in domestic and international markets (Wang et al.,
These privileges are usually limited to strategic sectors, leaving MNEs in other sectors at a great disadvantage (Wang et al., 2012a). MNEs are subject to their home government’s regulatory restrictions on OFDI (Cui & Jiang, 2012) because of the high level of capital control the government imposes (Cui & Jiang, 2012). The political affiliation with a home government is often associated with MNE ownership; hence, SOEs enjoy privileges more than private firms (Cui & Jiang, 2012). As a result, SOEs have greater potential than private firms for internationalisation (Thomas, Eden, & Hitt, 2002); but this facilitative relationship between the SOEs and MNEs is subject to various factors. SOEs and governments may have different objectives as a result of their evolving relationships. Hafse and Koenig (1988) propose a relationship cycle between the two actors. They suggest that the relationship is often cooperative at the beginning of the cycle before evolving into confrontation and then autonomy. Because the objectives of both actors change over time, and because government officials move on, the relationships become inconsistent. Hence, the SOEs may have to develop strategies that protect them, but do not necessarily comply with government policies. However, it is important to acknowledge that this cycle may not be applicable to all SOEs and governments, because of country- and industry-specific factors (Hafse & Koenig, 1988). Despite this, all MNEs and SOEs must go through formal processes to internationalise (Mazzolini, 1980), and if SOEs have well-established relationships with governments, they may in fact benefit during the internationalisation process. But the formal procedures vary in different countries, and are often examined on a case-to-case basis. Therefore, contextualisation is vital to understanding the relationships between governments and MNEs. Moreover, MNEs should be studied at the micro level to gain insightful knowledge that is specific to an MNE in a particular organisational and institutional context.

2.3 Government Involvement in MNEs’ International Activities: Institution-Based View

Institutional theory is a powerful tool for exploring the government’s role in MNEs’ IB activities. Several studies have used institutional theory to examine the role of the government and its institutions in organisational business processes (Alakent & Lee, 2010; Meyer, 2001; Meyer & Nguyen, 2005; Peng, 2003; Pinto et al., 2017). The existing literature on formal institutions primarily concentrates on property rights, ownership structures and political institutions (Murtha & Lenway, 1994). The institutional environment has frequently been studied in relation to organisational strategies and entry modes (Meyer, 2001; Meyer, Estrin, Bhaumik, & Peng, 2009; Meyer & Nguyen, 2005), subsidiary strategies and environmental strategies (Child & Tsai, 2005). While formal and increasingly informal institutions have become a popular tool for analysing the influence of
government involvement in MNEs, it remains under-researched. Further, formal and informal institutions have often been studied separately, but the question of how MNEs use formal and informal institutions together has not been substantially addressed (Dua et al., 2018).

The government’s role is often examined through the institutional environment because the government has the power to create and adjust policies that organisations must follow (Boddewyn, 2016). Organisations face diverse institutional environments that stimulate them to engage in evolutionary adaptation (Rodrigues & Child, 2003). While organisations face pressure from home governments to obey existing policies, MNEs are able to create their own idiosyncratic strategies and norms because of the different institutional regulations imposed by home and host governments (Rodrigues & Child, 2003). Hence, MNEs can influence policies by co-evolving alongside institutional environment (Cantwell et al., 2010). However, because the government can change formal institutions regularly and unpredictably, it makes institutional environment more unstable (Meyer & Peng, 2016).

D’Aunno et al. (2000) argue that if an institutional environment is inconsistent, organisations usually abandon institutionalised templates. As a result, organisations adopt their practices in order to facilitate their operations. Governments are essential here, because they form and implement formal institutions such as MNE policies and regulations that are perceived as institutional forces (D’Aunno et al., 2000) creating links between national environments (Rosenzweig & Singh, 1991). These institutional forces can take the form of antitrust laws to promote competitive and financial support, for example (Alakent & Lee, 2010; D’Aunno et al., 2000). While governments could encourage MNEs to internationalise, this might have a contradictory effect on organisational changes; MNEs could be discouraged from making any changes or adapting to the institutional environment because they are strongly protected by the home government (Ingram & Simons, 2000). By contrast, a government’s institutional forces may impose too many restrictions, thus encouraging MNEs to enact changes and find alternative institutional templates (D’Aunno et al., 2000). Alakent and Lee (2010) have found that Korean organisations exposed to different institutional environments are more likely to abandon home institutional templates.

MNEs’ parent companies can also put isomorphic pressures on their foreign subsidiaries to maintain their legitimacy (Bjorkman, Smale, Sumelius, Suutari, & Lu, 2008; Spencer & Gomez, 2011). While this is partly true, Bjorkman et al. (2008) have found that while there is convergence in human resources practices in Chinese MNEs and their foreign subsidiaries, their organisational changes depend on their ability to deal with the institutional pressures of a particular context. However, achieving standard practices and legitimacy is challenging because of the conflicting pressures MNEs face from various actors (Kostova et al., 2008). Although MNEs’ subsidiaries must comply
with host country laws, they must also follow parent company regulations that are set by a home country government (Boddewyn, 2016).

The government plays a crucial role in firms’ ability to achieve and maintain organisational legitimacy (Bitektine & Haack, 2015; Deephouse, 1996; Suchman, 1995). Organisational legitimacy is viewed as a generalised perception of organisational actions and behaviour as appropriate within larger social system (Dowling & Pfeffer, 1975; Suchman, 1995). The actions of an organisation are judged by the actors whose perception matters the most in order to achieve organisational legitimacy (Elsbach & Sutton, 1992). Deephouse (1996) states that the government and the public are the most important actors that can influence organisational legitimacy because the government creates formal institutional framework and the public influences the social system in which organisations operate. The government has the power to set and enforce formal institutions such as policies and regulations in the home market (Boddewyn, 2016). In an environment where formal institutions do not help organisations to meet their objectives, these organisations engage in negotiations with relevant actors to gain legitimacy (Kostova et al., 2008; Thornton et al., 2012). Hence, negotiations with these actors can help MNEs to gain legitimacy.

Negotiations with the home government can help MNEs to gain necessary resources to achieve legitimacy (Boddewyn, 2016). Zimmerman and Zeitz (2002) state that legitimacy can be viewed as a resource owned by an organisation, independent of the perception of various actors (Zimmerman & Zeitz, 2002). However, in order to gain legitimacy, organisations have to establish relations with relevant actors. Organisations may view legitimacy as an essential resource in accessing necessary resources (Marano & Tashman, 2012). Political ties with the government can in turn help MNEs to gain necessary resources and legitimacy (Zheng et al., 2015b). The home government can influence the perception of MNEs in the domestic and foreign markets through endorsements and conveying a certain image of MNEs through media channels (Choudhury & Khanna, 2018; Deephouse, 1996; Deephouse et al., 2017; Luo et al., 2017). The home government in turn can enhance or damage organisational legitimacy (Deephouse, 1996; Kraatz & Block, 2008). Therefore, establishing relationship with home government is necessary to achieve legitimacy.

Drori and Honig (2013) and Nell et al., (2014) state that MNEs have to gain internal and external legitimacy because they operate in various markets. The relationship with home government can be a powerful strategic tool to gain external legitimacy because it can help MNEs to gain knowledge about formal and informal institutions in a foreign market (Deephouse, 1996; Drori & Honig, 2013). The relationships between different actors are unique, and the behaviors of actors varies between different partners (Persson, Lundberg, & Elbe, 2014). Furthermore, the relationship between government and MNEs evolves (Boddewyn, 2016; Shipilov et al., 2014), which can enhance or
hinder the ability of MNEs to gain external legitimacy. When achieving external legitimacy, MNEs are faced with a challenge to satisfy not only home government, but important stakeholders in foreign markets (Drori & Honig, 2013). Understanding how the relationships between government and MNEs evolve can generate significant knowledge on how MNEs manage these relationships in order to gain external legitimacy.

Spencer and Gomez (2011) argue that while MNEs have the capabilities to deal with various institutional environments, they may be unintentionally pressured into unethical business practices, such as corruption. Despite this, an MNE’s subsidiaries are less likely to employ host country practices if the host country’s economy is highly dependent on that MNE (Rosenzweig & Singh, 1991). Child and Tsai (2005) have examined the effect of institutional environments in China and Taiwan on MNEs’ environmental strategies. Their evidence suggests that powerful MNEs are more inclined towards institutional standards because they engage in technological exchange and formulating new environmental regulations. Thus, these MNEs are interested in maintaining isomorphism, which is achieved by establishing ties with local governmental bodies (Child & Tsai, 2005). Having relations with the home and host government can also help MNEs to enhance political capabilities that equip these MNEs to deal with political risks (Jimenez et al., 2014). These studies present important findings indicating that government impose institutional pressures that affect MNEs’ operations and impose pressures on their subsidiaries.

Strategic management literature emphasises the fact that institutions are vital for MNEs’ strategy formation and implementation (Meyer & Nguyen, 2005; Peng, 2003; Peng et al., 2009; Peng et al., 2008). Peng (2003) identifies two strategic approaches that MNEs adopt during institutional transitions: a network-based strategy implies intangible assets such as inter-personal and inter-organisational networks among different actors, and a market-based strategy focuses on firm resources and capabilities, which are unrelated to networks or connections (Peng, 2003; Peng et al., 2008).

The strategic decisions behind MNEs’ expansion abroad are not only affected by the institutional conditions between countries, but also in the host country (Meyer & Nguyen, 2005). Meyer and Nguyen (2005) have examined the institutional determinants that affect companies’ Vietnam entry-mode decisions, finding that subnational institutions, formal and informal, significantly influenced the investment climate. Further, location choice within the host country is an important strategic decision, yet many MNEs underestimate the importance of subnational institutions at regional and local levels (Meyer & Nguyen, 2005). Regional governments are important to regional economic development, and their legal frameworks and regulatory institutions may differ from those of the main FDI centres.
The institutional framework, which consists of formal and informal institutions (North, 1990), also influences entry modes (Meyer & Nguyen, 2005). When regional governments are not allowed to exercise their law-making powers, they use informal institutions to facilitate transactions. Therefore, MNEs must weigh up the incentives provided by both central and regional governments. Location factors are context-specific and influence MNEs’ entry-mode choice (Agarwal & Ramaswami, 1992). Companies’ entry-mode choice also depends on whether institutions facilitate access to scarce resources. When federal or regional governments facilitate this access, foreign MNEs prefer joint ventures (JVs) with local firms (Meyer & Nguyen, 2005). However, governments also have the power to impose restrictions on JVs in particular sectors. As a result, the national institutional framework is a vital determinant in MNEs’ strategic internationalisation choices. Further, the various government levels occupy different roles in facilitating FDI activities, although this has received very little attention in the IB literature (Meyer & Nguyen, 2005; Wang et al., 2012b).

Other studies have evaluated domestic institutional frameworks and whether they substitute or complement inter-firm relationships (Abdi & Aulakh, 2012; Luo, 2004; Weber & Glynn, 2006). MNEs have become part of global networks (Bartlett & Ghoshal, 1992), meaning that inter-firm relationships are vital to internationalisation. If formal institutional environments differ significantly, companies use contractual agreements to offset the formal institutional void (Luo, 2004). However, Abdi and Aulakh (2012) argue that for a contact to be effectively implemented in a specific setting, the domestic legal system has to be functioning well. Formal institutional organisations, including the state and the government, in fact form mechanisms to facilitate development of the legal system (D’Aunno et al., 2000; Ingram & Simons, 2000). These studies provide valuable insights into the evolution of institutional environments and their mechanisms, which are important to examining the role of different government levels in MNEs’ ability to gain external legitimacy.

The government’s role has been implicitly discussed in studies on political institutions and their effect on political stability (Holburn & Zelner, 2010). Political institutions can affect MNEs’ investment decisions in terms of risk taking. If MNEs are politically well connected, they are likely to undertake high-risk investments (Boubakri, Mansi, & Saffar, 2013) because they receive necessary financial incentives from the government, which helps these MNEs to develop their capabilities necessary for their internationalisation.

A developed institutional environment can enhance firms’ assets and capabilities. In turn, firms’ capabilities can enable them to exploit formal institutional advantages. MNEs develop more capabilities as they increase their interactions with other actors (Guillen & Garcia-Canal, 2009). This could be achieved by establishing political ties with other MNEs and government actors (Lenway & Murtha, 1994). In addition, EEs have undergone drastic institutional changes, meaning that emerging
market multinationals have learnt to operate in unstable institutional environments. Consequently, MNEs from emerging markets prefer to invest in countries where political connectedness is valued (Garcia-Canal & Guillen, 2008). Buck (2003) states that institutions are perpetuated and modified by institutional actors in society, and hence that institutional development is a product of history. The author illustrates that the Russian state has held power over national enterprises for centuries, and that bureaucratic mechanisms are an expression of historic tradition. Thus, the home government’s involvement carries historic value for MNEs today and helps them create strategic capabilities that enable them to compete internationally.

Changes in institutional environments, especially in EEs, encourage additional development and strengthening of informal institutions, upon which MNEs from EEs rely heavily (Marinova et al., 2012; McCarthy & Puffer, 2016; Puffer et al., 2016). Government officials as well as MNEs use informal institutions (e.g., networks) to serve their own interests (Grzymala-Busse, 2010; Levitsky & Murillo, 2009). The interplay between formal and informal institutions is vital to MNEs’ operations (Chavance, 2008; Mudambi & Navarra, 2002), although research on this issue remains scarce. The use of both institutions is evident at all levels of business–government interactions.

2.4 Chapter Summary

In this chapter, I have critically examined the literature on government roles in MNEs’ internationalisation. I began by discussing the review method: as a result of my literature search, I identified 13 top-tier IB journals for the period 1990–2016, and then reviewed 182 articles. Based on the literature review, I identified three major themes: characteristics of the relationships between governments and MNEs, the government’s role in OFDI and the government’s role in MNEs’ international activities using the institution-based view. Government characteristics are classified into two broad sub-themes: strategic interactions and political interactions between governments and MNEs. Strategic interactions are underpinned by the willingness and ability of both governments and MNEs to collaborate (Lenway & Murtha, 1994; Ring et al., 1990), whereas political interactions develop as a result of policy networks, ties and first-political strategies (Lawton et al., 2013; Shaffer & Hillman, 2000; Sun et al., 2012). These relationships are complex and evolve over time (Boddewyn, 2016; Shipilov et al., 2014). The relationships between governments and MNEs play a crucial role in the way MNEs internationalise, and thus requires further examination (Wang et al., 2018).

I then reviewed the literature on government involvement in OFDI. They can play a facilitative or non-facilitative role, meaning that they are either willing to support domestic companies’ internationalisation or not (Ring et al., 2005). They can also serve as primary investors and have a central part in technological development (Mahmood & Rufin, 2005).
The increased participation of MNEs from EEs in international trade has encouraged IB scholars to study their internationalisation processes (Aguilera et al., 2017; Meyer & Peng, 2016; Wang, Hong, Kafouros, & Wright, 2018). EE governments are active in EMNEs’ internationalisation, which is one of their distinctive features (Wang et al., 2012b; Wang et al., 2018). These MNEs have vast knowledge and experience in operating and succeeding in unstable institutional environments, and use their experience to internationalise (Atnashev & Vashakmadze, 2017).

Using the institution-based view, I then examined the literature on government involvement in MNEs’ international activities. Institutional theory is a powerful tool for examining the government’s role in MNEs’ international activities, because institutional environments are shaped by formal and informal institutions (North, 1990), which are developed by both governments and MNEs. The government creates formal institutions that MNEs must then implement (Boddewyn, 2016). Because the formal institutions are ineffective in EEs, EMNEs often rely on informal institutions to facilitate their domestic and international activities (Marinova et al., 2012; McCarthy & Puffer, 2016).

In the next chapter, I address the study’s theoretical foundation.
Chapter 3: Theoretical Foundation of the Study

In this chapter, I analyse the key perspectives of institutional theory in IB that derive from economic and sociological rationales (Meyer, 2008). I first evaluate the key perspectives in economics, particularly the notion of rules of the game, where the concept of formal and informal institutions prevails in the organisational operations (North, 1990; North & Weingast, 1989). I then examine the key perspectives of institutional theory in sociology, where institutions provide guidelines for how organisations use them (Meyer & Rowan, 1977; Oliver, 1991). This is followed by a discussion of the key perspectives of institutional theory in political science, in which government controls development of the state and its institutions (Evans, 1995; Peters, 2012).

After examining these key perspectives using the three disciplines, I position my study in the IB field by identifying the overlaps between these three disciplines in relation to institutional theory. I then justify why borrowing relevant concepts from political science is appropriate for my study. Political science literature provides a clear distinction between the state and the government, which is crucial when investigating the government’s role in MNEs’ operations (Evans, 1995; Evans, Ryeschemeyer, & Skocpol, 1985; Scholz & Wei, 1986). In particular, I borrow the concept of formal and informal institutional interplay and explore how Russian MNEs use different types of interplay (complementary, accommodating, substitutive and conflicting) to navigate Russia’s institutional environment.

I next examine the concept of intra-institutional complexity and identify two factors that influence the complexity of the domestic institutional environment: institutional interplay and relationships between governments and MNEs. Interactions between institutions substantially affect the way we understand institutional environments (Ramus, Vaccaro, & Brusoni, 2016). However, the links between formal and informal institutions lack empirical examination (Horak & Restel, 2016). The way MNEs interact with the government is affected by institutional interplay. These two factors influence each other and enable understanding of how MNEs handle domestic institutional complexity.

Following this, I investigate organisational legitimacy in institutional theory. I provide summaries of the types of legitimacy and factors that affect organisational legitimacy and examine legitimation strategies that MNEs may use to achieve legitimacy in foreign markets. I then link institutional complexity to organisational legitimacy, since both are driven by existing institutional environments. I argue that to achieve external organisational legitimacy, MNEs must navigate their domestic institutional environment, which can be managed via their relationship with their home government.
3.1 Institutional Theory in IB: What IB have Borrowed from Economics and Sociology

The key theoretical underpinnings of institutional theory in IB derive from two disciplines: sociology and economics. There is no unified definition of institutions in IB literature, or of how they influence MNEs’ behaviour (Hotho & Pedersen, 2012). In one earlier sociological study, Giddens (1984) defines institutions as “the more enduring features of social life giving solidity across time and space” (p. 24). Scott (1995) states that “institutions are social structures that have attained a high degree of resilience” (p. 33). By contrast, from an economics perspective, North (1990) defines institutions as, “the rules of the game in a society or the humanly devised constraints that shape human interaction. Consequently, the structure incentives in human exchange, whether political, social, or economic” (p. 3). These definitions emphasise that institutions are socially constructed and shaped by individuals and their interactions.

A notable observation to arise from these three definitions is that while institutions can provide some degree of solidity over time and be resilient (Giddens, 1984), they can also restrict how different political, social and economic actors interact and behave (Hotho & Pedersen, 2012). Formal institutions can be stable, but since rules and regulations change, formal institutions are not absolute, and hence are not always solid (Besharov & Smith, 2014). For example, the institutional changes enacted in Russia since 1991 have not yet solidified the country’s formal institutions (Puffer et al., 2016). In fact, Black and Tarassova (2003) state that the Russian Government develops ambiguous rules and regulations with intended flexibility in their interpretation. Although institutions can solidify in time, a certain level of uncertainty remains, because institutional environments evolve. While these definitions present a guiding point for what encompasses institutions, they are ambiguous (Hotho & Pedersen, 2012). Institutional development is driven by context-specific characteristics (Kostova et al., 2008; Meyer, 2008). The historical origins of formal and informal structures influence the way organisations use institutions in the contemporary institutional environment (Meyer, 2006). Changes to institutional environments can also lead to different enforcements of existing and new institutions. Therefore, these guiding points from the existing studies must be applied in different contexts to understand the nuances of how various institutional environments develop.

3.1.1 Institutional Theory in Economics

Institutional theory in economics originated in the late 19th century in Germany and Austria, and was further shaped by US scholars. Veblen (1909) challenged the traditional assumption that individual behaviour is calculated, and contended that individual behaviour is driven by habits (see
Table 3.1). Veblen (1919) further stated that individual behaviour changed as the institutional surroundings evolved. Therefore, individual behaviour within organisations carries an institutional character. Veblen (1919) focused on the effect of individuals and groups on institutional development, but did not explain the role of institutions in organisational activities. Individuals and groups, including government, are crucial to the development of institutions that influence the behaviour and operations of organisations. This is important for my study, because the development of Russia’s institutional environment is driven by the government. Russian MNEs use their relationships with government as a strategic advantage to facilitate their operations (Panibratov 2014).

**Table 3.1: Institutional theory in economics—key perspectives and their descriptions**

<table>
<thead>
<tr>
<th>Key perspectives</th>
<th>Description</th>
<th>Studies</th>
</tr>
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| Individual behaviour is related to institutional character | Individual behaviour is governed by institutional character  
Institutional character changes because of changes in institutional environments | Veblen (1909; 1919) |
| Individual choice behaviour is governed by transaction | Transaction is seen as a process between two or more parties where rules of conduct and formal mechanisms prevail  
Rules of conduct are social institutions  
Focus on broader social and political factors that affect economic structure | Commons (1924) |
| Transaction cost economics               | Exchange within a firm is governed by rules and hierarchy and not price mechanism  
Transaction costs include the cost of negotiating and a contract for each exchange transaction | Coase (1937) |
| Transaction cost economics               | The effectiveness of transaction cost depends on two conditions: bounded rationality and individual opportunism | Williamson (1975; 1985; 1991) |
| Notion of game                           | Formal and informal institutions.  
Focus on macro analysis                                        | North (1990; 1991); North & Weingast (1989) |

Commons (1924) contributed to Veblen’s (1909; 1919) view by stating that individual choice in behaviour is driven by transaction, a process between two or more parties in an environment where mechanisms and rules of conduct dominate (See Table 3.1). He referred to rules of conduct as social institutions, or institutional rules that provide boundaries for individuals and companies so they can achieve their goals. This implies that social institutions and rules are socially embedded. Coase (1937) posited that the transaction process is based on exchange within an organisation, which is governed by hierarchically enforced rules. Therefore, the transaction process is seen as the exchange that incurs the cost of negotiating a business transaction (Williamson, 1975). The boundaries outlined
by the established rules enable organisations to rationally engage in the opportunism provided during this exchange process (Williamson, 1985; 1991). This school of thought facilitates examining how organisations operate within various governance structures.

The governance structure within a national state comprises cultural, political and legal environments, within which formal and informal institutions create the rules of the game (North, 1990). North (1990; 1991) refers to formal institutions as constitutions, laws, property rights and sanctions, and to informal institutions as taboos, values, customs and traditions. Institutional economists view institutions as being dominated by a regulatory system, where rules and their enforcement mechanisms play a dominant role when examining institutional environment (North & Weingast, 1989). The state develops the rules and enforcement mechanisms (North, 1990). However, the state sometimes acts with its own interests as the primary concern, and serves as rule maker, referee and enforcer during the exchange process between different actors (Evans et al., 1985).

The exchange process unfolds as a result of networking, which underscores the importance of informal institutions in developing the institutional environment (North, 1991; Williamson, 1985). Although the state makes and enforces rules and regulations, various actors’ interpretations of these rules and regulations may differ. North (1991) states that societies have been using these forms of institutions for thousands of years in trade exchanges, such as those within and beyond local trade. This is important, because the relationships that have emerged between different actors are not simply an exchange process. Rather, they have been driven by the creation of formal and informal institutions and are based on political and economic ties between parties. The fact that both formal and informal institutions can be used by the actors involved illustrates that these institutions do not develop in vacuum, and that their use is strategic.

3.1.2 Institutional Theory in Sociology

Sociology examines links between institution–organisation interactions (e.g., Meyer, 2008; Scott, 2005), institutional and organisation change (e.g., D’Aunno, Succi, & Alexander, 2000) and organisational responses to institutional complexity (e.g., Ahmadjian, 2016; Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011). One of the key institutional theory perspectives that arises from sociology is the fact that institutional development is driven by individuals, organisations and national systems (Meyer, 2008). The national system consists of institutions that evolve because of the institutional environment’s historic development (Ahmadjian, 2016). The process of institutional development prescribes how different actors, including organisations and governments, behave (Meyer, 2008).
From the sociological perspective, the most popular theoretical lens used in IB literature to examine the institutional environment is the three institutional pillars: regulative, normative and cultural–cognitive (Scott, 1995; 2001; 2008). The three pillars provide a foundation for analysing the institutional environment (Palthe, 2014), and are often used in IB research to study organisations’ behaviour and institutions effect on society (e.g., Child & Tsai, 2005; Hoffman, 1999). These three pillars should work together to create a stable institutional environment (Scott, 2005). Scott’s (1995) framework of the three pillars is an important platform from which to investigate the institutional environment and how it shapes organisational operations, because it enables us to examine organisational behaviour and operations.

The regulative pillar consists of formal rules, laws and regulations; the logic behind it is that individuals create rules and regulations that best represent their own interests. The regulative pillar helps evaluate regulatory processes and their capability for establishing and managing rules and laws. The regulative system is viewed as a formal environment (Palthe, 2014), and organisations are obliged to obey the rules and laws within this scene (Meyer & Scott, 1983; Scott, 1995). The government often adjusts rules and regulations to make the regulative environment more stable (Alexander, 2012). Organisations can be resilient to these changes, because it is time-consuming to integrate them into the internal organisational structure (Palthe, 2014). If an organisation does not comply with the changes, the government can impose punishment in form of sanctions (Scott, 2008). The regulative pillar includes sanctioning activities, such as rewards and punishment, to explain the behaviours of different actors (Scott, 2008). Depending on organisational responses to regulative changes, organisational behaviour and sanction outcomes can vary.

Although the regulative pillar is popular among rational choice scholars (e.g., Coase, 1937; North, 1990; Williamson, 1991), social scientists emphasise that rule-making and human behaviour are driven by individuals’ emotions (Scott, 1995; 2008; Selznick, 1957; Suchman, 1995). To understand how the regulative pillar operates, it is important to study its interaction with the other two pillars, as regulations do not exist in isolation, and their development is socially embedded (Scott, 1995; Palthe, 2014).

The normative pillar includes professional societal bodies that outline rules and expectations for certain groups, including organisations (Scott, 1995). It covers values and norms:

“Values are conceptions of the preferred or the desirable together with the construction of standards to which existing structures or behaviors can be compared and assessed. Norms specify how things should be done; they define legitimate means to pursue valued ends.” (Scott, 2008, p. 64)
These values and norms are benchmarks for how actors are supposed to behave. Values and norms change, because actor expectations may differ and are situation- and context-specific. These changes can present external pressures for organisations because they must conform or decouple from them (Oliver, 1991).

The cultural–cognitive pillar refers to accepted beliefs shared among individuals through social interactions that guide behaviour. DiMaggio and Powell (1983) and Scott (1995) contend that this pillar constitutes the nature of social reality, and is instrumental in creating institutional meaning. Meaning is the subjective interpretation of an object, emerges as a result of interactions between actors and is driven by cultural elements. Behavioural patterns and actions are guided to some extent by cognitive frameworks where culture plays a substantial role. The cultural–cognitive pillar examines cultural frameworks that shape internal interpretive processes (Scott, 1995). This is applicable to the formation of internal business activities and their interpretation by different actors.

Table 3.2 depicts the key perspectives in sociology, including those from Berger and Luckmann (1967), Kostova et al. (2008), Meyer and Rowan (1977), Oliver (1991), Selznick (1957) and Suchman (1998). Selznick (1957) coined the concept of institutionalisation, defining it as a process of organisational adaptation to the challenges of the external environment. He treated institutionalisation as a process of instilling values into organisations, and as something that changes over time. Berger and Luckmann (1967) contributed to Selznick’s definition of institutionalisation by stating, “institutionalization occurs whenever there is a reciprocal typification of habitualized action by types of actors” (p. 54). This implies that actors such as governments and organisations can create institutionalised rules, leading to their habitual behaviour (Berger & Luckmann, 1967). The problem with organisations’ habitual behaviour is that institutions such as rules and regulations evolve, meaning that habitual behaviour can can stagnate as formal institutions evolve (Suchman, 1995).

Meyer and Rowan (1977) state that institutionalised rules or shared beliefs are incorporated into society (see Table 3.2). Institutionalised rules are defined as “classifications built into society as reciprocated typifications or interpretations” (Berger & Luckmann, 1967, p. 54). Although some institutionalised rules can be deeply embedded into organisational structures, their interpretations can be subject to differing beliefs and values of external actors such as governments and administrative authorities (Ahlstrom, Bruton & Yeh 2008). External support from the actors involved can be maximised if organisations comply with existing rules, treating institutionalised rules as myths. However, complying with the rules can be ceremonial when organisations engage in decoupling. This can lead to an increasing gap between an organisation’s formal structures and business activities (Meyer & Rowan, 1977).
Table 3.2: Institutional theory in sociology—key perspectives and their descriptions

<table>
<thead>
<tr>
<th>Key concepts</th>
<th>Description</th>
<th>Studies</th>
</tr>
</thead>
</table>
| Institutionalisation                      | Adaptation to external challenges  
A process of instilling values into organisations  
Habitual behaviour of various actors        | Selznick (1957)  
Berger & Luckmann (1967)                   |
| Institutionalised rules                   | Conformity to organisational rules leads to achieving legitimacy  
Decoupling                                   | Meyer & Rowan (1977)              |
| Institutional pressures and strategic responses | Five strategic responses: acquiescence, compromise, avoidance, defiance, manipulation | Oliver (1991)                     |
| Managing legitimacy                       | Larger institutional ecology presents challenges to managing legitimacy       | Suchman (1995)                    |
| Incorporating new and old institutionalism | Develop provocations to traditional institutional principles                  | Kostova et al. (2008)             |

To deal with the institutional pressures that formal structures may present, organisations utilise strategic responses, including acquiescence, compromise, avoidance, defiance and manipulation (Oliver, 1991). Acquiescence is when organisations accept institutional pressures by taking existing rules for granted, imitating already established strategies or complying with the rules. Compromise is found through balancing or pacifying institutional pressures, and by engaging in negotiations with the actors involved. Organisations can also avoid institutional pressures by concealing the fact that they do not conform to the rules, or by detaching the organisation from the institutional environment, which may lead to escaping the unstable environment. When organisational goals and interests differ completely from those of other actors, including the government, organisations tend to use defiance strategy. In this situation, organisations can ignore or challenge the rules by opposing the existing institutional pressures. If, by engaging in defiance, organisations are unable to overcome institutional pressures, they turn to manipulating other organisations’ influence and changing the formation of regulations. Manipulation is defined as “the purposeful and opportunistic attempt to co-opt, influence or control institutional pressures and evaluations” (Oliver, 1991, p. 157), and is considered the most active strategic response, because it can help organisations shift the norms and beliefs of the appropriate actors by opportunistically forming relations with them (Oliver, 1991).

Institutional pressures arise from the external environment, the formation of which is influenced by the government (Boddewyn, 2016; Wang et al. 2013). When organisations choose which strategic response to take, their decision is influenced by the government because of its rule-making authoritative power (Delios, 2010). As organisations exist as part of a larger institutional ecology,
they must deal with economic, political and sociocultural changes (Suchman, 1995). Consequently, responding to institutional pressures becomes more complex (Greenwood et al., 2011).

MNEs operate in multiple institutional environments, making it more challenging for them to manage their operations. Kostova et al. (2008) also note that this adds complexity when managing operations in different countries. MNEs must handle different actors, including governments, in several countries, which can be difficult because of these actors’ different interests (Wang et al., 2012b). The government is essential to forming a country’s regulatory system, which MNEs must navigate (Wang et al., 2013). Consequently, they need to build and manage relationships with home and host governments to facilitate their international activities (Boddewyn, 2016; Kostova et al., 2008). The sociological perspective facilitates exploring the relationships between MNEs and governments.

These key perspectives from economics and sociology have enabled IB scholars to add substantial knowledge to their organisational analyses. Institutional theory enhances understanding of the more complex aspects of social structure (Scott, 2005), where formal and informal institutions are used to enable organisations to operate within such multifaceted environments (North, 1990). Informal institutions are widely deployed in business activities, and in the IB literature, they are often perceived as having a positive effect on MNEs’ operations (Dau, 2016; Peng et al., 2008).

The development of a country’s business environment is largely related to the changes that occur in the institutional environment (DiMaggio & Powell, 1983; Oliver, 1991; Scott, 2005; Suchman, 1995), which Roth and Kostova (2003) refer to as ‘institutional baggage’. Since MNEs must navigate various institutional environments, this intensifies the complexity of institutional processes (Greenwood et al., 2011; Roth & Kostova, 2003). Many EEs have experienced institutional changes since the 1990s (Puffer & McCarthy, 2011, Puffer et al., 2009). MNEs from EEs have learnt to operate in unstable institutional environments, which is an advantage when expanding to foreign markets with similar environments (Luo et al., 2017). However, it can also be a disadvantage, because EMNEs can be seen as lacking legitimacy in developed markets, which may affect their reputation and internationalisation process.

3.2 Institutional Theory in Political Science and What it can bring to IB

Institutions have been referred to as “the roots of political science” (Peters, 2012, p. 1). Old institutionalism was based on two theoretical foundations: behaviouralism and rational choice. Both imply that individuals make their decisions autonomously, regardless of formal and informal institutional intervention. However, pioneers of political philosophy state that formal rules and regulations are necessary to control human behaviour. These studies identify and examine the
governance of existing institutions, and are primarily focused on institutional effects on societies (Peters, 2012). Nevertheless, they provide valuable insights into the development of institutions and the state. Table 3.3 summarises the key perspectives behind, and the shift from old to new, institutionalism.

**Table 3.3: A summary of old and new institutionalism in political science**

<table>
<thead>
<tr>
<th>Key perspectives</th>
<th>Old institutionalism</th>
<th>New institutionalism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legalism</td>
<td>Focus on laws and their central role in governing</td>
<td>People create laws and contribute to their development</td>
</tr>
<tr>
<td>Structuralism</td>
<td>Structure determines behaviour Focus on what major institutional features are in political systems No link between the state and society</td>
<td>Formalisation ignores crucial informal facets Focus on how these characteristics function Advocates for collective action</td>
</tr>
<tr>
<td>Holism</td>
<td>Comparative analysis of the whole system Countries are considered <em>sui generis</em> Separation of political environment from its cultural and socioeconomic roots Does not allow for generalisation</td>
<td>Comparative analysis of individual institutions within systems Bringing in political realities of different settings Political environment derives from cultural and socioeconomic roots. Generalisation is important</td>
</tr>
<tr>
<td>Historical</td>
<td>Politics influenced by history Politics and society can influence each other</td>
<td>Contradictory views: 1) History is necessary to understanding contemporary political environment; 2) Individuals’ calculated behaviour predicts their actions Society influences political life</td>
</tr>
<tr>
<td>Normative analysis</td>
<td>Values and norms are seen as one unit of analysis</td>
<td>Values and norms are seen as separate units of analysis</td>
</tr>
</tbody>
</table>

One key perspective of old and new institutionalism is *legalism*. Pioneering studies (e.g., Damaska, 1986; Wilson, 1898) are solely concerned with formal institutions, laws and regulations and their influence on the governance process of creating a state (Peters, 2012). The law serves as a foundation for analysing political knowledge. However, new institutionalists argue that this school of thought only provides the starting point for future analyses, because the law is a human creation and an evolutionary process (Evans et al., 1985). People make their choices based on institutional availability that emerges over time. Thus, while formal institutions are important, their use is not limited to formal settings, as they surround people and various actors contribute to their development.

Another perspective presented in Table 3.3 is *structuralism*. Old institutionalism contends that political structure shapes the behaviour of various actors, and that individuals within government
have no effect on its structure (Wilson, 1898). In old institutionalism, the focus is on the description of major institutional features that are usually used in formal settings (Peters, 2012). By contrast, a new school of thought critiques this, stating that such an extreme type of formalisation ignores important informal institutions and makes the study of political science too ethnocentric (Macridis, 1968). Instead of focusing simply on features of political environment, their functionality and stability becomes the focus of examining institutional environments (Levitsky & Murillo, 2009; Peters, 2012). However, without knowing what the features of a political environment are, it is problematic to examine their functionality and stability. To gain a complete understanding of institutional development, identifying the features and their functionality within institutional environment is equally important.

Holism is another perspective that I use in this thesis to understanding the development of institutions. Old institutionalism studies are predominantly comparative in nature, and compare aspects of the legal system to attain as a whole picture. Conversely, new institutionalism focuses on individual legislations or constituents of institutions and how they fit into the entire political system. The pioneering studies are descriptive as opposed to comparative, as the countries are considered suis generis. This does not leave much room for generalisation, which new institutionalists argue is vital if we intend to comprehend the entire political system (Dogan & Pelassy, 1990). Although countries may each have distinctive features, they may also share common elements that can help create more efficient political mechanisms.

Another critical aspect of old institutionalism is its reliance on rational choice, thus divorcing political roots from their cultural and socioeconomic environment, which new institutionalists challenge (Kitschelt, 2000; Peters, 2012). The link between political and social institutions is evident, and enables the study of how organisations make choices (Kitschelt, 2000). This link also allows us to explore the interplay between formal and informal institutions, which is critical to this thesis.

The historical perspective has also been important to the development of institutional theory in political science (Peters, 2012). As stated before in the discussion about the state and why it matters, history is fundamental to studying the development of formal institutions. Similarly, institutional theory has a pronounced historical foundation—political systems are influenced by history, and this is the most shared view between old and new institutionalists. However, new institutionalism employs the rational choice assumption, arguing that individuals’ calculated behaviour predicts their actions, as opposed to the foundations of history. I follow the assumption that history is paramount to investigating governments at different levels and their relationships with other actors—in this case, MNEs. Moreover, new institutionalism views the interaction between political and socioeconomic environments as going one way, from society to politics. The old view is that this interaction can go
both ways (Peters, 2012). I follow the old institutionalism perspective, where the interaction between society and politics is reciprocal, and can be influenced by the interplay between formal and informal institutions.

**Normative analysis** is the final perspective illustrated in Table 3.3. Old institutionalism suggests that political science emerged from normative roots, and facts and social norms were seen as one unit of analysis that helped investigate the government and its progress based on factual data (Dewey, 1938). New institutionalism challenges this assumption by proposing that facts and norms should be viewed as separate units of analysis to better understand the functions of the government. Both views have biases, although new institutionalism uses different and more complex language to obscure them. While the normative aspect is important, new institutionalism advocates for collective action and the importance of institutions and organisations in unfolding the puzzling notion of political life. Thus, there is need for flexibility in the analyses and methodologies of political science (Peters, 2012).

Old and new institutionalism both offer valuable insights for examining institutional environments within and between states. While old institutionalism focuses on concrete laws and regulations that determine a state’s institutional infrastructure, new institutionalism introduces the importance of people in examining institutional environments. Because governments comprise group of people who govern the state, their part in creating and enforcing formal institutions is crucial; informal institutions are created and enforced as a result of different actors’ political and social interactions. To examine how Russian MNEs use institutions, it is vital to consider relevant perspectives from both old and new institutionalism.

From new institutionalism, I adapt the legalism perspective, which states that people create laws and contribute to their development (Evans et al., 1985). This is crucial to my thesis, because the Russian Government creates laws and Russian MNEs can influence their development. The relationship between the government and MNEs affects Russia’s institutional environment and, consequently, the formulation of policies. I also adapt the structuralism perspective, which contends that informal institutions are a key characteristic of institutional environments. Informal institutions occupy a significant place in Russia’s business environment, because Russian organisations use relationships to operate in unstable institutional environments (Buck, 2003). There is evidently a link between formal and informal institutions, and this allows me to undertake a holistic examination of Russia’s institutional environment. New institutionalists also underscore the link between formal and cultural structures using the holism perspective (Peters, 2012).

Old institutionalism also provides a strong foundation in political science. From old institutionalism, I adapt concepts from the historical and normative analyses perspectives. The institutional environment in Russia has been affected by the historic development of the state and the government
From the normative analysis perspective, the notable point for my study is that values and norms should be studied together (Dewey, 1938; Peters, 2012). This is important because governments create laws and norms that provide boundaries for organisations. However, society develops values that relate to organisational boundaries. Therefore, formal and informal institutions influence the way organisations respond to existing regulatory standards.

3.2.1 The Distinction between State and the Government

Historically, the state was often considered in abstract terms (Willoughby, 1911). IB scholars generally borrow the definition of the state used in political science. Ingram and Simons (2000) define the state as “a set of organisations invested with the authority to make binding decisions for people and organisations juridically located in a particular territory and to implement these decisions using, if necessary, force” (p. 27). The state is seen as an institution or social actor with specific functions (Evans, 1995; Mann, 1984). Sartwell (2008) notes that the state is often characterised by its sovereign power, which gives it the solo right to enforce regulations—however, “a state is a representation of the actual scattered group of people, buildings, weapons, hard drives, and so on that are parts of the government and that do the work of governing” (p. 31). These definitions provide clear parameters for determining the state’s common characteristics.

The common elements of these definitions are that first, the state has some sort of entities or groups of people behind it; second, the results of the state (e.g., infrastructure; people) can be seen; third, the state incorporates an institution or set of institutions that perform important functions (Cudworth, Hall, & McGovern, 2007; Spencer, Murtha & Lenway, 2005). This illustrates that behind the state are groups of people and institutions defining its function.

The government includes a group of individuals who set rules and procedures for governing certain behaviours and controlling people across specific territories (Sartwell, 2008). The government has the task of developing and enforcing policies (Helmke & Levitsky, 2004). It is not a static body, meaning that the mechanisms for developing policies change alongside the group of individuals who create them (Evans, 1995; Willoughby, 1911); and as people change, so do their aspirations, which makes developing and adjusting policies more complex.

According to political science, one of the main distinctions between the state and the government is that the latter is an “organisation of the state, the machinery through which its purposes are formulated and executed” (Willoughby, 1911, p. 8). Another distinction is that the state is enduring by its nature, however the government is temporary (Willoughby, 1911); further, states are “legal entities made up of people” (Singer, 1972, p. 3) and the government comprises selected individuals who govern citizens (Sartwell, 2008). The main commonality of these definitions is that the
government consists of a group of people who have authority to govern the state. The state and the government are intertwined, but distinct. Misuse of these definitions can lead to inaccurate examinations.

3.2.2 Interplay between Formal and Informal Institutions

Institutional interplay is defined as a collection of norms that shape patterns of behaviour (Fadda, 2012). Fadda (2012) distinguishes between formal and informal rules, contending that both have similarly functioning structures. Informal rules are not codified, but they may have formal structures—for example, religion or church. Helmke and Levitsky (2004) note that scholars often treat informal institutions and informal organisations as the same, although the authors distinguish between the two, defining the former as shared beliefs and the latter as including mafia or clans. Shared beliefs emerge as a result of the state’s institutional development (Cudworth et al., 2007; Köllner, 2013). This does not imply that informal organisations and institutions collide (Grzymala-Busse, 2010; Peters, 2012). By contrast, informal institutions can be readily incorporated into informal organisations (Grzymala-Busse, 2010). This is evident when personal networks are used in mafia circles, enabling them to run their operations (Helmke & Levitsky, 2004). Informal institutions can be also incorporated into formal organisations (Evans et al., 1985). For example, organisations use personal relationships to overcome the bureaucracy of the institutional environment (Tsai, 2016). Formal and informal institutions are intertwined, and their interaction is largely part of organisations’ everyday behaviour.

Helmke and Levitsky (2004) provide a typology of informal institutions consisting of complementary, substitutive, accommodating and competing. The first dimension of the typology is the effectiveness of formal institutions, which is measured by the extent to which written rules and procedures are enforced and obeyed in practice. The second dimension of the typology is the level of outcome at which formal and informal institutions converge or diverge. That is, if actors follow informal rules, will the expected outcome be similar or different compared with if they obey formal rules? Since informal rules are unwritten (North, 1990), it is challenging to assess whether they have been followed. Formal rules are created by the government, and are easier to measure because they are written (Lauth, 2004). However, organisations can also influence policy creation (Lawton et al., 2013). Both institutions are an integral part of institutional environments, and their interplay is influenced by the effectiveness of their use by different actors, including the government and organisations (Lawton et al., 2013; Scholz & Wei, 1986).

I develop a typology that illustrates the types of institutional interplay based on the effectiveness and ineffectiveness of formal and informal institutions (see Figure 3.1). Formal institutions are effective if the rules are enforced and obeyed (Helmke & Levitsky, 2004). The government has the power to
reform and enforce existing regulations that facilitate an organisation’s development (Lawton et al., 2013). However, firms themselves enact these regulations—therefore, the effective enforcement of formal institutions can be influenced by both governments and organisations. Formal institutions are ineffective if the regulations formed by government are not enforced effectively and present a barrier to organisations’ development. Rules and regulations can be created fast by, but their enforcement can be influenced by the relationships between the governments and MNEs (Hafse & Koenig, 1988). Informal institutions are effective when relationships between key actors have a positive effect on organisations’ development. If these relationships negatively affect their operations, and if organisations use them illegally to achieve their goals, informal institutions are considered ineffective.

The extent of the enforcement is based on the relationships between governments and organisations (Scholz & Wei, 1986). If their interests are alike and organisations comply with regulations, the enforcement of those regulations can be flexible. By contrast, if the interests of governments and organisations differ, the enforcement of those regulations is more likely to be stricter (Scholz, 1991; Scholz & Wang, 2006). The relationships between the two parties change as a result of the parties’ evolving interests (Evans, 1995). This influences how formal and informal institutions interact, and how those interactions shape the institutional environment.

For the interplay between formal and informal institutions to be complementary, both types of institution have to be effective (See Figure 3.1). Fadda (2012) states that formal and informal rules can coincide, that is there is no conflict arises between them and they co-evolve simultaneously.
When the institutional environment is stable, institutions develop simultaneously and co-exist (Fadda, 2012; Helmke & Levitsky, 2004). Formal and informal institutions complement one another’s existence and functions. This implies that the mechanisms the government uses to create and enforce regulations are well established and effective. As a result, regulations have a positive effect on MNEs’ development. Moreover, the relationship between the government and actors who are part of institutional environments is deployed to achieve a common goal and make the institutional environment more stable (Helmke & Levitsky, 2004; Köllner, 2013). Therefore, informal institutions are also effective.

The accommodating type of interplay occurs when formal institutions are effective and informal institutions are ineffective (see Figure 3.1). As with complementary interplay, the government plays an important role in creating and enforcing the rules and regulations. Informal institutions are usually established by actors who do not like the outcomes of formal rules and cannot openly change those rules (Helmke & Levitsky, 2004). These actors use personal and business connections to overcome stable formal institutions to achieve their goals; this suggests that they ignore existing rules and make their by manipulating existing formal institutions. Although regulations exist and many MNEs follow them, they do not necessarily help MNEs reach their targets, which are often set by the home government or other key stakeholders. Informal institutions are inefficient, but accommodate formal institutions and enable actors to reach their goals.

In the scenario where formal institutions prevail over informal, the latter can be modified (Fadda, 2012; Tsai, 2006). The stability of the institutional environment can influence the effectiveness of formal institutions by being more structured (Helmke & Levitsky, 2004). The prevalence of formal institutions is often associated with developed countries, such as the US, where the legal system is strong. Consequently, if different actors use informal institutions ineffectively, they can be modified to accommodate the formal institutions (Azari & Smith, 2012; Tsai, 2016).

Another type of institutional interplay is substitutive, which implies that formal institutions are ineffective and informal ones are effective (see Figure 3.1). When this type of interplay occurs, informal institutions prevail over formal ones (Fadda, 2012). Rules and regulations exist, but their enforcement is lacking, usually because the government does not have efficient mechanisms in place to achieve this (Helmke & Levitsky, 2004; Lauth, 2004). Therefore, different actors, including MNEs, use informal institutions to substitute these missing formal mechanisms so they can achieve their goals (Grzymala-Busse, 2010). Governments also use informal institutions, particularly established relationships, to overcome poorly executed mechanisms (Evans, 1995). They deploy informal institutions to enhance the formal institutional environment.
When the institutional interplay is substitutive, informal institutions can be adaptive if they are used creatively to reform existing formal institutions (Tsai, 2006). If formal institutions remain ineffective following this reformation, political actors may turn to illegal actions to pursue their agenda (Tsai, 2016). This can directly affect existing formal institutions by undermining and/or replacing them (Grzymala-Busse, 2010). As a result, the institutional environment can become unstable over time (Tsai, 2016).

Another type of interplay presented in the typology is conflicting, where formal and informal institutions are ineffective. Both types of institution exist, but key actors do not enforce and implement them systematically because there are no mechanisms in place (Helmke & Levitsky, 2004). These actors might follow one rule, but to do so, they break another (Helmke & Levitsky, 2004). The use of informal institutions is also ineffective because the interests of different actors, such as government and MNEs, conflict, which negatively affects their relationships. This also negative influences the development of the institutional environment as a whole. Therefore, the relationship between formal and informal institutions is conflicting.

The four types of institutional interplay present a key aspect of the institutional environment (Fadda, 2012). Each type of interplay illustrates that governments and organisations enable the development of the institutional environment. In fact, the way organisations use informal institutions can illustrate the flaws in existing regulations, because informal institutions are often used to fulfil incompetent and formal regulations (Tsai, 2006). Understanding the way each type of institutional interplay influences the dynamics of the institutional environment can facilitate an examination of its nuances.

### 3.2.3 The Notion of Legitimacy in Political Science

In political science, legitimacy is viewed as a “moralization of political authority” (Crook, 1987, p. 553), which means that the existing rules have moral connotation, and compliance with these rules is based on the public perception of what is right and wrong (Beetham, 1993; Merelma, 1966). The public builds its perception on the ability of the political system and the government to engrain into society the belief that existing institutions are appropriate (Lipset, 1959). The government’s ability to persuade the public is driven by effectiveness of policy development and performance (McDonough, Barnes, & Pina, 1986). The judgement of policy development and performance is based on whether the government acts in the public’s best interest. The challenge the government faces is to ensure that policies target a wider range of groups with different perceptions and legitimacy judgement. This is important for the government and the state to gain and maintain political legitimacy.
The focus in political science is on legitimacy at the macro level, particularly the political legitimacy of the state and government (Allee & Huth, 2006; Crook, 1987; McDonough et al., 1986). The state’s political legitimacy is built on the historic development of the governance system (McDonough et al., 1986). For example, the changes in the governance system in Africa from colonial administration to parliamentary government in 1951 divided the perception of legitimacy of that country. The groups that pushed for preserving existing laws and regulations challenged the legitimacy of the new legal system, while other groups of society supported the more liberal approach. As a result, Africa’s legitimacy grew stronger, because the groups that favoured more liberal approach expected that the new policies would offer the public economic and societal benefits (Crook, 1987). Changes to a political system can thus affect a state’s political stability by enhancing or weakening its legitimacy (Gilley, 2006). Politically unstable states are more likely to experience weakening legitimacy because of negative public perception (Gilley, 2006). The government can influence society’s perception by manipulating the necessary policies and institutions to create a more positive image of their implementation (Barnett, 1990; Merelma, 1966; Mulaj, 2011).

The state’s legitimacy can also change, and consequently affect governmental legitimacy (McDonough et al., 1986). Government legitimacy is judged by the effectiveness of policy development and enforcement and its outcomes for society (O’Kane, 1993). Beetham (1991) states that the quality of subordinates’ performance determines a government’s effectiveness. The government can achieve the same outcomes for society by engaging in military actions and/or sanctions, can also deter its effectiveness (O’Kane, 1993). Simply obeying government requirements by different groups because it is considered a more powerful actor within a state’s political system does not strengthen government legitimacy (Gilley, 2006). When enforcing policies, the government must decide which actors those policies should most affect (Beetham, 1991). Some actors may view the government as legitimate because they favour a policy that works to their advantage, but if the political system negatively affects the state’s economic development, those actors can, in turn, view the state negatively (Gilley, 2006; O’Kane, 1993).

Political science scholars often view the government as holding legitimation power over decision-making and policy-making (Beetham, 1991; Crook, 1987; Merelma, 1966). This is true to a degree, although to achieve legitimacy, the government has to establish relationships with the public, because the public evaluates and judges the government’s actions (McDonough et al., 1986). This evaluation and judgement is often driven by the information available to the public (Merelma, 1966), which is interesting, because information availability can be tailored by the media to suit the desired outcome. Further, the relationship between the public and the government can be influenced by the development of the state, which significantly affects public perception (McDonough et al., 1986). For example, during the Soviet era, Stalin and Lenin were strong leaders whom Russian people
respected and idolised. They served as legitimacy symbols for Russia, and built its political legitimacy by creating personal legitimacy in which people believed for decades (Gilison, 1967). This illustrates that the government has power to not only establish the state’s political legitimacy, but to ensure that its ideology is carried through history.

Legitimacy in political science literature is often associated with power and authority (Beetham, 1993; Crook, 1987; Smith, 1951; Mulaj, 2011). Smith (1951) explains power as ‘the capacity to effect results’ (p. 693). The government is seen as a powerful actor with the capacity and authority to influence results by developing and manipulating appropriate policies, which helps shape public perception (McDonough et al., 1986). Power should be exercised according to existing rules, and political authority can enhance the government’s political power if used rightfully (Beetham, 1991). However, if the government engages in illegitimate behaviour, breaching the rules, the consequences can destroy the political system’s order in a state through crisis or riots (Beetham, 1991). O’Kane (1993) argues that the political power of the government alone is not enough to examine legitimacy. A government’s experience and past performance can contribute to explaining its behaviour, and this includes its capacity to build and sustain appropriate institutions (Evans, 1995).

The state’s political legitimacy can be sustained by the appropriate institutions, despite changes in the government. In theory, the government holds legitimating power by making sure that the institutions it creates are adequate for public wellbeing (O’Kane, 1993). In practice, institutions can also influence the government’s legitimation power (Mulaji, 2011). Traditionally, political scientists considered institutions to be very formal structural entities (Macridis, 1968). This assumption was applicable to Western countries because of differences with, or lack of constitutional structures in, less developed countries. The development of post-communist formal institutions in countries such as China and Russia illustrates the weight informal institutions had on the transformation of formal institutions (Grzymala-Busse, 2010). Although the government creates formal institutions, it does not hold absolute power to sustain appropriate institutions because of the emergence of different actors, including organisations and non-government organisations that challenge existing institutional beliefs (Macdonald, 2008; Peters, 2012). This is important, because political science scholars examine the government’s wider role in the development of the institutional environment, but also acknowledge the involvement of other actors in this process (Macdonald, 2008; Merelma, 1996; O’Kane, 1993).
3.3 Utilising Relevant Concepts from Political Science for answering the Research Questions

Borrowing relevant concepts from other disciplines is referred to as ‘multidisciplinary research’, which implies cooperation between disciplines as opposed to integration (Sidlok & Hibbert, 2013). Floyd (2009) defines borrowing as “bringing ideas from one theoretical domain to address an issue or explain a phenomenon in another domain” (p. 1057). It enables a researcher to position a study in one discipline and make the main contribution to this discipline (Morillo, Bordons, & Gómez, 2003). Identifying which theory to borrow is challenging, and it must be appropriate for answering the research questions (Whetten, Felin, & King, 2009). The appropriate theory should help ascertain the overlaps and complementary elements of relevant concepts (Okhuysen & Bonardi, 2011).

Borrowing from other disciplines can enrich existing theoretical knowledge on relevant concepts, and on context (Whetten et al., 2009). I engage in horizontal borrowing, which allows for deeper investigation of theoretical concepts and their application to different contexts at the same level of analysis (Murray & Evers, 1989; Whetten et al., 2009). Applying the same theory to different contexts enables the researcher to explore the similarities of that theory in both contexts, as well as the contextual characteristics that can lead to differences in theory (Whetten et al., 2009). Evaluating these differences is important in theory-borrowing, because it adds clarity to the borrowing process (Oswick, Fleming, & Hanlon, 2011). The misconception of context-specific characteristics and the specific concepts borrowed can lead to poor application of a borrowed theory (Kenworthy & Verbeke, 2015; Oswick et al., 2011). This can have serious repercussions for knowledge creation in the borrowing discipline (Whetten, 2009). Oswick et al. (2011) state that researchers must provide in-depth descriptions of the borrowed concepts to lend credibility to the borrowing process.

3.3.1 Borrowing Relevant Concepts from Political Science

The key perspectives of institutional theory in IB originated from a Western context (Meyer, 2008). I borrow the specific concepts of institutional theory from political science and apply them to examining how Russian MNEs behave (see Table 3.4). My thesis contributions are in IB, particularly to conversations on institutional theory and EMNEs. Although institutional theory is the most popular for studying EE organisations (Luo & Zhang, 2016), borrowing from political science enables me to gain better understanding the contextual factors of my research setting, Russia. The empirical context is one of the main components for fruitful research (Bartunek, Rynes, & Ireland, 2006).

Borrowing from another discipline accounts for contextual differences and similarities within the theory (Whetten et al., 2009). Both IB and political science acknowledge the importance of different
institutions and their influence on organisational behaviour (Evans, 1995). IB literature focuses on organisations, whereas political science focuses on how institutions affect the development of a state’s institutional environment (Evans, 1995). In this study, borrowing from political science enables me examine institutional interplay in Russia.

Table 3.4: Institutional theory horizontal borrowing and its application to MNE studies

<table>
<thead>
<tr>
<th>Type of theory</th>
<th>Boundaries crossed</th>
<th>Application of borrowed concepts</th>
<th>Standards for appropriate theoretical concept-borrowing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional theory</td>
<td>Institutional theory developed in Western context—I apply institutional theory to the Russian context</td>
<td>Explain why there are links between formal and informal institutions; explore how Russian MNEs use formal and informal institutional interplay to facilitate their internationalisation</td>
<td>Purposeful Substantial explanatory power</td>
</tr>
</tbody>
</table>

Adapted from Kenworthy & Verbeke (2015), Whetten et al. (2009)

Multidisciplinary research is focused on a specific problem, which facilitates awareness of links between the concepts (Janssen & Goldsworthy, 1996). The IB literature has started examining co-existence of formal and informal institutions (Horak & Restel, 2016). Borrowing from political science can enhance knowledge of the interplay between institutions. Borrowing from other disciplines can help explain why links exist between the various concepts (Matthews, Wayne, & McKersie, 2016). This is relevant to applying borrowed concepts to my study, because it enables me to explore and explain why there are links between formal and informal institutions. In particular, it helps explain how Russian MNEs use institutional interplay in their internationalisation (see Table 3.4).

For the concepts to be appropriate, they must also be purposeful and have substantial explanatory power (Matthews et al., 2016; Murray & Evers, 1989). Concepts and ideas borrowed from a different discipline must illuminate understanding of organisational behaviour (Kenworthy & Verbeke, 2015; Whetten et al., 2009). The borrowed concepts must enhance the explanatory power of the studied phenomenon (Kenworthy & Verbeke, 2015), which can become more substantial through reflection on the concepts and their social contexts that researchers borrow from other disciplines (Murray & Evers, 1989). This can increase the standards for applying appropriate concepts and make the borrowing process more rigorous (Murray & Evers, 1989); in turn, a more rigorous borrowing process can bring together existing and emerging knowledge about the studied phenomenon (Lowe & Phillipson, 2006).
Figure 3.2 illustrates three concepts that I borrow from political science, which appear in the first column. These are definitions of the state and government, formation of institutions from a historic perspective and formal and informal institutional interplay. The second and third columns illustrate the important aspect these three concepts add to IB literature and their contribution to my thesis, respectively.

I borrow the definitions of the state and government from political science because it makes a clear distinction between the two (see Figure 3.2), and this allows me to give a clear idea of the Russian Government’s role in MNEs’ international activities. Many IB studies use the two terms interchangeably (e.g., D’Aunno et al., 2000; Trevino, Thomas, & Cullen, 2008; Wang et al., 2012). The state and government are discussed as both having the power to intervene in organisations’ operations and policy development. This is problematic, because the state cannot be involved in organisational activities, but the government can develop policies that influence those activities.

<table>
<thead>
<tr>
<th>Political science</th>
<th>International business</th>
<th>Contributions to this study</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definitions: the state and the government</td>
<td>Definitional clarity between the state and the government</td>
<td>Examine characteristics of the Russian state and government</td>
</tr>
<tr>
<td>Formal and informal institutional interplay</td>
<td>Explains how formal and informal institutions interact</td>
<td>Examine formal and informal institutional interplay in Russia</td>
</tr>
<tr>
<td>Legitimacy of the state and the government</td>
<td>Legitimacy is judged by the effectiveness of policy development and enforcement</td>
<td>Examine external legitimacy of Russian MNEs</td>
</tr>
</tbody>
</table>

**Figure 3.2: Relevant concepts borrowed from political science to add to IB and frame the study contributions**

Making a clear distinction between the state and the government is important in IB research. It is clear from political science that the state is viewed as a shield for existing institutions and groups of people who make decisions on behalf of the state as a whole (Willoughby, 1911). Conversely,
government officials are those who govern the state (Willoughby, 1911). They serve as enforcers of formal institutions, and use informal ones to enhance their own functions (Evans, 1995; Evans et al., 1985). IB literature can benefit from this distinction, particularly when applying institutional theory to examining MNEs’ behaviour.

Another concept that I borrow from political science is formal and informal institutional interplay (see Figure 3.2). This is fundamental to understanding the formation of formal and informal institutions as individual entities, yet not mutually exclusive (Helmke & Levitsky, 2004). Calvert (1995) and Chavance (2008) state that the relationship between formal and informal institutions is reciprocal and complex as a result of conflicting interests between various actors—thus, these institutions need to be examined together. IB scholars have touched on the interactions between formal and informal institutions (Horak & Restel, 2016; Lahiri & Kedia, 2011), although institutional interplay has not been discussed in relation to MNEs’ internationalisation. Borrowing insights about institutional interplay from political science enables me to address the issue of how institutional interplay affects the internationalisation of Russian MNEs.

I also borrow insights from legitimacy in political science. Political science literature focuses on state and government legitimacy (Allee & Huth, 2006; Crook, 1987; McDonough et al., 1986). State legitimacy is judged according to the government’s ability to effectively enforce policies, which indicates that state and government legitimacy are not mutually exclusive. I do not examine the legitimacy of Russia or the Russian Government, but the perception of Russia in foreign markets and how it can affect the way Russian MNEs gain external legitimacy. Policy enforcement is an important factor that influences institutional interplay and how MNEs respond to it. Developing and enforcing existing policies can be detrimental to state legitimacy because external actors base their judgement and perception on this development and enforcement (Beetham, 1991; O’Kane, 1993). The perception of Russia and its government influences the operations of Russian MNEs. Therefore, understanding legitimacy judgement can facilitate examining the legitimacy of Russian MNEs in foreign markets (see Figure 3.2).

3.3.2 Positioning the Study in IB

The three disciplines emphasise different aspects of institution theory. Traditionally, economics analyses the institutional environment as the exchange process between different actors during a trade transaction (North, 1990). The exchange process enables the development of the institutional environment through the formation of networks. Sociology highlights the importance of institutions being socially embedded, which provides guidelines for how institutions should be used by organisations and how institutions affect the activities of organisations (Oliver, 1991; Scott, 2001). Political science predominantly focuses on the functioning of the state as a whole, where the
government plays a dominant role in developing formal institutions (Evans, 1995). However, this does not eliminate the interactions between society and politics, which affects the development of informal institutions (Grzymala-Busse, 2010; Peters, 2012).

Applying institutional theory in the three disciplines differs, although there is an overlap between them, which allows me to garner insights about institutional theory and contribute to IB literature. Figure 3.3 illustrates the four overlaps between the three disciplines in relation to institutional theory: exchange transaction (1), actor-specific interactions (2), network approach (3) and institutional overlap (4). Together, the three disciplines and their various combinations provide patterns of institutional theory development in IB. Examining these patterns enables me to position my study within the IB discipline in configuration four because I borrow concepts from political science.

Figure 3.3: Institutional theory overlap between economics, sociology and political science

The first overlap is exchange transaction, which occurs in economics and political science (see Figure 3.3). The transactional nature of the relationships between different actors in a national system is underscored by both disciplines (North, 1990; Peters, 2012). This transactional relationship is influenced by the rational choices that the involved actors make (Williamson, 1991). Political science scholars focus on the political factors of the state’s development, where the government is considered
one of the key actors facilitating the formation of formal and informal institutions (Evans, 1995; Köllner, 2013). In economics, the focus is on the transaction itself, which is driven by the exchange process between the involved parties (Coase, 1937). This exchange in fact influences the formation of the institutions, which shapes the state’s institutional environment (North, 1991). The transactional overlap between the two disciplines illustrates the importance of formal and informal institutions in the formation of the institutional environment. Although both disciplines acknowledge that institutions are socially embedded, their institutional development derives from formal institutional structure, which ascribes importance to the exchange transaction between actors.

The second overlap is between sociology and political science, which is illustrated in Figure 3.3 as actor-specific interactions. The relationship between different actors is reciprocal and has significant influence on the formation of the institutional environment (Köllner, 2013; Meyer & Höllerer, 2014). Both sociology and political science highlight the fact that relationships between actors are shaped by existing rules that are socially embedded (Fadda, 2012; Meyer & Rowan, 1977). The focus in sociology is on the effect these relationships may have on organisational behaviour (Oliver, 1991; Suchman, 1995). In political science, the emphasis is on the structural behaviour of governments and organisations where a formal institutional environment prevails (Köllner, 2013; Peters, 2012). The behaviour of these actors is institutionalised and based on existing rules and values, which is a common perspective in both disciplines (Evans, 1995; Fadda, 2012; Oliver, 1991). The challenge arises when organisations and governments have diverging interests and are faced with managing continuous changing relationships between organisations and governments (Voronov & Weber, 2015). These relationships can be reciprocal, but differ in how they are managed. The government exercises its power to enforce rules and regulations onto organisations; MNEs use their relationships with government to achieve their goals if this enforcement is ineffective.

In sociology and economics, institutional theory views networks between actors as an important component of the institutional environment, which is the third type of overlap. In economics, networks are examined through the development of the institutional environment, in which networks are informal institutions that traditionally enabled international trade and help manage relationships with foreign traders (North, 1990). Sociologists see networks as more complex forms of organisations, serving as mechanisms to facilitate their operations (Scott, 2008; Oliver, 1991). The commonality between the two disciplines is that networks are used to manage relationships between different actors, including governments and organisations, that influence their domestic and international operations. These networks develop as a result of the relationships between these actors, and play a crucial role in the development of a state’s institutional environment. This line of thinking is significant to the development of institutional theory in the IB discipline.
Although institutional theory in IB has been dominated by economics and sociology, political science provides valuable insights into the formal structure of a particular state’s institutional environment. The fourth overlap is the institutional overlap of key perspectives on institutional theory across the three disciplines (see Figure 3.3). The focus differs between the three—for example, in economics, it is on how institutions affect a country’s economic development (North & Weingast, 1989); political science examines institutional influence on political development and a state’s formal governance structure (Evans, 1995; Peters, 2012; Tsai, 2016); sociology literature concentrates on the institutional effect on organisations’ behaviour and development (Meyer & Scott, 1983; Meyer, Scott, & Strang, 1987).

The three disciplines acknowledge that institutions are socially embedded, and treat institutions’ historic development as important to their functioning (Evans, 1995; North, 1991; Scott, 1987). Viewing institutions as socially embedded enables examining how the institutional environment has developed. Formal and informal institutions co-exist, and their interplay makes the institutional environment more complex, but also helps guide organisational practices. Formal and informal institutions exist within a state, and their interplay occurs as a result of the relationships between key actors. Understanding institutional overlap allows me to study how Russian MNEs use institutional interplay to navigate their domestic institutional environment.

Many EEs have experienced political and economic change since the 1990s, consequently shifting the rules of the game domestically and internationally (Puffer & McCarthy, 2011, Puffer et al., 2009). Institutional theory enhances understanding of the more complex aspects of institutional environments (Scott, 2005), where MNEs use formal and informal institutions to operate in such environments (Luo & Zhang, 2016). Accounting for the institutional overlap across the three disciplines thus permits in-depth exploration of the institutional environment and how MNEs navigate it.

### 3.4 Intra-Institutional Complexity

Institutional complexity has been documented in several studies (Meyer & Höllerer, 2016; Meyer & Rowan, 1977; Raaijmakers, Vermeulen, Meeus, & Zietsma, 2015; Ramus et al., 2016; Raynard, 2016) and is referred to as the third wave of institutional theory (Johansen & Waldorff, 2015). Institutional complexity arises when organisations face “incompatible perspectives from multiple institutional logics” (Greenwood et al., 2011, p. 318). IB literature focuses on conflicting institutional logics, primarily in relation to inter-institutional complexity, where institutional logics are examined in different institutional environments (Greenwood et al., 2011). Understanding conflicting institutional logics is important to studying institutional complexity as an aggregate (Saka-Helmhout, Deeg, & Greenwood, 2016). However, these conflicting elements, especially between differing
levels of governments, can be a strategic advantage in MNEs’ internationalisation process (Luo et al., 2017). MNEs can use their relationship with government officials to gain resources and access to networks, which enhances their operations. Further, conflicting institutions can act as learning mechanisms that MNEs can utilise to manage institutional complexity (Desai, 2016; Marano & Kostova, 2016; Ramus et al., 2016). Therefore, there is a need to examine the nuances of institutional complexity.

When institutional complexity has been examined previously, the focus has been on field structure and organisational attributes, including position in the field, ownership (Greenwood et al., 2011) and knowledge about institutional infrastructure (Dau, 2016). The nature of institutional complexity is significantly influenced by the structure of the field in which organisations operate. The structure within the field is driven by institutional logics that shape the behaviours of relevant actors (Scott, 2008). Because actors use logics flexibly to enhance outcomes, the structure of the field becomes less transparent, thus increasing institutional complexity (McPherson & Sauder, 2013). An example of such behaviour is evident in EEs, where flexible logics are used purposefully as tools to influence court decisions in favour of MNEs or governments (McPherson & Sauder, 2013). Russia’s federal government uses logics flexibly to form formal institutions, which allows them to adapt and interpret laws and regulations in their favour (Black & Tarassova, 2003). This flexibility in applying institutional logics to interpreting formal rules fragments the structure of the field, thus increasing institutional complexity (Greenwood et al., 2011; McPherson & Sauder, 2013). In less fragmented markets, the regulations are more unified, which should decrease institutional complexity (Meyer, et al., 1987). While this does apply in some industries, such as education (Meyer et al., 1987), fragmentation in less fragmented markets can lead to increased institutional complexity in other industries because of conflicting institutional logics (Greenwood et al., 2011).

MNEs being positioned in a strategic sector can be an organisational attribute, whereby MNEs use their position in the field to deal with institutional complexity (Marano & Kostova, 2016). This is possible when organisations engage in learning and become catalysts for identifying strategies for managing institutional complexity, especially where the institutional environment is weak (Desai, 2016; Marano & Kostova, 2016). Organisations not in strategic sectors are less likely to obey established institutional practices because they are not bound by institutionalised relationships with different actors. Conversely, organisations operating in strategic sectors are the centre of media, government and society attention (Phillips & Zuckerman, 2001). This means that MNEs are more likely to follow institutionalised practices (Ahmadjian & Robinson, 2001). MNEs may follow the existing practices on the surface, but in reality, how they handle institutional complexity can be less visible because of their desire to protect their actor-specific relationships (Kostova et al., 2008).
Recent studies have focused on organisational response to institutional complexity based on competing or incompatible institutions (Bertels & Lawrence, 2016; Faulconbridge & Muzio, 2016; Saka-Helmhout et al., 2016). The responses are influenced by institutions and their enforcement mechanisms that exist in a particular market. Ahmadij (2016) proposes that “national systems, the specific institutions that define and distinguish these systems, and the mechanisms by which institutions combine into distinctive configurations, they share a fundamental assertion that national institutional systems shape the strategy, structure, and fundamental assumptions of firms” (p. 13).

How MNEs create these configurations is influenced by existing institutions and their enforcement mechanisms, which are developed by the government (Peters, 2012). Therefore, before examining MNEs’ responses to intra-institutional complexity, we must understand what institutional complexity actually comprises.

Managing intra-institutional complexity is a crucial step in the internationalisation process, yet has been largely neglected in IB literature (Meyer & Höllerer, 2014; 2016). Intra-institutional complexity is a vital part of MNEs’ development and internationalisation because they must first navigate the domestic institutional environment (Kraatz & Block, 2008; Meyer & Höllerer, 2016). Meyer and Höllerer (2016) refer to intra-institutional complexity as “conflicting institutional demands that arise within the same institutional order” (p. 2). This implies that institutional logics are in conflict with one another, which has been the focus in IB literature (Thornton, 2002). I argue that intra-institutional complexity is influenced by the institutional environment of a particular context. Specifically, I argue that intra-institutional complexity consists of institutional interplay and the relationships between MNEs and their home governments. These significantly affect MNEs’ responses to institutional complexity in certain institutional environments.

3.4.1 Institutional Interplay

The interplay between the formal and informal institutions is an important part of institutional complexity. As mentioned previously, institutional interplay is determined by the effectiveness of both formal and informal institutions and their enforcement (Helmke & Levitsky, 2004). Their effectiveness is measured by the extent to which formal rules and procedures are enforced and obeyed (Helmke & Levitsky, 2004). Although rules and regulations are more tangible and concrete than informal institutions (North, 1990), this does not mean that MNEs comply with them, because they can be ineffective for their everyday operations (Tsai, 2006). In such instances, informal institutions are used (Puffer et al., 2016; Tsai, 2006).

Formal institutions, such as rules and regulations, are more tangible because they have boundaries (North, 1990). These boundaries are effective if the rules and regulations are properly enforced (Malesly & Taissig, 2016). The boundaries are formed as a result creating the institutional
environment, which is influenced by the relationship between key actors (Besharov & Smith, 2014). These key actors, such as governments, guide the creation and enforcement of formal institutions (Peters, 2012). However, the enforcement mechanisms and punishment for non-compliance are costly for the government (Malesly & Taissig, 2016). Hence, the government and powerful domestic firms can manipulate the interpretation of these institutions (Brinks, 2003; Tsai, 2006). This implies that the government and organisations have a guiding role in developing the institutional environment, which can be driven informally (Azari & Smith, 2012).

Institutional interplay is an essential component of the institutional environment, because a national system is created by combining institutions that help shape and guide an organisation’s strategic behaviour (Ahmadjian, 2016). Blending formal and informal institutions is driven by the effectiveness of their implementation and enforcement (Helmke & Levitsky, 2004). As discussed before, previous examinations of institutional interplay have focused on informal institutions being complementary, accommodating, substitutive or competing, based on their effectiveness. The degree of effectiveness is important, but oversimplified when studying institutional complexity. However, the variety of these combinations can enable understanding of institutional complexity and how organisations handle it (Poulis & Poulis, 2016). Examining the configurations of this interplay between formal and informal institutions can help identify patterns that MNEs from different sectors use to navigate institutional complexity in the domestic market to facilitate their internationalisation process. The applicability of institutional effectiveness differs based on organisational attributes and positioning in the field (Greenwood et al., 2011). Thus, institutional interplay depends on the complexity of a particular sector’s institutional infrastructure, where key actors have the power to create change.

3.4.2 Relationships between Governments and MNEs

The relationships between different actors, including MNEs and governments, are not static; rather, they evolve over time and are often pluralistic in nature (Shipilov et al., 2014; Yang & Stoltenberg, 2014). A government is essential to creating a national governance system (Peters, 2012), which is defined by distinct institutions that form a state’s jurisdictional system (Ahmadjian, 2016). Jurisdictional overlap occurs when “the prescriptive demands of logics target the same jurisdictional space—be they industries, professions, organisations, or practices” (Raynard, 2016, p. 5). The jurisdictional space is determined by institutions such as rules and regulations, and the parties involved have authority to enforce the rules and regulations. The government is important in terms of establishing rules and regulations, but both governments and MNEs affect enforcing and changing those rules and regulations (Boddewyn, 2016). Therefore, the relationships between governments and MNEs are an important component of the intra-institutional complexity that MNEs must face.
As the relationship develops, it may become collaborative, since MNEs and governments work collectively; this has positive repercussions for policy development that MNEs can use to their advantage (Lenway & Murtha, 1994). This collaborative relationship can be sustained if governments and MNEs share the same beliefs and goals (Hafse & Koenig, 1988). This is often the case for SOEs. The relationship should also have beneficial outcomes for both parties (Helmke & Levitsky, 2004; Luo, 2001). However, because their aspirations will change, so will their relationship (Shipilov et al., 2014).

Governments change over time, and organisations enhance their operations and performance, which may decrease their dependence on their relationships with governments (Scholz, 1991; Scholz & Wang, 2006). This can negatively affect MNEs’ political ties with governments, because MNEs can lose their access to strategic and financial resources (Zhang, Jiang, & Zhou, 2014). If negative political ties develop, MNEs and government can form an exchange relationship that can lead to policy adjustment through negotiations (Delios, 2010).

The government has the autonomy to adapt existing formal institutions (Evans, 1995; Luo et al., 2017; Peters, 2012). This can increase the gap in their interests because the goals of the government and organisations begin to diverge (Fadda, 2012). The changing interests and goals further change the dynamic of their relationships between the government and MNEs. The government exercises high levels of autonomy over MNEs’ operations; in turn, MNEs deviate from obeying existing rules because they do not enable MNEs to achieve their goals (Hafse & Koenig, 1988). Relationship changes can also influence the institutional environment. When organisations do not have confidence in the government’s ability to develop and enforce regulations effectively, they rely on informal institutions (Helmke & Levitsky, 2004; Puffer & McCarthy, 2011), but these can be dysfunctional if MNEs engage in corrupt and unethical activities (Puffer et al., 2016) This makes intra-institutional complexity more challenging for MNEs.

The government play an integral part in MNEs’ international activities (Boddewyn, 2016). Institutional heterogeneity offers insights into institutional complexity as an aggregate, but does not account for the way MNEs respond to institutional complexity in reality (Saka-Helmhout et al., 2016). Institutional complexity becomes more pronounced when MNEs engage in pluralistic relationships with different government levels. Luo et al. (2017) state that governments at different levels usually have diverging institutional demands; this makes it more difficult for MNEs to deal with institutional complexity, because they have to choose which stakeholder to satisfy. Therefore, MNEs may form a collaborative relationship with the federal government, where the institutional interplay is complementary. However, their relationships with regional governments may not be as beneficial in terms of their operations as nurturing their relationship with the federal government.
Certain aspects of MNEs’ relationships are more salient, depending on the importance of these relationships to MNEs (Marano & Kostova, 2016; Owen-Smith & Powell, 2008). Other aspects of this relationship are more salient because they are detrimental to overcoming high levels of intra-institutional complexity. Therefore, it is necessary to examine how MNEs use their relationships with governments at different levels to navigate intra-institutional complexity.

3.5 External Organisational Legitimacy

Legitimacy in institutional theory has gained substantial attention, particularly in relation to MNEs and how they gain and manage legitimacy (Bitektine & Haack, 2015; Deephouse et al., 2017; Kostova & Zaheer, 1999; Suchman, 1995; Suddaby, Bitektine, & Haack, 2017). Table 3.5 summarises the key studies that define and/or describe legitimacy in IB literature. The importance of legitimacy has been recognised as a key element in social life, political and governance regimes (Weber, 1947). Originally, legitimacy was analysed at the macro level, by examining its influence on social life. Weber (1947) further extended this and examined legitimacy in relation to a process of change in values and beliefs and organisational reliance on rational or legal structures. Organisations are considered legitimate if they conform to these structures. However, social functions must be considered when determining organisational behaviour, because organisations sometimes base their actions on broader social beliefs (Parson, 1960).

Maurer (1971) ascribed hierarchical connotations to legitimacy, contending that “legitimation is the process whereby an organisation justifies to a peer or superordinate system its right to exist” (p. 361). Based on this definition, organisations have the right to justify their operations to the superior actor and be judged by this actor. Dowling and Pfeffer (1975) further developed Parsons’s (1960) idea of conformity to social beliefs, referring to it as cultural conformity, but not to the hierarchical system or self-justification. They viewed legitimacy as accepted behaviour in a larger social system (Dowling & Pfeffer, 1975). This acceptance is determined by similar values between an organisation and political and social systems. These values are culturally embedded—therefore, the acceptance of organisational behaviour is influenced by cultural aspects in a particular context (Meyer & Scott, 1983). Cultural factors can explain organisational legitimacy and the extent of its existence and functioning, as culture is part of the larger social environment in which organisations operate (Meyer & Scott, 1983). The legitimation process for organisations becomes complex because they must comply with cultural and regulatory norms that influence different actors’ perceptions of their actions (Bitektine, 2011; Xu & Shenkar, 2002).

Suchman (1995) states that organisational legitimacy is “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values and beliefs” (p. 574). Whether the actions are perceived as desirable, proper or
appropriate depends on the actors who judge the organisation’s behaviour. These actors form certain norms and rules that organisations follow to act properly. However, organisations need only satisfy actors whose perceptions will affect their operations (Elsbach & Sutton, 1992). Deephouse (1996) states that the government and public are the most important actors, because the government develops the regulatory framework and the public influences the social norms that form the environment in which organisations operate. The challenge organisations face is that they cannot satisfy the interests of all actors—therefore, the legitimation process becomes more complex, as organisations must prioritise whose acceptance is more desirable (Deephouse, 1996).

An organisation’s acceptance by its environment is an important part of organisational legitimacy (Kostova & Zaheer, 1999). The environment consists of cultural norms and regulations, which affect whether the organisation is accepted within it. Organisational legitimacy is socially constructed and dependent on the collective beliefs of specific social groups, including the government and the public (Bitektine & Haack, 2015; Scott, 1995; Suchman, 1995). Therefore, legitimacy can be described as a relationship between the practices and regulations of approved organisations and enforced by a larger social environment in which organisations operate (Zimmerman & Zeitz, 2002). An organisation’s practices and regulations both influence organisational legitimacy and its enforcement.

The existing regulations and actual practices that organisations undertake to gain legitimacy are related (Tost, 2011). Organisations may view legitimacy purely as a resource owned by that organisation, independent of the perceptions of different actors (Zimmerman & Zeitz, 2002). Organisations may not obey regulations if they interfere with achieving the main organisational objectives, and may instead engage in illegitimate activities to acquire legitimacy (Elsbach & Sutton, 1992; Suchman, 1995). In an environment where regulations diverge from practice, organisations engage in negotiations with relevant stakeholders to attain legitimacy (Kostova et al., 2008) because existing institutions are not suited to meet the objectives of these organisations (Thornton, Ocasio, & Lounsbury, 2012). The government has the power to set and enforce the rules and regulations (Boddewyn, 2016). Therefore, organisations must negotiate with the government, which implies that legitimacy can be also enforced. Organisations and governments can both influence the enforcement of organisational legitimacy (Cuervo-Cazurra, Inkpen, Musacchio, & Ramaswamy, 2014). The relationships between the two can influence how various actors perceive and enforce legitimacy.
<table>
<thead>
<tr>
<th>Sources</th>
<th>Definitions/Description</th>
<th>Emphasis of the study</th>
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<tbody>
<tr>
<td>Weber (1947)</td>
<td>A process of change in values and beliefs and organisational reliance on rational or legal structures</td>
<td>The emphasis is on the legal system, where organisations make a rational choice to conform to rules.</td>
</tr>
<tr>
<td>Maurer (1971)</td>
<td>Legitimisation: the process whereby an organisation justifies its right to exist to a peer or superordinate system</td>
<td>Organisations have the right to justify their legitimate existence in a hierarchical system.</td>
</tr>
<tr>
<td>Dowling &amp; Pfeffer (1975)</td>
<td>Congruence between the social values associated with or implied by activities and the norms of acceptable behaviour in the larger social system</td>
<td>Organisational legitimacy is driven by their involvement in social and political activities.</td>
</tr>
<tr>
<td>Meyer &amp; Scott (1983).</td>
<td>The degree of cultural support for an organisation—the extent to which the array of established cultural accounts provides explanations for an organisation’s existence and functioning</td>
<td>Cultural aspects affect the existence and functioning of organisations. Cultural aspects influence organisational legitimacy.</td>
</tr>
<tr>
<td>Suchman (1995)</td>
<td>A generalised perception or assumption that an entity’s actions are desirable, proper or appropriate within some socially constructed system of norms, values and beliefs</td>
<td>Organisational legitimacy is influenced by the stability of an institutional environment.</td>
</tr>
<tr>
<td>Deephouse (1996)</td>
<td>Social actors’ endorsement of an organisation</td>
<td>Organisations do not have to satisfy all the actors. The most important actors are the government regulators and public opinion. Establishing legitimacy in foreign markets depends on the size, age, performance and reputation of an MNE as a whole.</td>
</tr>
<tr>
<td>Authors</td>
<td>Statement</td>
<td>Cultural adaptations and the nature of the product and regulatory environment also affect legitimacy.</td>
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<tr>
<td>Kostova &amp; Zaheer (1999)</td>
<td>An organisation’s acceptance by its environment</td>
<td></td>
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<tr>
<td>Zimmerman &amp; Zeitz (2002)</td>
<td>A relationship between the practices and utterances of the organisation and those that are contained within, approved of and enforced by the social system in which the organisation exists</td>
<td></td>
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<tr>
<td>Kostova et al. (2008).</td>
<td>It is impossible to achieve legitimacy through isomorphism because of the multiplicity and complexity of institutional environment</td>
<td></td>
</tr>
<tr>
<td>Bitektine &amp; Haack (2015)</td>
<td>The degree of an organisation’s collective approval</td>
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</table>
Negotiation and enforcement imply that an organisation’s legitimacy is approved collectively (Bitektine & Haack, 2015). Different actors, including the government, determine the approval and evaluation of legitimacy (Diez-Martin, Prado-Roman, & Blanco-González, 2013; Scott, 1995). However, organisations can use legitimacy as a resource to gain access to other resources, such as networks, financial and human capital and technology (Zimmerman & Zeitz, 2002). Although legitimacy can be viewed as a resource, individuals approve an organisation’s practices as appropriate, and then collective actors, including the government and organisation, make a collective judgement or reach a consensus about the organisation’s legitimacy (Bitektine & Haack, 2015). The notion of collective judgement becomes interesting in case of an MNE, because the collective judgement occurs in home and host countries (Cuervo-Cazurra et al., 2014). While the process of judgement and approval can be driven by home and host governments (Rottig, 2016), MNEs can engage in silenced legitimisation of judgement, where the government and MNEs conceal the undesirable legitimacy outcome from the public (Bitektine & Haack, 2015). In this case, organisational legitimacy can be generalised (Tost, 2011). MNEs use their relationships with the government to orchestrate perceptions of their actions, and hence establish and maintain legitimacy in various markets.

3.5.1 Types of Legitimacy

Another stream of literature in IB focuses types of legitimacy, which are summarised in Table 3.6. I identify two legitimacy classifications. The first is based on the traditional view that organisational legitimacy is driven primarily by external factors (Suchman, 1995; Weber, 1947). This view underscores the importance of political regimes to which organisations must conform. The second highlights the equal importance of external and internal factors that determine organisational legitimacy (Drori & Honig, 2013). This view recognises the influence of external actors and internal organisational attributes on legitimising organisations.

Suchman (1995) determines three types of legitimacy, pragmatic, moral and cognitive, that are part of the first classification (see Table 3.6). Pragmatic legitimacy relates to the self-interest of an organisation and relevant actors, which is based on direct exchange between them. There are three different types of pragmatic legitimacy: exchange, influence and dispositional (Suchman, 1995). Exchange legitimacy is based on exchange between actors who are driven by their own interests and can scrutinise the organisation during this exchange (Dowling & Pfeffer, 1975; Elsbach & Sutton, 1992). Influence legitimacy is when actors support the organisation because of their interests. Dispositional legitimacy is when organisations and actors share the same values and interests and are trustworthy (Scott, 1995). All three types of pragmatic legitimacy are based on the relevant
actors’ judgement of the organisation. Although the judgement is based on self-interest, it is also somewhat socially driven (Bitektine, 2011). Tost (2011) argues that because the legitimacy judgement is influenced by different actors, the perception of organisational legitimacy can be generalised.

**Table 3.6: Types of legitimacy and their descriptions**

<table>
<thead>
<tr>
<th>Classifications of legitimacy</th>
<th>Type of legitimacy</th>
<th>Description</th>
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<tbody>
<tr>
<td></td>
<td>• exchange legitimacy</td>
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<td></td>
<td>• influence legitimacy</td>
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<td></td>
<td>• dispositional legitimacy</td>
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<tr>
<td></td>
<td>• consequential</td>
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<td></td>
<td>• procedural</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>• structural</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>• personal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cognitive</td>
<td></td>
<td>Organisational objectives and activities are based on the values that the society sees as appropriate, proper and desirable.</td>
<td>Suchman (1995, p. 579)</td>
</tr>
<tr>
<td>Organisational legitimacy is driven by combination of external and internal factors</td>
<td>External</td>
<td>Acceptance and validation by external stakeholders.</td>
<td>Drori &amp; Honig (2013, p. 347)</td>
</tr>
<tr>
<td></td>
<td>Internal</td>
<td>The acceptance or normative validation of an organisational strategy through the consensus of its participants, which acts as a tool that reinforces organisational practices and mobilises organisational members around a common ethical, strategic or ideological vision.</td>
<td>Drori &amp; Honig (2013, p. 347)</td>
</tr>
</tbody>
</table>

Normative or moral legitimacy is based on whether the organisational activities are the right thing to do (Suchman, 1995). Relevant actors define what is right or wrong by judging and approving or disapproving an organisation’s behaviour. There are four types of moral legitimacy: consequential, procedural, structural and personal (Suchman, 1995). Consequential legitimacy is a judgement of
what organisations have achieved, and is based on performance and measurement of these organisational achievements. These measurements reflect an organisation’s effectiveness and the extent of its contribution to social welfare (Scott, 2008). Procedural legitimacy is achieved if organisations embrace socially accepted procedures. Structural legitimacy is similar to procedural legitimacy, although focuses on the entire organisational system, whereas procedural legitimacy focuses on organisational routines (Scott, 2008). Personal legitimacy is based on “the charisma of individual organisational leaders” (Suchman, 1995, p. 581) and their ability to communicate with different actors (Patel, Xavier, & Broom, 2005). Different actors can judge charisma in various ways—it is thus challenging to judge legitimacy based on individual characteristics. The judgement is often determined by an organisation’s contribution to the market’s social welfare (Tost, 2011).

Cognitive legitimacy is considered the most powerful type of legitimacy because it is “based on cognition rather than on interest or evaluation” (Suchman, 1995, p. 582). Cognitive legitimacy is associated with existing cultural and institutional aspects (Suchman, 1995). The pre-existence of institutions helps to determine and examine an organisation’s characteristics and behaviour (Bitektine, 2011; Scott, 1995). Cultural aspects are used to examine the extent to which actors’ established beliefs affect organisational legitimacy (Suchman, 1995). Based on these beliefs, the actors see the organisation’s actions as legitimate or illegitimate (Suchman, 1995). They evaluate cognitive legitimacy based on the historic development of existing beliefs and regulations (Aldrich & Fiol, 1994). Cognitive legitimacy is characterised by organisational characteristics and existing rules that determine organisational legitimacy (Tost, 2011).

The three types of organisational legitimacy are linked and develop in a broader societal system (Suchman, 1995; Tost, 2011). The accountability for some degree of structure and embeddedness in the broader social system in which organisations operate is crucial in examining organisational legitimacy (Tost, 2011). External actors develop the policies and regulations within the social system, meaning that they largely influence all three types of organisational legitimacy (Kostova & Zaheer, 1999). As a result, organisations aim to balance their internal characteristics and external forces (Bitektine, 2011; Suddaby & Greenwood, 2005).

The second classification includes external and internal legitimacy (see Table 3.7). Drori and Honig (2013) define internal legitimacy as “the acceptance or normative validation of an organisational strategy through the consensus of its participants, which acts as a tool that reinforces organisational practices and mobilizes organisational members around a common ethical, strategic or ideological vision” (p. 347). Internal legitimacy is important for achieving organisational objectives by obeying the codes of conduct established within the organisation (Kostova & Zaheer, 1999). Common codes stipulate certain patterns of behaviour for employees and the wider organisation (Deephouse, 1996).
Internal legitimacy is crucial to organisational survival and operations (Kostova & Roth, 2002), although external actors can determine an organisation’s reputation within the environment in which the organisation operates (Bitektine & Haack, 2015). Therefore, organisations feel institutional pressure to satisfy external actors (Zimmerman & Zeitz, 2002).

External legitimacy is described as acceptance and validation by external stakeholders, including government and social groups (Deephouse, 1996; Drori & Honig, 2013; Rottig, 2016). Achieving external legitimacy is more challenging than achieving internal legitimacy, because organisations have to satisfy a number of external actors, which can be a time-consuming process (Kostova & Zaheer, 1999). External legitimacy is also vital for organisational survival and success, because external actors can influence how the organisation is perceived (Drori & Honig, 2013). Deephouse (1996) has found the two key actors, the government and the public (whose opinion is often shaped by the media), can confer external legitimacy. The expectations of the environment in which organisations operate often differ from an organisation’s internal practices (Drori & Honig, 2013). As a result, organisations engage in institutionalisation of organisational legitimacy by adjusting their practices (Bitektine & Haack, 2015). This could make striking a balance between internal and external legitimacy more challenging (Kostova et al., 2008; Xu & Shenkar, 2002). Organisations must continuously adjust their practices to meet the interest of external actors, which can be difficult, because the institutional environment changes. Therefore, the legitimacy type also changes (Suchman, 1995). The type of legitimacy organisations aim to achieve depends on their objectives and positioning within the market. Organisational legitimacy and how it is used can be influenced by various factors.

3.5.2 Factors Influencing Organisational Legitimacy

Kostova and Zaheer (1999) identify a number of factors that influence MNCs: “the characteristics of institutional environment; the organisation’s characteristics and actions; and the legitimation process by which the environment builds its perceptions of the organisation” (p. 66). An institutional environment’s characteristics are represented by complexity and multiplicity. Kostova and Zaheer (1999) propose that because the cognitive and normative pillars of an institutional environment are tacit and not easily codified, they present a challenge for MNEs to establish legitimacy in a host country. Conversely, the regulative domain is easily codified by laws and regulations, and therefore easier to follow (Scott, 1995). Established regulations serve as guidelines for MNEs regarding what is right and wrong—but because the institutional environment is not static, either are these regulations (Shipilov, 2012). This makes the institutional environment more complex and organisational legitimacy harder to achieve, because MNEs must continuously adjust their operations.
Changes in the institutional environment create institutional pressures that influence organisational legitimacy (Dacin et al., 2002). This is particularly relevant for MNEs from EEs because of the institutional changes these markets have experienced since the 1990s (Rottig, 2016). Formal institutions are often considered unstable and filled with institutional voids, making the institutional environment more difficult to navigate (Puffer et al., 2016; Rottig, 2016). Kostova and Zaheer (1999) argue that unless MNEs have a clear understanding of existing formal and informal rules, they will not successfully maintain legitimacy in a foreign market. While understanding how formal and informal institutions work is important, knowing the nuances of the institutional voids can also affect organisational legitimacy. For example, misguided regulations formed by the government to favour a particular industry are considered a void (Khanna & Palepu, 2005; Rottig, 2016), and not knowing about these regulations can influence an organisation’s ability to achieve legitimacy in that market. If an MNE lacks institutional knowledge, this can undermine its performance and reputation in the market (Deephouse, 1996; Rottig, 2016).

Another factor that influences organisational legitimacy is organisational characteristics, including size, performance and reputation (Deephouse, 1996; Kostova & Zaheer, 1999). An organisation’s size can affect its visibility in a market, as well as public expectations (Tost, 2011). This can shape an organisation’s behaviour in that market. The relevant stakeholders’ performance expectations are also important to achieving legitimacy (Kostova & Zaheer, 1999). Choosing whose expectations to meet depends on the power a stakeholder has over an organisation’s legitimacy. Therefore, managing the relationship with this stakeholder is a key factor in achieving legitimacy. For example, Ahlstrom et al., (2008) state that to gain legitimacy in China, a company must establish a relationship with the local government because of its power to shape an organisation’s reputation.

Organisational reputation can also influence legitimacy by creating a particular image of that organisation (Bitektine, 2011; Suchman, 1995; Rao, 1994). Further, reputation can enable MNEs to develop relationships with key stakeholders. Some scholars argue that reputation and legitimacy should be separated to gain deeper conceptual understanding of organisational legitimacy, but the two concepts are closely interrelated (Bitektine, 2011; Rao, 1994). For example, a strong reputation can enhance strategic practices by deviating from standard practices and remaining legitimate. Reputation can also contribute to attaining different types of legitimacy—for example, when an organisation is striving to achieve normative legitimacy, a strong reputation for transparency and accountability is necessary (Deephouse & Carter, 2005). Both concepts allow for an examination of organisational behaviour, which is executed through the process of judgement by relevant stakeholders (Bitektine, 2011). Reputation is complementary to organisational legitimacy and judgement because it contributes to building an organisation’s image in a particular market (Rao, 1994).
Another factor that can influence organisational legitimacy is the legitimisation process, which is referred to as “the process through which legitimacy is achieved” (Kostova & Zaheer, 1999, p. 73). The legitimisation process is influenced by the institutional environment as well as organisations. The institutional environment defines the rules and regulations that organisations must follow, which, to an extent, shapes the way organisations operate and are perceived by external actors (Bitektine & Haack, 2015). An organisation can influence the legitimisation process by incorporating existing rules and regulations into internal practices (Drori & Honig, 2013). The legitimisation process is complex because of its social and cognitive nature. Organisations operating in a particular legal field will need to obey the existing rules and regulations relevant to the field that organisations operate in. Depending on the development of the institutional environment, they may have to adjust any standards that do not fit with the existing internal practices (Drori & Honig, 2013). Organisations can employ various strategies to overcome legitimisation issues in domestic and foreign markets, which I discuss in the next section.

3.5.3 Strategies to Achieve Organisational Legitimacy

Another stream of IB literature on legitimacy focuses on how organisations achieve legitimacy. Many scholars state that organisations achieve legitimacy through isomorphism—that is, by adopting their practices, structures and norms to those of the institutional environment (Aldrich & Fiol, 1994; Bitektine & Haack, 2015; Deephouse, 1996; DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Meyer and Rowan (1977) introduced the notion of institutional isomorphism, where formal rules and routines within an organisation are governed by the wider institutional environment. To achieve legitimacy and gain access to necessary resources, organisations must become isomorphic with the institutional environment in which they operate (Meyer & Scott, 1983). Therefore, organisational legitimacy can be achieved by conforming to the existing institutional environment. DiMaggio and Powell (1983) identify three mechanisms that, in practice, should induce isomorphic change in organisations: coercive, normative and mimetic. Isomorphism can “make organisations more similar without necessarily making them more efficient” (DiMaggio & Powell, 1983, p. 147). Coercive isomorphism arises from political influence, where MNEs depend upon other actors for strategic resources. A clear example of coercive isomorphism is when the government can secure funding for an MNE and, in return, the MNEs has to adapt its practices to support a country’s economic development (Rottig, 2016). Coercive isomorphism leads an organisation to conform to the regulatory environment.

Normative isomorphism can emerge from within an organisation and its authority to control how it conforms to established norms, standards and practices (DiMaggio & Powell, 1983). Normative isomorphism is driven by professions within the organisation, which can create misalignments.
between internal and external legitimacy, causing the organisation to undertake illegitimate activities (Greenwood et al., 2002. Mimetic isomorphism occurs when organisations learn from and imitate the strategies of existing organisations to succeed in the market. However, imitating strategies is problematic because it does not allow for new ideas and practices to emerge (Greenwood et al., 2002). Further, because organisational attributes differ and are important to achieving organisational legitimacy (Greenwood et al., 2011), mimicking one organisation’s behaviour may not be a suitable strategy.

Conformity through isomorphism restricts organisations’ strategic choices, because all three types of isomorphism imply some degree of following the host market’s rules (Zimmerman & Zeitz, 2002). Kostova et al. (2008) propose that there is limited isomorphism in MNCs because of their multiplicity and ambiguity. Since MNEs operate in diverse institutional environments, the institutional pressures they face differ, and each sub-unit can, to some extent, select the strategies for adapting organisational practices and responding to institutional pressures (Kostova et al., 2008). Parent companies often impose certain obligations as to what practices can or cannot be adopted, because a sub-unit’s legitimacy in a particular country can affect MNEs’ legitimacy in other markets (Spencer & Gomez, 2011). To address the challenges to achieving legitimacy, MNEs can use several strategies.

Communication strategies can enhance organisational legitimacy when information flows are managed between the company and key actors (Suchman, 1995; Suddaby & Greenwood, 2005). This allows the company to balance external and internal legitimacy, depending on which type it aims to achieve. Communication is an important element of the legitimation process because it enables MNEs to manage actors’ judgement (Bitektine & Haack, 2015). MNEs achieve this by controlling the information actors receive, which can negatively or positively affect organisational legitimacy judgement (Bitektine & Haack, 2015). For example, if an MNE adopts corporate social responsibility practices, this creates a positive perception of it on the part of external actors (Zheng, Luo, & Maksimov, 2015). A negative effect can emerge as a result of an MNE’s involvement in corruption, which can destabilise its legitimacy and market operations (Kostova & Zaheer, 1999; Pfarrer, Decelles, Smith, & Taylor, 2008). Control of information cannot be guaranteed, and how MNEs are regarded can be communicated verbally through the media or through non-verbal actions, such as selecting the right environment and manipulating external actors’ perceptions (Bitektine & Haack, 2015; Suchman, 1995).

Environment selection is another strategy that can enable organisations to achieve legitimacy (Suchman, 1995). It involves selecting the most favourable environment in which an organisation can operate as it is, without adjusting any of its practices (Zimmerman & Zeitz, 2002). This is
possible when the MNE is familiar with the rules, norms and regulations of a host market and enters it with the right product (Suchman, 1995). However, MNEs need to acquire knowledge about the logic behind developing the institutional environment of a particular market, as this can enable MNEs to interpret the existing rules and regulations and make a more informative selection decision.

Manipulating the organisation’s perception is another legitimation strategy, and entails changing the environment to attain consistency between the organisation’s needs and the environment (Zimmerman & Zeit, 2002). It is described as an anticipated and purposeful intervention to develop and influence specific institutions to support an organisation’s operations (Dowling & Pfeffer, 1975; Oliver, 1991; Suchman, 1995). Manipulation requires departure from existing norms, and is influenced by innovative organisations that require existing institutions to be altered (Suchman, 1995; Zimmerman & Zeit, 2002). Organisations manipulate the environment by influencing the relevant actors’ perceptions (Bitektine & Haack, 2015)—for example, by becoming part of a trade association or entering into partnerships with local investments, which can affect the manipulation of institutional logics (Suddaby & Greenwood, 2005; Pache & Santos, 2010). This can also help enhance external legitimacy without adapting organisational practices (Xu & Shenkar, 2002). Manipulation is the most strategic legitimation strategy, because it is purposeful (Zimmerman & Zeit, 2002). However, the choice of strategy depends on an MNE’s objectives.

3.6 Linking Intra-Institutional Complexity and External Organisational Legitimacy

MNEs operate in multiple institutional environments. Therefore, their legitimation strategies may differ in domestic and foreign markets (Kostova et al., 2008). The focus in IB literature is on legitimation strategies in foreign markets (Ahlstrom et al., 2008; Diez-Martín et al., 2013; Li, Yang, & Yue, 2007). To achieve external legitimacy, MNEs must handle domestic institutional complexity, which is influenced by the relationships between governments, MNEs and institutional interplay (see Figure 3.4).
The relationship with a home government is an important component of institutional complexity and affects an organisation’s external legitimacy (see Figure 3.4). This is because the government sets the regulations for MNEs, and develops mechanisms to ensure that those regulations are followed (Ahlstrom et al., 2008; Boddewyn, 2016; Scott, 1995). Legitimacy can be achieved when an organisation adopts the established mechanisms to meet regulations to the required standards (Zimmerman & Zeitz, 2002). However, not all regulations and/or their implementation mechanisms are efficient because of the costs associated with their implementation (Malesly & Taussig, 2016). Hence, MNEs may perform illegitimate activities to achieve legitimacy (Elsbach & Sutton, 1992). If MNEs have a cooperative relationship with the government, that government can conceal their illegitimate actions and positively influence MNEs’ legitimacy (Ahlstrom et al., 2008; Luo et al., 2017). This puts MNEs in a vulnerable position, because they have engaged in exchange-based relations with the government based on favours for covering up their inappropriate behaviour.

MNEs engage in pluralistic relationships with government officials at different levels to achieve legitimacy (Ahlstrom et al., 2008; Luo et al., 2017). Those governments may have different goals, which impose more institutional pressures for MNEs (Kraatz & Block, 2008; Pache & Santos, 2010). The types of relationships that an MNE develops with governments can influence its reputation and external legitimacy (Deephouse, 1996). The central government has the ability to alter important stakeholders’ perceptions of the MNE via the media by indicating, for example, that the MNE decouples from established regulations (Luo et al., 2017). To avoid this, an MNE must maintain a cooperative relationship with the central government. The local government can help an MNE create a positive image at a regional level in exchange for the MNE participating in the region’s economic...
development (Luo et al., 2017). Managing relationships across different government levels is a complex process, and MNEs must be strategic in their choices.

Achieving organisational legitimacy is influenced by organisational attributes such as positioning in the field, performance and institutional knowledge (Kostova et al., 2008), which are also important for dealing with domestic institutional complexity (Greenwood et al., 2011; Luo et al., 2017). Organisalions may use their position and performance in the domestic market to gain access to strategic resources, including financial support and networks (Meyer & Scott, 1983). Position and performance can enhance MNEs’ reputation in a foreign market and thus affect their external legitimacy (Deephouse, 1996; Suddaby & Greenwood, 2005). Organisations must manage their domestic market position so that it enhances their reputation in a foreign market. This leads to a more challenging legitimization process, as different actors in various countries can perceive reputation in different ways (Bitektine & Haack, 2015). Therefore, the knowledge about the markets in which MNEs operate is crucial to managing the legitimization process.

Knowledge of institutional infrastructure is another integral organisational attribute for navigate intra-institutional complexity and achieving external legitimacy (Sewell, 2005). It can be a powerful tool that MNEs can use to their advantage by controlling knowledge flow, which can significantly affect their reputation in a foreign market (Deephouse, 1996; Rottig, 2016). If an MNE has substantial knowledge of formal and informal institutions and how to use them to achieve legitimacy, actors in a foreign market will often cooperate (Drori & Honig, 2013). Understanding the home institutional environment is essential for dealing with institutional complexity. Drori and Honig (2013) state that knowledge of home institutions can help MNEs determine which knowledge is required about a host market to achieve legitimacy. Organisations can thus use their attributes to enhance external legitimacy by developing relationships with appropriate actors.

The institutional complexity of the domestic environment that MNEs must address with has a substantial influence on an MNE’s external legitimacy. The relationships an MNE has with governments at different levels also dramatically affects their foreign activities and external legitimacy (Boddewyn, 2016; Luo et al., 2017; Wang et al., 2012b). Navigating domestic institutional complexity makes achieving external legitimacy more difficult, because MNEs must not only manage their relationships with domestic governments, but must also create positive perceptions of themselves in foreign markets. This is interesting in case of Russia, because the Russian federal government is often perceived internationally as controlling and pushing its political agenda by internationalising Russian MNEs. Despite the government’s negative reputation, Russian MNEs still manage to internationalise and gain positive external legitimacy by forming relationships with the Russian Government at different levels and using their organisational attributes. The way Russian
MNEs navigate the domestic institutional environment and achieve external legitimacy requires further investigation, because their relationships with the government are dynamic and evolving, depending on their capabilities and objectives.

3.7 Chapter Summary

In this chapter, I have provided an overview of institutional theory in the IB discipline, in which I position my study. To examine the government’s role in the internationalisation of Russian MNEs, particularly how they gain external legitimacy, political science literature provides valuable insights. Therefore, borrowing relevant concepts from political science can enhance knowledge of institutional theory in IB.

When institutional theory is used in IB, it examines the nature of organisations, with the focus on how organisations operate in different institutional environments (Hotho & Pedersen, 2012; Scott, 1995). Organisational attributes are used to examine behaviour of organisations in a particular institutional environment via strategic analysis (Oliver, 1991; Scott, 2001). Organisations’ strategic behaviour through the institutional theory lens is studied predominantly at the individual and organisational level because it helps establish the strategic choices those organisations make. Political science literature emphasises the fact that the government is the key actor in developing the political environment, and it focuses on examining the nature of the state as opposed to that of organisations (Allee & Huth, 2006; McDonough et al., 1986). Political science aims to analyse the political environment at the national level. Table 3.7 summarises the key IB and political science contributions to institutional theory that are relevant to my study.

Another distinct contribution both disciplines make to institutional theory is their treatment of state and government. Both terms are often used interchangeably in IB, but political science literature makes a clear distinction between them, contending that the government is a group of people who govern the state and develop formal institutions that set boundaries for organisations (Willoughby, 1911). This is important for my thesis because the Russian Government plays an active role in developing the domestic institutional environment and operations of Russian MNEs.
### Table 3.7: Summary of institutional theory in IB and political science

<table>
<thead>
<tr>
<th><strong>International business</strong></th>
<th><strong>Political science</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Institutional theory</strong></td>
<td></td>
</tr>
<tr>
<td>Examines the nature of organisations</td>
<td>Examines the nature of states</td>
</tr>
<tr>
<td>Focus on institutional environment</td>
<td>Focus on political environment.</td>
</tr>
<tr>
<td>Focus on strategic analysis</td>
<td>Focus on political analysis</td>
</tr>
<tr>
<td>Predominantly organisational and individual levels of analysis</td>
<td>Mainly national level of analysis</td>
</tr>
<tr>
<td><strong>State and government</strong></td>
<td><strong>State vs government</strong></td>
</tr>
<tr>
<td>State and government are used interchangeably</td>
<td>State and government are seen as separate entities</td>
</tr>
<tr>
<td><strong>Formal and informal institutions</strong></td>
<td></td>
</tr>
<tr>
<td>Recognition that formal and informal institutions co-exist</td>
<td>Acknowledge that informal institutions affect political system as a whole</td>
</tr>
<tr>
<td>Focus on formal and informal institutions separately</td>
<td>Focus on formal institutions</td>
</tr>
<tr>
<td><strong>Legitimacy</strong></td>
<td></td>
</tr>
<tr>
<td>Focus on organisational legitimacy</td>
<td>Focus on political legitimacy of governments</td>
</tr>
<tr>
<td>Focus on the notion of judgement by various actors</td>
<td>Focus on the notion of judgement by the public</td>
</tr>
</tbody>
</table>

Both disciplines acknowledge the importance of formal and informal institutions. Examining formal institutions dominates political science literature, where the political system is examined through regulations and how they change (Evans, 1995). However, political science scholars acknowledge that informal institutions influence the development of a political system (Helmke & Levitsky, 2004; Tsai, 2006). In IB, the focus is on formal and informal institutions as separate entities, but there is recognition that both institutions co-exist and influence each other. Both disciplines recognise that formal and informal institutions are not mutually exclusive, and that their interactions shape the development of the institutional environment, which is a vital point for my thesis.

Legitimacy is another concept that both disciplines address in relation to institutional theory. IB primarily examines organisational legitimacy, and political science explores the political legitimacy of the government and the state. Organisational legitimacy is viewed as key actors’ judgement and evaluation of a company’s actions (Deephouse, 1996; Suchman, 1995). These organisations engage in various strategies to gain and maintain legitimacy (Bitektine & Haack, 2015; Suchman, 1995; Suddaby & Greenwood, 2005). Government legitimacy is judged by the public and their perception of the government’s ability to make decisions that carry social benefits (Crook, 1987; Gilley, 2006).
Both disciplines provide important insights for my thesis. The government’s role in creating institutional infrastructure for MNEs is significant, and acknowledged by both disciplines (Boddewyn, 2016; Peters, 2012; Scott, 2008). Russian MNEs can achieve external legitimacy, but foreign markets’ perception of the Russian Government can substantially influence how these MNEs gain legitimacy.

While I position my study in the IB discipline, borrowing from political science offers valuable insights into the two key concepts of formal and informal institutional interplay and legitimacy. To examine the Russian Government’s part in MNEs’ internationalisation, it is crucial to understand the influence of the government and MNEs in the development of formal and informal institutions. Therefore, insights from both disciplines enable me to answer my research questions and make a meaningful contribution to institutional theory in the IB discipline.
Chapter 4: Methodology

This chapter outlines my research methodology. I first explain the research paradigm and justify the choice of qualitative research as an appropriate method. The development of the Russian institutional environment determines the relationships between MNEs and different government levels—as a result, understanding context-specific nuances is integral to my thesis. The main advantages for choosing qualitative research are the ability to engage in-depth descriptions of theoretical concepts and the relationships between them in a specific context. In this study, it also enabled me to tell participants’ complete stories from their perspective. The ability to explore the connections between different concepts is also an advantage, as it can potentially lead to gaining deeper knowledge about how organisations operate.

I then explain why qualitative case studies are important to my thesis. I explain the types of case studies and justify the appropriateness of multiple case studies for examining the relationships between MNEs and different government levels. Because case-study selection is not a linear process, I provide a detailed examination of multilevel case-study selection, which resulted in 12 MNEs participating in my study.

Next, I describe the cases. The names of all cases and participants in this study are pseudonyms to ensure confidentiality. I then explain my access to the field, Phase 1 of the research process (Figure 4.1 shows a timeline that illustrates the entire research process). I examine the challenges I have faced in accessing the field: sensitivity of the topic, translating from English to Russian in research, Russian MNEs’ secretaries as gatekeepers and being an insider in research. Before entering the field, I developed an interview guide. I refer to Phase 1, access to the field (January – June 2014), as access to the field. Between January and March 2014, I developed the interview themes based on my research questions and ethics application process.

Phase 2 was Field Trip 1, which took place from July to September 2014. As a result of this trip, I conducted primary data collection: 55 semi-structured interviews, observations and reflective field notes. I justify using the three methods by examining the convergence and divergence following triangulation of the different methods; the choice of methods was based on my research paradigm and theory. I then discuss the interplay between theory and method by examining the methodological fit between my philosophical assumptions, research questions, institutional theory, method and methodology. I evaluated and examined these data-collection methods during my research; in this chapter, I explain in detail the amendments I had to make to the interview guides and justify these based on the translation and perception of specific words (e.g., questions, investigation and government) used by participants. I exited the field at the beginning of September 2014.
Phase 3 of the research process was first stage of the data analysis and reflection on Phase 2, and took place from September 2014 to February 2015. During this phase, I transcribed and translated the interviews undertaken during Field Trip 1; the data are analysed in Chapter 6. As a result of reflecting on my data collection, I realised that I exited the field abruptly. Despite obtaining rich data, I felt obliged to return to some participants because I had left the field without reinforcing established relations, which was disrespectful, because Russian people appreciate relational as opposed to contractual relationships. Hence, I reconnected with a number of participants. This was Phase 4 of the research process, Field Trip 2 (see Figure 4.1). This field trip took place between 8 February and 11 March 2015. During this trip, I met with some participants in an informal setting, which is different to formal interview setting during field trip 1. I examine these specificities in the section 4.7, where I explain the exit from the field based on my two field trips.

Finally, I conclude this chapter by discussing the interplay between theory and method, which is crucial to choosing an appropriate methodological fit (Edmondson & McManus, 2007) and producing high-quality research (Johns, 2017).
4.1 Interpretivist Research Paradigm and Justifications for Choosing Qualitative Research Approach

Understanding the philosophical foundations of social research is essential when examining the studied phenomenon and choosing a study method (Morgan & Smircich, 1980; Ritchie, Lewis, Nicholls, & Ormston, 2013). The nature of social reality and adoption of philosophical stance provides guidance for selecting a study’s methodology (Crotty, 1998). A paradigm is defined as “a set of basic beliefs that deals with ultimates or first principles” (Guba & Lincoln, 1994, p. 107). The basic beliefs defining a research paradigm can be summarised by the concepts and questions associated with the ontology, epistemology, methodology and methods (Eriksson & Kovalainen, 2015; Ritchie et al., 2013). Table 4.1 presents the overview of my research paradigm.

Positivists view reality as independent from human interactions, which limits the researcher’s understanding of the studied concepts, and their meaning (Cunliffe, 2010; Guba & Lincoln, 1994). This also makes general data inapplicable to individual cases, because positivist inquiry is deductive (Piekkari, Welch, & Paavilainen, 2009). Conversely, inductive inquiry accounts for local context, whereby the meaning of the data is socially constructed (Crotty, 1998; Guba & Lincoln, 1994).

My paradigmatic assumption is inductive, which is illustrated in Table 4.1. I interpret the meaning of the data based on the notion that reality is socially constructed. My ontological assumption is subjectivist. The subjectivist sees reality as socially constructed; its meaning evolves in social settings (Eriksson & Kovalainen, 2015; Gioia, Corley, & Hamilton, 2013, Popper, 1959). I understand reality as based on my participants’ experiences and perceptions; I examined the existence and meaning of the relationships between the federal government, the regional government and Russian MNEs in light of this notion. These relationships are socially embedded and do not evolve independently of context, which is essential to understanding organisations’ domestic and international activities (Gummesson, 2006; Johns, 2017; Kostova et al., 2008). Examining the contextual factors of Russia’s institutional environment, particularly formal and informal institutions, yields nuanced knowledge of how Russian MNEs respond to institutional complexity by using their relationships with federal and regional governments. The different contributions these governments make to Russian MNEs gaining legitimacy is based on the development of Russia’s institutional environment.
Table 4.1: The thesis research paradigm

<table>
<thead>
<tr>
<th>Paragmatic assumption</th>
<th>Underlining assumptions and their overview</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inductive: the reality emerges from the data.</td>
<td>Social constructivism: the meaning of reality is socially constructed.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ontology: Nature of reality</th>
<th>Social constructivism: the meaning of reality is socially constructed.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The reality emerges from the data.</td>
<td>Subjectivist: reality is context-dependent. I see reality based on the perspective of my observation and fieldwork. The nature of reality regarding the Russian Government’s role is based on development of Russia’s institutional environment.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Epistemology: Nature of knowledge</th>
<th>Interpretivist: knowledge is constructed based on the perspectives and social factors of the participants.</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Methodology</th>
<th>Qualitative: gaining knowledge about the relationships between the federal government, regional government and MNEs. Discover new concepts and links between them.</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Role of the researcher</th>
<th>All interpretations of the data are based on the participants’ answers and my understanding of the world and reality.</th>
</tr>
</thead>
</table>

Adapted from Gephart (2004), Guba and Lincoln (1994).

My epistemological stance is interpretivist—I examined the nature of knowledge from the perspective of the study participants. Inductive research allowed me to gain a holistic view of my phenomenon (Gioia et al., 2013; Miles, 1979)—that is, how government at different levels affect the legitimacy of Russian MNEs in foreign markets. The participant perspectives on the government’s involvement in the operations of Russian MNEs were influenced by social factors in which those participants had been embedded during their upbringings and professional lives, including the changes in their professional positions within or between MNEs and their status in society.

To address the research questions, I employed qualitative methodology. I chose the concrete concept of formal and informal institutional interplay to investigate the relationships between the government and MNEs. The ability to use in-depth descriptions of theoretical concepts and the relationships between them in a particular context is one advantage of qualitative research (Barr, 2004). Qualitative methodology allowed for examination and interpretation of how MNEs use these relationships to deal with institutional complexity in Russia, because the meaning of the collected data was based on my interpretations of the reality formed by the participants’ points of view.

Conducting qualitative research in Russia gave me an opportunity to engage in formal and informal interactions with the participants. Being an interpretivist and subjectivist facilitates disciplined
reflexivity (Weick, 1999), whereby I could accept being subjective, yet avoid falling into the trap of taking for granted the existing theoretical assumptions during data collection and interactions with participants. Reflexivity allowed me to embrace my subjective views during and after data collection.

Qualitative research enables a more intimate engagement with accumulated knowledge and data (Denzin & Lincoln, 2000). Van Maanen (1979) describes qualitative research as “an umbrella term covering an array of interpretive techniques which seek to describe, decode, translate and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena in the social world” (p. 520). Qualitative research is a “meaningful representation of concepts” (Gephart, 2004, p. 455) and analysis of the processes included in the research project (Pratt, 2009). It is not just a set of techniques to gather data, but a way of approaching the empirical world (Taylor, Bogdan, & DeVault, 2015).

The interpretive nature of qualitative research enables the researcher to be integrated into the real world during the research process to make sense of the subject of interest (Denzin & Lincoln, 2000). The foundation of qualitative research is the interpretivist approach and the intimate relationship between researcher and the participants (Carey, 1989). This relationship forms over time and is based on the complexity of human experiences (Dwyer & Buckle, 2009; Taylor, 2013). The research experience evolves as a result of close interactions between the researcher and participants, which helps them accumulate knowledge about one another and makes the relationship more intimate (Taylor, 2013). The role of qualitative inquiry is not to undermine the foundations of quantitative research, but to add knowledge and link inquiry to the real world in a specific context (Greenwood & Levin, 2000). Employing qualitative research allowed me to interact closely with participants and gather knowledge about their experiences in dealing with institutional complexity in Russia, and their relationships with the Russian Government. I could then draw on context-specific knowledge and make sense of the way the 12 MNEs that participated in this study used their relationships with the government to deal with institutional complexity and gain external legitimacy.

4.2 Qualitative Multiple-Case Study

MNEs are complex organisations that operate in multiple environments, thus adding to institutional complexity (Greenwood et al., 2011; Roth & Kostova, 2003; Saka-Helmhout et al., 2016). How each MNE deals with this institutional complexity differs and depends on actor-specific relationships. For example, an MNE in a strategic industry may have a cooperative relationship with the government which can help the MNE to deal with institutional complexity, however the level of government involvement in its foreign operations is higher (Wang et al., 2012b). Relationships between governments and MNEs can change over time and have various implications for MNEs’ operations. Kostova et al. (2008) suggest that scholars should study and carefully consider special MNE cases,
because MNEs engage in manipulation and negotiations with specific actors to achieve and maintain their legitimacy. Examining how the relationships between MNEs and governments develop can lead to understanding of how MNEs deal with institutional complexity in Russia and gain external legitimacy.

Case study is a popular research method in IB (Marschan-Piekkari & Welch, 2011; Prasad, 2005; Thomas, 2011; Welch & Piekkari, 2017). It facilitates in-depth understanding of the research phenomenon and its context (Gibbert & Ruigrok, 2010; Stake, 2013). Cases are generally chosen to provide theoretical insights and elaboration (Eisenhardt, 1989; Eisenhardt & Graebner, 2007), which may include “revealing uncommon phenomenon, replacing and confirmation of findings from other cases, contrary replication, elimination of alternative explanations and elaboration of the emergent theory” (p. 27). These criteria set somewhat concrete parameters for using case studies. I undertake theoretical elaboration of institutional theory, especially how MNEs use institutional interplay to deal with institutional complexity and gain external legitimacy. My thesis contributes to the literature on institutional legitimacy, particularly how each type of institutional interplay affects the external legitimacy of MNEs from EEs.

There are two types of multiple-case study: holistic and embedded (Yin, 2014). A holistic multiple-case study implies that the cases exist in one context, and they are seen as a whole. An embedded multiple-case study allows for differentiation between the units of analyses, thus fostering a more nuanced level of inquiry (Yin, 2014). Moreover, it allows for multiple methodology sources—for example, interview, documentation and observations. I used embedded multiple-case study to draw generalisations from the collected data and examine the differences between the various units.

I employed 12 multiple-case studies, because this established a powerful foundation for exploring the research questions (Eisenhardt, 1989; Yin, 2014) and for replicating, contrasting and extending an existing theory (Myers, 2013). The 12 cases are from four different industries: metallurgical (eight cases), machine-building (two cases), nuclear power (one case) and agriculture (one case). Having 12 cases allowed me to draw some generalisation from the data, and undertake a detailed examination of circumstantial factors applicable to each industry.

Further, multiple-case studies enable identification of themes among the cases, which creates a higher level of data reliability (Stake, 2013). While there is some degree of generalisation permitted for multiple-case studies, it is also useful to understand and generate knowledge about each case separately as well as together (Baxter & Jack, 2008). I analysed the findings from each case and across cases to examine the relationships between MNEs and governments in different industries and how MNEs use these relationships through institutional interplay to facilitate external legitimacy.
4.2.1 Case-Study Selection Criteria

There are several case-study selection criteria, including theoretical, critical, selective, snowball and random purposeful samplings (Eisenhardt, 1989; Guba & Lincoln, 1994; Patton, 2002; Sandelowski, 1995). Traditionally, each case must “(a) predict similar results (a literal replication) or (b) predict contrasting results but for anticipated reasons (a theoretical replication)”, and their selection was based on the unit of analysis, research questions, ontological stance and theories (Yin, 2014, p. 57). These criteria are based on positivist notions and do not permit the possibility of novel discovery, which is a key characteristic of qualitative research (Denzin & Lincoln, 2000).

Before entering the field, I identified two criteria for potential study participants. First, an MNE had to operate in several regions in Russia. The MNE was my unit of analysis, which is clearly presented in the main research question, and my empirical units were the participants: chief executive officers (CEOs), chief financial officers (CFOs) and senior and middle managers (Ragin, 1992). Carefully choosing the unit of analysis and empirical units is crucial, because the relationship between the participants and the government is influenced by MNEs’ development, which affects the way each MNEs uses its relationships with federal and regional governments. Further, the involvement of the regional government depends on the importance of the industry to a particular region. For example, the Ural region is the capital of the metallurgical industry in Russia—thus, the regional government plays an active role in developing MNEs in this industry, while the federal government is interested in the region’s development, but does not involve itself in MNEs’ everyday operating activities. Based on this first criteria, I performed data collection at Central Federal District and Urals Federal District and in the regions with the highest OFDI engagement: Moscow, Sverdlovsk and Chelyabinsk.

The second criterion was that MNEs had to have some form of relationship with the government. It is known that the government becomes involved in MNEs’ operations to a degree (Boddewyn & Brewer, 1994). This information is not always publicly available, because MNEs must nurture these government relationships and often keep them private (at least partly) to gain favours. Larger MNEs, especially those in strategic sectors are more transparent about this than smaller ones because they are more exposed to media attention. Prior to choosing the MNEs, I gained information via Russian media, where available, about the Russian Government’s involvement in MNEs’ operations. This information is often abstract, which is why I engaged in multilevel case-study selection, which allowed me flexibility in selecting the MNEs.
4.2.2 Multilevel Case-Study Selection Approach

I adopted multilevel case-study selection for my study. This approach is often used for multiple-case studies because the field is never static, and researchers must adapt to this (Fletcher & Plakoyiannaki, 2011; Lofland & Lofland, 2006). Figure 4.2 illustrates the three levels of selection approach that occurred prior to fieldwork, and the three levels that evolved after commencing fieldwork. Fletcher and Plakoyiannaki (2011) posit that a multilevel approach is appropriate for investigating an embedded international phenomenon such as MNEs. It does not remove the complexity from case selection, but does make it more strategic and flexible. Being strategic allows for greater generation of rich knowledge (Flyvbjerg, 2006).

Levels 1, 2 and 3 occurred prior to fieldwork, as illustrated in Figure 4.2, and decisions were based on critical analysis of the literature and positioning of the study within the academic conversation about conducting research in EEs. I chose Russia for my study because it is one of the fastest developing EEs, and has become a player in the global economy (Panibratov, 2012). I then chose a manufacturing industry (Level 2, Figure 4.2) because it was not a strategic sector and featured an interesting evolution of the relationship between MNEs and the government before and after the collapse of the Soviet Union. Since many MNEs in this sector were privatised in the early 1990s, the government’s role in their domestic and international activities has changed.

Figure 4.2: A multilevel approach to case-study selection

Adapted from Fletcher and Plakoyiannaki (2011).
Level 3 was potential MNEs. The initial selection began with selective sampling (Sandelowski, 1995), where I chose two MNEs prior to data collection. One MNE responded and agreed to participate, but the second did not respond to my email or follow-up phone calls. Despite the first MNE agreeing to participate before I entered the field, I met with a senior manager from this MNE when I arrived in Russia to confirm their participation, because Russian people prefer face-to-face communication. During this first meeting, the manager advised me of businesspeople in the Sverdlovsk region who could be open to help with access to MNEs. I gained secondary information via the internet about these people and identified three who could have had solid knowledge of my topic. I contacted them, and they were interested in helping me. I then undertook three preliminary interviews with these participants.

As a result of the preliminary interviews, I selected four industries for the research: metallurgical, machine-building, nuclear power and agriculture. These industries experienced restructuring after the collapse of the Soviet Union, which influenced the roles of the federal and regional governments. The governments’ interest in developing these industries changed following privatisation. Interest remained high in nuclear power because it is a strategic industry, but decreased in metallurgical, machine-building and agriculture because they were privatised. However, MNEs from these industries maintained their relationships with the government despite the restructuring. The relationships between MNEs and the government in these four industries thus differ because of the government’s levels of interest. Hence, the way MNEs use their relationships to deal with Russia’s institutional environment and gain external legitimacy also differs. Examining MNEs from four different industries facilitates understanding of how their relationships with the government evolve and affect their operations.

Having identified the industries, I then identified 18 MNEs in these industries (Level 4, Figure 4.2). Being physically present in Russia made it easier to establish contact with them. I initially did this via email, where available, and via the phone numbers provided on the companies’ websites. I did not receive any replies back via email, which can be explained by the fact that the emails given on the companies’ websites went directly to secretaries, who presumably ignored them because they did not see the importance of academic research. During a conversation I had with one secretary after an interview with the CEO of SV-Pipes, she stated that she did not know what scientific research was. When I explained to her that I was studying in New Zealand and told her what my thesis was about, she was more comfortable talking to me and continued communicating with me afterwards. In a number of cases, when I called the secretaries, they said that no one would talk to me. I asked the three participants during preliminary interviews to provide me with contacts they had in these companies. After two weeks in fieldwork, I gained access to 12 MNEs that agreed to participate in my study via contacts given to me as a result of the preliminary interviews.
The MNEs from these four industries are unique in the ways they use formal and informal institutional interplay to respond to the complexity of Russia’s institutional environment. Their relationships with the federal and regional governments vary significantly, and their external legitimacy is largely shaped by their associations with the government. This was particularly clear from the sources of evidence, including interview respondents, observations and reflective field notes (Level 5, Figure 4.2). I provide a detailed explanation of these sources in section 4.6.

4.3 Description of Cases

Qualitative description is a comprehensive summary of a phenomenon, and of events in their everyday settings (Sandelowski, 1995). Providing an in-depth case description is crucial in qualitative research because it accounts for contextual factors (Eisenhardt, 1989), and can enhance understanding of those contextual factors and the unique characteristics of studied subjects (Yin, 2014. Describing cases is important to my thesis because it enabled me to examine the development of the relationships between MNEs and the federal and regional governments. I based my case descriptions on the following criteria: the region in which the MNEs are located, their founding year, their industry, the number of employees, their international activities and the foreign markets in which they operate (see Table 4.2). The names of all participating MNEs are pseudonyms to protect their confidentiality.

Case 1: SV-Bronze

SV-Bronze is located in the Sverdlovsk region and was established in 1942. The Ural region was and still remains the capital of the metallurgical sector because of its large surplus of special metals. The government plays an active role developing this sector, because its MNEs support Russia’s geopolitical and social goals.

This MNE employs 2000 employees and has production sites in four different Russian cities. The company specialises in producing and processing copper. Its product portfolio includes extruded and drawn round bars; foundry alloys and ligatures; powders; and cable products.
Table 4.2: Case description

<table>
<thead>
<tr>
<th>Case</th>
<th>SV-Bronze</th>
<th>SV-Aluminium</th>
<th>SV-Cookware</th>
<th>CH-Pipes</th>
<th>SV-Supply</th>
<th>SV-Bells</th>
<th>SV-Service</th>
<th>SV-Cable</th>
<th>SV-Trailer</th>
<th>SV-Generator</th>
<th>CH-Fan</th>
<th>MS-Dairy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of interviews</td>
<td>7</td>
<td>14</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>1</td>
<td>2</td>
<td>4</td>
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The main types of international activities SV-Bronze carries out are export and sales and marketing offices overseas. The company began its exports to CIS countries in the late 1990s and then expanded its operations to Central Europe and the US. The company’s international expansion is associated with its access to financial resources from a Holding Group, which was established in 1990. After privatisation, the government, together with MNEs in this sector, developed two programs with the aim of realising and optimising the metal industry. The first program was ‘technical restructuring and development of metallurgical sector in Russia between 1997–2005’, and the second was ‘Development of ore resource base in the Russian metallurgy between 1997 and 2005’. As a result, in 2007, SV-Bronze became part of the Holding Group, which enabled the MNE to engage in aggressive internationalisation.

**Case 2: SV-Aluminium**

SV-Aluminium is located in the Sverdlovsk region and was established in 1932 by the Soviet Ministry of Aviation with the aim of supplying the Soviet military with aviation production. The MNE employs about 5,000 people and has three production facilities situated in one site in Sverdlovsk. The company is one of the leading manufacturers of semi-finished aluminium products in Russia.

SV-Aluminium began its exports in 1997. Its international activities include exporting to Central Europe, the US, Latin America and the Asia-Pacific, through it has sales and marketing offices in Moscow, Switzerland, China and the US. In 2007, it also became part of the Holding Group as a result of the restructuring of the industry. Being part of the Holding Group enabled the MNE to invest in enhancing its operations domestically and internationally.

Further, SV-Aluminium has moved from purely manufacturing for military aviation to civil aviation, machine-building, oil and gas and ship-building. It supplies a number of semi-finished products to the US military aviation sector, which is accomplished through direct interactions between its New York office and the US Government. The supply of products to Boeing and Airbus is more complex, because the company does not directly supply to these companies, but to its suppliers, who then assemble the finished products. Consequently, SV-Aluminium has less control over its supply chain, which has caused trouble for the Russian Government in several cases in relation to dual-use goods.

**Case 3: SV-Cookware**

SV-Cookware is located at the same site as SV-Aluminium and was established as a separate legal entity in 2000. Before 2000, it was part of SV-Aluminium. Although SV-Cookware is a separate
entity, it belongs to the same management company as SV-Aluminium. As a result of the restructuring of the metallurgical industry in 2000s, SV-Cookware became part of Siberian-Urals Aluminium Company, which invested two million euros in modernising the company’s production equipment. This enabled SV-Cookware to open another production site in the Moscow region and update its products to meet European standards. Across both sites, the company employs about 1,000 people, who are trained by a European company. The site is robotised as much as possible, and employees can oversee the manufacturing process and ensure that there are no faults in the products.

The company has become a Russian cookware trademark, specialising in homewares and commercial kitchen goods. The range of products includes non-stick aluminium ware, ceramic-coated ware and uncoated aluminium cookware. To ensure that the product standards and quality are high, the company imports around 60% of its materials from Europe, mainly Italy, and exports goods to Central and Eastern Europe. The company investors reside in Italy and use its relationships with local suppliers to enhance its international activities in Europe. Interestingly, the investors have another production site about two kilometres away from SV-Cookware, although it is classified as a separate legal entity. The production principles and the product portfolio are similar.

Case 4: CH-Pipes

CH-Pipes operates in the metallurgical industry and specialises in manufacturing machinery for the oil and gas sector. Specifically, it produces pipe fittings such as shut-offs and regulating shut-off devices. The main customers in Russia include such companies as Gazprom, Sibneft, Lukoil and Transneft, which are large MNEs in the oil and gas industry. Interestingly, the CH-Pipes website does not provide the year of establishment or number of employees. From my interview with a manager, it was clear that the company was established in the early 1990s and began gaining its competitive position in Russia after acquiring another production site in the Sverdlovsk region in the early 2000s. Today, CH-Pipes has two sites in Russia, which enables it to supply its Russian customers.

The MNE began its international activities by exporting goods to Eastern Europe, where the company faced problems in terms of meeting product standards. As a result, it entered into a JV with an MNE from the Czech Republic in 2004. This was crucial to updating the company’s technology and expanding its international activities to Central Europe.

Case 5: SV-Supply

SV-Supply was established in 1992 as a metal-processing firm. The company employs 40 people, with a number of staff members having been previously employed at SV-Aluminium. It has one production site in the Sverdlovsk region. Its specialisation is buying semi-finished goods from
factories in metallurgical industries and processing them into finished products required by its customers. Its production is small scale, and it primarily focuses on processing metal into ingots.

SV-Supply’s main customers in Russia are from the Ural Federal District, which is considered a metallurgical cluster in Russia. SV-Aluminium uses SV-Supply as one of the major buyer of semi-finished goods in the domestic market. Its relationship is very collaborative, and SV-Aluminium trusts SV-Supply with quality and delivery times. SV-Supply uses its relationships with SV-Aluminium to overcome the hurdles of the domestic institutional environment.

Exporting is one of SV-Supply’s primary international activities. The company exports its products to CIS countries because it has established relationships there, it also has partnerships in Belarus. Interestingly, the CEO of SV-Supply does not consider the company to be operating in foreign markets, because CIS countries are still seen as Russian.

**Case 6: SV-Bells**

SV-Bells was established in 1990 and operates in the metallurgical industry. It is based in the Sverdlovsk region and has one production site in Russia. Before building that production site in 2000, the company was based in the same territory as SV-Cable. It employs around 40 people. Despite its small size, SV-Bells has a monopoly on Russian bell production. Because of this specialisation, it is able to produce very high-quality, bells with the sound and acoustics being customised.

Bell production is based on the experience and knowledge of the founders of casting metal, which goes back to the historic development of the Sverdlovsk region and the site location, where casting cannons and bells was the specialty. The MNE was awarded by Putin because SV-Bells combined the region’s historic advantage with new technological developments. The government’s endorsement increased company awareness and reputation.

This enables the company to export bells to Central Europe, Australia and the US. Its ability to meet European standards has enhanced its reputation and credibility in foreign markets. Its international activities are worth noting because the company does not engage in any marketing activities; its recognition comes from word of mouth. Its main customers are religious organisations, but the bells are also used by individual customers for decorative purposes.

**Case 7: SV-Service**

SV-Service is a subsidiary of one of the leading companies in manufacturing products from processing copper, established in 1944. The parent company has 50 companies that operate in various sectors, including metallurgical, construction, telecommunication and service. The parent company’s
international activities include wholly-owned subsidiaries, exports and strategic partnerships, and it operates in Europe, the US, Latin America and the Asia-Pacific. SV-Service is a service company that operates in the hospitality sector.

SV-Service is located in the Sverdlovsk region and employs approximately 100 people, 20 of whom are expatriates. It was established with the purpose of increasing the quality of Russia’s service industry; as a result, the company entered into a strategic partnership with a foreign MNE. It has three sites in Russia, and plans to expand gradually in Russia and foreign markets. It is an intriguing case, because it belongs to one of Russia’s leading MNEs, which has a very apparent and cooperative relationship with the federal and regional governments. SV-Service is not allowed any communication with the government. Although it has the authority to make decisions about improving its own services, it does not hold complete authority over its strategic development. This presents a serious constraint for the MNE to provide high quality service, which negatively affects the reputation of the company among their foreign clients.

Case 8: SV-Cable

SV-Cable is located in the Sverdlovsk region and was established in 1934. Since then, it has been one of the city-forming MNEs. In 2002, as a result of restructuring in metallurgical industry, SV-Cable became part of the largest cooperation in manufacturing steel pipes for the oil and gas industry. It employs about 2000 people at one production site, and specialises in manufacturing stainless steel and iron cast pipes.

The MNE began its internationalisation in the early 1990s by exporting, and in the 2000s it has engaged in aggressive acquisitions in foreign markets. Belonging to a large corporation has enabled SV-Cable to perform rapid exporting and acquisitions. It exports to about 80 countries, and has acquired a number of companies overseas. According to the company’s documents, such as annual reports, every foreign subsidiary belongs to the parent company. Since the restructuring in 2002, SV-Cable has modernised the site’s production machinery as well as Lean Academic Education Network (LEAN) production to improve the quality of the pipes. Modernising the facilities and access to funds have been two key advantages of SV-Cable’s development and internationalisation.

In 1998, a management company was established to oversee SV-Cable’s trading operation. This company differs from other management companies that were established in the early 2000s, because it is located next to SV-Cable, as opposed to in the Moscow region. There is limited cooperation between the two companies—during my interview with SV-Cable’s CEO, I sensed tension between them.
**Case 9: SV-Trailer**

SV-Trailer was established in 1992 in the Sverdlovsk region and operates in the machine-building industry. Since its inception, the company has been restructured. It was originally run by the company founder, who was driven by his passion for caravans. However, his knowledge of manufacturing was limited. In the 1990s, the company did not perform well because many products were faulty. As a result, the founder hired the current CEO, who has run the company ever since. It specialises in producing trailers for different purposes, including retail, residential, tourism, freight and special purposes. The company’s main customers include retail companies (retail trailers) and government (freight trailers).

SV-Trailer outsources engineering of its trailers to ensure that the required standards are reached. The company has one site in Russia, where it employs 50 people. Although exporting is the primary method of internationalisation, its JV with a company in Kazakhstan was a strategic move because of the logistics of exporting large trailers. Consequently, SV-Trailer has an assembly site at its JV partner’s manufacturing facility, where it sends a production manager to oversee the assembling process. This has also increased the company’s orders from Kazakhstan, Belarus and Ukraine.

The company founder has established relationships with government officials. The founder places great importance on these connections, which he nurtured for many years and would not allow anyone to compromise. Today, the CEO interacts directly with the government.

**Case 10: SV-Generator**

The history of SV-Generator dates back to 1700, where the first cast was extracted. This marked the birth of Ural metallurgy. The company was restructured in 1945 by the Ministry of Local Industry and has since operated in the machine-building industry. SV-Generator was established in the Sverdlovsk region and has one site, located where it was first built. It takes much pride in its history, and the history of Russia. It was originally built to supply the military with cast-iron cannons, but in the 1880s, SV-Generator began producing pipes for Russian railways, and in 1950, it began producing electric engines. Today, it is one of the leading manufacturers of induction motors for special purposes in Russia. The company employs approximately 3,000 people, who work on site, and it is proud to employ only Russians.

In 2001, SV-Generator underwent restructuring and, as a result, a management company was established and is located in the Moscow region. The management company’s main aim is to take care of the trading side of the business. Despite this, the management company does not engage in developing partnerships with foreign companies. SV-Generator’s CEO oversees all foreign operations. The company’s main international activities are exporting to Europe and creating
partnerships with German and Italian companies. This enables the MNE to stay updated with foreign technology and compete in foreign markets.

SV-Generator cooperates closely with the Russian government and this relationship has been nurtured for many years. However, the company CEO stated that in times of institutional transformation, the main factor that helps Russian MNEs continue their operations is collaboration with other MNEs and local companies, because SV-Generator and other Russian MNEs cannot rely on Russia’s institutional environment.

Case 11: CH-Fan

CH-Fan was established in 1957 and is situated in the Chelyabinsk region. It originally produced sanitary equipment for the Ministry of Manufacturing Industries construction sites. Since the 1960s, it has specialised in manufacturing commercial fans. The company is a part of an SOE that operates in the power engineering division and manufactures equipment for nuclear power plants, such as drilling equipment, chemical process equipment, hydraulic hoists and more. CH-Fan has a well-established reputation because of its focus on high quality. It has approximately 600 employees who undergo continuous education in relation to their roles.

In 1996, CH-Fan began exporting equipment for ventilators for nuclear power stations in Germany, the Czech Republic, Vietnam and Cuba. Since then, the company has engaged in acquisitions and building partnerships with foreign companies. All its international activities must go through the SOE, which makes decisions about the choice of foreign partners and markets. The nuclear power industry is highly controlled by the government, so its involvement in CH-Fan’s decision-making activities is expected. This positively affects the product quality and company reputation.

Case 12: MS-Dairy

MS-Dairy was established in 2002 and has 30 sites around Russia, but the headquarters is located in the Moscow region. It employs about 18,000 people and is the largest domestic dairy producer. Its product portfolio includes milk, yoghurts, juices, dairy drinks, probiotic products and more. The company pays much attention to product quality—it deals with local farmers who have quality equipment and undergo planned control checks. MS-Dairy is also part of the Russian Milk Union, giving it a strategic advantage in regards to accessing the best suppliers and products. One employee from MS-Dairy holds a managing role at the Milk Union, which is an important position to have, not just for quality purposes but also for the political ones.

In 2010, the company was acquired by a foreign company, which increased the market share of both in the markets in which they operate. This also enabled the Russian company to improve its
production facilities. MS-Dairy exports from Russia and is the largest supplier of dairy products in CIS countries. It also exports to Israel, the United Kingdom, Canada and the US. The Russian Government does not usually intervene in the company’s international activities because it does not operate in a strategic sector. In 2015, because of sanctions imposed against a number of Russian companies, the Russian federal government asked the regional government to be more thorough in checking MS-Dairy’s production facilities following an allegation from the federal government that milk quality did not meet the required standards. These allegations were not taken further.

MS-Dairy’s advantage is that it is the largest supplier of dairy products in Russia. Because of the sanctions the Russian Government imposed on imports of some dairy products, the Russian people stay loyal to local brands, and did so for MS-Dairy even after the acquisition. The challenge that MS-Dairy may encounter is managing its operations both in Russia and overseas because of political tensions between Russia, US, and some EU countries.

The 12 MNEs that participated in this study are all interesting cases—while they have similarities in terms of their development, there are also unique in how they have developed their relationships with government officials and gained external legitimacy. This allowed me to draw some generalisations from the cases and also examine the unique contextual factors affecting the research process.

4.4 Access to the Field: Challenges

Access to the field is well documented in the IB literature, and presents a number of challenges (Denzin & Lincoln, 2000; Ritchie et al., 2013). I gained access to most of the participants through the preliminary interviews with individuals I identified through media.

Roberts (2012) states that the problem of non-commitment to interviews is common among the Russian elite because of the country’s political context. This is related to the fact that some elites depend on the government for access to strategic resources. As a result, they are resistant to engaging in formal interviews that address their business activities and interactions with the government specifically. The key challenges I encountered in gaining access to the field were sensitivity of the topic, translation in research, secretaries as gatekeepers and being a local. I address these challenges below.

4.4.1 Sensitivity of the Topic

The sensitivity of the research topic can present risk to the researchers, participants and third parties involved (Stringer & Simmons, 2014), thus creating obstacles to accessing the field (Dickson-Swift, James, Kippen, & Liamputtong, 2007; Lee-Treweek & Linkogle, 2000). In this study, I examine the government’s role in MNEs’ ability to deal with institutional complexity and gain external
legitimacy. However, after seeing the words ‘federal and regional government’, in the initial emails and invitation to participation, many people with whom I met refused to help with accessing organisations. This was particularly applicable to the metallurgical and machine-building industries, as these were decentralised in the 1990s and then restructured. The agriculture industry participants agreed to an interview despite the sensitivity of the topic because agriculture is not a strategic industry and the government interest was relatively low during the data collection. The MS-Dairy participants were also open to discussing government involvement because government involvement in developing this MNE is limited.

The resistance of participants from the metallurgical and machine-building industries can be attributed to the historic development of those industries and the structural changes MNEs had to undergo after the collapse of the Soviet Union. The relationships between government and MNEs have become more complex and, as mentioned previously, many MNEs try to nurture their relations with government officials. I had to explain clearly at the beginning of each interview that the study examines the role of formal and informal institutions and how MNEs use them, and that my unit of analysis was the MNE, not the government. Following this, the participants did not ask any questions regarding the topic, but it is worth noting that almost every interview led to discussing the roles of the federal and regional governments.

The participants’ reaction to the topic is linked to the timing of the fieldwork (Belousov et al., 2007). In February 2014, Russia undertook military action against Ukraine; the US then imposed sanctions against Russia in April 2014. Some participants, especially those in the metallurgical, machine-building and nuclear power industries, where the government has an important role, were reluctant to participate in my research. Further, the Russian elite, including oligarchs and CEOs of major MNEs, were instructed by the government at that time not to give interviews. Any information released to the press could affect the reputations of Russia and Russian MNEs in foreign markets.

However, while research timing and the nature of the topic can create obstacles during fieldwork (Blazejewski, 2011), it can also provide fruitful explanations of methodological issues and how they can be addressed (Meyer & Peng, 2016). One participant explained that the interviews were not allowed because of Russia’s political position at that time. This was crucial, because before entering the field, I did not anticipate that the sanctions imposed by the US would have such an effect on Russia’s institutional environment.

4.4.2 Translation in Research

Many expressions cannot be translated from Russian into another language (Holden & Michailova, 2014; Voldnes, Grønhaug, & Sogn-Grundvåg, 2014), and the meaning of some words can have
different connotations in different cultures. Translation is not a mechanical process, and it produces meaning (Chidlow, Plakoyiannaki, & Welch, 2014). Thus, it presents a challenge for the researcher when conducting, analysing and interpreting data. These challenges are often attributed to the mechanical use of back-translation in research (Usunier, 2011) and cultural interference (Holden & Michailova, 2014). During my research, I encountered challenges in terms of how the participants perceived the meaning of certain words, including investigation and interview, in consent forms (CFs) and participant information sheets (PISs) when translated from English.

Translating CFs, and interview protocol, can affect whether people agree to participate in the research. The forms I used were translated from English into Russian by a professional translator. Several participants agreed to an initial meeting but did not agree to take part in the study because the language used in the forms carried negative connotations. Russians interpret ‘interview’ as a formal way of communicating that is usually undertaken by journalists. The word implies that the information will be leaked and publicly available. One participant initially refused to take part, stating that he did not want cameras in the organisation. To minimise the language barrier, I changed the word interview to ‘beseda’, which can be interpreted as a conversation, and implies a friendlier and more informal setting. Other crucial words are ‘investigate’ and ‘investigation’, which is translated as ‘rassledovanie’—Russians tend to associate this with police or government investigations I had to emphasise that this was scientific research and use ‘examination’ rather than ‘investigation’.

The mechanical translation of these words in the forms created data access challenges; as a result, I had to adjust the translations accordingly.

4.4.3 Russian MNEs Secretaries as ‘Gatekeepers’

Roberts (2012) contends that to arrange an interview with the Russian elite, a researcher typically has to go through a secretary, who will verbally agree to arrange the interview—in reality, this is a polite ‘no’. During my fieldwork, I found that secretaries acted as gatekeepers to making initial contact with the CEOs of Russian MNEs. A gatekeeper is someone who has the power to control access to a research site, which in turn can influence the data-collection process (Michailova & Clark, 2004; Miller & Bell, 2002). During my data collection, the secretaries could control access to some participants, and thus presented an obstacle to collecting data.

To gain access, in some instances, I had to go through the secretaries to formalise appointments and conduct follow-up interviews. The secretaries became alarmed and offered excuses to avoid making an appointment. One participant from SV-Cable approached SV-Cable CEO, who then agreed to participate. When we entered the company, the secretary met us and took us to the CEO’s office.
The participant introduced me and left the office. During the interview, the secretary entered the room twice in an authoritative manner, without knocking, first to collect the CEO’s car keys and then to return them. I was later informed that the CEO and secretary were in a romantic relationship, which explained her hostile and jealous attitude towards another female. After the interview finished, the CEO told me that if I had any questions, I should contact him, and told me to take his card from his secretary. I asked her for the card and explained why I needed it. She said she did not have any, and gave me her number instead. This was a way for her to display her responsibility and authority within the MNE. One week later, I contacted the secretary to organise another interview. She said the CEO was out of the country. I knew that he was in the country, because his soccer team was playing the next day and he was attending the match. To obtain a second interview, I had to go to the soccer game and talk to the CEO.

Secretaries in MNEs from EEs can thus present direct obstacles to gaining access to participants and companies (Michailova & Liuhto, 2001). One participant informed me and explained this with the fact that secretaries would not understand what academic research is. To eliminate this obstacle, I sat down with the secretary from SV-Cable and explained to her that I was studying in New Zealand, which is why I was conducting interviews. I asked for help with this and we exchanged phone numbers. This helped facilitate our communication and make her feel as though she was in charge. The fact that I was living in New Zealand also seemed to reduce her jealous attitude towards me.

**4.4.4 Being an Insider in a Research Setting**

IB literature indicates that being an insider is an advantage when conducting qualitative research (Kovats-Bernat, 2002; Lee, 1995; Michailova & Clark, 2004; Soulsby, 2004), particularly in terms of identifying and gaining access to appropriate participants and understanding contextual aspects and language. Understanding cultural context allows the researcher to deal with participants appropriately (Michailova, 2011a). These advantages of being an insider help establish trust between participants and researcher, and create a comfortable interview setting. Voldnes et al. (2014) state that foreign researchers may find it challenging to gain access and attain trust from participants. Being local and an insider fosters a degree of trust and a bond between participants and researcher, which affects the research process (Kovats-Bernat, 2002).

Trust between the researcher and participants can yield meaningful data by encouraging honest responses from participants (Ritchie et al., 2013). However, truthfulness cannot be guaranteed if trust is not balanced, or if it is rushed. This can make the findings somewhat romantic and increase personal bias (Alvesson, 2003).
Trust is important in Russia and in a business context specifically, and researchers from overseas are often treated with suspicion (Belousov et al., 2007). In this study, initial access to participants was arranged through preliminary informal interviews. During these interviews, I had to establish trust with participants by telling them why I was conducting the research and why my parents sent me overseas when I was 14. Some participants could relate to that because their children also studied overseas; others simply found it interesting.

One of the key obstacles to my gaining participant trust was presenting them with PIS and CF that they had to sign. In one interview, when I presented the PIS and CF, two participants from SV-Bronze asked me if I wanted to sign a contract with their lawyer. In Russia, business is conducted according to personal connections and relationships as well as ‘gentlemen’s agreements’ which is based on handshake. This can also be applied to research. Giving forms to the participants was disrespectful and a sign of distrust, prompting a defensive reaction from them. However, I was bound by the University of Auckland’s ethical requirement to present the forms. As per these requirements, I initially emailed a formal letter to the MNEs explaining the purpose of the thesis. As a second step, I prepared the PISs and CFs for each MNE. The majority of participants reacted negatively to these two forms, with the exception of the CFO from SV-Aluminium—she was the only participant who took the forms seriously, because she is a highly literate person and appreciates the value of formal documentation.

I then decided to commence the interviews by giving the participants with the interview guide instead, because it focused on the research themes as opposed to the contractual nuances. The participants were more accepting of this, because they were not formally bound to sign anything immediately. This illustrates that as a PhD student, I have responsibility to the participants as well as the university. Institutionalised standards can definitely be a limitation during the research process, and I had to be adaptive in the field to ensure the participants were comfortable.

At the beginning of data collection, many participants saw me as an outsider and were reluctant to engage with me. Although I was born in Russia, I am not a native researcher. Establishing trust was thus challenging at first (Michailova & Clark, 2004; Soulsby, 2004). Gaining participant trust and respect was crucial to building rapport and gaining further access to the MNEs (Dundon & Ryan, 2009). I noted some resentment from participants, particularly because I had left Russia in 2001 and made some linguistic mistakes during the interviews. A participant from SV-Aluminium remarked that I make grammatical errors like a teenager, and a participant from SV-Trailer informed me that I should read more in Russian literature to improve my grammar. After these remarks, I decided to begin each interview with an apology for most likely making small mistakes in Russian and telling a story about how and why I came to New Zealand and why I was conducting research on Russia.
This changed the dynamics of the interviews, because it illustrated my passion for Russia and Russian people. The participants felt proud that someone was extending knowledge of Russian business. One remarked, “It is great to see young generation taking interest in studying Russian companies, and promoting this to the West”.

By apologising and telling a story about my upbringing, the participants did not negatively react to my language mistakes. Instead, they appreciated that I was speaking in my native language. Language can present a barrier when conducting research in a foreign environment (Michailova & Clark, 2004), and be a source of stress and frustration for the researcher and participants (Soulsby, 2004). However, it can also be beneficial. In my case, many participants appreciated the fact that I conversed in Russian.

4.5 Methods

To conduct my fieldwork and collect data, I employed semi-structured interviews, observations and reflective field notes.

4.5.1 Semi-Structured Interviews

The interview is a complex, socially embedded method of collecting empirical data in qualitative research (Alvesson, 2003). Denzin and Lincoln (2000) define an interview as “a conversation, the art of asking questions and listening” (p. 633). It is a powerful tool for understanding participants and telling a story about the investigated phenomenon. Interviewing is a common method in case-study research (Piekkari et al., 2008); it is a conversation or dialogue in which the researcher and participant take part (Kvale, 1996; 2006).

Conducting interviews is a craft, because the researcher must ensure that the participant understands the questions and is fully engaged, and that the conversation flows (Rowley, 2012). However, the researcher cannot always guarantee this flow, especially if the participant is reluctant to a conversation (Dundon & Ryan, 2009). The researcher should consider the personal factors that may affect the mood of participants. This element of emotion makes the interview a very human and emotional act, and mastering it is a skill that comes with practice (Bryman & Burgess, 1994; Bryman & Cassell, 2006).

The first data-collection sources in this study were in-depth, semi-structured interviews. Table 4.3 shows the number of interviews per case, the type of participants and the regions in which interviews occurred. I conducted 55 total interviews across the two field trips: 51 interviews with MNE employees, one with a regional government official and three preliminary interviews with potential participants. The employees I interviewed were at different levels in the MNEs, which fostered
understanding of the links between the government and the MNEs. The employees included CEOs (8), CFO (1), top managers (22), middle managers (3), past employees (6) and investors (2).

I conducted four follow-up interviews during Field Trip 2 with the CEO and an investor of SV-Trailer, as well as top managers from SV-Aluminium and MS-Dairy. The goal of the semi-structured interviews was to understand the relationships the participants had with government officials at different levels, and how they used these relationships to enact MNEs’ internationalisation strategies.

Field Trip 1 focused on gaining access to the participants and conducting interviews. The majority of the interviews (49 out of 55) took place in the Sverdlovsk region, because it is the capital of the metallurgical industry and eight out of the 12 MNEs studied operate in this sector. Three interviews were conducted in Chelyabinsk, two in Moscow and one in Hong Kong.
Table 4.3: Description of cases—criteria and list of interviews

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<th>CFO</th>
<th>Senior managers</th>
<th>Middle managers</th>
<th>Past employee</th>
<th>Investors</th>
<th>Total number of participants</th>
<th>Total number of interviews (July-August 2014)</th>
<th>Total number of interviews (February 2015)</th>
<th>Sverdlovsk Region</th>
<th>Chelyabinsk Region</th>
<th>Moscow Region</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>SV-Bronze</td>
<td>–</td>
<td>–</td>
<td>5</td>
<td>–</td>
<td>2</td>
<td>–</td>
<td>7</td>
<td>7</td>
<td>–</td>
<td>7</td>
<td>–</td>
<td>–</td>
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</tr>
<tr>
<td>SV-Aluminium</td>
<td>1</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>2</td>
<td>–</td>
<td>11</td>
<td>13</td>
<td>1</td>
<td>13</td>
<td>–</td>
<td>–</td>
<td>1</td>
</tr>
<tr>
<td>SV-Cookware</td>
<td>1</td>
<td>–</td>
<td>2</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>3</td>
<td>3</td>
<td>–</td>
<td>3</td>
<td>–</td>
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<td>–</td>
</tr>
<tr>
<td>CH-Pipes</td>
<td>1</td>
<td>–</td>
<td>1</td>
<td>–</td>
<td>1</td>
<td>–</td>
<td>3</td>
<td>3</td>
<td>–</td>
<td>2</td>
<td>1</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>SV-Supply</td>
<td>1</td>
<td>–</td>
<td>3</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>4</td>
<td>4</td>
<td>–</td>
<td>4</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>SV-Bells</td>
<td>1</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>1</td>
<td>1</td>
<td>–</td>
<td>1</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>SV-Service</td>
<td>–</td>
<td>–</td>
<td>2</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>2</td>
<td>2</td>
<td>–</td>
<td>2</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>SV-Cable</td>
<td>1</td>
<td>–</td>
<td>–</td>
<td>1</td>
<td>1</td>
<td>–</td>
<td>3</td>
<td>4</td>
<td>–</td>
<td>4</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>SV-Trailer</td>
<td>1</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>2</td>
<td>6</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>SV-Generator</td>
<td>1</td>
<td>–</td>
<td>1</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>2</td>
<td>2</td>
<td>–</td>
<td>2</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>CH-Fan</td>
<td>–</td>
<td>–</td>
<td>1</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>1</td>
<td>2</td>
<td>–</td>
<td>–</td>
<td>2</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>MS-Dairy</td>
<td>–</td>
<td>–</td>
<td>2</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>2</td>
<td>2</td>
<td>–</td>
<td>–</td>
<td>2</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Regional government official</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preliminary interviews</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>8</td>
<td>1</td>
<td>22</td>
<td>3</td>
<td>6</td>
<td>2</td>
<td>42</td>
<td>51</td>
<td>4</td>
<td>49</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>
The interviews varied in length between 15 minutes and 3.5 hours. The total number of interview hours was 57 hours and 45 minutes, with the average interview time being 1 hour and 5 minutes (see Table 4.4). Engaging the participants depended on their knowledge of the topic and my ability to establish trust with them. Having conducted the first 10 interviews, it was clear that the middle managers and some top managers do not interact with the government. Nevertheless, their knowledge about MNEs’ strategic activities was exceptional. While these managers did not have any direct relationship with the government, they used informal institutions, such as personal relationships with customs officials, bank managers and managers from other MNEs, to ensure that the internationalisation process went smoothly. Therefore, in interview situations where I felt that the participant had limited knowledge about the formal institutions, I began by discussing how useful (or not) the informal institutions were in their jobs and for the internationalisation of MNEs. Semi-structured interviews allowed me to be flexible in the manner I structured the conversations.

The main reason for changing the order of the interview themes was to avoid embarrassing participants about their lack of knowledge on a topic. This became evident during one of the first interviews with a participant from SV-Aluminium, where I commenced by discussing the theme of formal institutions. The participant was very uncomfortable that he could not explore this topic, meaning that the interview only lasted 15 minutes; the participant was not willing to engage in a conversation. This interview prompted me to change the theme order, which then led to more successful interviews because the participants were more comfortable with it.
Table 4.4: Total interview hours

<table>
<thead>
<tr>
<th>Company</th>
<th>Total number of interviews</th>
<th>Total hours of interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>SV-Bronze</td>
<td>7</td>
<td>6.35</td>
</tr>
<tr>
<td>SV-Aluminium</td>
<td>14</td>
<td>16.15</td>
</tr>
<tr>
<td>SV-Cookware</td>
<td>3</td>
<td>3.30</td>
</tr>
<tr>
<td>CH-Pipes</td>
<td>3</td>
<td>3.15</td>
</tr>
<tr>
<td>SV-Supply</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>SV-Bells</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>SV-Trailer</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>SV-Generator</td>
<td>2</td>
<td>1.45</td>
</tr>
<tr>
<td>SV-Service</td>
<td>2</td>
<td>2.30</td>
</tr>
<tr>
<td>SV-Cable</td>
<td>4</td>
<td>3.00</td>
</tr>
<tr>
<td>CH-Fan</td>
<td>2</td>
<td>1.45</td>
</tr>
<tr>
<td>MS-Dairy</td>
<td>2</td>
<td>2.30</td>
</tr>
<tr>
<td>Regional government official</td>
<td>1</td>
<td>1.30</td>
</tr>
<tr>
<td>Preliminary interviews</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>55</td>
<td>57 hrs 45 mins</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td>1 hr 5 mins</td>
</tr>
</tbody>
</table>

Interviews allow for deeper connection with participants, which can create a trusting research setting if the interview is orchestrated appropriately (Denzin & Lincoln, 2000; Kovats-Bernat, 2002). I made changes to the interview guide based on the first 10 interviews. As mentioned previously, I deleted the words ‘government’, ‘investigations’ and ‘question(s)’ from the interview guide. The initial interview guide developed during Phase 1 featured questions that were too forward about MNEs’ relationships with regional and federal governments, and that were asked in a sequential order. This did not work with Russian participants. First, asking them about the government created an awkward atmosphere, as some participants did not have any interactions with the government; others viewed the questions as an interrogation. The order of the questions became problematic when participants were not too knowledgeable about certain themes. As a result, I amended the wording and ordering of the themes; I illustrate and justify these changes in Table 4.5.
<table>
<thead>
<tr>
<th>Initial themes</th>
<th>Reasoning behind the change</th>
<th>Final themes</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company background. Company development. Company internationalisation process.</td>
<td>The company’s background can be obtained from its websites</td>
<td>Company development strategies:</td>
<td>Higher degree of engagement and interest in the conversation</td>
</tr>
<tr>
<td></td>
<td>Waste of participant time</td>
<td>Process of development in Russia and foreign markets</td>
<td></td>
</tr>
<tr>
<td>The effect of the relationship between the federal and regional governments on</td>
<td>Too straightforward</td>
<td>The company’s relationship with administration officials:</td>
<td>Flexibility to channel the interview in a certain direction</td>
</tr>
<tr>
<td>the company’s expansion abroad. Specific features of the relationship between</td>
<td>Could offend some participants because of lack of connections</td>
<td></td>
<td>Participants save face</td>
</tr>
<tr>
<td>the federal and regional governments. How have these relationships changed</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>over time?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The company’s relationship with the federal government.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The company’s relationship with the regional government.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managing the relationship with the federal and regional governments. Means of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>communication between the government and the company. In the company, who</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>interacts with the federal government and regional government? Why?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategies and/or regulations used to manage the relationship with the federal and regional governments.</td>
<td>Ability to explore the effectiveness of formal institutions; examine the role of the government in formation of formal institutions</td>
<td>Formal institutions used in the development of the company: Rules and regulations used in the company internationalisation process</td>
<td>Explore the domestic institutional environment</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Formal institutions used to manage the government’s involvement in the company’s internationalisation process. Rules and regulations used to facilitate the internationalisation process.</td>
<td>Informal institutions used to manage government involvement in the company internationalisation process. Use of networks and personal relationships with the government to facilitate the internationalisation process. How do the managers use networks and personal relationships with the federal and regional governments to facilitate the internationalisation process? Do managers’ personal relationships differ with the federal and the regional governments?</td>
<td>Ability to explore the relationship between the government and participants and how MNEs use these relationship</td>
<td>Informal institutions used in the development of the company: Use of personal connections and organisational networks with administration officials in Russia and foreign markets to facilitate the company internationalisation process</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Perception of the company in foreign markets</td>
<td>Explore how the company is perceived by the foreign governments and companies</td>
<td></td>
</tr>
</tbody>
</table>
The initial wording of the first theme demonstrated that I did not acknowledge background work on the companies that I have done. I included a question asking about company background to triangulate my data. However, the CEO of SV-Cable remarked, “If you have looked at the company’s website, you would have found the background of the company”. The CEO thus did not want to engage in a superficial conversation about the MNE’s history and development. As a result, I changed theme one to the company’s development strategies, which focused on the process as opposed to historical facts. The question about strategy also allowed participants to showcase their involvement in the company’s operations. The outcome of this change was a higher level of participant engagement and interest.

Themes two to five concentrated directly on the relationships between an MNE and the federal and regional governments. This was problematic on two accounts. First, as mentioned previously, the participants believed that they did not have any interactions with the government or knowledge of this topic. Second, not having direct connections with the government was a reminder of their status within the company and the domestic business environment.

The negative reaction to themes two to five could, in some instances, have been triggered by losing face. This was crucial to my decision to combine themes two to five and change the wording to ‘the relationship of the company with administration officials’. This made the theme very broad, which gave participants options in terms of how to address it. Often, middle managers talked about local government officials, as opposed to regional or federal. Some top managers talked about government officials at both local and regional levels. This was an advantage to me, because I could channel the conversation in a certain direction as an interview progressed without diminishing the participant’s status in the company.

Themes six and seven were about formal and informal institutions. In the amended interview guide, I excluded the word government and had one sub-theme under each theme. Further, I replaced ‘internationalisation process’ in the main themes with ‘development of the company’. This made the overall focus more broad, although the sub-themes concentrated on the internationalisation process. Making the themes broader and the sub-themes more focused allowed me to explore how MNEs use formal and informal institutions in Russia, and how these institutions influence MNEs’ internationalisation. This also led me to add an additional theme, company perception in foreign markets, meaning that I was able to explore the concept of external legitimacy.
4.5.2 Observations

Observations are “the fundamental base of all the research methods” (Adler & Adler, 1994, p. 389) and a powerful technique, because they can capture body language, tone of voice and contextual factors evident in the research setting (Angrosino & Mays de Perez, 2000). McNaughton, Mills and Kotecha (2013) go further by stating that observations are particularly useful for gaining insights about the interactions and behaviours of different actors in an environment. These research nuances are essential to interpreting and understanding the data. During my fieldwork, I engaged in observations during the interviews, and at events such as the Eurasian Customs Union Summit and a regional conference.

I performed focused observations, which narrow the observed issues to those most relevant to the research questions (Spradley, 1980). I also made observations about the physical setting of the interviews, as this helped me analyse the context-specific features of conducting research in Russia (Cohen, Manion, & Morrison, 2013). For example, one participant chose to meet in a small café in the middle of a highway. His justification was that I did not have to drive too far. However, the real reason behind the was that employees from this company are not allowed to talk about the company operations; this participant also used to be a regional government official. He ensured that no one would know about the interview by choosing a specific location. This was important to my decision to include this interview as part of my data collection—it illustrates the sensitivity of the topic and its effect on the research process. This situation also emphasises the importance of observations during the research process to determine the nuances of particular research settings. The participant went to the trouble of driving two hours away from the company to meet me, so I did not feel comfortable recording him, which I made very clear at the beginning of the interview. I noticed that because I was understanding, the participant gave detailed explanations of the themes and made many notes in the interview guide.

I also observed interactional settings, where I noted the behaviours of different actors in formal and informal environments (Cohen et al., 2013). These observations were very useful during the summit and conference because they gave me an opportunity to witness the interactions between MNEs and the different government levels. I summarise the characteristics of both events in Table 4.6 and link them to the observations I made during the data collection.

The first event that I attended during my data collection was the Eurasian Summit, which I was invited to join by the CEO of SV-Trailer. It took place at a university in Minsk, Belarus, on 22–24 July 2014. The participating countries included Belarus, Russia and Kazakhstan, which belong to the Eurasian Customs Union (EACU). In 2015, Armenia and Kyrgyzstan became part of the EACU. The summit delegates included government officials from Belarus and Russia, MNEs from all three
countries that were engaged in business transactions with one another and leading academics in the machine-building industry (see Table 4.6).

Table 4.6: The summit and conference structure

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>the Eurasian Customs Union Summit</th>
<th>The government-MNEs Conference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Event date</td>
<td>22-24 July 2014</td>
<td>25 February 2015</td>
</tr>
<tr>
<td>Event duration</td>
<td>2 days</td>
<td>Half-day</td>
</tr>
<tr>
<td>Event place</td>
<td>Belarus, Minsk</td>
<td>Russia, Kamensk-Uralsky</td>
</tr>
<tr>
<td>Number of participants</td>
<td>Approx. 40</td>
<td>Approx. 100</td>
</tr>
<tr>
<td>Type of participants</td>
<td>Regional and federal government officials, senior managers MNEs from Russia, Belarus and Kazakhstan</td>
<td>Regional government officials, CEOs of Russian MNEs, media, social workers</td>
</tr>
<tr>
<td>Formal interactions</td>
<td>Presentations, Q&amp;A sessions (named)</td>
<td>Presentations, Q&amp;A sessions (anonymous)</td>
</tr>
<tr>
<td>Informal encounters</td>
<td>Before the event, dinner on the day one</td>
<td>Limited</td>
</tr>
<tr>
<td>Event purpose</td>
<td>Develop united system of regulated mechanisms for machine-building industry standards in the three countries</td>
<td>Strengthen regional development by enhancing relationships between the regional government and MNEs</td>
</tr>
<tr>
<td>Event outcomes</td>
<td>Problem identification: Conflicts between the three countries Product safety risks Need to harmonise laws</td>
<td>Budget allocation among MNEs</td>
</tr>
</tbody>
</table>

The summit had three parts: formal presentations, site field trips and dinner. There were 15 presentations and a question-and-answer (Q&A) session focused on the issues and risks associated with certifying and regulating the products between the EACU countries. I collected the copies of seven Powerpoint presentations and took field notes, which helped me interpret and analyse the data. During the Q&A session, the CEO of a foreign MNE raised her concern about the fact that a Russian MNE from which her company bought machinery refused to provide licensing for its product. As a result, this incurred extra costs and risk for the foreign MNEs in the event that the machinery was faulty. The CEO was tactfully prevented from talking further by the session facilitator, who was a government official. The CEO was prevented from continuing because this was a delicate matter regarding the reputation of the Russian MNEs and it was raised in a public forum. This could present obstacles for the MNEs to maintain and further develop its operation in foreign markets.
For the field trip, all summit participants were taken by bus to visit the location, where machine tests and experiments took place. Every participant took part in testing a particular machine; this hands-on experience and observation in a more informal setting was a vital data source. During the bus ride, I sat with a CEO from a foreign MNE who had had negative experiences with a Russian MNE, and it was clear from our conversation that she did not regard the Russian MNE as a legitimate partner. Despite the contractual agreement between the MNEs, the Russian partner engaged in illegitimate behaviour, which affected the CEO’s judgement.

The third part of the event was dinner, which took place just outside the field site. At this event, I had the chance to engage in conversations with a number of attendees, as well as observe the informal interactions between the government officials and CEOs from Russian and foreign MNEs. My observations clearly illustrate that networks with the government and government representatives play an important role in how Russian MNEs position themselves and are perceived in foreign markets. Interestingly, at the summit, academics acted as government representatives, liaising between government officials and some MNEs. These academics were trained in the Soviet education system and had extensive connections with the government in Russia and in CIS countries. Their experienced and broad networks can hugely influence Russian MNEs’ use of formal and informal institutions. One SV-Trailer investor had spent substantial money and time developing relationships with these academics. At the time, he resided in Germany, although his connections with these academics proved useful in establishing relationships with Russian government officials, which enabled SV-Trailer to expand its international activities. The investor stated that one particular academic was “the key to maneuver through the system”. To my understanding, this academic was used as a shield to protect the company; in return, the academic received a very lucrative otkat (kickback) from the MNE. Otkat is known as the percentage of the money that has been won in the tender, which has to be paid to the official who arranged the deal (Ledeneva, 2013; Lonkila, 2011). Oktat may be regarded as a form of bribery, but in Russia, it is considered a personal bonus (Lonkila, 2011) or informal income (Ledeneva, 2013). Observing these interactions illustrates the complexity of the relationships between MNEs and different government levels, and the significance of maintaining these relationships for MNEs’ internationalisation processes.

The second event I attended was a half-day conference between the regional government officials and MNEs that took place on 25 February 2015 in Kamensk-Uralsky. It addressed strengthening regional development by enhancing relationships between the regional government and MNEs in the Sverdlovsk region (see Table 4.6), the central region for industrial production in Russia, accounting for 40% of total output. It is the largest exporter of metal and metalware, and aims to develop relations with foreign markets through international exhibitions and congresses. For the regional government, developing this region is crucial, and MNEs, especially those in the metallurgical industry, can make
a valuable contribution. The regional government has the power to allocating funds to MNEs—thus, the conference presenters aimed to sell their plans to the government. During the conference, the CEOs of SV-Trailer and SV-Cable who participated in my study both presented the same idea of establishing an industrial park at their production sites.

My conference observations and follow-up interview with the SV-Trailer CEO also provided valuable knowledge about the use of formal and informal institutional interplay by the regional government and MNEs to achieve their objectives. Although the conference was not focused on MNEs’ international activities, it allowed me to observe the interactions between the regional government and MNEs in a domestic business environment. The interactions were formal, in the form of presentations and Q&A sessions, because there was no networking event after the conference. However, the CEO from SV-Trailer told me after the conference that he was approached by a government official who told him to become involved in politics if he wanted access to the funds for the industrial park. This was interesting, because at the federal level, an MNE’s political involvement can cause expropriation of resources (Gidadhubli, 2003; Grancelli, 2012). At the regional level, MNEs are encouraged to be involved to a certain extent, because it increases their chances of attaining financial benefits.

Focused observations enabled me to narrow the scope of my field notes, but also led me to unplanned avenues of data collection and findings. I remained flexible during the data collection and had to trust the participants in some of their choices, such as the designated interview location. Understanding research setting nuances can be powerful when observing participant behaviour (McNaughton et al., 2013). I thus recorded material on physical and interactional settings as well as observations in my reflective field notes.

4.5.3 Reflective Field Notes

Field notes are commonly used to record observational data, and should be oriented to the research questions (McNaughton et al., 2013). During my data collection, I made field notes after each interview, as well as during the summit and the conference. As a first stage of recording field observations, I jotted notes (Lofland & Lofland, 2006) and then turned them into full field notes (Spradley, 1980). These included detailed descriptions of the participants, site, company layout, body language and tone of voice (Spradley, 1980). These details provide contextual facts that are vital to examining the government’s role in Russian MNEs’ external legitimacy. For example, the layout of the CEOs offices across all MNEs studied, were almost identical, and each office had a portrait of President Putin. I subsequently learnt that it is a requirement for CEOs to have such a portrait strategically placed behind their chair, because it designates membership of the United Russia political party; and to be a CEO or department head at a major corporation, one has to belong to
United Russia. These detailed descriptions were useful as I delineated the connections between the participants and the government.

I also made notes about such connections based on the information gleaned during interviews and the observations made during the two events I attended (McNaughton et al., 2013). Some of the participants were also vital to explaining these links, providing information that is often excluded from what is publicly available on company websites or in the media.

I made selective reflections when I recorded my personal thoughts about the participants, interview process, research settings and feelings of discomfort and patriotism. For example, at the summit, I felt uncomfortable when I discovered that one of the attendees was a criminal and that I had to interact with him. However, I was able to control my emotions and embraced the opportunity to talk to him. As a result, I was able to observe his very close relationship with government officials and academics.

On another occasion, with the SV-Generator CEO, I felt especially proud and patriotic about conducting research on Russian companies. This CEO had worked at the company since the 1970s, and during the interview told me a story about when the MNE had been about to go into liquidation because of lack of government support in the 1990s; this was when he stepped up as CEO. The unity among Russian MNEs and people back then was the key factor in the company’s success today. He explained that when the MNE lacked government support, the CEOs and managers from other MNEs worked in collaboration to ensure that their operations continue. I felt very proud that during times of trouble, Russian people come together and fight for their companies’ survival, despite little government assistance.

I logged my subjective reflections in a separate fieldwork journal (McNaughton et al., 2013). During data collection, I was socially and culturally embedded in the same environment as the participants, which, as suggested by Ailon (2008), created a degree of symmetry between us. Recording feelings, emotions and throughout the whole research period is important in qualitative research because it helps the researcher stay truthful to the data and findings (Ailon, 2008; Hubbard, Backett-Milburn, & Kemmer, 2001).

4.5.4 Triangulation of Methods

Triangulation is “a process of using multiple perceptions to clarify meaning, verifying repeatability of an observation or interpretation” (Stake, 2000, p. 443). Triangulation reduces misinterpreting the findings, increases confidence in the validity of the findings and validates the information received from various sources by examining it from different angles (Denzin, 1989). Flick (1992, 2014) states that triangulation is not only about validating data, but generating in-depth knowledge of the studied phenomenon. This is usually achieved by convergence of evidence, and the possibility of diverging
results (Yin, 2014). As discussed above, I used interviews, observations and reflective field notes as data-collection methods. Combining methods is referred to as between-method triangulation (Denzin, 1989). This method was particularly appropriate for my thesis because it takes into account subjective knowledge and context-specific factors such as social and institutional elements (Flick, 1992). I triangulated my interviews with the data from observations and field notes.

Employing interviews, observations and field notes enabled me to examine my research problem from multiple perspectives (Jick, 1979; Yin, 2014). Employing multiple methods to examine the same inquiry makes it more interesting because it helps to question diverse answers (Taylor, 2013). Triangulation strengthened the validity of my data by achieving convergence of some concepts, but it also led to divergence between some results (see Figure 4.3). The three data sources caused convergence of evidence from the multiple-case studies in three ways.

First, it reinforced the existence of four types of institutional interplay in Russia: complementary, substitutive, accommodating and conflicting. Russian MNEs use both formal and informal institutions to manage institutional complexity; Russian MNEs operate in one legal field where they must follow the established regulations. It was clear from the interviews, observations and field notes that to deal with ineffective formal institutions, Russian MNEs often rely on informal institutions.

Second, there is strong evidence from the three methods that Russian MNEs use four types of institutional interplay to manage institutional complexity in Russia. For example, during the interviews, the participants emphasised the importance of personal connections with other Russian MNEs, and through observations, I observed how the participants actually interacted with other companies and the government. The field notes reinforced the fact that MNEs use different types of institutional interplay, which helps them tailor their strategic responses and manage institutional complexity in Russia.

Third, the relationships MNEs form with federal and regional governments significantly affect MNEs’ ability to gain external legitimacy. During the interviews, the participants focused on the fact that the government can help MNEs establish connections with potential partners in foreign markets. This was supported by the observations and field notes. The government has many established business and political connections on which Russian MNEs can capitalise to gain external legitimacy.
Figure 4.3: Triangulation of multiple methods

Convergence of evidence:
- Existence of four types of institutional interplay
- Russian MNEs use institutional interplay to manage institutional complexity in Russia
- Relationships between MNEs and the government significantly affects MNEs’ ability to gain external legitimacy

Methods:
- Interviews
- Observations
- Field notes

Inconsistent Findings:
- Use of informal institutions decreased significantly after 1990s
- Government pushes MNEs to use formal and informal institutions and their interplay
- MNEs hide their relationships with the government

Conclusions:
- Relationships between government and MNEs is opportunistic
- MNEs form different types of relationships with the governments to facilitate their internationalisation
- MNEs nurture their relationship with the government

Semi-structured interviews

Observations

Field notes

Adapted from Yin (2014)
Each data-collection method is significant (Jick, 1979). Triangulation helped me establish if different methods led to the same conclusions. For example, from the interviews, observations and field notes, the conclusion was that MNEs responded to the complementary type of institutional interplay, mainly through compliance. This was particularly evident in the nuclear power industry, where both formal and informal institutions are effective. A participant from CH-Fan stated, “Regulations in nuclear power industry are solid and the fact that we are owned by the government helps us to gain legitimacy in foreign markets because we are pushed to perform and we are reliable”. Observations during data collection indicated that MNEs association with government can lead to certainty in terms of payment and delivery for foreign partners. I would not have reached these conclusions if I had not employed multiple methods.

Triangulation also enabled me to discover alternative explanations for how Russian MNEs respond to formal and informal institutional interplay. For example, as mentioned before, companies’ solidarity and willingness to assist one another is used as a strategy not just to survive, but also to internationalise. However, one problem with triangulation is the difficulty of accurately judging claims if the results attained from the various methods are inconsistent (Silverman 1993). Nonetheless, divergent findings have an element of surprise, which can lead to unexpected results and others ways of explaining the studied phenomenon (Flick, 1992). In my study, some of the data from the observations at the summit and the conference were inconsistent, but this was clarified in further interviews.

The interview findings were inconsistent with those from the observations made at the two events. For example, the interview data suggests that the importance and use of informal institutions decreased significantly after the 1990s in Russian MNEs’ domestic and international activities; some participants were very vocal about not having any connections with federal or regional governments. Conversely, the observations from the two events show that MNEs, particularly their CEOs, investors and top managers, have well-established relationships with government officials that they try to nurture.

Another inconsistency was the government’s role in pushing MNEs to use institutional interplay to internationalise and achieve legitimacy in foreign markets. A number of interviewees stated that the government had no involvement in their operations. On the surface, this is true. However, during the conference, it was evident that regional government pursued their interests, including financial and status-related, by pushing the investor of SV-Trailer to engage in political activities at the regional level.
The inconsistencies across the findings suggest the following conclusions. Some participants were not willing to disclose their relationships with the government because building these relations is timely and costly. MNEs nurture these relationships and use them to overcome institutional complexity in Russia. Having these relationships enables MNEs to engage in forming an opportunistic relationship with the government and capitalize on them, which has become the norm in Russia’s business environment; this was clear from the events. I used triangulation to validate my results and make my interpretations clear (Denzin, 1989). It also enabled me to add in-depth knowledge to the investigated phenomenon and the specificities of conducting research in Russia (Flick, 1992).

4.6 Exiting the Field

Exiting the field is not well documented in the IB literature, although it is a crucial part of the research process (Iversen, 2009; Michailova et al., 2014). Exiting goes beyond physically leaving the research site because of the relationships developed during the research process with the participants and institutions involved (Michailova et al., 2014; Morrison, Gregory, & Thibodeau, 2012). During the course of my fieldwork, I developed relationships with the participants; my exit strategies were affected by relationship development in the field and in academia (see figures 4.4 and 4.5). As I was bound by the University of Auckland in terms of conducting research according to ethical regulations, I had an ethical responsibility to the participants and the university to ensure that the participants were safe.

Exiting is “an inherent and vital part of relationship development, starting from the researcher’s very first contacts with the field” (Michailova et al., 2014, p. 146). It is embedded in early phases of the research process and occurs even before entering the field (Iversen, 2009). I spent several months communicating with potential participants from SV-Aluminium before entering the field. When I entered the field, I had thus already established a relationship with one participant from SV-Aluminium; when we met, he helped me develop a detailed plan for other potential participants. Building relationships with participants is reciprocal (Cunliffe & Alcadipani, 2016). Having the relational perspective on the research, entails “responsible common sense” to the subjects involved in the research (Cunliffe & Alcadipani, 2016, p. 22). During Field Trip 1, my relationships with participants were formal in nature and took the form of interviews.

Although I established relationships with the participants, I always had a dual state of mind: I felt that becoming too close with the participants might compromise my judgement as a researcher. Conversely, being identified as a PhD student at the University of Auckland meant that I was automatically classed as a Westerner in Russia. At the beginning of the field trip 1, this made me feel disconnected from the field. Placing this restriction of being a Westerner on myself and trying to
remain objective was an obstacle to connecting with the participants. Reflecting on this situation, I realised that by trying to suppress my Russian identity, I was actually losing it, which could compromise my interpretations. I had to re-assess the purpose of my field trip, which was to examine and explore reality through the participants’ voices and tell their stories. As a result, I submerged myself in Russian culture by listening to war stories from my grandmother, going to local cafes after every interview to make reflective notes and having conversations with a broad circle of people beyond the participants. This allowed me to truly engage with the research setting.

The struggle to find a balance was also influenced by my responsibility to the university and participants. For example, not giving the participants CFs was based on my contextual knowledge that Russian people do not favour contracts. Being caught between the field and academia can be stressful, and caused me to feel as though I had ‘unfinished business’ when I left the field. During the research process, I kept in mind the ethical requirements I had to obey, but these were an obstacle in situations where participants talked about unethical behaviour. According to the ethical requirements, I had to stop an interview if this occurred, but this was not feasible given my research topic. This difficulty was emotionally draining, because it could have affected my reputation as a researcher and the participants might have felt suspicious of my motives of conducting research. To address this problem, I ensured that the participants fully understood that I was not investigating their illegal or unethical behaviours, and I did not terminate the interviews, which would have been regarded as unprofessional by the participants.

Exiting Field Trip 1 was planned—I physically left Russia on 31 August 2014, the day after my last scheduled interview. Snow (1980) notes that the researcher leaves the field when he or she collects enough data to answer the research questions. I felt that I conducted enough interviews during the
first field trip to do this, although I left very abruptly because I had my tickets to fly back to New Zealand. I had no time to reconnect with some participants. Despite the fact that I had created close relationships with them, I felt emotionally connected, which Michailova et al (2014) refer to as the ‘hostage exit strategy’ (see Figure 4.4). During the research process, I at first became deeply absorbed in the field, and was told half-truths by some participants, which was pointed out by a number of other participants. This could have hindered my interpretation of the data (Reeves, 2010). However, having good relationships with other participants enabled me to identify why some participants had told half-truths. When I exited the field, I felt emotionally connected to some participants because of their help in allowing me access and their involvement in my research. I viewed these relationships as like mentorship, and did not want to let these participants down (Morrison et al., 2012). After discussing this with my main supervisor, I decided to return to the field.

The purpose of Field Trip 2 was to reconnect with some participants; I did not eliminate the possibility of follow-up interviews, and conducted four. Most meetings with participants were informal, over lunch or a cup of tea. There was a sense of familiarity with them (see Figure 4.5). They welcomed the fact that I had personally contacted them, and some were pleasantly surprised that I met with them.

![Figure 4.5: Field Trip 2—an anticipated exit strategy](image)

During Field Trip 2, I still maintained my ethical responsibility to the university. However, because of the informal nature of this trip, as well as the experience and knowledge gained from the first trip, I felt more comfortable and relaxed. One participant said in our meeting, “You are somehow different this trip, you even look different. I can’t put my finger on it”. I explained that I was not rushing to gain data, but felt content and satisfied with the time I had allocated to return and thank the participants properly. The sense of familiarity and giving back to the participants enhanced our relationships.
The second trip was crucial in terms of attaining closure in relation to allocating time to thank the participants (Morrison et al., 2012). Through informal conversations, I was able to connect the links between the participants, that is how they know each other, as well as the contextual settings that shaped their answers. In a sense, it was more meaningful that these meetings were not focused on the content of my thesis, but on the participants. I felt satisfied because I was able to sustain relationships with the participants and disconnect emotionally from the field, which is referred to as the ‘anticipated exit strategy’ (Michailova et al., 2014). The outcome of this trip helped me gain feedback on Field Trip 1 from some participants, which was invaluable for allowing me to reflect on the decisions I had made and the research process as a whole.

Exiting the field is a methodologically embedded step whereby, through reflecting on the interactions with and between the research participants, enables a researcher to be critical and tell the complete story of the research process and the subject of inquiry (Iversen, 2009). For both my field trips, I was able to critically reflect on the ways in which the participants interacted and the contextual settings of the research, which are important elements of interpretive inquiry (Gioia et al., 2013; Miles, 1979). Without experiencing the hostage exit during Field Trip 1, I would have not realised that my exit as a researcher affected everyone involved. Importantly, if I had not conducted Field Trip 2, this could have influenced my relationships with some participants—not because my initial experience was negative, but because they had to communicate and deal with one another in a business sense despite me exiting the field. Re-entering the field was a very contextual decision, because I wanted to show my gratitude to the participants and ensure that by performing an anticipated exit, I could provide a holistic story from the collected data.

4.7 Interplay between Theory and Method

For the qualitative research method to be appropriate to the investigated phenomenon, it is important to thoroughly discuss the process and ensure that there is a methodological fit between ontology, epistemology, theory, research questions, method and analysis (Denzin & Lincoln, 2000; Patton, 2002). The interplay between theory and method is often oversimplified in IB literature because striking a balance between theory and empirical reality is challenging (Van Maanen, Sørensen, & Mitchell, 2007). However, it is essential to producing high-quality organisational research (Edmondson & McManus, 2007; Johns, 2017). Combining the theoretical concepts and communicating the outcomes of the research process can help achieve balance between theory and method (Boxenbaum & Rouleau, 2011). Communicating and explaining the challenges encountered during the research process can reveal why certain relationships between examined actors and/or constructs have occurred (Shepherd & Suddaby, 2016).
To achieve a balance between theory and method, I adopted Edmondson and McManus’ (2007) framework about methodological fit and applied it to the research methodology (see Table 4.7). In particular, I ensured that there was a methodological fit between my philosophical assumptions, chosen theory, research questions, method and methodology. As discussed previously, my ontological and epistemological stance was subjective and interpretivist, respectively, because I was investigating how reality works as opposed to its existence.

Table 4.7: Methodological fit

<table>
<thead>
<tr>
<th>State of prior theory and research</th>
<th>Mature</th>
<th>Nascent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interplay between formal and informal institutions, as well as the government’s role in MNEs’ external legitimacy</td>
<td></td>
<td></td>
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<tr>
<td>Open-ended inquiry, ‘how’</td>
<td></td>
<td></td>
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<tr>
<td>Qualitative; initially, open-ended data are interpreted for meaning</td>
<td></td>
<td></td>
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<tr>
<td>Case study, semi-structured interviews, observations, reflective note-taking</td>
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<tr>
<td>New relationships between constructs</td>
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<td></td>
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<tr>
<td>Pattern identification</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thematic analysis of collected interviews, observations and field notes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>An examination of formal and informal institutional interplay, which leads to an invitation for further work on the issue opened up by the study</td>
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</tbody>
</table>

Adapted from Edmondson & McManus (2007).

Table 4.7 illustrates that the state of prior research and institutional theory as a whole is rather mature, and its popularity has grown significantly among IB scholars (Greenwood, Hinings, & Whetten, 2014; Greenwood, Oliver, Suddaby, & Sahlin-Andersson, 2008; Kostova et al., 2008; Meyer & Höllerer, 2014). Recent studies have highlighted that organisational institutionalism has lost its focus, and the emphasis has been on explaining institutions and their processes at the organisational field (Greenwood et al., 2014; Hernandez & Guillén, 2018; Saka-Helmhout, Deeg & Greenwood, 2016). However, there is a need to use institutions to examine MNEs’ structure, operations and strategic behaviours (Greenwood et al., 2014; Johansen & Waldorff, 2015). Meyer and Höllerer (2014) and Saka-Helmhout et al. (2016) underscore the importance of interactions between MNEs and
institutions, as well as MNEs’ strategic responses to institutional complexity. This is integral to my study, because Russian MNEs use their relationships with different levels of government to respond to institutional complexity and internationalise. These relationships are not stagnant, but evolve as a result of institutional changes (Shipilov et al., 2014), as do the way Russian MNEs engage in and use these relationships.

I used the concept of formal and informal institutional interplay to explain the how MNEs use their relationships with the government to facilitate internationalisation. Institutional interplay is a novel concept in IB, and is thus in its nascent state of development. Several studies have mentioned that formal and informal institutions co-exist and that formal institutions affect informal ones; they have also addressed the effect of both institutions on MNEs’ strategic choices (Fadda, 2012; Meyer & Peng, 2016; Peng, 2003). However, the interactions between these institutions are complex, and MNEs use them to their strategic advantage. Employing qualitative methodology helped me explore institutional interplay and how MNEs use it for internationalisation and external legitimacy.

To further examine the notion of institutional interplay, I devised open-ended research questions to allow for a more exploratory research process (Edmondson & McManus, 2007). Being immersed in the field allowed me to gain data about participants’ experiences with the government and observe how they used formal and informal institutions in their interactions with government. I could also explore the development of formal and informal institutional interplay, which are key theoretical concepts in my thesis.

I used case studies to investigate the government’s role in Russian MNEs’ external legitimacy and to answer the research questions. During the fieldwork, I employed in-depth, semi-structured interviews, observations and field notes to collect data. Semi-structured interviews were an appropriate method because they create the opportunity to gain insights and improvise, to a certain extent, during the conversation (Myers, 2013). While I had identified the themes and pre-formulated questions, I did not have to adhere to these. I also undertook observations, where I watched people from the outside at two particular events (McNaughton et al., 2013; Myers, 2013). Finally, I took field notes, which are a powerful tool for recording the researcher’s thoughts and feelings (Spradley, 1980). These methods of data collection enabled me to glean insightful knowledge about Russian MNEs and the government as well as explore new links between constructs such as formal and informal institutions, as opposed to verifying or testing existing theoretical frameworks.

4.8 Chapter Summary

In this chapter, I have discussed the study methodology. I explained the study research paradigm and justified why qualitative research was appropriate for examining the relationship between the
Russian Government and MNEs and how it affects their domestic and IB activities. Qualitative research permits in-depth description of contextual factors and more intimate engagement with the collected data (Denzin & Lincoln, 2000). This was crucial to my research, as it enabled me to make sense of participants’ responses and reactions to the topics discussed, which proved an issue during data access.

I then provided the selection criteria for choosing qualitative multiple-case study as the research method, and the multilevel selection approach that I employed. This comprised five levels: the first three occurred prior to my entering the field and the last two occurred while I was in the field. As a result, 12 MNEs participated in my study, and I explained each of these in detail. Next, I examined and discussed the challenges I faced during the data-collection process in relation to the accessing the field: topic sensitivity, translation, secretaries as ‘gatekeepers’ and being an insider in a research setting.

This was followed by outlining the methods I used: semi-structured interviews, observations and reflective field notes. Using these three enabled me to engage in triangulation of methods, which helps reduce misinterpretation of the findings and increases validation of the data received (Denzin, 1989). My fieldwork consisted of two field trips—the second was organised because I exited the first trip abruptly, and I felt that I needed to reconnect with some of the participants. I then discussed the two exit strategies, hostage and anticipated, based on the two field trips. Finally, I examined the interplay between theory and method in research. In particular, I explained that having a methodological fit is important in qualitative research to produce high-quality research (Edmondson & McManus, 2007; Johns, 2017).
Chapter 5: Analysis and Findings

In this chapter, I analyse the data and present the findings. I begin by giving a detailed examination of the data analysis process, which comprised six phases. The first three focused on answering the first research question: How do Russian MNEs respond to the interplay between formal and informal institutions to deal with institutional complexity in Russia? Phases four, five and six aimed to answer the second research question: how does the relationship with the Russian Government affect the external legitimacy of Russian MNEs? I then link together the findings on intra-institutional complexity and Russian MNEs’ external legitimacy.

5.1 Data Analysis Process

Corbin and Strauss (2008) define qualitative data analysis as “a process of examining something in order to find out what it is and how it works” (p. 4). It is a continuous process requiring deep understanding and interpretation of data, which is achieved through interactions with participants (Bluhm, Harman, Lee, & Mitchell, 2011; Miles & Huberman, 1984b). These interactions are embedded in a local setting which shapes participant responses (Van Maanen, 1979). The researcher interprets these interactions based on the social setting and finds meaning in the raw data (Gephart, 2004; Guba & Lincoln, 1994; Patton, 2015); they evaluate and simplify the data by reconstructing it into major themes that allow for better understanding of the initial data and create meaning (Lee, 1999).

To reflect on the participants and their organisations, I asked key questions about what could shape the participants’ worldview. Their views can be influenced by their background and values, which can contribute to evaluating their knowledge of the subject of inquiry (Patton, 2015). Information about background and values is not always publicly available; I gleaned some from participants during interviews and informal interactions, and some from online and print media (where available), which is a common practice in qualitative research and analysis (Patton, 2015). This information was important for analysing the data, because it ensured the validity of what I gathered during interviews and controlled for bias. Such knowledge allowed me to make sense of participant interview responses.

Figure 5.1 shows the six phases of the data analysis process in which I engaged. Phases one, two and three helped answer the first research question. In Phase 1, I identified four types of institutional interplay: complementary, substitutive, accommodating and conflicting, based on the participants’ responses. This then allowed me to identify the Russian MNEs’ responses to the four types of institutional interplay in Phase 2. In Phase 3, I provided analysis for how Russian MNEs responded
to the different types of institutional interplay. Phases three, four and five thus facilitated answering the second research question. Phase 4 focused on determining the factors that influence Russian MNEs’ external legitimacy. In Phase 5, I identified how the relationship between the government and MNEs influenced those MNEs’ external legitimacy. This contributed to shaping the data structure and findings to ascertain how relationships with government can enable and damage Russian MNEs’ external legitimacy.
Figure 5.1: Six phases of the data analysis process
5.1.1 Types of Institutional Interplay and Russian MNEs’ Strategic Responses

5.1.1.1 Phase 1: Identifying the Types of Institutional Interplay

Phase 1 of the data analysis was data reduction: “selecting, focusing, simplifying, abstracting and transforming the raw data” (Miles & Huberman, 1984a, p. 23). Data reduction is performed by processing the raw data, also referred to as coding. To process the interview transcripts, I focused on interpreting participants’ words by applying codes to the interview transcripts (Miles & Huberman, 1984b). Coding enabled me to link the collected data and ascribe them meaning, which in turn allowed me to tell participants’ stories coherently and answer the research questions (Strauss & Corbin, 1990).

The initial stage of Phase 1 included open coding, during which I listened to the audio recordings and studied the transcripts to familiarise myself with the data. I began data coding using a traditional method, by going through the transcripts with different-coloured highlighter pens (Boje, 2001). I highlighted sections of text with allocated colours, and gave them certain codes based on the data. I then employed NVivo 11 to run data analysis and enhance the validity of manual coding. Coding qualitative data evolves and is cyclical—therefore, combining manual and software coding allowed for careful data evaluation and for establishing links between the data and ideas (Saldaña, 2015; Strauss & Corbin, 1990). I entered interview transcripts as text files into NVivo, which enabled me to organise all the codes that emerged from the data. I then compared the traditional coding with NVivo’s and developed general codes. These general codes were driven by the research questions and the general themes that discussed during the interviews.

Phase 1 of the data analysis focused on identifying the major categories of institutional interplay presented in Table 5.1. I coded for formal and informal institutions separately because I wanted to better understand the participants’ views on their effectiveness and ineffectiveness. These codes were based on participants’ language. For example, participants often referred to informal institutions as ‘having connections’ and/or ‘having relationships’ to describe the importance of the relationship with the government; they often referred to formal institutions as ‘policies’ and/or ‘laws’. I examine personal connections that CEOs and managers have with governments and refer to them as informal institutions, and I aggregate it to organisational level in data analysis because the unit of analysis is MNEs. The interviews were conducted with CEOs and managers of Russian MNEs, when I refer to the participants’ personal connections with the governments, they represent the voice of their respective MNEs. As a result, the analysis, findings and contributions are presented at organisational level. Thus, for the purpose of the analysis, I used connections and relationships to examine informal
institutions and policies and laws to examine formal institutions. I applied these codes throughout the data, paying particular attention to any overlaps, which enabled me to identify the interactions between formal and informal institutions.
Table 5.1: Data structure for institutional interplay for MNEs in Russia (output of Phase 1 of data analysis)

<table>
<thead>
<tr>
<th>Illustrative quotations (empirical observations)</th>
<th>Institutional interplay extracted from illustrative quotations (theoretical observations)</th>
<th>Major categories of institutional interplay (theoretical constructs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>“The company’s performance is highly controlled by the government.” (top manager, CH-Fan)</td>
<td>High level of federal government involvement leads to effective use of company policies</td>
<td>Complementary institutional interplay (effective formal and informal institutions)</td>
</tr>
<tr>
<td>“We follow all the laws that exist in Russia because we operate in this legal field.” (past CEO, SV-Bronze)</td>
<td>High level of federal government control strengthens company’s performance</td>
<td></td>
</tr>
<tr>
<td>“Personal connections help to facilitate our exports.” (top manager, SV-Bronze)</td>
<td>Personal connections with regional and federal government facilitates access to financial resources</td>
<td></td>
</tr>
<tr>
<td>“Cooperation with the regional government is very important for the CEO of the company in order to secure financial and administrative support.” (CEO, SV-Generator)</td>
<td>Personal connections with the regional government help to overcome administrative hurdles</td>
<td></td>
</tr>
<tr>
<td>“Recommendations of federal government helped us to win the title of strategic company in Sverdlovsk region.” (CFO, SV-Aluminium)</td>
<td>Connections with federal government lead to acquiring knowledge that facilitates MNEs’ operations</td>
<td></td>
</tr>
<tr>
<td>“Connections with the federal government helps us to be informed of any upcoming policy changes.” (senior manager, SV-Generator)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“There are existing ambiguities and differences in existing policies.” (senior manager, SV-Bronze)</td>
<td>Ambiguous formal institutions are ineffective</td>
<td></td>
</tr>
<tr>
<td>“We don’t have an integrated legislative system in Russia. The existing policies are not cohesive.” (CFO, SV-Aluminium)</td>
<td>Well-nurtured personal connections with the government help MNEs overcome formal institutional ambiguity</td>
<td></td>
</tr>
<tr>
<td>“I use my established personal connections with the government and people help me.” (senior manager, CH-Fan)</td>
<td>Well-nurtured personal connections with foreign partners enhance MNEs’ performance</td>
<td></td>
</tr>
<tr>
<td>“Personal connections with foreign partners allow us to enhance performance in foreign markets.” (senior manager, SV-Cookware)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“We use the relationships with our partner from Czech Republic to enhance quality in our Russian subsidiary.” (CEO, CH-Pipes)</td>
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</tbody>
</table>


| “The rules of the game have not changed for the last 4–5 years. The policies for example related to taxes, prices and monopoly have been stable.” (CEO, SV-Generator) | Formal institutions are more stable
The development of policies is behind the capabilities of Russian MNEs to develop
The focus and goals of the government and MNEs diverge
Personal relationships lead to dependency on the government | Accommodating institutional interplay (effective formal and ineffective informal institutions) |
| “The currency and customs laws have become much more effective since mid-2000s. The policies around currency law are customised for companies and around customs law are automatised” (CFO, SV-Aluminium) | “Government want to achieve economic growth and the companies want to grow and increase their profits. The interests of the government and MNEs are not aligned.” (senior manager, SV-Aluminium) | “The customs and currency laws contradict each other; however they should complement each other. There is no coordination between these two institutions.” (senior manager, SV-Bronze) |
| “Sometimes personal connections with the government intervene in development of a company by being too dependent on the government.” (CEO, CH-Pipes) | “The customs and currency laws should be in alignment but they are in conflict.” (senior manager, SV-Bronze) | “The customs and currency laws contradict each other; however they should complement each other. There is no coordination between these two institutions.” (senior manager, SV-Bronze) |
| “Connections with the government can be harmful for our competitive position in the market. For example, the information we provide to the government about new product developments can be given to our competitors.” (CEO, SV-Cable) | “Connections with the government can be harmful for our competitive position in the market. For example, the information we provide to the government about new product developments can be given to our competitors.” (CEO, SV-Cable) | “Connections with the government can be harmful for our competitive position in the market. For example, the information we provide to the government about new product developments can be given to our competitors.” (CEO, SV-Cable) |
| “When the interests of the government and MNEs are different, the company may lose access to financial resources.” (past CEO, SV-Aluminium) | “When the interests of the government and MNEs are different, the company may lose access to financial resources.” (past CEO, SV-Aluminium) | “When the interests of the government and MNEs are different, the company may lose access to financial resources.” (past CEO, SV-Aluminium) |
| “I used to work for the government in Chelyabinsk region. The government focused on short term regional growth by allowing production of poor-quality goods by MNEs in the region. This ruined the reputation of several companies.” (senior manager, CH-Fan) | “I used to work for the government in Chelyabinsk region. The government focused on short term regional growth by allowing production of poor-quality goods by MNEs in the region. This ruined the reputation of several companies.” (senior manager, CH-Fan) | “I used to work for the government in Chelyabinsk region. The government focused on short term regional growth by allowing production of poor-quality goods by MNEs in the region. This ruined the reputation of several companies.” (senior manager, CH-Fan) |
Table 5.1 depicts the data structure for institutional interplay in Russia that emerged as a result of Phase 1. This data structure is based on participant perceptions, and is supported by illustrative quotations in column 1. The second column presents my theory-based observations extracted from the illustrative quotations. Specifically, I wanted to understand how the participants perceived formal and informal institutions in Russia and the government’s role in forming the institutional environment. I extracted meaning from the illustrative quotations on the government’s involvement in developing formal and informal institutions. The data analysis supports Helmke and Levitsky’s (2004) and Tsai’s (2016) assertions that institutional interplay is influenced by the effectiveness of formal and informal institutions. My data also suggests that the relationship between MNEs and the government affects the effectiveness of formal and informal institutions and their interplay. As a result, I identified four major categories of institutional interplay in Russia: complementary, accommodating, substitutive and conflicting (see Table 5.1, column 3). I discuss the four types of interplay based on their relationships with the Russian Government below.

**Complementary Institutional Interplay**

My analysis suggests that the government’s high level of policy development control, staff motivation of to follow the rules and the relationships between CEOs and the government constitutes complementary institutional interplay. These elements influence the effective enforcement of formal and informal institutions and support collaborative relationships between the government and MNEs.

MNEs and the government can engage in a collaborative relationship if they work collectively towards a common goal, such as policy development (Henisz & Zelner, 2005; Lenway & Murtha, 1994). Although the government and MNEs may be working towards the common goal, the government holds political power over MNEs’ operations and decision-making. When the collaborative relationship prevails, CEOs must have vast experience and knowledge regarding how to manage MNEs’ operations.

This was evident in CH-Fan, where there was clear understanding that its operations were controlled by the government because of the MNE’s strategic importance for the country’s development. The employees understood that the regulations were well developed, and that following them enhanced the MNEs’ relationship with the federal government. Effective enforcement of established regulations and relationships between MNEs and the government enhances complementary institutional interplay. However, collaborative relationships can be challenging to maintain, because MNEs must deal with the government at different levels. Relationships with government officials at the regional level can help MNEs gain access to regional funding or loan credits. This is important,
because while the federal government forms and passes the laws, technically, the regional government must enforce them.

Substitutive Institutional Interplay

Substitutive interplay occurs when formal institutions are ineffective and informal ones are effective (Helmke & Levitsky, 2004). Ineffective formal institutions are attributed to Russia’s underdeveloped enforcement mechanisms for laws and policy ambiguity (see Table 5.1, column 2). Russian MNEs use their relationship with the government to overcome ineffective formal institutions.

Another factor causing substitutive institutional interplay is a submissive relationship between the government and MNEs. Submissive relationships develop when the government begins to exercise its autonomous power over MNEs’ operations and decision-making (Hafse & Koenig, 1988). In 2014, when sanctions were imposed on Russia, this pushed the Russian Government to order some Russian MNEs not to import certain types of goods. For example, the federal government ordered CH-Pipes to stop importing and exporting pipeline accessories. This prompted CH-Pipe to use its relationships with the government and a foreign partner in the Czech Republic, which allowed it to reach a temporary truce with the government and continue exporting pipeline accessories. Thus, in theory, CH-Pipes submitted to government requirements; in practice, it continued its operations by developing closer relationships with its Czech partner, who helped CH-Pipes deal with institutional changes. When the government exercises its authoritative power to a great extent, MNEs find ways to create the illusion of having reached a temporary agreement with the government. In reality, they use their connections in domestic and foreign markets to facilitate their operations without changing them in accordance with government requirements.

The government exercising increased authority over MNEs can be seen as a power game. The government wields authoritative power to protect the state, which is one of its main functions (Willoughby, 1911). The Russian Government expands its authoritative power over Russian MNEs because of external pressures from foreign markets in form of sanctions. This can prompt tensions between the government and MNEs. For example, the government changed some regulations in 2014, following the sanctions and restricted exports of some goods without giving MNEs an adjustment period. CH-Pipes asserted that this put pressure on its operations and profits. In this case, institutional changes were introduced, but the mechanisms to enforce them were not in place for the MNEs. The Russian Government’s authoritative power can thus lead to submissive relationships with MNEs. However, this does not mean that MNEs comply with these formal institutions.

The agriculture industry, particularly the production of milk products, was also affected by the regulatory changes resulting from the sanctions. The government had formerly pay little attention to
developing this sector of the industry—the majority of development funding in 2013 went towards inward FDI (25 out of budgeted 30 million rubles) (Labinova, 2014). Following the 2014 sanctions, the government increased its interest and control over the production of milk and related products. At this stage, the companies and the government have reached mutual agreement. However, this situation is likely to change as the control of the sector becomes more centralised. If the government does not exercise its authority correctly, MNEs can use their connections to continue their operations without modifying them in accordance with regulations.

This submissive relationship can be seen as an exchange between the government and MNEs, because MNEs receive financial support and, in return, the government receives political support and infrastructure developments, such as funding and building of motorways and housing in certain regions. As a result, the government may become dependent on MNEs to a degree. The exchange relationship develops because at first, both parties benefit. This type of exchange relationship works for the development of MNEs, despite the government holding authority over their operations. As the relationships evolves, the interests and ambitions of the MNEs and the government change, which can lead to conflicts between the two.

**Accommodating Institutional Interplay**

Accommodating institutional interplay is influenced by effective formal and ineffective informal institutions. This implies that laws and regulations exist and that their enforcement is effective, which encourages MNEs to follow them. However, the use of personal connections is ineffective because it is driven by the diverging interests of the government and MNEs (see Table 5.1, column 2). The ineffective use of personal connections among Russian MNEs is especially driven by the financial gains of government officials and MNEs. Therefore, personal connections are used to facilitate personal interests. A past CEO from SV-Aluminium said:

> The government officials and some senior employees from this MNE earn extra income for their favours. Government officials receive a rollback for facilitating a deal, mainly for helping to deal with bureaucracy. The senior employees receive profit from extra deals without recording them. The two parties receive personal gains, but they cut into the profits of the MNE, which impacts its development.

This demonstrates that connections with the government are used for personal gains and have negative repercussions for MNEs’ development. For example, the fact that these deals are not officially recorded affects MNEs’ profits because the government and MNEs use some allocated funds to build their personal wealth, as opposed to investing in MNEs’ development. In the long run, this can be detrimental to their development and financial capability to internationalise. Further, this type of relationship can also unfavourably influence MNEs’ reputations if it becomes public
knowledge: it can be viewed as corruption, and MNEs can lose the bureaucratic assistance they receive from the government.

At the federal level, communication with the government occurs mostly through MNE shareholders. Shareholders bargain with the government to meet their own interests (Luo, 2001) or keep their distance, which is referred to as an exit strategy (Yakovlev, 2011). Luo (2001) states that bargaining with the Chinese Government can be employed if an MNE holds a strong position in the market. The CEOs and shareholders of Russian MNEs can bargain directly with the government, but the federal government can overrule any decision they make. This means that the bargaining strategy is not as common as the exit strategy in Russia.

MNEs adopt an exit strategy because of Russia’s weak institutional environment (Gel’man, 2011). Russian MNEs that do not cooperate with the government could lose access to financial and human resources, and have the government interfere in their strategic decision-making. For example, SV-Aluminium received the government conferred status of strategic MNE in the Sverdlovsk region, because it contributes a great deal to the region’s development. In return, SV-Aluminium receives funding at the regional level. While the federal government does not directly interfere in Russian MNEs’ development and internationalisation, it has power to overrule the regional government in this type of decision. One of the unwritten conditions for becoming a strategic MNE is a 70 million euros investment on the part of the MNE, because it should attract more inward FDI to the region. This project is beneficial for industry development, but for the MNE, it is detrimental in terms of financial stability. This pushes MNEs to rely on their own capabilities because they view depending on the government as ineffective.

As MNEs gain more firm-specific advantages and become less reliant on the government, their relationship with the government could become adversarial. MNEs may begin to ignore existing regulations to facilitate their own development. This does not mean that MNEs do not follow regulations; they simply use their connections with government officials at federal and regional levels to advance their development. As a result, formal institutions may become ineffective for MNEs’ operations, and informal institutions more predominant and a substitute for formal ones.

**Conflicting Institutional Interplay**

When formal and informal institutions are ineffective, the institutional interplay is conflicting (Helmke & Levitsky, 2004). Collusive relationships between the government and MNEs prompt conflicting institutional interplay when their interests diverge significantly. A collusive relationship is often associated with illegal activities (Kim, 1997), which emerge because of numerous corrupt business practices (Maxfield & Schneider, 1997). This is an exchange-based relationship; however,
unlike in a collaborative relationship, the government and MNEs focus on achieving different goals. In particular, the federal and regional governments focus on developing the Russian economy and regions, respectively. MNEs’ main focus is to continue their rapid growth and internationalisation. When the goals of the government and MNEs do not align, tensions arise and a collusive relationship forms, meaning that conflicting institutional interplay becomes more prominent.

For an exchange-based relationship to develop, the government and MNEs must work collectively to obtain long-term strategic advantages (Henisz & Zelner, 2005; Luo, 2001). My data analysis illustrates that misaligned interests between the government and MNEs in Russia often impedes achieving organisational goals (see Table 5.1, column 2). For example, when the governments of the Sverdlovsk and Chelyabinsk regions focus on the economic and social development of these regions, they often compromise the quality of goods that MNEs produce by overlooking production standards. This can be harmful to MNEs’ long-term development, because the reputation of their products suffers.

One of the challenges that Russian MNEs encounter when conflicting institutional interplay prevails is managing their relationship with the government to remain competitive. The CEO from SV-Cable noted that it has to be careful about sharing information regarding new developments with the government. If its interests are not aligned with those of the government, the government can give the information about new developments to competitors. In this instance, the government seeks opportunities that can be financially beneficial in the short run, whereas MNEs’ interests are in long-term development. Having a close relationship with the government can negatively affect MNEs’ competitiveness if the MNEs do not manage that relationship well.

Phase 1 of the data analysis enabled me to identify the important elements of participants’ perceptions regarding formal and informal institutions and their interplay. The data analysis also illustrated that the relationship Russian MNEs have with federal and regional governments also leads to a particular type of institutional interplay. This was important for determining the types of institutional interplay. To examine how the Russian MNEs responded to these four types of interplay, I undertook Phase 2 of the data analysis.

5.1.1.2 Phase 2: Identifying MNEs’ Responses to the Four Types of Institutional Interplay

Phase 2 of the data analysis enabled me to understand how the Russian MNEs responded to the four types of institutional interplay. During this phase, I employed axial coding, which is more structured than open coding, and aims to determine which codes carry more relevance for the research questions (Corbin & Strauss, 2008; Saldaña, 2015). Axial coding serves a transitional role, facilitating the move from initial codes to more deliberate aggregate categories that underpin the theoretical foundation of
the research (Saldaña, 2015). This phase of analysis is well supported by empirical evidence. In Table 5.2, I present the responses that the studied Russian MNEs pursued to deal with the four types of institutional interplay in Russia that were identified during Phase 1. To examine these responses, I engaged in a deeper coding process by making links between the categories identified during Phase 1.

This phase of data analysis is a recursive process of asking questions and making connections between categories (Eisenhardt, 1989). During this stage, I extracted quotations from the interview transcripts that related to participants’ initial answers about formal and informal institutions. The illustrative quotations representing the Russian MNEs’ attempts to deal with institutional interplay are presented in Table 5.2, column 2, and provide examples of how the studied Russian MNEs used institutional interplay to facilitate their operations. Further, they provide evidence that MNEs’ relationships with the Russian Government can either hinder or facilitate how they use institutional interplay.

The next step of Phase 2 was moving from illustrative quotations to the responses Russian MNEs utilised to deal with different types of institutional interplay. I identified these responses by examining, comparing and evaluating the data (Miles & Huberman, 1984b; Strauss & Corbin, 1990). During this step, I interpreted the data, a process that was influenced by the theoretical concepts of the study and empirical evidence (Saldaña, 2015). I interpreted the illustrative quotations in Table 5.2, column 2 based on the characteristics of the strategic responses that emerged as a result of the analysis, as well as theoretical concepts discussed in Chapter 4. As a result, I was able to place these responses into four categories: cooperation, avoidance, manipulation and adaptation. I provide data structure and findings for these responses in the next section.
Table 5.2: Responses pursued by Russian MNEs to deal with institutional interplay in Russia (output of Phase 2 of data analysis)

<table>
<thead>
<tr>
<th>Type of institutional interplay (extracted from illustrative quotations)</th>
<th>MNEs’ attempts to deal with institutional interplay (illustrative quotations)</th>
<th>Responses to institutional interplay (extracted from illustrative quotations)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complementary institutional interplay: High level of federal government involvement leads to effective use of company policies</td>
<td>“The policies are streaked and we need to follow all [of] them.” (CEO, SV-Generator)</td>
<td>MNEs conform to existing formal institutions to decrease institutional uncertainty</td>
</tr>
<tr>
<td>High level of federal government control strengthens company’s performance</td>
<td>“We operate in a legal field in Russia, where policies and laws exist and are streaked. We follow all of them because it helps to avoid uncertainty.” (past CEO, SV-Bronze)</td>
<td>MNEs embrace a high level of federal government control to achieve organisational goals</td>
</tr>
<tr>
<td>Personal connections with regional and federal government facilitate access to financial resources</td>
<td>“The federal government develops industry and company policies. We are an SOE, so we follow these policies.” (senior manager, CH-Fan)</td>
<td>MNEs use connections with the federal government to indirectly affect access to financial resources at the regional level</td>
</tr>
<tr>
<td></td>
<td>“The company’s performance is controlled by the federal government. It is good for the company. It motivates us to meet the quality and delivery targets.” (senior manager, CH-Fan)</td>
<td></td>
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<td></td>
<td>“Endorsement from the federal government ensured that majority of regional funding was allocated to SV-Aluminium.” (CFO, SV-Aluminium)</td>
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<tr>
<td></td>
<td>“We receive certain privileges in relation to taxes and loans by being endorsed by the federal government.” (top manager, SV-Aluminium)</td>
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<tr>
<td></td>
<td>“I use established connections with the regional authorities to avoid unnecessary auditing by the local tax department.” (CEO, CH-Pipes)</td>
<td></td>
</tr>
</tbody>
</table>
| Personal connections with the regional government help overcome administrative hurdles | “We establish relationship with regional government by engaging in regional trade shows in metallurgical sector” (senior manager, SV-Aluminium)  
“We are seriously involved in providing financial support to sport events organised by the regional government. The regional government in return often refers us to potential customers without going through formal channels.” (CEO, SV-Cable)  
“We use the knowledge about policy changes from federal authorities to evaluate risks and develop strategies to mitigate them.” (senior manager, SV-Generator)  
“The shareholders receive information from the federal authorities, which they use in preparing budgets for future development.” (past CEO, SV-Aluminium) | MNEs nurture connections with the regional government by engaging in corporate social responsibility practices  
MNEs use the knowledge provided by the federal government to adjust organisational strategies to deal with upcoming policy changes |
|---|---|---|
| Personal connections with the federal government lead to acquiring knowledge that facilitates company operations | Substitutive institutional interplay:  
Ambiguous formal institutions are ineffective | Well-nurtured personal connections with the government help MNEs overcome formal institutional ambiguity  
MNEs deal with ambiguous formal institutions by employing literate personnel  
MNEs influence policy development by meeting government requirements |

| “We employ literate people, lawyers and accountants, who can navigate through ambiguities and tie together the cracks in the legislation system. This enables us to operate under unstable economic conditions in Russia.” (CFO, SV-Aluminium)  
“We have competent personnel who know the laws well. They can deal with the existing differences and ambiguities in the laws.” (senior manager, SV-Bronze)  
“Personal relationships with the government become for us when the company submits to the requirement of the government.” (past CEO, SV-Aluminium)  
“MNEs who have well-established relationships with the government can influence policy for sales by tender to their favour by setting the prices and quality standards requested by the government.” (CEO, CH-Pipes) |  
|  |  |  |
| Well-nurtured personal connections with foreign partners enhance MNEs’ performance | “We show our potential and existing partners our production and factory facilities.” (senior manager, SV-Cookware)  
“I use our Czech partner to improve our standards to European quality.” (CEO, CH-Pipes) | MNEs use personal relationship with foreign partners by building trust to enhance their technological advances |
|---|---|---|
| Accommodating institutional interplay:  
Formal institutions are more stable | “We do follow the laws where possible.” (senior manager, SV-Bronze)  
“Separately, the laws have become more stable, but they are not integrated into the system as a whole. We follow these laws when they accommodate our operations.” (CFO, SV-Aluminium) | MNEs conform to existing laws if they accommodate their operations |
| Developing policies is behind Russian MNEs’ capabilities to develop | “We employ highly qualified and skilled engineers. They are the key for the growth of the company, despite the slow development of laws.” (CEO, SV-Generator)  
“We relied on organisational capabilities such as human and financial capital to develop in international markets.” (senior manager, SV-Aluminium) | MNEs overcome underdeveloped formal institutions by using organisational attributes |
| The focus and goals of the government and MNEs diverge | “Politics is politics and business is business. We take an apolitical stance.” (CEO, SV-Cable)  
“At the operational level, we stay out of politics. We have no interaction with the authorities, our stakeholders and CFO do” (senior manager, SV-Aluminium) | MNEs take an apolitical stance when their goals diverge from the government’s by avoiding political involvement with the government |
<p>| Personal relationships leads to government dependency | “Dependency on the government can lead to us losing our operations. I rely on organisational technology and our relationships with our partner in Czech Republic to develop the company.” (CEO, CH-Pipes) | MNEs reduce dependency on the government by advancing their organisational skills |</p>
<table>
<thead>
<tr>
<th>Conflicting institutional interplay:</th>
<th>“We have connections with the government, but we avoid being dependant on them. Instead, I invest a lot in upgrading our management practices and technology to stay competitive.” (CEO, SV-Cable)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Formal institutions can contradict one another</strong></td>
<td>“We cooperate with other MNEs, if conflicting laws in Russia impact our delivery and payment times.” (senior manager, SV-Bronze)</td>
</tr>
<tr>
<td></td>
<td>“We cooperate with other companies in Russia to deal with contradicting laws. Well-established relationships with other companies can help to deal with any business related challenges.” (CEO, SV-Generator)</td>
</tr>
<tr>
<td></td>
<td>“We keep our R&amp;D development very confidential from both the government and other companies. We have R&amp;D facilities in Chelyabinsk and US. We also cooperate very closely with Western universities to make sure our technological advancement is always step ahead of our competitors.” (CEO, SV-Cable)</td>
</tr>
<tr>
<td></td>
<td>“We rely on the experience and knowledge of our engineers.” (CEO, SV-Generator)</td>
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<td></td>
<td>“We only rely on ourselves. We keep the products innovate at competitive prices. This helps to remain competitive in Russia and overseas.” (CEO, CH-Pipes)</td>
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<td></td>
<td>“We focus on establishing good reputation overseas by providing high-quality products.” (CEO, SV-Cookware)</td>
</tr>
<tr>
<td>Personal connections with the government can lead to loss of MNEs’ competitiveness</td>
<td>MNEs overcome conflicting formal institutions by developing stronger relationships with other Russian MNEs</td>
</tr>
<tr>
<td>Conflicting interests between the government and MNEs affect achieving organisational goals</td>
<td>MNEs remain competitive by focusing on R&amp;D development and price</td>
</tr>
<tr>
<td></td>
<td>MNEs overcome conflicting interests with the government by focusing on enhancing organisational performance</td>
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</table>
Phase 3 of the data analysis process focused on answering the first research question: how Russian MNEs respond to institutional interplay in Russia. The literature suggests that two main factors contribute to institutional interplay: the effectiveness of formal institutions and the effectiveness of informal institutions (Helmke & Levitsky, 2004; Tsai, 2006; 2016; Köllner, 2013). However, the government and MNEs can also influence institutions and their development (Brinks, 2003; Tsai, 2006). The relationship between the government and MNEs also shapes how MNEs respond to different types of institutional interplay.

I develop and present the data structure in Figure 5.2, which illustrates the links between first-order and second-order categories based on the empirical data. I developed first-order categories as a result of Phase 2, and labelled them based on the emerging themes from interview transcripts, observations and reflective field notes. These themes are linked to formal and informal institutions in Russia and Russian MNEs’ relationships with the federal and regional governments through the experiences of the participants.

Second-order categories served as a bridge between first-order and aggregate theoretical dimensions, and were developed based on my interpretation of the illustrative quotations in Table 5.2 and theoretical constructs underpinning my thesis. Figure 5.2 also presents the aggregated theoretical dimensions.

It was evident in the first and second data analysis phases that having some kind of relationship with the government is important for MNEs’ operations. The government not only influences these operations, but plays a key role in developing formal institutions in Russia. I based the data structure discussion of the four responses on the nature of MNEs’ relationships with the Russian Government and the way they use these relationships.
Figure 5.2: Data structure for Russian MNEs’ responses for dealing with institutional interplay
Cooperation

Cooperation is an exchange-based response based on collaboration between the government and MNEs to achieve common goals; it is mutually beneficial. Cooperation prevails among Russian MNEs when institutional interplay is complementary. The effective enforcement of formal institutions is influenced by the high level of control over organisational actions, which enhances MNEs’ performance. In very controlled industries, such as nuclear power, MNEs follow established policies and laws. In return for their conformity, they receive information about upcoming policy changes that can influence their opinions.

The regional government helps MNEs overcome administrative issues, such as tax audits. In return, MNEs provide support for regional development in the form of financing sporting events and organising trade shows. Russian MNEs use well-established relationships with the federal and regional governments to enhance their performance. For instance, four MNEs used cooperation: SV-Aluminium, SV-Cable, CH-Fan and MC-Dairy. Table 5.3 depicts the responses that each Russian MNE used to deal with the four types of institutional interplay. Russian MNEs can use different responses, depending on their size and when these responses are implemented. These four MNEs are all relatively large and visible in the domestic market, which increases federal government interest in their operations. Cooperation with the regional government also boosts economic regional growth.

This was especially evident in the operations of CH-Fan (see Table 5.3). This MNE conformed to established policies and regulations because its performance was highly controlled by the federal government. Both federal and regional governments focus on developing the nuclear industry in the domestic and foreign markets. Consequently, cooperation is an appropriate strategic response in the case of CH-Fan because it enables the company’s development.

The cooperative response to complementary institutional interplay is also attributed to the fact that institutions, such as those in the nuclear power industry, were not entirely damaged after the collapse of the Soviet Union. This made the institutional infrastructure for existing MNEs stable and less complex in which to operate. Because nuclear power is a highly controlled industry, the federal government plays an active role in the operations of MNEs within it. MNEs cooperate with the federal government by obeying the existing policies and regulations, because the punishment for breaking or bending the rules means that employees could lose their jobs or have their salaries reduced. According to a senior manager from CH-Fan, “If we don’t follow internal and external regulations, I can lose my job. If we cooperate and report everything to the government, we receive financial and administrative support. Being an SOE cooperation with the government is important”.

Table 5.3: Each MNE’s responses to the four types of institutional interplay

<table>
<thead>
<tr>
<th></th>
<th>SV-Bronze</th>
<th>SV-Aluminium</th>
<th>SV-Cookware</th>
<th>CH-Pipes</th>
<th>SV-Supply</th>
<th>SV-Bells</th>
<th>SV-Service</th>
<th>SV-Cable</th>
<th>SV-Trailer</th>
<th>SV-Generator</th>
<th>CH-Fan</th>
<th>MC-Dairy</th>
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<tr>
<td><strong>Cooperation</strong></td>
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<tr>
<td>Conforming to formal institutions for mutual benefits</td>
<td>✓</td>
<td>✓</td>
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<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Collaborating with the government</td>
<td>✓</td>
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<td>✓</td>
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<td><strong>Manipulation</strong></td>
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<tr>
<td>Using informal institutions to avoid conforming to formal institutions</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<td>✓</td>
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<tr>
<td>Forming submissive relationship with the government</td>
<td>✓</td>
<td>✓</td>
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<td>✓</td>
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<td><strong>Avoidance</strong></td>
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<tr>
<td>Using formal and informal institutions to fill any voids</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<td>✓</td>
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<td>Reducing collaboration with the government</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<td>✓</td>
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<tr>
<td><strong>Adaptation</strong></td>
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<tr>
<td>Adjusting MNEs’ operations</td>
<td>✓</td>
<td>✓</td>
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<td></td>
<td></td>
<td>✓</td>
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<tr>
<td>Using informal institutions to adapt MNEs’ practices and avoid conflicting situations with the government</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<td>✓</td>
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</tbody>
</table>
For CH-Fan, the outcome of cooperation as a response to complementary institutional interplay was successful development, particularly in regards to financial resources and administrative support from the federal and regional governments.

At the same time, MNEs develop and maintain relationships with foreign partners without government intervention. They use these relationships to strengthen their foreign operations. Thus, MNEs’ successfully enact cooperation with the government, because the institutions complement one another.

**Manipulation**

As the relationship between MNEs and the government evolves, MNEs come to view formal institutions as ineffective and thus rely more on informal ones. This changes the institutional interplay to substitutive. To deal with substitutive institutional interplay, Russian MNEs engage in manipulation as a strategic response. Manipulation is exchange-based, and involves MNEs submitting to government needs to achieve different goals. Figure 5.2 illustrates that manipulation is achieved by Russian MNEs using informal institutions to avoid conforming to formal ones, and form a submissive relationship with the government to adjust policies that affect their operations.

Four MNEs in this study used manipulation: SV-Bronze, SV-Aluminium, SV-Pipes and SV-Trailer. Participants from these MNEs emphasised that although there is an abundance of institutions, they do not help MNEs operate and/or develop. According to the CFO of SV-Aluminium:

“There is an abundance of regulations in Russia, and they are not fully developed yet after the collapse of the Soviet Union. There are ambiguities in the existing institutions, which creates barriers for the development of our company. In order to succeed, we have to have literate lawyers and accountants who are able to determine these ambiguities and overcome them.”

The Russian Government has not yet established effective mechanisms for enforcing all existing regulations, as the entire Constitution has had to be rewritten since 1991. Therefore, institutional abundance and the void of enforcement mechanisms provides opportunities for Russian MNEs to use their relationship with the government to substitute for ineffective formal institutions.

To deal with substitutive institutional interplay and institutional abundance, all MNEs employ literate personnel, including lawyers and accountants, who make up for the ambiguities of formal institutions by interpreting laws and regulations to suite MNEs’ purposes. This can be a very powerful advantage, as it gives Russian MNEs leeway in terms of identifying the voids in the mechanisms and adjusting the relevant policies to suit their interests. Developing good relationships with lawyers and
accountants is very important for Russian MNEs and their everyday operations. A senior manager at SV-Bronze noted:

“We hire literate lawyers who have enormous amount of knowledge and connections at the right places. This helps us to stay one step ahead of any upcoming changes in the regulations. Human capital is crucial for exporting because if the regulations suddenly change, the people who work here can ensure that exporting operations go ahead.”

These personnel have substantial knowledge of Russian laws and their insufficiencies that is acquired by establishing relationships with key people in the legal system who can provide the necessary information before it is becomes publicly available. Human capital is thus one of the strategic resources used by Russian MNEs that enables them to deal with substitutive institutional interplay.

Another way Russian MNEs use informal institutions to their advantage is by establishing trust and relationships with their foreign partners. This became prominent during data analysis, as the majority of participants observed that despite some policies being ineffective in Russia, MNEs’ ability to develop and maintain good relationships with their foreign partners helped them overcome institutional inefficiencies. For example, export managers from SV-Supply and SV-Aluminium have very well-established relationships with their foreign partners, which allow them to address inconsistencies in currency law. In particular, these relationships are helpful for dealing with payment delays. Further, CH-Pipes built relationships with its foreign partners to enhance its product quality and bypass Russia’s inefficient patent laws. Its Czech partner contributed by patenting H-Pipes’ innovative products in the Czech Republic and then sending them back to Russia for sale. Thus, Russian MNEs use relationships with foreign partners as a strategy to enhance their operations and manage their diverging interests with the government.

Although MNEs rely on foreign partners to enhance their performance, their relationships with the Russian Government are also important when dealing with institutional ambiguity. CH-Pipes had to lower their prices substantially for pipes that they produce for Russian oil and gas companies and, in return, the federal government softened the policy for sales by tender. The federal government was particularly interested in CH-Pipes’ participation in tender sales because it was producing goods for Russian oil corporations. This exchange between CH-Pipes and the government seemed favourable, although as the CEO of CH-Pipes pointed out:

“The government helped us to win the tender, however that also made us more dependable on the government. One of the conditions for our win was price reduction, which affected our profits. We had no choice but to reduce the prices, because otherwise we would not get the market share in Russia.”
The positive outcome of the manipulation response is that the exchange relationship between the government and MNEs can increase MNEs’ market share. Despite this, MNEs’ profits can decrease, as occurred with CH-Pipes. However, developing a submissive relationship with the government can lead to unfavourable outcome for MNEs because their interests diverge with those of the government. In these circumstances, MNEs establish relationships with foreign partners to mitigate for the risks they may face in relation to the development of Russia’s institutional environment.

**Avoidance**

MNEs use avoidance as a strategic response when they want to limit their relationship with the government because of their differing goals. Avoidance is a response to accommodating institutional interplay. Figure 5.2 shows that avoidance is exercised by using formal and informal institutions to fill any voids and by reducing collaboration with the government. If existing policies do not meet MNEs’ goals, they rely on organisational capabilities, including financial and human capital, to avoid conforming to existing regulations. Avoidance was used by five MNEs in this study: SV-Cookware, SV-Supply, SV-Bells, SV-Service and SV-Generator (see Table 5.3). Having secure financial capital and highly skilled and knowledgeable employees are essential organisational attributes that MNEs use to deal with ineffective institutions. The SV-Generator CEO noted:

> “We rely on our organisational capabilities, because the existing regulations are not stable. One of the most important capabilities is our human capital at the company. That is skilled and knowledgeable engineers, who enable us to hold monopoly in the Russian market.”

MNEs enhance their organisational capabilities by being financially able to advance their technology. SV-Cookware and SV-Bells upgraded their technologies to European standards by attending training and workshop sessions in Europe. This enabled them to have a monopoly in Russia, and for SV-Cookware to cooperate with large foreign retailers that operate worldwide. Participants from all five MNEs stated that having highly skilled engineers and other personnel was the key to overcoming ineffective policy development, because it reassured these MNEs that they could provide high-quality products. Having financial capital was another factor emphasised by the participants: SV-Cookware and SV-Service ensured financial support from their holdings, and SV-Supply and SV-Bells received financial backing for more competitive loans from the European banks.

When accommodating institutional interplay persists, the relationship between the government and MNEs turns adversarial because their interests begin to diverge. As a result, MNEs choose to reduce their collaboration with the government. The exit strategy is a form of avoidance response utilised by Russian MNEs to limit their relationship with the government. Yakovlev (2011) and Frye (2002)
have found that Russian MNEs use this strategy to deal with an unstable institutional environment and seek no government support. My findings differ from those of Yakovlev (2011) and Frye (2002), and suggest instead that Russian MNEs prefer to stay apolitical; however, it is challenging to operate in the Russian business environment and internationalise by utilising an exit strategy.

My findings indicate that participants claiming to have no relationship with the government are actually hiding their relationship; they create the illusion of using the exit strategy by obscuring their connections. This is a common practice in the Russian business environment and ensures that hidden connections are channelled towards developing MNEs. The main reason for protecting these connections is the help MNEs receive, particularly from the regional government, to avoid dealing with ineffective policies in Russia. Some participants from SV-Supply claimed to have no relationship with the regional government, but one stated that the company did use its connections with the regional authorities in Sverdlovsk region to handle customs and paperwork related to exporting.

MNEs that adopt the avoidance response tend to be smaller; this means that the regional government’s involvement is not visible enough for the Russian federal government to become involved. MNEs’ visibility in the domestic market in terms of strategic importance is a key part of how the avoidance response is implemented and how their relationships evolve. Managing relationships with the federal and regional governments becomes problematic when their interests of both parties diverge. These MNEs reduce their collaboration with the government, but do not implement the exit strategy entirely. This is largely attributable to the fact that MNEs may need favours from the government at some stage to overcome bureaucracy in Russia.

The outcome of avoidance as a response to accommodating institutional interplay is twofold. First, if MNEs are able to keep their distance from the government by enhancing their organisational capabilities and securing financial capital, the avoidance response can decrease their reliance on the government and enhance their organisational performance. Second, an exit strategy can increase MNEs’ dependence on the relationship between MNEs and the regional government. DiMaggio and Powell (1983) refer to this dependence as coercive isomorphism. Rottig (2016) contends that this dependence causes organisations to conform to formal institutions. However, my findings suggest that dependence on the government can be silenced, and does not always lead to this conformity. This is mainly because of ambiguous formal institutions and voids in their implementation mechanisms. Another challenge to the mainstream assumption that organisations conform to existing regulations and become isomorphic is the size of MNEs. Larger ones are more visible in a market, which is more likely to increase government interest in their operations. As a result, even if the
relationship between MNEs and the government is silenced, it can become collusive if MNEs expand and turn into more powerful players in the domestic market.

**Adaptation**

A submissive relationship between the government and MNEs can become collusive if the two parties’ interests continue to diverge. Ambitions and interests do change, which can cause the enforcement of formal and informal institutions to become ineffective. As a coping mechanism, MNEs adapt their practices to keep operating. Adaptation is a strategic response when MNEs enhance organisational capabilities such as R&D, quality, prices and delivery times.

Figure 5.2 shows that strategic adaptation implies that MNEs adjust their operations and use informal institutions to adapt organisational practices. Russian MNEs adjust their operations by strengthening their relationships with other Russian MNEs that operate in the same or supporting industries. Four MNEs in this study used this technique: SV-Bronze, CH-Pipes, SV-Aluminium and SV-Cable. Participants stated that the main reason for developing relationships with other Russian MNEs was to handle conflicting formal institutions. The export department managers at SV-Aluminium and SV-Bronze noted the importance of collaborating with other Russian MNEs, since this can help manage conflicting customs and currency laws. The senior manager of SV-Bronze’s export department said:

“The customs and currency laws are in conflict in Russia, which can slow down our export operations by weeks. In this case we use other MNEs to deliver our products to our foreign partners on time. We have very good relationships with other MNEs, and we all use each other’s help.”

Collaborating with other Russian MNEs thus positively affects timely delivery and payments. Russian MNEs view lack of enforcement mechanisms and flexible regulations as risky, because it makes Russia’s business environment unpredictable. Collaborations with other MNEs are not formalised; rather, they are adaptation strategies that Russian MNEs use to deal with conflicting institutions. If MNEs do not manage these operations properly, tensions can arise between the government and MNEs.

Fading relationships between MNEs and the government can distract MNEs from their operations. The federal government’s primary goals are to develop a stable institutional environment and portray the political agenda as functional and stable in foreign markets. If MNEs’ goals interfere with those of the federal government, the consequences include MNEs losing access to strategic and financial resources. MNEs can also lose administrative support from the regional government if they do not aid it in economically developing a region. This administrative support includes dealing with bureaucracy in the courts, tax departments, banks and regional customs departments. When MNEs
no longer have this support, their tax payments tend to be very affected; these payments are often facilitated by unscheduled audits.

To mitigate the risks associated with having a collusive relationship with the government, Russian MNEs focus on establishing a good reputation in foreign markets. The SV-Aluminium and SV-Bronze participants explained that establishing a good reputation can help MNEs address unstable regulations in Russia. The CEO of SV-Aluminium said:

“Russian products have a bad reputation among foreign companies because of poor quality. We focus on producing high-quality goods by investing in European machinery at our factories. When our potential clients come to our factories and see that the productions are up to European standards, their perception about our goods becomes more positive.”

In general, Russian products are regarded as being cheap and low-quality overseas. Many Russian MNEs try to shift this perception by focusing on high-quality products and on-time delivery. This boosts their reputation and enables them to handle conflicting institutional interplay.

Russian MNEs thus use different responses to deal with the four type of institutional interplay. Table 5.3 shows that eight out of the 12 studied companies (SV-Cookware, SV-Supply, SV-Bells, SV-Service, SV-Trailer, SV-Generator, CH-Fan and MC-Dairy) utilised a single response to deal with institutional interplay; whereas the other four (SV-Bronze, SV-Aluminium, CH-Pipes and SV-Cable) used multiple strategies. Using multiple responses can help to deal with institutional complexity by satisfying the government and preserving relationships with necessary parties at the same time (Raaijmakers et al., 2015). These four MNEs are larger than the eight that utilised a single response. All four larger MNEs adopted the adaptation response, which can be attributed to their ability to adjust their operations to deal with conflicting institutions.

Avoidance was the most popular response, used by five MNEs, whereas cooperation, manipulation and adaptation were all used by four MNEs. Interestingly, avoidance was used by the smaller MNEs. This can be explained by the fact that larger MNEs cannot hide their government associations because of their visibility in domestic and international markets; conversely, smaller MNEs are able to hide their relationships with government officials because they are not as visible. Consequently, the government is more interested in the operations of larger MNEs because of the tax contributions they make. Although Russian MNEs prefer not to have any government associations, they are necessary for handling Russia’s bureaucracy, which helps MNEs internationalise. Despite utilising a particular type of response to institutional interplay, all MNEs face the challenge of managing their relationship with the government to improve their reputations and operate in foreign markets.
In the next section, I answer the second research question: how does the relationship with the Russian Government affect Russian MNEs’ external legitimacy?

5.1.2 Russian MNEs’ External Legitimacy

External legitimacy is seen as acceptance and validation by external stakeholders who can influence the perception of the important actors for an organisation (Deephouse, 1996; Drori & Honig, 2013; Rottig, 2016). These external actors, including the government and the public, can affect an MNE’s reputation and how it attains external legitimacy (Bitektine & Haack, 2015; Deephouse, 1996). I examine how Russian MNEs gain external legitimacy in foreign markets; I base my analysis on participants’ answers about the relationship and association between MNEs and the federal and regional governments, and how this relationship affects the reputation of Russian MNEs in foreign markets.

5.1.2.1 Phase 4: Identifying Factors that Influence Russian MNEs’ External Legitimacy

I commenced Phase 4 of the data analysis by identifying the factors that influence Russian MNEs’ external legitimacy, and I employed open coding to identify these factors. Table 5.4 presents illustrative quotations in column 1 extracted from the interview transcripts; column 2 denotes the factors I extracted that influence Russian MNEs’ external legitimacy based on the illustrative quotations and theoretical observations. As a result of this step in the analysis, I identified the main three factors that influence external legitimacy, which are given in Table 5.4, column 3: organisational performance, relationships with foreign partners and intra-institutional environment.
Table 5.4: Data structure for Russian MNEs’ external legitimacy (output of Phase 1 of data analysis)

<table>
<thead>
<tr>
<th>Illustrative quotations (empirical observations)</th>
<th>Factors influencing external legitimacy extracted from illustrative quotations (theoretical observations)</th>
<th>Major factors influencing external legitimacy (theoretical constructs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Our foreign customers and partners view the quality of our products as very high because the federal government controls the quality standards.” (senior manager, CH-Fan)</td>
<td>High-quality products and on-time delivery is associated with federal government control of MNEs’ operations</td>
<td>Organisational performance</td>
</tr>
<tr>
<td>“Our products are of high demand because of their high quality.” (CEO, SV-Generator)</td>
<td>Positive perception of MNEs is associated with high-quality products encouraged by the federal government</td>
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<tr>
<td>“The perception about our products and services is very good because we are encouraged by the federal government to upgrade our production facilities all the time.” (senior manager, SV-Aluminium)</td>
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<tr>
<td>“Our shareholder has to report the progress of the MNEs to the federal government, so he takes the quality of our goods very seriously. This gives a good reputation in foreign markets because our products are seen as highly competitive.” (CEO, SV-Cable)</td>
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<tr>
<td>“Regional government can help us to build some channels of relationships with foreign government.” (senior manager, SV-Aluminium)</td>
<td>Regional government helps Russian MNEs establish relationships with foreign partners</td>
<td>Relationships with foreign partners</td>
</tr>
<tr>
<td>“Regional government of Sverdlovsk region organise international conferences yearly, with the aim to attract potential partners for MNEs and local companies in the region.” (senior manager, SV-Aluminium)</td>
<td>Regional government helps Russian MNEs during initial negotiations</td>
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<tr>
<td>“Sometimes the representatives of regional government come with us to negotiate with potential foreign partners.” (CEO, SV-Cable)</td>
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</table>
“Political instability creates negative perception about Russia in the West. It impacts the demand for our products. We had to stop our operations in Ukraine because of the ongoing crisis.” (CEO, CH-Pipes)

“The crisis with Ukraine has impacted the institutional environment in Russia because of the increased bureaucracy, particularly with customs departments and banks. This decreased our international sales.” (senior manager, SV-Bronze)

“The government and the senior managers of the parent company make all the decisions related to operations. This impacts the quality and reputation of our services significantly.” (senior manager, SV-Service)

“I used to work for the government. The regional government of Chelyabinsk region pressures the MNEs in the region to grow despite of low-quality products.” (senior manager, CH-Fan)
The first factor, organisational performance, was determined by product quality, delivery times and positive perception of Russian MNEs by their foreign partners. Table 5.4 indicates that the high level of federal government control positively affects organisational performance. In particular, participants from all MNEs noted that product quality and delivery times improved if the federal government took a proactive role in controlling the MNEs’ operations.

This was particularly evident for CH-Fan because it is an SOE, and for SV-Cable and SV-Aluminium because they belong to large holding groups that have close government ties. The quotations from participants at these MNEs presented in Table 5.4 explain that the high level of federal government control encourages MNEs to enhance their performance by upgrading their production facilities. Strong federal government control ensures that the product standards are high, which improves the perception of MNEs in foreign markets.

The second factor influencing external legitimacy is Russian MNEs’ relationship with foreign partners. The data analysis shows that the regional government plays an active role in helping Russian MNEs establish relationships with foreign partners and participate in initial negotiations with them. This supports the findings of Li, Meyer, Zhang and Ding (2017), who state that the home government serves as a critical node between MNEs and potential foreign partners, which enables MNEs to gain access to intergovernmental diplomatic connections and increases their external legitimacy. In Russia, the regional government organises international conferences and exhibitions where domestic and foreign MNEs can forge new relationships and maintain existing one; forging these relationships is beneficial for developing a region. Therefore, it is in the government interests to help MNEs form such relationships, which can potentially lead to inward FDI for a region.

The regional government also helps MNEs during initial negotiations with their foreign counterparts. In some cases, a regional government representative will attend negotiations with MNEs. The government’s presence gives foreign companies a degree of certainty that Russian MNEs will pay and deliver on time, which in turn creates trust between MNEs and foreign partners; this is vital to gaining external legitimacy.

The third factor affecting external legitimacy is the intra-institutional environment. In Russia, this environment has been affected by the regulatory instability of the ongoing Ukraine crisis that began in 2014. As a result of this crisis, changes to tariffs and loans increased the level of bureaucracy in Russia. In particular, the customs department of the Sverdlovsk region and Russian banks became more challenging to deal with because of extra paperwork and there being no regulations in place for
implementation of regulations. The regulatory instability slows down the operations of Russian MNEs.

Russia’s institutional environment is also influenced by the pressure from both governments, which can negatively affect MNEs’ reputations. The regional government pressures MNEs to develop and pay taxes, as this contributes to a region’s the economic growth. However, this can compromise product quality, because the regional government focuses on meeting budgets set by the federal government. In the case of SV-Service, the government became involved in its decision-making, preventing it from upgrading its services to meet European standards.

This step of the data analysis helped me identify the factors that influence Russian MNEs’ external legitimacy: organisational performance, relationship with foreign partners and intra-institutional environment. I further analysed the data in the next phase, which helped me understand the government’s role in the formation of these factors and how they affect external legitimacy.

5.1.2.2 Phase 5: Identifying the Influence that the Relationship with the Government has on Russian MNEs’ External Legitimacy

Phase 5 of the data analysis enabled me to identify the links between the three factors and the relationships Russian MNEs have with the federal and regional governments. Table 5.5 illustrates the effect that the relationship with the government has on Russian MNEs’ external legitimacy. Column1 includes the three major factors, which are supported by the illustrative quotations in column 2.

I then interpreted the illustrative quotations based on participants’ answers and the theoretical concepts. I could then determine the effects that relationships with the federal and regional governments have on Russian MNEs’ external legitimacy; these are presented in column 3 of Table 5.5.

The relationship with the federal government has a positive influence on MNEs’ product quality and performance. Association with the federal government increases the reliability of MNEs’ performance, because foreign partners view the association as a guarantee of high-quality products, on time delivery and timely payments. The federal government encourages Russian MNEs to upgrade their technology through financial support, which improves production quality. Further, when the federal government has a high level of control over MNEs’ operations, this encourages MNEs to perform well, because the government has power to blacklist MNEs that are underperforming. This can be very damaging to their reputations, and reputations affect foreign partners’ perceptions of Russian MNEs. Association with the federal government and compliance with existing standards thus has a positive influence on Russian MNEs’ external legitimacy.
Table 5.5: The influence of Russian MNEs’ relationship with Russian federal and regional government on their external legitimacy (output of Phase 2 data analysis)

<table>
<thead>
<tr>
<th>Major factors influencing external legitimacy (extracted from illustrative quotations)</th>
<th>The influence of MNEs’ relationship with the Russian Government on their external legitimacy (illustrative quotations)</th>
<th>The effect on MNEs’ external legitimacy (extracted from illustrative quotations)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisational performance: High-quality products and on-time delivery is associated with federal government control of MNEs’ operations</td>
<td>“Foreign partners see us as serious and reliable because we belong to the government. This is an assurance for our partners that they will get paid on time and their goods will be of high quality and delivered on-time.” (senior manager, CH-Fan)</td>
<td>Association with federal government increases reliability of MNEs’ performance</td>
</tr>
<tr>
<td>Positive perception of MNEs is associated with high-quality products encouraged by the federal government</td>
<td>“Russian MNEs that have close ties with the Russian federal government are a lot more reliable than those private Russian MNEs. MNEs with high government control have high-quality standards that they cannot deviate from.” (CEO, foreign MNE, the Eurasian Summit)</td>
<td>Association with federal government positive influences Russian MNEs’ product quality</td>
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<td></td>
<td>“Federal government encouraged us to upgrade our facilities and in a way we had to obey if we wanted to receive financial support from them. Development of the new rolling facility will improve the quality of our products significantly.” (CFO, SV-Aluminium)</td>
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<td></td>
<td>“The reputation of our products is great in the foreign markets because the government controls the quality of production.” (senior manager, CH-Fan)</td>
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<tr>
<td>Relationships with foreign partners: Regional government helps Russian MNEs establish relationships with foreign partners</td>
<td>“Regional government has a lot of connections especially with the government from CIS countries. These relations help us to build trust with foreign partners.” (senior manager, SV-Aluminium)</td>
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<tr>
<td>Regional government helps Russian MNEs during initial negotiations</td>
<td>“Having good relationship with regional authorities of Sverdlovsk region helped us to establish trust with our partners from Belarus.” (Senior manager, SV-Supply)</td>
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<td></td>
<td>“Having representatives from regional government during negotiations shows our commitment to the potential foreign partners.” (CEO, SV-Cable)</td>
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<td></td>
<td>“Presence of regional government at our first meeting with the German foreign partner helped us to develop trustworthy relationship with them.” (Senior manager, SV-Aluminium)</td>
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<tr>
<td>Intra-institutional environment: Russia’s regulatory instability has a negative effect on Russian MNEs’ operations</td>
<td>“The ongoing crisis with Ukraine increased the levels of bureaucracy in Russia. Being associated with the federal government can make foreign partners wary of dealing with us.” (CEO, CH-Pipes)</td>
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<td></td>
<td>“The ineffective regulatory system in Russia slows down our overseas operations. In particular, the discrepancies in the customs and tax departments, as well as the bank. These three institutions want to achieve their targets, and they don’t work together.” (senior manager, SV-Bronze)</td>
<td></td>
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<tr>
<td>Pressure from the government has a negative effect on Russian MNEs’ reputations</td>
<td>“The regional government in Russia does not have necessary documentation for us to export our trailers. We overcome this by sending it to Kazakhstan or Belarus, getting the documents sorted</td>
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</table>

Good relationship with regional government helps build trust with foreign partners

Association with regional government helps MNEs during the negotiations with the foreign partners

Association with federal government can create negative expectations from foreign partners

Associations with federal government can have a negative effect on MNEs’ reputations

Association with regional government can increase institutional pressure on MNEs
through our partners there and then sending it back to Russia. This is risky because we deviate from the rules.” (CEO, SV-Trailer)

“The government and the shareholders pressure us to do operations in a way that does not meet the quality of service that they require. Most of our customers are government officials and foreigners, who have very high standards.” (manager, SV-Service)

Association with regional government can have a negative effect on MNEs’ reputations
Having a good relationship with the regional government helps Russian MNEs establish relationships with foreign partners, which is important to gaining external legitimacy. Regional governments have orchestrated connections for Russian MNEs with governments of other countries, particular CIS countries, and helped Russian MNEs build trust with existing and potential foreign partners. Fostering Russian MNEs’ regional success is in the interests of regional governments, because it boosts regional growth.

Well-established relationships with federal and regional governments can help MNEs improve their organisational performance and establish relationships with foreign partners. However, these relationships can also negative affect Russian MNEs’ operations because of the Western perception of Russia as having an unstable institutional environment. Being associated with the federal government has negatively affected Russian MNEs’ reputations because of Russia’s stigma following the Ukraine crisis, which affected MNEs’ profits because of the increase in tariffs.

Associations with the regional government put pressure on MNEs to comply with local standards and regulations; this pressure influences product and service quality. The lack of mechanisms in place to implement regulations at the regional level pushes MNEs towards non-compliance with existing formal institutions. SV-Trailer explained that a lack of formal channels through which it could process necessary documentation for safety clearance of the trailers, prompted it to acquire the documents through its connections in Kazakhstan and Belarus. SV-Service had close associations with the regional government in the Sverdlovsk region, and claimed that this affected its service quality, because its expectations and interests differed from those of the regional government. Its service was ultimately not compatible with the Western hotel providers; as a result, its reputation was damaged. Thus, the relationship with the Russian regional government can negatively affect Russian MNE’s external legitimacy in the case of divergent interests.

This step of the data analysis enabled me to understand and examine the influence of the relationships with federal and regional governments on Russian MNEs’ external legitimacy. In the next phase of data analysis, I present the structure and findings regarding Russian MNEs’ external legitimacy based on the factors that allow them to gain and damage that legitimacy.

5.1.2.3 Phase 6: Russian MNEs' External Legitimacy: Data Structure and Findings

Phase 6 of the data analysis answers the second research question: how does the relationship between Russian MNEs and the Russian Government affect Russian MNEs’ external legitimacy? Figure 5.3 presents the data structure 3. The first-order categories were formed as a result of my interpreting the illustrative quotations in Table 5.5, column 3.
Figure 5.3: Data structure—external organisational legitimacy

- First-order categories
  - association with federal government increases reliability of MNEs’ performance
  - association with federal government positive influences Russian MNEs’ product quality
  - good relationship with regional government helps build trust with foreign partners
  - association with regional government help MNEs during negotiations with the foreign partners

- Second-order categories
  - Reliability of goods and services
  - Trustworthy relationships with foreign partners

- Aggregate theoretical dimensions
  - Gaining external legitimacy
  - Negative perception of Russian MNEs by foreign partners
  - Damaging external legitimacy

- Other points
  - Association with federal government can create negative expectations from foreign partners
  - Associations with federal government can negatively affect MNEs’ reputations
  - Association with regional government can increase institutional pressure on MNEs
  - Association with regional government can negatively affect MNEs’ reputations
The second-order categories were based on my interpretation of the first-order categories and the factors influencing organisational legitimacy that were examined in Chapter 3. As a result, I was able to categorise which factors influence Russian MNEs’ external legitimacy and form the aggregate theoretical dimensions.

**Gaining External Legitimacy**

An organisation’s external legitimacy is influenced by the perceptions of its key stakeholders, who determine whether organisational actions are appropriate (Suchman, 1995; Deephouse, 1996). The two stakeholders who are integral to Russian MNEs’ external legitimacy are their foreign partners and the Russian federal and regional governments. Figure 5.3 illustrates that Russian MNEs gain external legitimacy by ensuring reliability of goods and services and building trust with their foreign partners.

I now introduce and examine the second-order categories presented in Figure 5.3. The reliability of goods and services is established by associations with the federal government. Figure 5.3 shows that such an association enables MNEs to enhance their performance. This was particularly evident for highly controlled MNEs such as CH-Fan, and for larger MNEs such as SV-Aluminium and SV-Cable that belonged to big holdings. This supports Tost’s (2011) statement that MNEs’ size affects market visibility and organisational legitimacy, because they are expected to comply with certain regulations and social norms.

The association with the federal government pushes Russian MNEs to comply with both domestic and foreign regulations, to provide high-quality products and to meet delivery targets. Foreign partners prefer to work with MNEs that have close federal government associations because they are reliable; foreign companies see these Russian MNEs as serious partners. This is important because despite political instability in Russia, foreign companies still prefer to work with SOEs because they can rely on them. Russian MNEs that have strict regulations are much more serious about operating in accordance with established institutions and delivering high-quality products. The senior manager of CH-Fan stated, “Foreign companies consider us as a reliable partner because we are an SOE. Being an SOE pushes us to enhance our performance because the government controls the quality of the products and their reputation overseas is at stake”.

Organisational performance is a key factor influencing organisational external legitimacy: having a strong relationship with the federal government enables Russian MNEs to improve their organisational performance. The above quotation indicates that performance is improved by increasing production output and product quality, which leads to profit maximisation. The senior
manager of CH-Fan attributed its improved organisational performance to the government controlling its operations. As a result, Russian MNEs gain external legitimacy in foreign markets by being associated with the federal government, which offers assurance that business transactions are performed according to the rules.

The middle section of Figure 5.3 shows that establishing trust with the foreign partners is another factor that enables Russian MNEs to gain external legitimacy. This trust is initially established via cooperating with the regional government—government officials enable this trust by introducing MNEs to foreign partners and taking part in initial negotiations between the partners and the MNE. Establishing trust is a long process, as it arises from a relationship with the partners (Parkhe, 1999).

While the regional government helps Russian MNEs by creating the right conditions to develop relationships, it is largely up to MNEs to nurture those relationships. All the participants stated that relationships were initially developed during exhibitions, conferences, seminars or trade shows organised by the regional authorities. Foreign and Russian MNEs view these events as opportunities to establish relationships; such opportunities are key to building trust (Hughes & Weiss, 2007; Parkhe, 1999). Russian MNEs use their relationships with regional governments as an opportunity to develop their relationships with foreign companies.

Establishing trust depends on managers’ ability to understand when it is appropriate to do so (Parkhe, 1999). Senior managers and CEOs of the Russian MNEs invested much time in building trust with foreign companies. The CEO of SV-Cookware stated:

“I believe that building trust with our foreign partners is crucial for our operations abroad. I personally go and visit our clients and make sure to maintain the relationship with them. This helps the firm to deal with the regulatory challenges in Russia. For example, due to currency law and difficulties with the bank in Russia, we could not pay our partner on time, however because they trust us, we were able to pay them later.”

This demonstrates that building trust can be essential to organisational performance when formal institutions present challenges for MNEs. All the interviewed CEOs and senior managers asserted that they established trust with foreign companies themselves after being introduced to them by the regional government. If the managers and CEOs of Russian MNEs are unable to develop and maintain trustworthy relationships with foreign partners, it could be detrimental to their reputation, and their reputation affects their image (Bitektine, 2011; Suchman, 1995) and key stakeholders’ expectations (Kostova & Zaheer, 1999). Russian MNEs’ reputations were a strong factor that shaped their image abroad, as all participants noted. Image can be negatively affected if MNEs are unable to meet their foreign partners’ expectations; in turn, negative image and reputation can damage Russian MNEs’ ability to gain external legitimacy.
**Damaging External Legitimacy**

Associations with both federal and regional governments can lead to foreign partners’ negative perceptions of Russian MNEs (see Figure 5.3). These negative perceptions are associated with the regulatory instability of Russia’s institutional environment, which can create a negative reputation for Russian MNEs by default, since they are often believed to be pushing a political agenda. In general, Russia’s institutional environment is regarded as unstable because of the country’s political uncertainty and the West’s negative ideas about Russia.

Under these circumstances, an association with the federal government may prevent MNEs from gaining external legitimacy. MNEs that already have presence in foreign markets and have established a good reputation are able to maintain their legitimacy (Deephouse & Carter, 2005). However, gaining legitimacy is more challenging because it is influenced by the judgement of Russian MNEs’ foreign partners; this judgement can be influenced by the media and host government. Consequently, this can lead to Russian MNEs’ negative reputation in foreign markets.

The federal government does not directly affect the process of gaining legitimacy, but the consequences of the political decisions they make can prevent MNEs from growing a positive reputation in foreign markets. The ongoing political crisis since 2014 has affected Russian MNEs’ operations: SV-Supply stated that before the crisis, it was supplying the products to Ukraine, but had to stop after the sanctions were imposed. Three of the 12 studied MNEs did not engage in operations with companies from Ukraine: SV-Supply, CH-Pipes and SV-Cookware. They explained that this was because of the challenges associated with the changed regulations—particularly the barriers introduced by both the Ukrainian and Russian governments in relations to customs tariffs, which increased MNEs’ expenses. However, the other nine MNEs continued operating in Ukraine and other markets, and viewed the regulatory changes as political games at an international level in which they did not want to take part.

Zimmerman and Zeitz (2002) suggest that organisations view legitimacy as their own resource that exists independently of others’ perceptions. External perception of Russian MNEs is influenced by Russia’s intra-institutional environment. Therefore, MNEs’ legitimacy and the domestic institutional environment are not mutually exclusive. The MNEs that participated in my study viewed legitimacy as their own resource, because they attributed their successful operations to quality of their products and the relationships they had with their foreign partners. The basis of developing these relationships is Russia’s institutional foundation in Russia, which is influenced by the federal and regional governments. This means that is the Russian Government is negatively perceived, Russian MNEs are prevented from gaining legitimacy.
Another factor influencing the perception of Russian MNEs is shown in the lower section of Figure 5.3: their association with the regional government. The regional government can pressure Russian MNEs to operate in a certain way in exchange for administrative support. For example, the regional government of the Sverdlovsk region pressured SV-Service to lower the standards of its services in a particular hotel. The senior manager of SV-Service explained:

“The regional government plays an active role in decision-making of this company, but the government does not understand the operational side. The interest of the government is predominantly to grow the economic development of Sverdlovsk region, however our goal is to provide a world class service. The hospitality sector is underdeveloped in Russia and the government does not have regulations in place that would allow us to enhance our services.”

Lowering service standards is prompted by the diverging interests of the regional government and Russian MNEs, which creates a negative perception of MNEs’ performance in foreign markets. For example, the regional government of the Sverdlovsk region put institutional pressure on Russian MNEs by not having policies in place to facilitate their international operations. This supports Dacin et al.’s (2002) contention that institutional pressure can influence how organisations gain legitimacy. My findings bolster theirs, indicating that ineffective formal institutions increase institutional pressure and can damaged MNEs’ reputations because of non-compliance with the existing regulations.

Gaining external legitimacy can be challenging, and the relationships between Russian MNEs and the government significantly shape how Russian MNEs gain organisational legitimacy. The instability of Russia’s institutional environment affects the reputations of Russian MNEs in foreign markets. These reputations are mainly influenced by media sources and foreign governments, who portray Russia’s institutional environment as unstable. This environment is influenced by the federal government, which has the authority to change policies and regulations, which leads to institutional pressure for MNEs (Dacin et al., 2002). Institutional pressure in Russia is created by regional governments and affects Russian MNEs’ performance, which leads to foreign partners’ negative perceptions of Russian MNEs. The external legitimacy of Russian MNEs is thus influenced by their associations with federal and regional governments.

5.2 Findings: Intra-Institutional Complexity in Russia and Russian MNEs’ External Legitimacy

Based on the analysis and findings of four different types of institutional interplay, I now examine how Russian MNEs respond to the institutional interplay to deal with intra-institutional complexity. I also address how MNEs’ relationships with Russia’s federal and regional governments affect their
external legitimacy. MNEs are bound to the domestic institutional environment and, in theory, must comply with its laws and regulations. Russian MNEs use their relationships with different government levels strategically to deal with institutional complexity and gain external legitimacy.

5.2.1 Answering Research Question 1: How do Russian MNEs respond to the interplay between formal and informal institutions to deal with institutional complexity in Russia?

5.2.1.1 Institutional Complexity in Russia

Institutional complexity in Russia is multilayered, because Russian MNEs must interact with different levels of government. The framework presented in Figure 5.4 captures this institutional complexity according to two layers: federal and regional. I position MNEs at the centre of this framework, because they are the core unit of analysis in my thesis. MNEs are a key link between the federal and regional governments because they deal with officials from both to navigate the institutional environment. I also note the collaboration between federal and regional government, which is indicated in Figure 5.4 by faded, curved arrows. The solid arrows indicate the relationships between the government and MNEs through the use of formal institutions.
In this case, the regulations are somewhat effective and the boundaries clearly defined for MNEs to follow. When formal institutions are more effective than informal ones, institutional complexity is lower, which makes it more straightforward for MNEs to navigate. The dotted arrows indicate that informal institutions are more effective. MNEs have informal relationships with the federal and regional governments, which makes the intra-institutional environment more dynamic. When formal institutions dominate the domestic environment, institutional complexity becomes more challenging for MNEs. Therefore, institutional complexity is higher. Institutional interplay is present in both layers of institutional complexity, because MNEs strategically use different types of interplay to facilitate their operations.

The federal layer of institutional complexity is represented by allocation of federal resources, authoritative power over policy-making and focus of state development. The federal government has the authoritative power to make and amend policies, which are focused on developing the state (Baranov et al., 2015). Although the federal layer of institutional complexity may seem dominating in the Russian context, the use of informal institutions can interfere with developing the state and allocating resources to MNEs.

The institutional environment is not static (Shipilov et al., 2014), but continuously evolving. As a result, the state priorities can change, this influencing the arrangement of the institutional environment. Since the start of the 2014 crisis, trade restrictions in Russia have increased bureaucracy. Further, MC-Dairy experienced increased control from the federal and regional governments over their domestic and international activities; the government’s interest is to protect and enhance the quality of Russian dairy production. As a result of these changes, formal institutions have become more regulated and effective. The challenge MC-Dairy faces is adjusting to this evolving institutional environment.

The regional layer of institutional complexity consists of initiating policy adjustment, regional development and allocation of regional resources; these are presented in the lower segment of Figure 5.4. Regional government can propose policy changes to the federal government for their respective regions (Baranov et al., 2015). The main aim of engaging in negotiations for policy adjustment is to develop a region. Often, the federal government sets these regional development targets. In cases where federal and regional policies aim for the same regional and state development outcomes, the institutional environment is easier to navigate and MNEs can more easily cooperate with the government at both levels.

Organisational attributes and an organisation’s strategic importance in terms of developing the state and regional economy influence institutional complexity; this is presented in the middle section of Figure 5.4. MNEs form relationships with the federal and regional governments, which places them
in an interesting position, as they must manage their relationships with both government levels to achieve their goals. MNEs use their own resources, such as financial resources, to shape policy development. This is evident in exchange-based relations, where MNEs fund federal or regional projects and in return receive tax privileges and avoidance of certain administrative check-ups. Exchange-based relationships help both the government and MNEs achieve their goals.

Russian MNEs’ use of their relationships with the government at both levels to achieve their goals depends on CEOs’ and senior managers’ ability to develop and nurture those relationships. Most participants from the 12 MNEs stated that their CEOs were essential to developing the MNEs, because they had relationships with government officials at regional and federal levels who knew how to use these relationships. The middle manager of SV-Aluminium’s export department stated, “I personally do not have any connections with the government officials. Our CEO and CFO have relationships with the federal and regional government. Last year it helped us to receive funding and upgrade our machinery”.

Highly regulated industries are more likely to have less complex institutional environments, because MNEs from this industry have well-defined regulations. Their operations and performance are highly controlled by the federal government because the MNE is of high strategic importance for the development of that industry, and MNEs obey the rules of the institutional environment. The evidence from my study suggests that the institutional environment of Russia’s nuclear power industry is highly sophisticated. Its regulatory mechanisms were developed during the Soviet era, and the sector’s very controlled nature means that MNEs have strictly defined boundaries within which to operate. For example, CH-Fan is an SOE, and the goal of the company and both government levels is to develop the nuclear power industry on the global level. Thus, the effectiveness of formal institutions provides MNEs with a more stable institutional environment. This does not entirely dismiss the existence of institutional complexity, but illustrates that when formal institutions and the mechanisms to implement them are effective, intra-institutional complexity is low.

The institutional environment becomes more challenging when the goals between the federal and regional governments diverge because the government undermines enforcing existing formal institutions. This makes formal institutions more ambiguous and challenging for MNEs to follow, and causes them to rely more on informal institutions to achieve their goals. As a result, the importance of formal institutions decreases, whereas that of informal institutions increases. This makes the institutional environment more unstable and challenging for MNEs to navigate, because the existing regulations are ambiguous. Further, differing goals between MNEs and the government affect resource allocation for regional and organisational development, which depends on the
strategic importance of the region and the organisation, and the relationships the MNEs leaders have with the authorities.

High institutional complexity is particularly evident in the machine-building and metallurgical industries, which is likely because these two industries experienced significant regulatory changes in the 1990s. Since then, the regulations have remained ambiguous, and these ambiguities create voids in formal mechanisms and make Russian MNEs’ implementation of these mechanisms more flexible. As a result, MNEs in these two industries must operate in a highly complex institutional environment.

Russian MNEs from these sectors have relationships with the government officials that they nurture and hide. Connections with government officials are sometimes silenced in the Russian business environment because this enables MNEs to overcome institutional complexity. According to the CEO of SV-Trailer:

“We have established relationship[s] with the regional and local government officials. I nurture these relationships and not many people know about them. The government officials help us to deal with the abundance of regulations in Russia and lack of mechanisms to implement them. I have to hide my relationship with the regional government because essentially this is corruption. If our exchanges become a public knowledge, we may lose the privileges we get from the authorities.”

This illustrates that these silenced relationships enable Russian MNEs to facilitate their operations by overcoming ambiguous formal institutions in the domestic market. Having these connections provides Russian MNEs with access to regional and local administration, which makes it easier for them to deal with Russian bureaucracy. For example, SV-Trailer silenced its relationships with the Sverdlosk region government, which helped it overcome lacking the required documentation for the customs department. This made exporting trailers easier and faster for SV-Trailer. It is common practice for Russian MNEs to hide their relationships with the federal and regional governments to ensure that the privileges and favours they receive from the governments are fulfilled.

However, these silenced relationships can have negative consequences for Russian MNEs if they are broken. When relationships end or become conflicted, MNEs may lose access to administration, which presents them with more difficulties in terms of handling institutional complexity. In case of SV-Trailer, if its relationship with the regional government was made apparent to the federal government, it would no longer have access to regional administration. This could decrease product exports, as SV-Trailer would need to gather all the required documentation.

Relationships with the federal and regional governments serve as protection for MNEs; if these relationships become public knowledge, this protection can be compromised if the relationships have
not been nurtured. As a result, institutional complexity increases and presents difficulties for MNEs. Institutional complexity exists at the federal and regional levels and depends on the effectiveness of formal and informal institutions and how Russian MNEs use them.

5.2.1.2 Russian MNEs’ Responses to Institutional Complexity in Their Home Country

Institutional complexity has been examined from the perspective of conflicting institutional logics (Greenwood et al., 2011; Saka-Helmhout et al., 2016) and organisational responses to incompatible institutional logics in different institutional environments (Faulconbridge & Muzio, 2016; Ramus et al., 2016; Thornton, 2002). For example, Thornton (2002) has found that one logic usually dominates and influences the way organisations adapt and change to institutional pressures. Faulconbridge and Muzio (2016) have found that MNEs can employ several tactics to adapt their organisational practices to deal with institutional complexity. My study adds to the existing literature on organisational responses to institutional complexity by providing evidence that MNEs must handle institutional complexity in the domestic market and find a way to gain external legitimacy. In particular, I argue that the relationship between the government and MNEs helps MNEs address institutional complexity and adapt their organisational practices.

The existing literature on institutional complexity focuses on how organisations deal with competing or incompatible institutional logics in different markets (Ramus et al., 2016; Thornton, 2002). As discussed in Chapter 4, organisational responses to institutional logics are influenced by institutions, and their enforcement mechanisms are formed by the government (Peters, 2012). While MNEs operate in multiple markets, they must deal with domestic institutional complexity, because their home government can support or hinder their operations in foreign markets (Luo & Zhang, 2016; Meyer & Höllerer, 2014; 2016). The government forms laws and regulations, but both the government and MNEs can influence the ways these institutions and their enforcement mechanisms are implemented (Boddewyn, 2016). Therefore, as argued in Chapter 4 and presented in Figure 4.4, the relationship between the government and MNEs is an important component of domestic institutional complexity.

Figure 5.5 depicts how different relationship types influence the type of institutional interplay and MNEs’ responses to institutional complexity in Russia. The relationships between government and MNEs are discussed in Chapter 3, with the emphasis on the facilitative or non-facilitative nature of those relationships (Ring et al., 2005). Figure 4.1 shows a typology illustrating that the type of institutional interplay depends on the effectiveness and ineffectiveness of formal and informal institutions. Figure 5.5 shows that the relationship between the government and MNEs also affects the type of institutional interplay that prevails in the institutional environment.
The first column in Figure 5.5 presents the types of relationships that Russian MNEs form with the Russian Government; each type shapes the type of institutional interplay (second column). Depending on the institutional interplay, MNEs choose an appropriate response, and these are indicated in the third column. The responses to institutional interplay are also discussed in this chapter. Here, I address the links between each type of relationship, institutional interplay and MNEs’ responses to each form of interplay. This demonstrates how Russian MNEs deal with institutional complexity in the domestic market.

**Figure 5.5: Russian MNEs’ responses to Russia’s institutional complexity**

I examine personal connections that CEOs and managers have with governments and refer to them as informal institutions, and I aggregate it to organisational level in data analysis because the unit of analysis is MNEs. The interviews were conducted with CEOs and managers of Russian MNEs, when I refer to the participants’ personal connections with the governments, they represent the voice of their respective MNEs. As a result, the analysis, findings and contributions are presented at organisational level. The relationship between the governments and MNEs” (See page 125).

I argue that the relationship between the government and MNEs influences the development of institutional environment. Both the government and MNEs have an ability to influence development of regulations, which in theory should create boundaries for MNEs’ to follow (Malesly & Taissig, 2016). The government and powerful domestic firms can manipulate the interpretation of these
regulations (Brinks, 2003; Tsai, 2006). This implies that the government and organisations have a guiding role in developing the institutional environment (Azari & Smith, 2012). My findings suggest that the existing regulations in Russia are ambiguous. I argue that relationship between the government and the CEOs and managers enables Russian MNEs to interpret existing regulations to their advantage. This is crucial in creating institutional environment for two main reasons. First, if the relationships between the governments and MNEs enable Russian MNEs to disobey existing policies and regulations, it weakens the development of institutional environment. Second, in instances when MNEs and governments have the same goals, the MNEs follow the existing regulations and it makes their enforcement more effective. This in turn strengthens the institutional environment in Russia and make the boundaries more less flexible. Focusing on personal connection between the governments and CEOs and managers of Russian MNEs provides a very clear picture of interplay between formal and informal institutions. This is due to the fact that the relationship between them can influence the enforcement of formal institutions, which is an important factor that influences the domestic institutional environment (Besharov & Smith, 2014).

Furthermore, I argue that the relationship between the governments and MNEs is also an important factor that influences the degree of institutional complexity in Russia and how MNEs deal with it. The relationships changes because of the interests between the governments and MNEs, as a result the institutional environment becomes more complex to operate in. MNEs utilise different relationships with the government in order to develop best strategic responses to deal with institutional complexity. When MNEs form collaborative and submissive relationship with the governments, it provides them with strategic advantages such as access to necessary resources. This in turn makes institutional environment less complex. However, when the relationships turn to adversarial and collusive, the institutional environment becomes more complex to operate in because the interests between them diverge. Consequently, the relationships can constrain institutional environment that MNEs operate in.

MNEs use both formal and informal institutions in their operations (Puffer et al., 2016; Tsai, 2016). While understanding how formal and informal institutions affect MNEs’ internationalisation separately is important, I argue that institutional interplay offers rich analytical possibilities for examining the ways MNEs deal with institutional complexity. Russian MNEs choose their responses based on their relationships with the Russian Government. They utilise different types of strategic responses: cooperation, avoidance, manipulation and adaptation (see Figure 5.5). The following sections address each of these responses.

**Cooperation**
Collaborative relationships between MNEs and the government lead to complementary institutional interplay. When complementary institutional interplay prevails, Russian MNEs utilise cooperation as a strategic response (see Figure 5.5). Cooperation is based on relational exchange, where collaboration should lead to mutually beneficial outcomes for both MNEs and the government (Murtha & Lenway, 1994). This thesis suggests that MNEs use cooperation when a high level of government control facilitates development by enabling their access to financial, human and administrative resources. The facilitative nature of cooperation thus helps Russian MNEs deal with institutional complexity in Russia via a collaborative relationship with the government.

Ramus et al. (2016) state that collaboration is necessary for managing institutional complexity, and that collaboration is achieved by formalising standard procedures. Formalising organisational procedures and regulations was evident in the case of CH-Fan, over which the government held a high level of control. The findings indicate that clearly defined procedures and regulations make formal institutions more effective, which in turn makes institutional environment less complex. When the government is highly involved and interested in MNEs’ operations, institutional complexity is low.

MNEs that use cooperation tend to strictly follow established regulations because these MNEs are more visible in the domestic market. For CH-Fan, cooperation was compulsory, because this MNE operates in the nuclear power sector and the federal and regional governments control all its operations. In less strategic sectors such as aluminium and dairy, the key reason for cooperation is MNEs’ market visibility. Strong visibility encourages organisations to cooperate with different audiences to balance their different expectations. Russian MNEs cooperate with the federal and regional governments by complying with existing rules and regulations and, in return, receiving financial and administrative support. Compliance can facilitate effective enforcement of formal institutions, because the interests of the government and organisations diverge (Scholz, 1991; Scholz & Wang, 2006). Effective enforcement of existing regulations strengthens Russia’s institutional environment and facilitates cooperation between the government and MNEs. By cooperating with the federal and regional governments, Russian MNEs can ensure their development through mutually beneficial exchange.

For the government, the benefits of cooperation include economic development of the regions and the country. I argue that this is a motivating factor for the government to form collaborative relationships with Russian MNEs, because MNEs can provide them with significant financial support. This was the case for the four MNEs that utilised cooperation, as illustrated in Table 6.3. These four MNEs all received financial support from the government; in return, they invested in
development of the regions. Cooperation is effective when institutional complexity is low, because Russian MNEs use formal and informal institutions effectively.

The challenge Russian MNEs face when dealing with institutional complexity in Russia is that the federal government has the power to adjust laws and regulations (Baranov et al., 2015). As a result, the institutional environment can become unstable for MNEs. For example, following the 2014 sanctions, the federal government restricted imports of some agriculture products, such as cheese, fish and meat, to enhance production of domestic agricultural goods (Komsomolskaya Pravda, 2016). The manager of CH-Dairy stated that these restrictions have affected Russia’s institutional environment, because the regulatory changes are still underdeveloped and there are no effective implementation mechanisms in place. In situations when formal or informal institutions become ineffective, Russian MNEs utilise different responses for handling institutional complexity.

**Manipulation**

A submissive relationship leads to substitutive institutional interplay—as a result, Russian MNEs seek to manipulate their relationship with the government to deal with institutional complexity (see Figure 6.2). Chapter 4 explores manipulation as a strategy for managing institutional pressures. Oliver (1991) has found that manipulation is a purposeful strategy organisations utilise to influence and control institutional pressures. To control these pressures, organisations attempt to exercise power over the stakeholders who created them. Manipulation is useful when the institutional environment is rather weak because organisations are able to change existing norms and regulations (Pache & Santos, 2010). This can allow MNEs to deal with increasing institutional complexity (Pache & Santos, 2010).

In this chapter, I argue that manipulation is an exchange-based response, whereby Russian MNEs satisfy the government’s needs to achieve their goals. This is an opportunistic response that Russian MNEs utilise to control, to some extent, the outcome of ineffective formal institutions in Russia. For example, SV-Aluminium exercised control over ineffective regulations by submitting to the demands of the federal and regional governments to invest in building a new rolling facility and upgrading its infrastructure in the Sverdlovsk region. Submitting to these demands enabled SV-Aluminium to gain the status of strategic organisation—as a result, the government adjusted export and tax policies for MNEs. Because the formal institutions were weak, SV-Aluminium was able to change existing regulations, which aligns with the argument of Pache and Santos (2013).

Although Russian MNEs can exercise control over regulatory adjustment, manipulation can be costly. In the case of SV-Aluminium, investing in the new rolling facility was not worth the return. However, SV-Aluminium did not pursue this investment—it would not have received financial
benefits from the export and tax policies changes. Manipulation is a double-edged sword, and Russian MNEs face the dilemma of whether to use manipulation or not to deal with institutional complexity and not jeopardise their relationship with the government.

Engaging in actor-specific manipulation (Kostova et al., 2008) can help Russian MNEs handle domestic institutional complexity. The federal government has the authority to rapidly change existing regulations; therefore, it is in the interest of MNEs to submit to the federal government’s requirements. By doing so, MNEs inevitably manipulate the government to adjust necessary regulations in their favour. The regional government cannot directly affect regulatory change—only the federal government has the power to do this (Baranov et al., 2015; Gel’man, 2011); however, the regional government can promote a certain regulatory change by bargaining on behalf of MNEs. This helps Russian MNEs overcome institutional complexity at the regional level. Submitting to the differing demands of both governments can be a challenge for Russian MNEs, but if the right techniques are found, manipulation can help Russian MNEs operate successfully in the domestic market.

Avoidance

Adversarial relationships between the government and MNEs lead to accommodating institutional interplay. Russian MNEs utilise avoidance techniques to deal with institutional complexity (see Figure 6.2). Avoidance is a concept proposed by Oliver (1991) as a response to institutional pressures, and suggests that organisations hide their non-conformity to the rules and/or escape the unstable institutional environment, as discussed in Chapter 4. Further, Pache and Santos (2010) contend that when organisations are faced with conflicting institutional demands, they resort to avoidance by concealing their non-compliance and engaging in ceremonial compliance. My research suggests that it is impossible to fully escape the institutional environment, because by default, Russian MNEs belong to and operate within the Russian institutional environment. All the Russian MNEs examined in my study maintained some degree of relationship with both governments and ensured that these relationships were geared towards MNEs’ development. Russian MNEs do not necessarily conceal non-compliance, as suggested by Oliver (1991) and Pache and Santos (2010), because the government is often aware of their non-compliance. The Russian Government facilitates ceremonial compliance by forming ambiguous formal institutions and mechanisms to enforce it. As illustrated in this chapter, ambiguous formal institutions allow Russian MNEs to interpret such institutions to their advantage and conceal any deviation from the rules. For example, the manager of Souzmoloko, Andrey Danilenko, notes that ambiguous laws ‘are interpreted differently by every lawyer’ (Gyrova & Matveeva, 2016). This enables MNEs to argue that their actions are within legal boundaries, and to conceal non-compliance with existing laws.
This flexibility in interpreting laws makes the institutional environment more challenging, as formal institutions are not unified (Greenwood et al., 2011). In Chapter 4, I demonstrated that the lack of unified institutions encourages MNEs to rely on informal institutions (Helmke & Levitsky, 2004). In this chapter, I argue that when formal institutions in Russia are ambiguous, Russian MNEs rely on their relationships with the federal and regional governments. Because the government facilitates MNEs’ non-compliance with regulations, MNEs’ reliance on informal institutions can become dysfunctional (Puffer et al., 2016). As a result, MNEs strive to reduce their collaboration with the government.

Avoidance is a common strategy utilised by smaller MNEs, since it enables them to act without attracting the attention of the Russian Government. Being less visible enables organisations to be more flexible in how they respond to institutional complexity (Greenwood et al., 2011; Meyer & Höllerer, 2016). My research adds to the findings of Greenwood et al. (2011) and Meyer and Höllerer (2016) by positing that when MNEs keep their distance from the government, it gives them the flexibility to choose an appropriate response for handling institutional complexity. The most prominent example of this is when Russian MNEs take an apolitical stance, meaning that they can still benefit from having relationships with the federal and regional governments.

Russian MNEs use avoidance to deal with high institutional complexity by striving to reduce their collaboration with the government, which lets them stay in control of their operations. The challenge Russian MNEs face when utilising avoidance is that the government enables MNEs’ non-compliance with ambiguous formal institutions. Therefore, Russian MNEs may strive to stay apolitical, but will maintain their relationships with the federal and regional governments to deal with institutional complexity.

**Adaptation**

When the relationship between the Russian Government and MNEs becomes collusive, the institutional interplay is one of conflict. As a result, Russian MNEs utilise adaptation to deal with institutional complexity (see Figure 6.2). Adaptation was discussed in Chapter 4 in relation to organisational institutionalisation. When the institutional environment is challenging, organisations adapt their processes to address external institutional pressures (Selznick, 1957). Conflicting institutions can make the institutional environment highly complex for MNEs to operate in because organisations must meet different stakeholder demands (Saka-Helmhout et al., 2016). However, MNEs can use conflicting institutions to their advantage when dealing with the government at different levels (Luo et al., 2017). The experience of dealing with conflicting institutions can serve as a learning mechanism for handling institutional complexity (Marano & Kostova, 2016; Ramus et al., 2016).
Adaptation is described as adjusting organisational capabilities and developing relationships with other Russian MNEs to deal with institutional complexity. Key examples of organisational capabilities that Russian MNEs enhance include R&D, product quality and delivery times. Russian MNEs also use their prior experience to operate in highly complex institutional environments. For example, the CEO of SV-Generator explained that he used his experience of developing the company during the 1990s to deal with Russia’s conflicting customs and currency laws.

Russian MNEs mostly use adaptation when formal and informal institutions are ineffective. The data analysis and findings illustrate that Russian MNEs use their experience in dealing with unstable institutional environments as an advantage that allows them to develop their organisational capabilities and practices. Larger MNEs tend to use this type of response because they have the financial resources to develop their R&D practices and upgrade their production facilities. For example, SV-Bronze, SV-Aluminium, CH-Pipes and SV-Cable collaborated with foreign institutions to enhance their R&D. This is an advantage for Russian MNEs when dealing with institutional complexity in Russia because they can apply their knowledge and experience to managing their collusive relationships with the federal and regional governments. By excelling at their R&D, Russian MNEs contribute to the overall development of the country’s innovation sector. The government supports R&D by providing tax incentives to MNEs that practise it. This puts Russian MNEs a powerful position, because their R&D fits the government’s agenda of developing the state. Russian MNEs use this advantage to manage ineffective formal institutions and maintain their relationship with the government.

A high level of institutional complexity encourages Russian MNEs to become more self-sufficient by shifting the focus to establishing good relationships with other Russian MNEs as opposed to the government. By adapting their responses, MNEs mitigate the risk of unpredictable changes in formal institutions because they rely more on their own organisational capabilities. This enables Russian MNEs to maintain control over their decision-making, to some extent. To handle institutional complexity in the domestic market, Russian MNEs must maintain their relationship with the Russian Government; but when adaptation is implemented, Russian MNEs must rely more on their own organisational capabilities.

Russian MNEs’ organisational responses to institutional complexity are influenced by their relationships with the federal and regional governments, as well as the type of institutional interplay that prevails in Russia. MNEs can use multiple responses, which allows them to be flexible.
5.2.2 Answering Research Question 2: How does Russian MNEs’ relationship with the Russian Government affect their external legitimacy?

The relationships between the government and MNEs are influenced by changing institutional environments and the shifting interests of the parties involved. The four types of relationships between MNEs and the federal and regional governments have different effects on MNEs’ external legitimacy. Further, the federal and regional governments play varied roles in facilitating this external legitimacy. Figure 5.5 illustrates how the four different relationship types affect this external legitimacy.

5.2.2.1 Positive Effect on Russian MNEs’ External Legitimacy: Collaborative and Submissive Relationships with the Regional and Federal Governments

A collaborative relationship with the federal and regional governments has a positive effect on the Russian MNEs’ external legitimacy. It provides assurance to foreign partners about MNEs’ product quality and delivery times. This is applicable to the highly controlled nuclear power industry, one of Russia’s most strategic industries, and one in which the federal government does not tolerate non-compliance with existing regulations. MNEs in this industry take the rules seriously and abide by them. This became evident during my data collection, when one participant wanted to meet at a café about a two-hour drive from the company. The participant followed the company rules, stating that the information that was unavailable on the website about the company’s operations could not be disclosed to an outsider. This illustrates that high level of government control in the domestic market can have negative repercussions for employees. However, having a collaborative relationship with the federal government enables Russian MNEs to gain external legitimacy, because foreign partners rely on them (see Figure 5.5, columns 3 and 4, row 1). Reliability is an important factor for Russian MNEs in terms of gaining external legitimacy.

A collaborative relationship with the regional government can facilitate introduction to potential foreign partners and government officials, which enables Russian MNEs to build trust with foreign partners. It is important to note that the regional government only participates in the initial stages of Russian MNEs’ internationalisation, when personal relationships play a significant role. Once the initial contact is established, Russian MNEs build the business connections themselves. However, being associated with the regional government is vital to gaining external legitimacy, because it helps Russian MNEs forge a strong reputation and establish themselves in foreign markets. It is up to MNEs to maintain this external legitimacy during further stages of their internationalisation through business relationships.
Overall, a collaborative relationship with the federal and regional governments enables Russian MNEs to gain external legitimacy by establishing reliability and trust with their foreign partners. The federal government’s high control over MNEs’ operations is the key factor for Russian MNEs’ compliance with the regulations. Regional government connections make Russian MNEs value their relationships with foreign partners, because the MNEs must maintain both their own reputations and that of the Russian Government. Russian MNEs thus value the reputation and recognition they obtain from a collaborative relationship with both government levels.
Figure 5.6: The effects of the four relationships types on Russian MNEs’ external legitimacy

<table>
<thead>
<tr>
<th>Types of relationships between Russian MNEs and federal and regional government</th>
<th>Role of federal and regional government</th>
<th>Effect on gaining external legitimacy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collaborative</td>
<td>Federal government: ensuring quality and delivery times to foreign partners</td>
<td>Enables gaining legitimacy through reliance</td>
</tr>
<tr>
<td></td>
<td>Regional government: introducing potential foreign partners and government officials</td>
<td>Enables gaining legitimacy through trust</td>
</tr>
<tr>
<td>Submissive</td>
<td>Federal government: enforcing rules</td>
<td>Does not create barriers for gaining external legitimacy, but can lead to negative image</td>
</tr>
<tr>
<td></td>
<td>Regional government: overcoming administrative bureaucracy</td>
<td>Facilitates indirectly gaining external legitimacy</td>
</tr>
<tr>
<td>Adversarial</td>
<td>Federal government: loss of control over decision-making</td>
<td>Raises questions about MNEs’ intentions and reputation</td>
</tr>
<tr>
<td></td>
<td>Regional government: loss of connections and negative ties</td>
<td>Leads to potential loss of external legitimacy</td>
</tr>
<tr>
<td></td>
<td>Federal government: forming purposeful cracks within existing formal institutions</td>
<td>Interfere in gaining external legitimacy because of distrust</td>
</tr>
<tr>
<td>Collusive</td>
<td>Regional government: enabling non-compliance with regulations</td>
<td>Interfere in gaining external legitimacy through negative image</td>
</tr>
</tbody>
</table>
Figure 5.5 shows that a submissive relationship between MNEs and the regional and federal governments also facilitates Russian MNEs’ external legitimacy. A relationship becomes submissive when MNEs abuse the regulatory system by not complying with existing regulations. As a result, the federal government exercises higher authority by developing stricter enforcement rules for MNEs (see Figure 5.5, column 3, row 3). Monaghan (2008) states that by exercising this higher authority, the Russian Government can push its political agenda. However, the main reason for enforcing stricter regulations and higher authority is to ensure that MNEs follow formal institutions to avoid and reduce illegal activities in the Russian business environment. In fact, Russian MNEs avoid being involved in political affairs that might affect their operations in foreign markets. The CEO of SV-Cable said, ‘We take an apolitical stance. We operate in many foreign markets and not being involved in political situation allows us to maintain relationship with our foreign partners and continue to operate in those markets’.

The main issue most CEOs raised regarding the federal government exercising its power was the lack of communication when regulations were changed. These changes were often introduced quickly, and MNEs were not given an adequate adjustment period. The CEO of CH-Pipes pointed out:

“The federal government changes the laws because they want to regulate the market. Recently, we developed a unique product, patterned it in Russia and the government decided to amend the law without communicating the changes to the businesses. Another company copied our product and as a punishment had to pay a fine. All of the sudden, our product went from being unique in the Russian market to being ordinary. The punishment for not following the laws is not substantial in Russia. We pattern our products in Czech Republic now.”

This demonstrates that while Russian MNEs submit to existing regulation changes, there is not enough guidance regarding how to implement these changed regulations. This makes it more challenging for MNEs to operate in the domestic market, but does not present an obstacle to gaining external legitimacy, because MNEs conform to the jurisdiction of the market in which they operate.

Despite the Russian federal government’s highly authoritative nature, Russian MNEs gain external legitimacy by not getting involved in political affairs and by complying with foreign market regulations. This enables them to build solid reputations in those markets and gain external legitimacy.

One of the challenges Russian MNEs face is how to ensure that the federal government’s authority is balanced and does not interfere in MNE operations. To overcome this challenge, Russian MNEs
use their relationships with the regional government, which helps them overcome Russia’s administrative bureaucracy (see Figure 5.5, column 3, row 4). This enables MNEs to deal with the highly authoritative federal government without compromising their performance and reputation. For example, SV-Trailer, SV-Aluminium, SV-Bronze and SV-Cable used their relationships with the Sverdlovsk regional government to overcome customs law difficulties. The federal government has been introducing changes to customs law since 2014, which place restrictions on MNE exports. To avoid these restrictions, the four MNEs relied on their relationships with the regional government to allow them to carry out their exports. The regional government thus indirectly facilitates Russian MNEs’ external legitimacy—by using their relationships with regional governments, MNEs can deliver their products on time.

Another challenge Russian MNEs face is ensuring that a submissive relationship with the government is managed well, since the federal government’s power means it can overrule the major decisions of MNEs and the regional government. For instance, SV-Bronze used its relationships with the federal and regional governments to fund the development of an industrial park on its territory. SV-Trailer also competed for the funds to build an industrial park. SV-Bronze belongs to a large holding group that helped the company win the bid over SV-Trailer. Originally, the regional government of Sverdlovsk region promised that SV-Trailer would win if the company shareholder became a political figure Sverdlovsk region. This promise was not kept, because the federal government overruled the Sverdlovsk regional government to allocate the funds. According to the Constitution, a regional government has the authority to allocate the resources; however, in practice, the federal government can override these decisions.

In this instance, both companies had to submit to the authoritative power of federal government. SV-Trailer’s well-established relationship with the regional government did not win it the bid, although the company’s operations and exports to Belarus and Kazakhstan were not affected. The CEO of SV-Trailer stated in an interview after the conference, ‘Winning the bid was not as important as enhancing our relations with the government and getting more exposure. This helped us to get more contracts to supply trailers to Russian military’.

Therefore, collaborative and submissive relationships between Russian MNEs and the government can facilitate external legitimacy by enhancing MNEs’ operations and reputation. This is important for Russian MNEs, because having a strong reputation helps them establish their presence and operations in foreign markets. If relationships are not managed well and become adversarial or collusive, external legitimacy can suffer.
5.2.2.2 Negative Effect on Russian MNEs’ External Legitimacy: Adversarial and Collusive Relationships with the Federal and Regional Governments

Adversarial and collusive relationships with the federal and regional governments can negatively affect external legitimacy. Figure 5.5 illustrates that when a relationship turns adversarial, the federal government loses control over MNEs’ operations to certain extent, because their interests diverge from those of the MNE—the federal government focuses on protecting the economy, and MNEs focus on enhancing their foreign operations. MNEs’ legitimacy is affected when they deviate from existing regulations and their actions become public. Consequently, their intentions are seen as questionable by foreign companies, and this can negatively influence their reputation overseas (see Figure 5.5, column 4, row 5). For instance, when the CEO of a foreign MNE raised concerns about the operations of one Russian MNE at the Eurasian Summit, it was clear that this MNE’s reputation was ruined because such a large audience was there to hear this CEO’s concerns. The Russian regional government tried to mitigate the situation by tactfully asking the foreign CEO to sit down; the regional government was not aware that this Russian MNE was not complying with the terms of the contractual agreement with the foreign MNE. This was evident by the reaction of the regional government official who mitigated the situation. This example reveals that the regional government does not have much control over an MNE’s operations, which can lead to an adversarial relationship. If MNEs develop an adversarial relationship with the regional government, they can lose their connections in foreign markets and create negative ties with potential partners. The trust built during a collaborative relationship is broken when the relationship becomes adversarial, which leads to Russian MNEs losing their external legitimacy.

If relationships with federal and regional governments are not nurtured, they can turn collusive, and a collusive relationship can destroy external legitimacy because of the conflicting interests of MNEs and federal and regional governments. The federal government has the ability to change existing regulations to make them more open to flexible interpretation. This is common practice in the Russian institutional environment, and makes it unstable for those operating within it. Figure 5.5 shows that a collusive relationship with the federal government can interfere with gaining external legitimacy because it creates distrust between Russian MNEs and their foreign partners. The federal government can interfere by conveying a negative image of an MNE by putting it on a blacklist that is publicly available. Bitektine and Haack (2015) and Deephouse (1996) state that the government can affect external legitimacy—my findings support this, and further indicate that the government can use its ability to shape external legitimacy as a powerful tool for interfering in MNEs’ internationalisation. Technically, being blacklisted limits MNEs’ operations in the domestic market rather than the international market. However, indirectly, it affects their performance, and thus their ability to internationalise. As a senior manager from CH-Fan pointed out, ‘If we do not comply with
the regulations, the government can put us on blacklist for three years. We would not be able to grow overseas because our profit and reputation will be damaged’.

The federal government’s influence on the reputations of Russian MNEs is an important factor that can affect organisational legitimacy (Bitektine, 2011; Suchman, 1995). Although some scholars argue that legitimacy and reputation should be studied separately (Deephouse & Carter, 2005), my findings suggest that the reputations of MNEs and their products in foreign markets have an incremental effect on the perceptions of Russian MNEs on the part of external stakeholders such as foreign partners and government. If the relationship between MNEs and the federal government is collusive, the government can affect stockholder perceptions by blacklisting Russian MNEs; in these cases, MNEs can use their relationships with regional governments to continue operating. The CEO of CH-Pipes explained:

“If a company has connections with the regional government, it can continue their operations. The regional government can overlook the quality issues that put the company on blacklist. This means that the company can still operate and develop. However, the quality of the products remains to be poor, which can negatively impact their reputation.”

Regional governments can help MNEs continue operating by permitting them to not complying with existing regulations (see Figure 5.5, column 3, row 8). The above quotation indicates that the regional government can facilitate deviation from the rules—this is because they are willing to overlook non-compliance, as long as MNEs contribute to developing the region. This exchange-based relationship between can thus continue MNEs’ operations by allowing them to compromise on product quality. This is beneficial in the short term, but low-quality products can ultimately affect an MNE’s reputation. For instance, SV-Trailer was able to export its trailers to Kazakhstan and Belarus without gaining the necessary documentation in Russia; the Sverdlovsk regional government overlooked this. When SV-Trailer’s foreign partners discovered faults in the trailers they had been sent, SV-Trailer’s reputation was damaged. This affected its external legitimacy and caused it to lose some clients in Kazakhstan. When Russian MNEs do not comply with the rules, foreign companies develop a negative perception of them, and perception is an important factor in terms of building organisational legitimacy. If the perception of Russian MNEs is negative, this presents an obstacle to gaining external legitimacy.

The federal and regional governments thus have a significant hand in Russian MNEs’ external legitimacy. Collaborative and submissive relationships enable Russian MNEs to attain external legitimacy, whereas adversarial and collusive relationships negatively affect external legitimacy. The relationships between the government and MNEs evolve because their interests change over time.
Consequently, how the government shapes external legitimacy is not static, meaning that Russian MNEs predominantly rely on their organisational attributes to gain external legitimacy.

5.3 Chapter Summary

This chapter has presented the data analysis. I first explained the process of data analysis in four phases. The process began with access to the field and continued during the data collection, data reduction and reporting stages. Thinking and reflecting on the raw data was crucial during each phase. Thoroughly evaluating each phase also enabled me to determine the overarching findings and answer the two research questions.

Russian MNEs engage in internationalisation activities, including gaining legitimacy, and at the same time they must navigate the domestic institutional environment, which is complex and consists of three main layers. First is the federal layer, where the federal government’s interests prevail. Second is the organisational layer, which emphasises organisational attributes and strategic importance for the government. Third is the regional layer, wherein MNEs must consider the regional government’s interests to develop and internationalise. These layers are intertwined through the relationships between the government and MNEs. The degree of institutional complexity depends on the alignment of interests between the two parties, and on institutional development. If the interests converge and formal institutions are used effectively, intra-institutional complexity is low. This was particularly evident in the nuclear power industry.

Institutional complexity in Russia becomes high when the interests of MNEs and the government diverge and formal institutions are in conflict, causing MNEs to rely more on informal institutions. This also prompts the relationships between MNEs and the government to evolve. Therefore, the institutional environment becomes more challenging for MNEs to navigate. As the effectiveness and use of formal institutions changes, MNEs must utilise various responses to the interplay between these two factors.

Russian MNEs can use a single or several strategic responses to deal with institutional interplay. For example, Russian MNEs cooperate with the government by conforming to existing regulations and collaborating with the government, and use avoidance by adopting the silent exit strategy. MNEs manipulate formal institutions by using informal institutions as a substitute for ineffective formal institutions. When institutional interplay is conflicting, MNEs adapt their strategies in response.

The findings further prove that different relationships with the federal and regional governments have different effects on Russian MNEs’ external legitimacy. Collaborative and submissive relationships with the federal and regional governments enable Russian MNEs to gain external
legitimacy; adversarial and collusive relationships present obstacles to gaining legitimacy; associations with the federal and regional governments can potentially lead to loss of external legitimacy. However, Russian MNEs use their organisational attributes to build personal and business relationships to gain and maintain legitimacy in foreign markets.
Chapter 6: Discussion

Thus far, I have found that both federal and regional governments play a significant and distinctive role in Russian MNEs’ ability to gain external legitimacy. During the data-collection process, the participants were reluctant to discussing the topic of ‘the role of the government in MNEs’ internationalisation’, and gaining participants’ trust was crucial to exploring this topic (see Chapter 4). Russian MNEs often use their organisational attributes, including performance, strategic importance to the domestic market and institutional knowledge, as well as their relationships with the government to deal with intra-institutional complexity and gain external legitimacy.

The existing IB research shows that the government is active in the internationalisation of MNEs and the institutional development of home markets (Boddewyn, 2016; Luo et al., 2010; Malesky & Taussig, 2017; Rottig, 2016; Zheng, Singh, & Mitchell, 2015b). There is a growing body of IB literature that differentiates between national institutions at different levels, such as central, regional and local (Boddewyn & Brewer, 1994; Meyer & Nguyen, 2005). The different levels of government and how they affect MNE operations has also received some attention in IB literature (Luo et al. 2010; Wang et al., 2012a; Wang et al., 2012b). Meyer and Peng (2016) posit that while this distinction between institutions at different levels has been acknowledged, it remains unexplored. My thesis contributes to this growing body of knowledge. In Russia, the differing levels of government have various effects on the internationalisation of Russian MNEs. In particular, I distinguish between the federal and regional governments and argue that Russian MNEs must form relationships with both to deal with institutional complexity and gain external legitimacy.

I relate the present chapter to the literature review, theoretical foundation, methodology and analysis and findings. I begin this chapter by a discussion on how organisational attributes connect dealing with institutional complexity and gaining external legitimacy, which is discussed in section 6.1. This section is based on the study theoretical foundation, analysis and findings. In Figure 4.4, I link institutional complexity and external legitimacy, illustrating that organisational attributes (strategic positioning in the field, organisational performance and institutional knowledge) affect MNEs’ ability to gain external legitimacy.

The data analysis illustrates that organisational attributes affect MNEs’ ability to gain external legitimacy. In section 6.1, I offer further evidence that Russian MNEs’ organisational attributes influence the way they deal with intra-institutional complexity. Organisational attributes also influence the relationship between the government and MNEs. I argue in section 6.2 that the government–MNE relationship evolves, and different types of this relationship can either facilitate or hinder Russian MNEs’ ability to gain external legitimacy.
This is followed by a discussion on the specificities and opportunities of conducting qualitative research in Russia. I base the discussion in section 6.3 on Chapter 4 (study methodology). During my fieldwork, I identified several challenges of conducting research in Russia. Understanding these challenges and specificities can help scholars engage in empirical work in Russia and identify the opportunities Russia presents as a research setting. As result, I providing particular tactics that can be helpful for preparing to conduct research in Russia.

Finally, I discuss reflexivity in data analysis, which I base on Chapters 4 and 5. Reflexive data analysis is an iterative process (Mann, 2016) that enabled me to go beyond reflective field notes that I employ as one of the methods to collect data and engage in questioning my own interpretation of the data. As a result, I was able to examine further how the federal and regional governments affect intra-institutional complexity and MNEs’ ability to gain external legitimacy.

### 6.1 Organisational Attributes as the Link between Institutional Complexity and External Legitimacy

In section 4.7, I discussed how organisational attributes, such as positioning in the field, performance and institutional knowledge, affect how MNEs deal with institutional complexity and gain external legitimacy (Dau, 2016; Greenwood et al., 2011; Kostova et al., 2008; Luo et al., 2017). Figure 4.4 reveals that these three organisational attributes influence institutional complexity and how organisations gain external legitimacy. In Chapter 5, I have found that organisational performance, MNEs’ strategic importance to the domestic economy and institutional knowledge are key organisational attributes that help Russian MNEs deal with institutional complexity and gain external legitimacy. In this chapter, I argue that organisational attributes link how Russian MNEs deal with institutional complexity and develop relationships with the government to gain external legitimacy (see Figure 6.1).

### 6.1.1 The Effect of Organisational Attributes on Russian MNEs’ Ability to Deal with Institutional Complexity in Russia

Organisational attributes play an important role in MNEs’ ability to deal with institutional complexity. The participants emphasised the importance of specific organisational attributes, such as organisational performance, MNEs’ strategic position in the domestic market and institutional knowledge, in terms of helping MNEs to operate in Russia’s complex institutional environment. Existing literature on dealing with institutional complexity states that multiple institutional logics exist within organisations, which in turn enables them to manage institutional complexity (Besharov, & Smith, 2014; Pache & Santos, 2013; Ramus et al., 2017; Thornton, 2002). While incompatible institutional logics are often viewed as coping mechanisms for negotiating a turbulent institutional
environment (Pache & Santos, 2013; Ramus et al., 2017), organisational attributes are much more important for dealing (as opposed to simply coping) with institutional complexity.

In Chapter 4, I argued that organisational attributes such as performance and the knowledge of the institutional environment can help MNEs access financial resources and networks (Deephouse, 1996; Meyer & Scott, 1983; Rottig, 2016). Financial resources enable MNEs to strengthen their financial position in the market and establish the necessary networks to navigate the institutional environment (Rottig, 2016). As argued in Chapter 5 in Russia, the federal and regional governments allocate financial resources. Having a well-established relationship with the government can improve MNEs’ performance by allowing them access to strategic resources. For example, MNEs such as SV-Cable, SV-Aluminium and CH-Fan all received financial funding from the federal and regional governments, which enabled them expand and increase their manufacturing capacity.

Organisational performance affects how MNEs negotiate Russia’s various layers of institutional complexity. In Chapter 5, I pointed out that Russian MNEs such as SV-Bronze and SV-Aluminium belong to a large Holding Group, which provides them with financial security. This is crucial to their financial performance. Chapter 5 illustrates that MNEs’ size and visibility are vital indicators that affect organisational performance. Increased visibility helps MNEs gain more attention at the federal level. This often leads to their accessing strategic resources, as noted in the IB literature (Boddewyn & Brewer, 1994; Murtha & Lenway, 1994; Tost, 2011). This access can enable Russian MNEs to deal with institutional complexity by overcoming ineffective formal institutions.

Strategic positioning in the domestic market is defined by an MNE’s strategic importance to a country’s economic development and the industry in which it operates. Panibratov (2016) proposes that the Russian state influences the competitive positioning of domestic firms. My study supports and furthers this argument by contending that the federal government and regional governments affect the positioning of Russian MNEs in the domestic market. The relationship between MNEs and both governments helps MNEs enhance their domestic positioning. If the relationships are cooperative or submissive, Russian MNEs are more likely to have a stronger position because they satisfy government requirements. Being strategically important for the domestic economy enables Russian MNEs to manage institutional complexity at both federal and regional levels by effectively using formal and informal institutions. Conversely, if the relationships are adversarial or collusive, Russian MNEs are less likely to hold a strong position in the domestic market because their interests diverge from those of the government. This makes managing institutional complexity more challenging.

Institutional knowledge is another organisational attribute that enables MNEs to navigate institutional complexity. Russian MNEs accumulate institutional knowledge by nurturing
relationships with the federal and regional governments, thus allowing them to receive information about upcoming institutional changes. The participants from all 12 MNEs stated that lack of information about upcoming institutional changes was a major hindrance to their operations. Having this information thus helps Russian MNEs adjust their operations when the government introduces unexpected changes to existing regulations. This, in turn, helps them manage a highly complex institutional environment.

Forming relationships with other Russian MNEs also enables MNEs to navigate a complex formal institutional environment. For example, Russian MNEs use these relationships when regulations related to customs and currency are in conflict with one another. This is particularly evident in the metallurgical and machine-building industries, where institutional complexity is relatively high. The restructuring of these industries in the early 1990s led to significant changes in policies and regulations that are not yet finalized. For example, the currency and custom laws contradict one another, which delays exports and payments for Russian MNEs. To continue their foreign operations, Russian MNEs use their relationships with other MNEs. Although this method of overcoming high institutional complexity is informal, it helps Russian MNEs foster their relationships with foreign partners.

A good relationship with the government can be a critical node between firms and connections with potential foreign partners (Li et al., 2017; Zhang et al., 2016). Having well-established relationships with foreign partners enables Russian MNEs to manage high institutional complexity in Russia by adding value to an organisation. Relationships with foreign partners are a valuable resource that Russian MNEs deploy to overcome contradicting formal institutions. In instances when other Russian MNEs cannot help, MNEs rely on their relationships with foreign partners, who allow for payment and delivery delays when the contradicting Russian laws present barriers to MNEs’ international activities. In the case of SV-Cookware, a foreign partner once even made a payment on behalf of the company. This helped SV-Cookware avoid penalties in the domestic market for late payments. Having these relationships adds organisational value to Russian MNEs in the form of relational capital and helps them gain legitimacy in foreign markets.

I add to this the notion that increased visibility in the domestic market at the federal level helps MNEs form relationships with government officials at that level, which in turn enables them to gain knowledge about changes to existing formal institutions. This also applies at the regional level—relationships with the regional government can also lead to knowledge of changing formal institutions. This knowledge is a competitive advantage that Russian MNEs can use to enhance their organisational performance.
6.1.2 The Effect of Organisational Attributes on Russian MNEs’ Ability to Gain Legitimacy

Organisational attributes also influence Russian MNEs’ ability to gain external legitimacy (Kostova & Zaheer, 1999). The attributes identified in the IB literature include an organisation’s size, performance and reputation (Deephouse, 1996; Kostova & Zaheer, 1999; Tost, 2011). Tost (2011) states that size is directly linked to market visibility and affects different stakeholders’ perceptions. My findings illustrate that Russian MNEs’ size influences their domestic market visibility, which increases the federal and regional governments’ involvement in their operations. Size is thus directly linked to government involvement and control. As MNEs become larger, the federal government gains interest because of the MNEs’ increased profits. Its interest also grows because of MNEs’ ability to contribute to national economic development. Regional government increases because of the possible contribution MNEs can make to regional development.

Organisational performance is another factor affecting Russian MNEs’ ability to gain external legitimacy. In this study, the performance is based on financial and quality outputs. Deephouse (1996) has found that organisational performance can be endorsed by regulators—in this study, the federal and regional governments. Drori and Honig (2013) further state that external legitimacy can be endorsed by those in authority. The process of endorsement is a conscious act that influences organisational behaviour (Deephouse, 1996). Russian MNEs consciously form relationships with the government and use them to endorse their performance to gain external legitimacy. For the Russian Government, endorsement enables them to reach their goals, such as economic development of the country and regions. Endorsement thus takes a relational form between MNEs and the government. Russian MNEs place great importance on developing and nurturing their relationships with the federal and regional government, which helps these MNEs influence how they are perceived in foreign markets. If Russian MNEs have collaborative or submissive relationships with the government, it is sure to portray them positively in foreign markets, thus reassuring foreign partners that the MNEs operate in good will.

Strategic positioning in the domestic market is another organisational attribute that affects Russian MNEs’ external legitimacy. In Chapter 4, I explained that positioning in the field helps MNEs gain access to strategic resources (Meyer & Scott, 1983) and enhance their reputation (Deephouse, 1996). Reputation is one of the factors that influences external legitimacy (Bitektine, 2011) and can be affected by the government (Bitektine & Haack, 2015; Deephouse, 1996). In Chapter 5 I found that the federal government can influence foreign companies’ perception of Russian MNEs by including them on blacklists; the regional government can influence perception through their personal connections with foreign governments and companies. Russian MNEs can strengthen their strategic
importance in the domestic market by cooperating with both governments and using their relationships to enhance their reputation.

Institutional knowledge about the domestic market and international markets affects Russian MNEs’ ability to gain external legitimacy. Three factors help Russian MNEs to accumulate institutional knowledge. The first factor is CEOs’ experience and skills in terms of dealing with domestic institutional nuances. The Russian CEOs gain experience over time and enhance their skills through education and continuous professional development. For example, the CEO of SV-Generator stated that his experience of leading company during the unstable institutional environment of the 1990s helped him handle ambiguous formal institutions, which he achieved by relying on his lasting relationships with foreign MNEs.

The second factor is the institutional knowledge accumulated by lawyers and accountants employed by the Russian MNEs. Knowledge of domestic institutional nuances is essential to enhancing organisational performance when operating in a complex institutional environment (Dau, 2016). Russian MNEs emphasise employing people who can deal with ambiguous formal institutions. This nuanced knowledge is often acquired through having established relations with the Russian Government.

The third factor is relationships with the government officials at different levels. Russian CEOs and top executives develop and nurture these relationships, and this institutional knowledge enables Russian MNEs to gain knowledge about the institutional environment of international markets. In Chapter 1, I discussed the development of Russia’s institutional environment, noting that the Russian Government has established connections with foreign governments. If Russian MNEs have a well-established relationship with the Russian Government, they can use this to gain knowledge about the institutional environments of foreign markets.

My study adds to the existing literature by providing evidence that organisational performance, positioning in the domestic field and institutional knowledge are organisational characteristics that influences MNEs’ ability to gain external legitimacy. The importance of MNEs’ relationships with the federal and regional governments was also prominent during the fieldwork, where most participants were initially resistant to discussing the government’s role in Russian MNEs’ internationalisation. This can be explained by the fact that the participants placed much value on creating and nurturing their relationships with government officials. These relationships with officials at different levels helps CEOs and top executives achieve personal and organisational goals, which adds credibility to MNEs’ performance. As a result, Russian MNEs use organisational attributes to overcome institutional barriers and create positive perceptions of their products and services.
6.2 The Government–MNEs Relationship Life Cycle and its Effect on MNEs’ External Legitimacy

The second research question explores how MNEs’ relationship with the Russian Government affects their external legitimacy. Based on the literature review in Chapter 3, the characteristics of this relationship are strategic or political (Lenway & Murtha, 1994; Peng et al., 2009). The form of the relationship affects the actions MNEs take to gain external legitimacy. This study’s theoretical foundation (Chapter 3) emphasises that the relationship with the government influences organisational legitimacy. I advance existing knowledge on how MNEs gain external legitimacy by using their relationships with different levels of government. Based on the analysis and findings, I found that the relationship between the Russian Government and MNEs evolves across four stages—collaborative, submissive, adversarial and collusive—because of changing interests between the government and MNEs. This changing relationship influences Russian MNEs’ ability to gain external legitimacy. I found that the collaborative and submissive relationship stages help Russian MNEs gain external legitimacy, whereas the adversarial and collusive stages present barriers to it. Figure 6.1 depicts the effect of these changing relationships on MNEs’ ability to gain external legitimacy.

![Figure 6.1: The effect of the government–MNEs relationship life cycle on Russian MNEs’ external legitimacy](image)

The relationship is influenced by the interests of MNEs and the government, which are positioned on the y-axis in Figure 6.1. The figure also shows that the relationship evolves over time, which is presented on the x-axis. The straight line in Figure 6.1 represents Russian MNEs’ ability to gain
external legitimacy as the interest gap between the government and MNEs increases. When the relationship reaches the adversarial stage, it may obstruct Russian MNEs’ ability to gain external legitimacy. The figure tries to represent this decreasing ability with a dotted, curved line. It attempts to show that the relationship is not linear because of the growing gap between the interests of the government and MNEs; rather, the relationship evolves as a result of contextual factors (Shipilov et al., 2014). This implies that there is a progression of the relationship between the two parties.

The relationship trajectory indicates that it has a temporal dimension—it develops as a result of the past and has consequences for the future (Dawson, 2014). Temporality is a dynamic process of change and can facilitate examining different stages of change and outcomes (Langley, 1999). The changes in interests between the government and MNEs influence their evolving relationship. This relationship is not linear, because to a degree, MNEs can change its direction; this depends on their ability to manage the relationship to their advantage. Figure 6.1 tries to make this apparent by showing that the straight line can continue to incline, meaning that MNEs can still gain external legitimacy during the adversarial and collusive stages of their relationship. However, it is much more challenging, because during these stages, the institutional environment is highly complex.

The temporality of the relationship between the government and MNEs emerged as a key factor that can influence Russian MNEs’ external legitimacy. The past and the future shape MNEs’ present actions. A Russian MNE’s existing relationship with the government may predispose them to certain behaviour—for example, the CEO of SV-Generator was introduced to Ukraine government officials in the early 1990s, leading to business connections and going on to affect how SV-Generator conducted its business operations with its Ukraine partners. This presents a past dimension of temporality. The future dimension shapes MNEs’ present actions because it creates expectations of their future behaviour—the government expects certain behaviour and outcomes from MNEs in the future. The relationships that Russian MNEs establish with the federal and regional governments can shape government expectations, at least partly, because of the exchange-based nature of the relationships. To gain external legitimacy, Russian MNEs need the federal government to portray them positively in foreign markets, and regional government to introduce them to potential partners. The government’s expectation is that Russian MNEs show reciprocity in the future. Past events and projected future events may thus shape our temporal experience (Deleuze, 1994). Russian MNEs use connections established in the past to develop present relationships with government that can predict the outcomes of their relationships with the government in the future. The temporal experience is thus whether their relationships with the government facilitate or obstruct their ability to gain external legitimacy. In my research, this outcome is their ability to gain external legitimacy.
The straight line in Figure 6.1 depicts Russian MNEs’ ability to gain external legitimacy, which is based on the gap in interests between the government and MNEs. As discussed in Chapter 4, the interests between different actors, including the government and MNEs, change as a result of increasing institutional pressures (Oliver, 1991). Further, different government levels pursue different interests, which makes it more challenging for MNEs to achieve their goals (Wang et al., 2012b; Wang et al., 2018). When the government’s and MNEs’ interests converge, operating in the complexity of Russia’s institutional environment is less challenging for MNEs.

During the collaborative relationship stage, interests between the government and MNEs converge, which makes the institutional environment less challenging. The gap between the interests during this stage is relatively small; as a result, the government and MNEs work together towards a common goal. This enables MNEs to gain external legitimacy, which is represented by the solid line in Figure 6.1.

This type of relationship prevails in highly strategic sectors, such as nuclear power, where government control and involvement is high. The collaborative relationship is often viewed in the IB literature as mutually beneficial and developed as a result of the capabilities and willingness of both parties (Lenway & Murtha, 1994; Murtha & Lenway; 1994; Ring et al., 1990). The collaborative relationship between the Russian Government and MNEs is different. The high level of government control over MNEs’ operations and decision-making means that MNEs must cooperate with the government. This differs from the Western understanding of a cooperative relationship, because even if Russian MNEs are not willing to cooperate with the government, they do not have a choice.

There is a positive correlation between high levels of government control and MNEs’ ability to gain external legitimacy, because MNEs must collaborate with the government. This is explained by the fact that foreign partners consider Russian MNEs reliable when government control is high. This proves that foreign companies do not view Russian Government control as an issue if Russian MNEs deliver on their promises and contract terms. In cases where Russian MNEs do not deliver, their relationship with the Russian Government changes, and this weakens their ability to gain external legitimacy.

As the interest gap between the government and MNEs increases, their relationship becomes submissive (see Figure 6.1). The interests between the Russian Government and MNEs can begin to diverge because of development of the institutional environment, which are explored in Chapter 1. This was particularly evident in Russia in the early 2000s, when power was centralised back to the federal government, decreasing the autonomy of regional governments and MNEs in terms of their decision-making processes (Pastuhov, 2012; Shah, 2012; Zubarevich, 2010). At this time, the government began exercising its power and autonomy over MNEs’ operations (Hafse & Koenig,
1988). The main challenge noted by the study participants was lack of communication when regulatory changes were introduced, which intensified the complexity of the domestic institutional environment.

As illustrated in Chapter 5 when a submissive relationship develops, Russian MNEs and the government are able to reach a temporary truce. At this stage of the relationship, MNEs should submit to existing regulations to receive privileges from the government (Bitektine & Haack, 2015; Deephouse, 1996). My findings suggest that Russian MNEs either submit to government requirements or avoid conforming to existing regulations, because existing formal institutions are ambiguous. For example, when the sanctions on Russia were imposed in 2014, both SV-Bronze and SV-Pipes submitted to the regulatory changes about exporting certain metals. However, because the federal government introduced these changes suddenly, the MNEs had to rely on their relationships with their foreign partners and other Russian MNEs to continue their operations abroad.

This is an interesting stage of the relationship, because deviation from existing regulations can largely affect Russian MNEs’ external legitimacy. They often try to hide their non-compliance with existing regulations to avoid jeopardising their ability to gain legitimacy. By demonstrating that they submit to government requirements, MNEs ensure that they still gain privileges, such as financial benefits and tax cuts from the federal government, and access to networks in foreign markets from the regional government. Ultimately, a submissive relationship with the federal and regional governments does not interfere with MNEs gaining external legitimacy, if the relationship is managed well. However, because MNEs begin to rely more on informal institutions, their relationship with the government may evolve to the adversarial stage.

Another reason for diverging interests between the government and MNEs is because MNEs decrease their government dependency by learning how to operate in a highly unstable institutional environment. As discussed in Chapter 5, Russian MNEs improve operations by enhancing their organisational capabilities and decreasing reliance on the government. As a result, their relationship becomes adversarial. The adversarial relationship can present a barrier to Russian MNEs’ ability to gain external legitimacy (presented by the dotted line in Figure 6.1), because the federal government’s increased authority can have negative connotations in foreign markets. The political science literature emphasises the importance of legitimacy at the macro level because it influences different actors’ perceptions of a government and a country (Allee & Huth, 2006; Crook, 1987; McDonough, Barnes, & Pina, 1986). External stakeholders’ negative perceptions are likely to weaken a country’s legitimacy (Gilley, 2006). This literature provides evidence that a government’s political legitimacy can affect the external legitimacy of MNEs from that country. Foreign
companies’ negative ideas about Russia’s political instability create an unfavourable perception of Russia, thus preventing Russian MNEs’ from gaining external legitimacy.

Deephouse (1996) and Elsbach and Sutton (1992) state that to gain legitimacy, organisations must satisfy and prioritise the actor whose perception most strongly affects their operations. This is a simplistic assumption, because while MNEs may prioritise whom to satisfy, they do not always have a choice. The findings in my thesis illustrate that in Russia, MNEs must satisfy the both the federal and regional governments, as they can significantly influence MNEs’ reputation. In foreign markets, Russian MNEs must satisfy their customers or foreign partners to gain legitimacy. The expectations of the Russian Government and foreign partners may differ, but the perceptions of both actors are equally important for MNEs’ ability to gain external legitimacy.

When the relationship between the government and MNEs enters a collusive stage, the interest gap between the parties increases, as illustrated in Figure 6.1. During this stage, MNEs focus on their core goals of organisational development and the government focuses on its core goals of economic development of the country and regions. The data analysis makes it clear that a collusive relationship develops as a result of unstable formal and informal institutions, which pushes Russian MNEs to rely on their relationship with the regional government, which facilitates their non-compliance with existing regulations. Russian MNEs’ external legitimacy can be damaged during this stage of the relationship, which is illustrated by the dotted line in Figure 6.1.

Collusive relationships with the federal and regional governments can present a serious barrier to MNEs’ ability to gain external legitimacy. The government can influence MNEs’ image and reputation, which can shape foreign partners’ perception and judgement—both important factors that affect organisational legitimacy (Bitektine & Haack, 2015) In Russia, the federal government can influence MNEs’ image through the media or by adding MNEs to blacklists, which can be very damaging to MNEs’ reputations. The regional government affects Russian MNEs’ image by enabling them to avoid compliance with existing regulations. This creates a negative perception of Russian MNEs in foreign markets, thus presenting an obstacle to gaining external legitimacy.

Figure 6.3 shows that collaborative and submissive relationships facilitate Russian MNEs gaining external legitimacy, despite the increasing interest gap between the government and MNEs. Conversely, adversarial and collusive relationships can prevent Russian MNEs from gaining external legitimacy. During the collaborative and submissive relationship stages, the government’s interest in developing an industry increases, and both the government and MNEs try to find mutual ground to make the exchange-based relationship work. During both stages of the relationship life cycle, MNEs can gain legitimacy.
Adversarial and collusive relationships create obstacles for MNEs to gain external legitimacy. An adversarial relationship can do this in the form of sudden institutional changes being introduced, and a collusive relationship can influence Russian MNEs’ reputations. Both types of the relationship affect external legitimacy by triggering foreign partners’ perceptions of Russian MNEs and their products. However, in cases when foreign partners have negative perception about Russian Government and its political agenda, adversarial and collusive relationship can be used as a strategic advantage for Russian MNEs to build trust with their foreign partners. The relationships between Russian MNEs and the governments is dynamic and Russian MNEs have knowledge and experience to managing these relationships. This enables them to capitalise on different relationships with governments at different levels and be able to gain external legitimacy. Understanding why and how the relationship between the Russian government and MNEs evolves and how Russian MNEs us this relationship to facilitate their operations can help to enhance the exiting knowledge on EMNEs and their foreign operations.

Russia’s federal government has the authority to form and change perceptions of Russian MNEs through media channels, while the regional governments use their personal connections in foreign markets to convey certain images of Russian MNEs. The government exercises these two strategies to increase their authoritative power and control over domestic MNEs. During all four stages of the relationship life cycle, Russian MNEs use their organisational attributes (performance, strategic positioning in the domestic market and institutional knowledge) to gain external legitimacy.

Understanding why the relationship between the government and MNEs evolves across these four different stages enhances the knowledge of how MNEs gain external legitimacy. The relationship life cycle is influenced by the changing interests of the government and MNEs—at the beginning of the relationship life cycle, those interests converge, making the institutional environment less complex. As a result, Russian MNEs tend to use their relationships with the regional and federal governments to gain external legitimacy. As the interests between the government and Russian MNEs diverge, Russian MNEs tend to avoid compliance with formal institutions because those institutions are ambiguous. This changes the dynamics of the relationship between the government and MNEs, which creates a barrier to external legitimacy. How MNEs use their relationship with the government determines which response they utilise for handling institutional complexity and gaining external legitimacy.

6.3 Methodological Discussion

Researchers spend much time preparing for fieldwork to protect the participants and any other parties involved in the research (Stringer & Simmons, 2014). However, fieldwork can be unpredictable and
full of surprises—the researcher cannot control the field (Michailova & Clark, 2004). Despite thorough preparations before entering the field, I encountered a number of unforeseen circumstances, which exposed me and some participants to certain risks. It is up to the researcher to be prepared for the research process and the risks it entails; it is also important to be flexible and ready to make challenging decisions when in the field. In this section, I discuss the specificities and challenges of conducting research in Russia. In particular, I reflect and draw upon my fieldwork in Russia during July and August 2014 and February 2015, which I discussed in detail in Chapter 5.

Russia is an intriguing country in which to conduct research because of its rich history and dynamic institutional environment, which Russian MNEs must operate within and manage to remain competitive. Meyer and Peng (2016) state that the research on Russia has lessened since the early 2010s because of increased government control as a result of political tensions between the West and Russia. Consequently, the government intensified its interest in industries such as agriculture and manufacturing to promote national products and reduce imports. This has diminished Russia’s global political positioning and thus affected Russian MNEs’ operations. These MNEs remain competitive worldwide; however, they have shifted the focus of their operations from Western to Asian countries. This creates exciting opportunities for performing research in Russia and exploring how Russian MNEs deal with the country’s institutional environment and use their relationships with the federal and regional governments to obtain legitimacy in foreign markets. Addressing context-specific features in research methods and analysis can produce more nuanced knowledge about a research process (Johns, 2017; Tsui, 2004). I discuss the specificities of conducting research in Russia that I encountered during my fieldwork in the next section.

6.3.1 Specificities of Conducting Research in Russia

Conducting qualitative research is context dependant and examining specificities of a particular context can facilitate preparation for fieldwork (Crotty, 1998; Johns, 2017; Plakoyiannaki, Wei, Hsu, Cassell, & Prashantham, 2017). I discuss bellow specificities of conducting research that I encountered during my fieldwork. These specificities include social risk towards the participants, the ethical risk I faced related to confidentiality, ethical dilemma that I faced as a result of the business and procedural ethics and unexpected group interviews.

After interviewing an employee from SV-Bronze, I discovered some sensitive information about his employment there; our follow-up interview was scheduled the next day. I decided to go ahead with the second interview because I wanted to remain professional and observe this participant’s behaviour. Although a situation such as this carries emotional and ethical risks, not attending the follow-up interview may also have attracted unnecessary attention to me as researcher (Alder & Alder, 1991).
During the follow-up interview, it became evident that this participant was not as open as he had been during the first interview because he avoided answering some questions. When I gave him the contextual framework illustrating the links between key actors in the Russian business environment and how those links affected MNEs’ IB activities, his response was, ‘Why do you need this? Don’t even go there’. After this, I politely ended the interview. It is important to note that in this case, there was a possibility of social risk towards the participant who arranged this interview (Guillemin & Gillam, 2004). In this particular case, this participant could have lost his job and/or reputation among Russian business circles if I did not handle the situation carefully. Ending the interview was the correct action, because the person who organised the interview is well known and respected in the Russian business environment. I felt responsible for this person’s reputation in case the follow-up interview ended in a negative manner. Being bound by procedural ethics and having moral obligations to the participants meant that I did not reveal their personal information, or what they divulged during the interviews, to anyone.

The ethical risk I faced during the research process related to confidentiality, which was breached by an MNE secretary. After I conducted my first interview with the CEO of SV-Cable, the secretary obviously discussed it with the secretaries of the CFO and CEO from SV-Aluminium. When I entered the offices of the CFO and CEO, their secretaries already knew who I was and stated that the SV-Cable CEO’s secretary had told them about me. This was not the only instance when secretaries shared information with one another. On another occasion, when I had an interview in a local café with the senior manager from SV-Aluminium, the secretary from another MNE was apparently there and informed the SV-Cookware secretary about the meeting. The SV-Cookware secretary pointed this out to me when I came in to the SV-Cookware office for a scheduled interview. This represents a challenge of performing research in Russia: I was not in charge of maintaining confidentiality. Confidentiality is a major concern in qualitative research, as the researcher is required to maintain a certain level of confidentiality because of procedural ethics (Dundon & Ryan, 2009; Webster, Lewis, & Brown, 2013). During my fieldwork, it was evident that to prevent people from discussing my research, particularly secretaries, was impossible. “It is important for the researcher to retain a sense of respect and humility, accepting that s/he is only a transient player in the existing social structures of the research site and therefore not in control of it” (Soulsby, 2004, p. 56). I ensured that I explained to the participants at the beginning of each interview that the information they gave me would be confidential. Although they and I knew that others were aware of the interviews taking place, they were comfortable with the fact that the information they offered would only be handled by me. This created a sense of respect between me and the participants and secretaries.

Being presented with an ethical dilemma meant that I had to make a decision about what was right and what was wrong (Crane, 1999; Webster et al., 2013). There is a vast body of literature on the
business and procedural ethics that academic researchers face as a result of having to follow institutional requirements (Crane, 1999; Fortin & Fellenz, 2008; Guillemin & Gillam, 2004). Several researchers suggest that to deal with gap between everyday ethical dilemmas and procedural ethics, reflexivity must be used (Ellis, 2007; Fortin & Fellenz, 2008; Guillemin & Gillam, 2004).

Dickson-Swift et al. (2007) state that researchers should make an assessment of possible consequences for themselves and participants in the event of an ethical dilemma. To reduce uncertainty in the field, researchers could develop situationally specific tactics and a list of precautions that local researchers must follow during fieldwork (Belousov et al., 2007; Kovats-Bernat, 2002). However, the researcher and participants need to understand that by engaging in a research process, they enter into a mutual relationship that makes both parties accountable for the process and outcome (Kovats-Bernat, 2002; Taylor, 2013). Although making assessment risks before entering the field can help eliminate potential harm to participants and researchers, it is highly unlikely that the researcher can ever be fully in control of the research settings (Belousov et al., 2007; Michailova & Clark, 2004; Roberts, 2012).

During my data collection, I realised that conducting qualitative research in some regions of Russia is not as common as it is in the West. In three interviews, the participants were joined by other people. The first example of this is an interview that was meant to be with the manager of the commercial department at SV-Bronze, and was organised by the financial director of SV-Aluminium. When I arrived, the commercial director was not very welcoming. I gave him the PIS and CF, which he read; he then said he would invite someone else to join the interview. After a few minutes, the export department manager joined us. The interview was very formal, and both participants refused to be recorded. Since SV-Bronze is a large MNE headquartered in Moscow, this unwillingness can be attributed to the fact that SV-Bronze staff are not allowed to talk about the company’s operations. Interestingly, at the end of the interview, the export manager gave me her number and said that I could contact her if I needed to clarify anything. I did call, and we arranged a follow-up interview. She did not want this to take place at SV-Bronze, so we met at a local café instead. During the interview, she said that SV-Bronze staff were very careful about Moscow, and that the office was most likely to be bugged, which explained the formality of the first interview.

Participants’ fear of their offices being bugged indicates why many preferred to have interviews outside of their offices. The possible bugging can present a serious methodological issue that is typically not discussed in Western literature, and can be detrimental to the research quality. Bugging could affect participants’ responses, because they might not express their honest opinions. The researcher is responsible for interpreting the meaning of the data, which is based on participants’ points of view (Eriksson & Kovalainen, 2015; Gioia et al., 2013). I was aware that the offices could
be bugged, and thus observed how participants behaved when the interviews were conducted in their offices. Intriguingly, senior participants, such as CEOs, CFOs and some senior managers, were comfortable expressing their opinions in their offices. In fact, when I asked the SV-Aluminium CFO why she was so comfortable talking to me about this topic, she replied, ‘You are not asking for any secretive information that could jeopardise the company’s success and I would like to help my countrywomen’. The SV-Generator CEO also stated, ‘You are not asking for any information that could jeopardise our monopolistic position in the domestic market’. In these participants, I could see a genuine sense of solidarity and willingness to take part in my research.

Conversely, some senior and middle managers were more cautious and particular about where their interviews were held. Their paranoia about whether their offices were bugged could have arisen because of their superiors asking them to have an interview with me. Because Russians are generally suspicious people (Belousov et al., 2007), they could have interpreted this as a trap that could have led to them losing their jobs. It was up to me to ensure that the participants understood I had no connection to their superiors. I told them that I did not personally know their superiors and had lived outside of Russia for many years. This helped foster a more relaxed atmosphere during the interviews.

The second example is when two other employees joined the interview with the manager of SV-Aluminium’s import department—I had interviewed one of these employees before, and other I did not know. This was interesting, because the import department manager also asked for the interview to be held at the local café. The three men did not treat this as a formal interview, but as a conversation. It was a productive interview, demonstrating the participants’ lack of knowledge regarding research etiquette. SV-Aluminium itself has engaged in R&D, but empirical research about the company conducted by an outsider is not common. To overcome their lack of knowledge about the empirical research, I explained what empirical research is and that I was undertaking it because I am fascinated by and passionate about Russia and Russian MNEs.

The third example took place at the SV-Supply site, where I was supposed to interview the exports manager. When I entered the room in which the interview would be held, there were three other people present; all four were willing to participate. The dynamic of this group was striking: the participants led the conversation, but one sat back and listened, and then spent another hour-and-a-half with me after the interview where he was very honest. During the interview proper, this participant was uncomfortable because his superior was in the room and he had been working in the company for less time than the other participants.

One explanation for the unexpected number of participants during the interviews is that academic empirical research, particularly in Sverdlovsk region, is not as common as in Moscow and St.
Petersburg. There was lack of understanding about why empirical academic research was important, because participants did not see its practical relevance to themselves or the company. Of the 12 MNEs that participated in my research, none wanted to be given a written report of my findings. Michailova and Liuhto (2001, p. 23) have found that lack of interest in receiving feedback back is very common in transition economies for two reasons: first, “members do not approach the study as a process from which they too might learn and benefit”, and second, “lack of experience [more] than deliberate resistance to receiving feedback”. This is relevant to my fieldwork—participants did not see the value in the process, and thus there was no benefit for them. When I asked the participants if they wanted to be sent a transcript or written report, they were surprised, because they did not have much experience in receiving this type of feedback.

Another reason for the participants not wanting feedback could be the research topic, as they viewed the government’s role as broad and not significant to themselves or the MNEs. They were more interested in issues that related specifically to MNEs’ operations. Gel’man (2015, p. 31) states that this is also relevant in the political science discipline in Russia, which “still is oriented towards verbose debates on macro-spiritual issues in the fashion of Dostoyevsky characters, rather than asking the basic scholarly question “why?” and answering it with the logic of scientific discovery and standard research procedures”. It was notable that the government’s role in MNEs’ operations was treated as a given in Russia, meaning that many participants viewed the research topic as very basic. All acknowledged the government’s involvement in MNEs’ operations, but most were initially reluctant to discuss it. Only after I adjusted the wording of the initial interview guide (see Table 5.6) did this change. Although the issue of the topic is perceived as oversimplified by the participants, it is clearly of great significance to Russian MNEs. The government does not only influence MNEs’ operations, but also, to some extent, the research process, because the participants were reluctant to engage with the topic. Although the role of the government in MNEs’ domestic and international activities may be viewed as a ‘basic question’, there is a need to answer it using the logic of scientific discovery.

Another explanation for the unexpected participants in interviews is the sense of trust that emerges in a group setting. Russian people are collectivistic, which dates back to pre-revolutionary times (Hutchings & Michailova, 2006). This group-focused orientation was built over time, and being part of a group fosters trust (Hutchings & Michailova, 2006). Trust is mostly established through personal references and social interactions, which is vital during the research process (Teagarden et al., 1995). This is especially important for conducting research in Russia, because organising focus groups and using it as a method to conduct research in Russia could help overcome such challenges as creating initial trust and familiarity in a research setting. This was evident in all three examples given in this
section, where the participants were comfortable in a group setting because they did not see it as a *rasledovanie* (investigation), but a *beseda* (chat).

The preference for a group setting can also be explained by a suspicious attitude towards research, which is prevalent in Russia (Roberts, 2012). As a researcher, one has to remember that one is an outsider to an organisation, whether one is native or foreign (Clark & Michailova, 2004; Soulsby, 2004). The researcher intrudes, to a degree, into a participant’s life, so it is up to the researcher to be flexible and accommodating (Michailova & Clark, 2004; Soulsby, 2004). Being in a group gave the participants the feeling of being more in control of the situation, because they possibly thought I was intruding into their territory; at that stage, the trust between researcher and participants was not established.

When I was preparing for my fieldwork, I did not study the literature on how to conduct group interviews. Thus, in the first group interview situation, I was unprepared and felt uncomfortable. However, I had to be flexible and open to the group interview to establish that initial trust with the participants. Group interviews can be formal or informal, the former being structured and latter held in a more relaxed environment, where the researcher leads the discussion by introducing interview themes or questions (Frey & Fontana, 1991). At the beginning of the interview, I explained its purpose and why I was conducting this study. I then introduced first interview theme and let the participants begin talking. I intervened if I had questions or if the group interview needed redirection. After the first unexpected group interview, I studied some literature on conducting group interviews, which helped me be more prepared for future group interviews.

After studying the literature and having experienced the first group interview, I felt more comfortable in a group setting. I also felt a sense of belonging and immersion in a more natural setting of a group conversation, as opposed to a one-on-one interview. This was a brilliant way to observe participants’ interactions in their professional environment, and possible tensions between them. Group interviews also allowed opportunities for follow-up interviews with those participants who wished to meet with me. Interestingly, in each group, one person approached me after the interview and was willing to meet again. These three participants were not too outspoken during the group interviews and were not comfortable expressing their opinions freely. This could be because their superiors were present during the group interviews, which put pressure on these participants to answers questions in a certain way. Further, their interrupting their superiors during the interviews could have been seen as disrespectful, which could have led to group tension. During the one-on-one, follow-up interviews, these participants were open, and commented on the answers their superiors gave during the group interviews. This was crucial for me, because I could make sense of and clarify any discrepancies that arose during the group interviews.
6.3.2 Opportunities for Conducting Research in Russia

The government can play a detrimental role in developing an academic research community. In fact, in 2012, the Russian Government injected an enormous amount of money into developing major universities in Russia and encouraging Russian academics to publish (Gel’man, 2015). However, research is dominated by the Russian Academy of Sciences, ‘which is home to 45,000 researchers’ (Grove, 2015) and largely funded by the government (Gel’man, 2015). This can be considered an obstacle, because by gaining funding, some academics give the government their political loyalty (Gel’man, 2015). Their loyalty is not obligatory but it is expected when the government provides funding. Nevertheless, there is an enormous intellectual pool in Russia’s business environment that offers ample opportunity to examine the country’s institutional environment and MNEs’ operations.

This intellectual pool is also present outside the main regions and has a great potential for exploration. As discussed previously, during my fieldwork, I discovered that empirical research was not common, and some participants did not see its practical value. I conducted most of the interviews (49 out of 55) in the Sverdlovsk region, which is the capital of Russia’s metallurgical industry. The MNEs (SV-Bronze, SV-Aluminium, SV-Cable, SV-Pipes, SV-Bells and SV-Generator) based in the region contribute significantly to its economic development, and that of the country. These MNEs are an excellent empirical research resource because of the vast experience their staff possess.

IB publications by Russian scholars within and outside of Russia about Russian MNEs’ engagement in OFDI have been increasing significantly since the 1990s (Bulatov et al., 2017; Liuhto & Majuri, 2014). Russia’s current global political position offers a chance to empirically examine how Russian companies behave, as well as their relationships with the government. Although there is increasing interest in the government’s role in Russian MNEs’ internationalisation (e.g., Panibratov, 2012; 2014; 2016), it requires empirical support. This is particularly relevant to examining MNEs from outside the central part of Russia, because they face a higher level of institutional complexity (federal and regional) within Russia, which affects their behaviour in foreign markets. The problem lies with persuading Russian MNEs to participate in such research, and developing their awareness of its importance.

Exploring existing opportunities can help overcome issues associated with accessing the field (see Chapter 5) and prepare a researcher to handle the challenges they might face when conducting research in Russia. Examining the methodological issues associated with conducting research, particularly outside a Western setting, is important to determining the nuances of the qualitative research process (Aguinis, Pierce, Bosco, & Muslin, 2009; Belousov et al. 2007; Pratt, 2009; Roberts, 2012; Wright, Filatotchev, Hoskisson, & Peng, 2005). Belousov et al. (2007) and Kovats-Bernat (2002) suggest that developing situationally specific tactics for conducting research in different
countries can mitigate the associated risks. While it is essential to realise that research can be unpredictable, awareness of tactics for addressing this unpredictability can encourage scholars to engage in qualitative research in Russia.

6.3.3 Specific Tactics to Use During Fieldwork in Russia

As a result of my reflections on the data-collection process and data analysis, I developed a list of tactics that could be helpful to academics interested in conducting research in Russia. I would like to emphasise that this list is not exhausted, and is an attempt to add to existing literature on conducting research in EEs (e.g., Belousov et al., 2007; Kovats-Bernat, 2002; Roberts, 2012). I base this discussion on the methodology examined in Chapter 4, the data analysis reflexivity explored in Chapter 5 and the specificities and opportunities of doing research in Russia outlined in this chapter.

The first tactic emerged as a result of the issues I encountered when trying to gain access to Russian MNEs, organise follow-up interviews and maintain confidentiality. When planning to conduct research in Russia, it could be beneficial to invest time in developing relationships with the secretaries at Russian MNEs. As discussed in Chapter 5, secretaries act as gatekeepers to others wanting to contact with Russian MNEs’ CEOs. Gatekeepers have power to control access to a research site, which can influence the data-collection process (Michailova & Clark, 2004; Miller & Bell, 2002). “The secretary is often the person to connect the researcher to the other respondents and to facilitate (or obstruct) the process of collecting field data” (Michailova & Liuhto, 2001, p. 20). Secretaries in Russia’s MNEs are well-connected with those from other MNEs, and having good relationships with them can create access to those MNEs. Further, they can provide valuable insights about potential participants, which was challenging for me in cases where that information was not publicly available. As discussed in this chapter, the issue of confidentiality is often breached by MNEs’ secretaries. Therefore, having well-established relationships with them can also mitigate ethical dilemmas.

Another challenge I encountered was the conflict between business and procedural ethics in academia. I was bound by the University of Auckland’s ethical regulations in relation to conducting research. While it was important for me to give the participants the PISs and CFs, I had to make a conscious decision to give them the PISs only. Russian people distrust formal contracts, which, in this case, could have created suspicion of the researcher. If distrust emerges at the initial point of contact between participant and researcher, this can jeopardise the data-collection process (Kovats-Bernat, 2002). Before entering Russia, I was aware that much Russian business is conducted with handshakes, because this fosters a level of trust and familiarity between business partners. However, I disregarded this cultural custom, because the university ethics committee was concerned for my safety. The ethics committee and head of department (HoD) contacted my main supervisor
expressing these concerns. My supervisor had plenty of experience conducting research in Russia and other transition economies, and had to explain several times to the committee and HoD that I was well prepared for my fieldwork. As a result, before arriving in Russia, I was subconsciously nervous about conducting research there; the procedural ethics had caused me to form a mental barrier. To overcome it, I had informal meetings with potential participants when I entered the field. This allowed me to gain confidence that conducting research in Russia is safe, and that Russian people are very open to discussion if the researcher establishes a trusting and comfortable interview setting.

To overcome the dilemma of business and procedural ethics, scholars planning to conduct research in Russia must be aware of the cultural nuances, and they achieve this by studying institutional/government guidelines and MNEs’ codes of conduct in relation to conducting research. This is the second tactic that could help researchers become cognisant of the nuances associated with conducting research in Russia. Although I was aware of some cultural nuances, such as formal contracts being viewed as suspicious, I did not familiarise myself with the guidelines established by governmental institutions for performing research in Russia and MNEs’ codes of conduct. This could have enabled me to understand Russian business ethics before entering the country and overcome my mental barrier. Procedural ethics serve as guidelines to minimise harm to participants and researchers (Ellis, 2007). Guillemin and Gillam (2004) propose using reflexivity for dealing with ethical dilemmas that arise as a result of procedural and business ethics.

“In the actual conduct of research, the reflexive researcher will be better placed to be aware of ethically important moments as they arise and will have a basis for responding in a way that is likely to be ethically appropriate, even with unforeseen situations.” (Guillemin & Gillam, 2004, p. 277)

By familiarising themselves with, and reflecting on, business ethics in relation to procedural ethics in Russia as much as possible before entering the field, researchers can engage in a reflexivity process and prepare to handle unforeseen situations in the most appropriate manner.

Group interviews were another situation I did not foresee before entering the field. The third tactic that could be helpful for researchers is to give potential participants a choice between group or one-on-one interviews, and to study the literature on conducting focus group interviews. The three examples of unplanned group interviews that I encountered illustrate that Russian managers may be more comfortable in a group environment. Moreover, being part of a group can make participants feel protected in cases when they are not sure what to expect from an interview. Thus, being prepared for and offering potential participants the choice of group interviews can facilitate access to the field. These tactics can also develop trust with participants and increase awareness and importance of academic research, which I found lacking in some MNEs. I also noted that group interviews can be
a very powerful observation tool, as I was able to observe the relationship dynamics between participants. One participant from each group contacted me after their interview to organise another one-on-one meeting outside the MNE—this was vital to my fieldwork and data analysis, because both the group and one-on-one interviews helped me ensure that data interpretation was not compromised, which is a crucial characteristic of qualitative research (Easterby-Smith, Golden-Biddle, & Locke, 2008; Pratt, 2009).

6.4 Reflexivity in Data Analysis: Going beyond Reflective Field Notes

Analysis of data is highly personal and subjective, therefore reflexivity is a crucial part of the analysis process because it helps the researcher to develop meaning from the data (Srivastava & Hopwood, 2009). Reflexive data analysis is often associated with the researcher’s self-evaluation and self-exploration (Alvesson & Sköldberg, 2009; Berger, 2015; Guillemin & Gillam, 2004), which can impact the outcome of the research (Guillemin & Gillam, 2004). Self-evaluation and exploration includes asking questions about the researcher’s beliefs that shape his/her perspectives, the way these perspectives influence data analysis, how their personal experiences influence the emotional responses of the participants and how all these factors impact the construction of the meaning from the data (Berger, 2015; Patton, 2015). Reflexivity during data analysis process begins while in the field, which allows for deeper understanding of the data by recording and interpreting the researcher’s feelings of the data collection process (Mann, 2016; Srivastava & Hopwood, 2009). Self-reflection is connected to the field, the participants and studied subjects, such as organizations, and so reflexive analysis allows the researcher to reflect on the missing links between the data provided by different participants (Mann, 2016).

In Chapter 4, I discussed reflective field notes, which I employed as one of the methods for data collection, where I recorded the facts such as descriptions of the participants, site, company layout, body language and tone of participants’ voice and my emotions. Reflexive analysis goes beyond recording the facts, it accounts for the interpretation of these facts, which is an important step in data analysis because it helps the researcher to make the links between the data (Srivastava & Hopwood, 2009). For example, in Chapter 4, I described the fact that the CEOs’ offices had a portrait of Russia’s President because to be a CEO at a major corporation, one has to belong to United Russia. This is an interesting fact, however as part of reflexive analysis, I engaged in iterative process, which is revisiting data several times and recording the interpretation of this data (Mann, 2016). Srivastava and Hopwood (2009) suggested to ask such questions as “what is the data telling me? and what do I want to know?” (p. 82). The data told me that there is a connection between the federal government and MNEs. I logged my initial interpretation of this fact in the fieldwork journal as follows: ‘When I saw the portrait of President Putin in the CEO’s offices for the first time, it was intimidating because you have a constant feeling that somebody is watching you. However, the portrait did not seem to
bother the participant. The CEO was comfortable in discussing the interview themes and even was critical about the existing regulations in Russia. I wanted to know what was the connection between the portrait of President and the involvement of the government in MNEs business activities. Revisiting the data from the interviews, observations and field notes, helped me to question my initial interpretation and make links between the data from different methods, which is essential in reflective analysis (Mann, 2016). As a result, I engaged in self-evaluation first. I felt intimidated by the portrait because of the authoritative reputation that Russia’s federal government has overseas. Consequently, the feelings of being intimidated and watched was subconsciously there before I entered the field. I then engaged in reflecting on the participants, who were not intimidated by the fact that the portrait was in their offices. The CEOs expressed their opinions in relation to the interview themes openly, which was a sign that they interpreted the placement of the portrait as a given. Because reflexive analysis is not static and evolves in a social environment (Clark & Dervin, 2014), I was able to re-evaluate my feelings and experience, which shaped the analysis and interpretation of the data.

Engaging in this iterative process enabled me to identify the connections between the portrait of President and the involvement of the government in MNEs business activities. Although, the CEOs do not place much significance to the President’s portrait, the federal government inevitably aims to illustrate that, if necessary, the government can exercise their authoritative power over MNEs’ operations. This is important for my research because this illustrates that the relationship that MNEs form with the Russian government can significantly influence their ability to succeed in the domestic and international markets.

Being an outsider enabled me to step back and reflect on something that participants may take for granted and can present an interesting finding for my research. The presence of the portrait can also influence the perception of MNEs’ foreign partners about MNEs’ intentions, which is important for MNEs’ ability to gain external legitimacy. The findings of my research illustrate that foreign partners of an SOE view associations with the government as a security for payments and consider the company as a reliable partner. Whereas, high level of control by the federal and regional government in MNEs’ operations can create a negative reputation for these MNEs in foreign markets which can in turn be an obstacle in gaining external legitimacy.

Reflecting on yourself and the participants enables the researcher to link the information from interview transcripts with the reflexive notes about the participants and the data collection process. This helps the interpretation of data and adds credibility and validity to the findings (Clark & Dervin, 2014; Mann, 2016; Srivastava & Hopwood, 2009). Reflexivity in data analysis is crucial for the research process because it begins while the researcher is in the field and it evolves throughout the research process (Clark & Dervin, 2014). This was important for my research process because I was able to question my own perceptions and interpretation of the participants’ responses throughout the
research process. This helped me to examine further how the federal and regional governments affect intra-institutional complexity and MNEs’ ability to gain legitimacy.

6.5 Chapter Summary

In this chapter, I have discussed my thesis based on the literature review, theoretical foundation, methodology and analysis and findings. I began by addressing the specificities of conducting qualitative research in Russia based on the data-collection process. The specificities I identified were the conflicts between business and procedural ethics, lack of awareness about conducting empirical research in the Sverdlovsk region and unplanned group interviews. I then discussed the opportunities that exist for conducting research in Russia. Russian MNEs have an intellectual pool in terms of their staff and history that offers the opportunity to explore their internationalisation patterns and ability to succeed when institutional complexity is high. There is also the potential to conduct research in other regions of Russia aside from Moscow and St. Petersburg—for example, the Sverdlovsk region presents fruitful opportunities for researching the metallurgical industry. This is followed by identifying three tactics that could help scholars to conduct qualitative research in Russia.

I then discuss the importance of reflexivity in data analysis because it is important for the research process and the quality of research findings.

I then address the links between the four types of relationship and the four types of institutional interplay, which affect the responses Russian MNEs utilise to deal with institutional complexity in Russia. Both the government–MNEs relationship and institutional interplay shape the institutional environment of the domestic market. As a result, the responses MNEs use depend on the level of institutional complexity. Cooperation is an exchange-based response that incorporates collaboration with the government, which in turn leads to mutual benefits. Manipulation is also an exchange-based response; however, it is also opportunist, because MNEs submit to government requirements to deal with institutional complexity. Avoidance implies reducing MNEs’ collaboration with the government, and channelling their relationship with the government towards handling ambiguous formal institutions. Adaptation incorporates adapting organisational capabilities to navigate high institutional complexity.

I then explored how organisational attributes (organisational performance, MNEs’ strategic importance to the domestic market and their knowledge of the institutional environment) link Russian MNEs’ institutional complexity and external legitimacy. The data analysis and findings prove that Russian MNEs consider these attributes significant to their ability to deal with high institutional ambiguity and lack of enforcement mechanisms for existing regulations. Organisational
attributes also proved essential in MNEs maintaining their relationship with the Russian Government, which either facilitates or hinders their capacity to gain external legitimacy.

The relationship between MNEs and the Russian Government evolves across four stages: collaborative, submissive, adversarial and collusive. The relationship has a temporal aspect, since explaining how MNEs gain external legitimacy in the present can be aided by examining the past and forecasting the future. Finally, I discussed the evolution of the relationship over its life cycle, illustrating that the collaborative and submissive stages lead MNEs to gain external legitimacy. As the relationship progresses into adversarial and collusive, it hinders MNEs’ ability to gain external legitimacy. The main challenge MNEs face is how to manage adversarial and collusive relationships with the federal and regional governments to gain external legitimacy.
Chapter 7: Conclusion

In this chapter, I discuss the main contributions of my thesis to institutional theory in IB literature on organisational responses to intra-institutional complexity and gaining external legitimacy. In particular, I have contributed to literature on the relationship between MNEs from EEs and different levels of government. I base my discussion in this chapter on the literature review, theoretical foundations, methodology, analysis and study findings. I first outline and explore the main contributions to the existing IB literature on the government’s role in internationalising MNEs from EEs. Specifically, I argue that the relationship between Russian MNEs and the federal and regional governments directly affects Russia’s institutional complexity and these MNEs’ ability to gain external legitimacy. I then explore the contributions this study makes to institutional theory and outline the practical implications this research holds for policymakers, Russian MNEs and foreign MNEs that plan to invest in Russia. I also acknowledge the study limitations and the actions I undertook to minimise the effects of these limitations on the findings. Finally, I offer suggestions for promising future research.

7.1 Study Contributions

7.1.1 Theoretical Contributions

This study’s main contribution is its demonstration of how MNEs can deal with intra-institutional complexity and gain external legitimacy through their relationships with the government at different levels. In particular, I differentiated between federal and regional governments and examined MNEs’ relationship with both governments. Russian MNEs capitalise on their relationships with the federal and regional governments separately in order to facilitate their internationalisation. The thesis extends existing knowledge on institutional theory and the government’s role in MNEs’ internationalisation in three ways that are detailed below.

Relationship between MNEs and governments. The thesis illustrates that the relationship that Russian MNEs form with the federal and regional governments evolves across four different stages: collaborative, submissive, adversarial and collusive. MNEs use these relationships to deal with institutional complexity in Russia and to gain external legitimacy. The government’s involvement in the internationalisation of MNEs has been emphasised in several studies (Boddewyn & Brewer, 1994; Boddewyn, 2016; Wang et al., 2012a; Wang et al., 2012b; Luo et al., 2010). The increased internationalisation of EMNEs has sparked scholarly interest in the government’s role at different levels, which has various effects on MNEs’ willingness and ability to internationalise (Ring et al., 2005; Wang et al., 2012b; 2018); their location choice; their type of investment; and the capability
of those different government levels to create various institutional pressures (Wang et al., 2018). I further contributed to this conversation and argue that different levels of government have the power to influence the effectiveness of formal and informal institutions through their relationships with MNEs. This in turn affects the level of institutional complexity in the domestic market that MNEs must face.

The development of the relationship between the different levels of the Russian Government and MNEs has been influenced by the history of the Soviet Union, which has led to the current controlling nature of the federal government. During the Soviet era, all companies were state-owned, and the federal government made all decisions in relation to those companies’ international operations (Kurlyandskaya, Nikolayenko, & Golovanova, 2001). During that time, these relationships between the government and companies were collaborative that are subject to high levels of federal government control. The past has thus shaped organisational behaviour in the present (Dawson, 2014), and helps explain the collaborative relationship between the federal government and MNEs in Russia, which is based on the federal government’s high level of interest and control. In this case, Russian MNEs have no choice but collaborate with the government. This type of collaborative relationship is specific to the Russian context, and differs from the Western understanding of a collaborative relationship, which is one built on the capabilities and willingness of the government and MNEs to work together and serve one another’s interest in a mutually beneficial way (Lenway & Murtha, 1994; Murtha & Lenway; 1994; Ring et al., 1990).

I concluded that the relationship between the government and organisations evolves because of their increasing interest gap, which causes the relationship to enter submissive, adversarial and collusive stages. As the interests of these two parties diverge, the federal government has the ability to change and/or adjust formal institutions that would help it meet its goals to develop national economy. However, the federal government’s ability to adjust regulations without giving MNEs any notice is one of the major obstacles for Russian MNEs’ ability to deal with a complex institutional environment. This changes the dynamics of the relationship between the federal government and MNEs, because the latter do not trust the former to create a stable institutional environment for MNEs. As a result, MNEs become more cautious about their relationship with the federal government. When that relationship becomes more conflicted, MNEs can rely more on their relationship with the regional government.

The development of the relationship between Russian regional governments and MNEs has also been influenced by the Soviet era. During the Soviet Union era, regional governments did not have the authoritative power to develop laws and regulations. This changed following the collapse of the Soviet Union in 1991, after which regional governments were authorised to make these types of
decisions. The authority to make laws was then removed in the early 2000s, when the federal government recentralised the power back, a process that created tensions between the federal and regional governments (Gel’man, 2002; Puffer et al., 2016). These tensions led to advantages and disadvantages for the MNEs. Russia’s institutional environment became more complex because the goals of the two government levels were not aligned, which intensified bureaucracy in the domestic market; MNEs had to deal with the interests of both governments alongside this increasing bureaucracy. Conversely, this facilitated an opportunity for MNEs to develop strong relations with regional governments, who can help them navigate the Russian market’s bureaucratic nuances, such as paperwork and contradicting regulations.

Further, regional governments have connections with the authorities and business elites at national, regional and local levels, and MNEs can often capitalise on these if their relationship with the government is collaborative—for example, a well-nurtured relationship can give MNEs access to information about upcoming changes in laws and regulations, which can then help them overcome the major obstacle of upcoming changes in formal institutions. Forming a collaborative relationship with the regional government can enable Russian MNEs to compensate for unpredictable changes in laws and regulations introduced by the federal government. The regional government can play an important role in overcoming administrative bureaucracy in Russia, which allows Russian MNEs to deal with ambiguous formal institutions. However, while MNEs’ relationship with regional government can be beneficial, over time, it becomes more problematic for Russian MNEs to manage their relationships with both government levels.

Panibratov (2016) states that Russian firms are able to neutralise a conflicting relationship with the government by engaging in negotiations and focusing on the relationship’s long-term benefits. I also found that MNEs prioritise the government with which it is more beneficial to maintain a collaborative relationship, depending on which government can help them reach their goals. Because of the different stages of the relationship between the government and MNEs, the long-term benefits of this relationship may change, too. I conclude that Russian MNEs act strategically in managing each stage of the relationship to try to focus on its long-term benefits. Each relationship stage enables Russian MNEs to deal with institutional complexity through their responses to institutional interplay.

Institutional interplay. I examined the interplay between formal and informal institutions. Institutional theory in IB predominantly focuses on formal institutions, whereas informal ones have received much less attention (Meyer & Peng, 2016; Pejovich, 1999). Understanding the formation of formal and informal institutions separately is necessary to examine the development of the institutional environment. As the institutional environment consists of both formal and informal institutions (North, 1990), the links between them lack empirical examination (Dau et al., 2018;
Horak & Restel, 2016). I borrowed the concept of institutional interplay from political science literature, which extends institutional theory in IB by studying the interactions between formal and informal institutions. In political science, these interactions are explored through the effectiveness and ineffectiveness of formal and informal institutions (Helmke & Levitsky, 2004; Tsai, 2006). I identified four types of interplay: complementary, accommodating, substitutive and conflicting. This facilitates understanding how institutional environment is shaped. The enforcement of institutions is influenced by organisations and the government (Tsai, 2016). One of the key conclusions of my study is that the relationship between government and MNEs also influences institutional interplay.

The relationship between the government and MNEs influences institutional interplay in the domestic market because these two stakeholders affect the enforcement of formal and informal institutions. The government has the ability to change rules and regulations (Boddewyn, 2016), and the mechanisms to enforce them (Peters, 2012). In Russia, these rules and regulations are often ambiguous, because this ambiguity provides flexibility for their interpretation (Baranov et al., 2015; Voronov & Weber, 2015). Ambiguous formal institutions enable both the government and MNEs to interpret existing rules to their advantage: the Russian Government can amend these regulations, and MNEs can interpret those regulations to achieve their goal. But the ambiguity in formal institutions makes the institutional environment more complex for Russian MNEs, because there are no boundaries. Organisations play a crucial role in developing the unwritten rules of the game, such as norms and values (North, 1990; Tsai, 2016). Russian MNEs and the government use these unwritten rules to address ambiguous formal institutions, as this allows them to achieve their goals. The interplay between formal and informal institutions occurs as a result of the relationship between the government and MNEs. My study provides evidence that institutional interplay influences how MNEs deal with institutional complexity in the domestic market.

MNEs’ responses to institutional complexity. My study demonstrates that MNEs respond to domestic institutional complexity through institutional interplay and their relationship with the government. MNEs can use four types of institutional interplay to deal with institutional complexity: cooperation, manipulation, avoidance and adaptation. These responses are formed as a consequence of institutional interplay and the relationship between the government and MNEs.

Institutional theory examines institutional complexity, with a focus on incompatible institutional logics (Bertels & Lawrence, 2016). Institutional logics are formed as a result of the development of institutional environment (Saka-Helmhout et al., 2016), which is influenced by both the government and organisations (Boddewyn, 2016). In this study, I concluded that the relationship MNEs form with federal and regional governments significantly affects their response to institutional complexity.
Cooperation is based on a collaborative relationship that aims to achieve common goals. Because collaboration is built on a high level of government control, Russian MNEs that use cooperation tend to conform to existing regulations. Russian MNEs utilise cooperation when institutional complexity is relatively low, and formal and informal institutions complement one another. Cooperation with the federal government enables MNEs to gain access to financial and human capital, whereas cooperation with the regional government enables them to overcome domestic bureaucratic hurdles and gain access to the domestic and international networks.

Manipulation is an exchange-based response based on a submissive relationship. MNEs satisfy government requirements to overcome ambiguous formal institutions—as a result, the government can adjust existing policies to better suit MNEs. The MNEs and the government can then reach a temporary truce, which enables both to achieve their goals. Kostova et al. (2008) state that manipulating the institutional environment and specific actors can be costly, but it is necessary for gaining legitimacy. I add that it is essential for dealing with institutional complexity. Russian MNEs inevitably attempt to manipulate the federal and/or regional government to control, to some extent, the possible outcome of ambiguous formal institutions. Manipulation can mean losing access to financial and human capital from the federal government and networks from regional governments. If Russian MNEs can balance this exchange-based response and achieve a temporary truce with the federal and regional governments, they can use manipulation to control the effectiveness of formal and informal institutions to their advantage.

If manipulation becomes inappropriate, Russian MNEs can use avoidance, which is based on an adversarial relationship—MNEs try to fill institutional voids by reducing their reliance on the government and relying more on their organisational capabilities, such as financial and human capital. This response enables Russian MNEs to deal with high levels of institutional complexity and overcome ineffective formal institutions. Although Russian MNEs attempt to reduce their reliance on the government because of their diverging interests with it, their relationship with the government is necessary for allowing them to deal with ambiguous regulations by having non-compliance with existing regulations permitted. This is often facilitated by creating ambiguous formal institutions and allowing MNEs to interpret them to their advantage. The risk Russian MNEs face is that if they choose not to engage in any relations with the government, their non-compliance will not be tolerated. This can affect their ability to capitalise on financial and human capital, making it more challenging for them to navigate Russia’s high institutional complexity.

When the relationship with the government becomes collusive, another type of response to institutional complexity is adapting organisational capabilities and forming relationships with other Russian MNEs, which is termed as adaptation in this study. This is crucial when formal and informal
institutions are ineffective, which makes the institutional environment more complex to operate within. Relationships with other Russian MNEs are reciprocal and informal, and can be very powerful in terms of dealing with high institutional complexity. They lead to a sense of solidarity among Russian companies, and it is very common for Russian MNEs to use one another’s strengths when the institutional environment is highly complex.

Russian MNEs develop multiple relationships with the federal and regional government, because this allows them to use different types of responses simultaneously. Managing multiple relationships can help organisations form more stable, exchange-based relationships with necessary stakeholders and adapt their organisational practices (Shipilov et al., 2014). Relationships with government officials at different levels can serve various purposes for MNEs (Luo et al., 2017). For example, federal governments can provide financial incentives through resource allocation and regional or local government can help to deal with administrative issues that MNEs might face. This implies that Russian MNEs form different types of relationships with the federal and regional governments at the same time to deal with institutional complexity and gain external legitimacy.

*Linking domestic institutional complexity and external legitimacy.* Fourth, I demonstrated a link between domestic institutional complexity and external legitimacy. MNEs must face institutional complexity nuance in the domestic market and gain external legitimacy. I concluded that two factors enable Russian MNEs to deal with institutional complexity and gain external legitimacy: their relationships with the federal and regional government, and organisational attributes such as organisational performance, MNEs’ strategic importance to the domestic economy and the institutional knowledge they possess about domestic and foreign markets.

MNEs’ relationship with the government enables them to gain external legitimacy. I found that the collaborative and submissive relationship stages enabled Russian MNEs to gain external legitimacy, whereas the adversarial and collusive stages can present obstacles to gaining external legitimacy. Collaborative and submissive relationships with the federal government can help Russian MNEs establish a strong reputation as reliable partners, as reputation influences organisational image (Bitektine, 2011; Suchman, 1995). EMNEs establish relationships with central and local governments, who can shape EMNEs’ image in domestic and international markets (Luo et al., 2017). Collaborative and submissive relationships with regional governments can help MNEs capitalise on the networks those regional governments have with foreign governments and companies, thus enabling Russian MNEs to make first contact with potential foreign partners; this, in turn, prompts potential foreign partners to form a certain image of Russian MNEs and develop particular expectations of them.
Key stakeholder expectations also influence MNEs’ legitimacy (Kostova & Zaheer, 1999). Foreign partners view Russian MNEs’ association with government as security for their delivery and payments, and expect these MNEs to act in good faith. However, as the relationship between MNEs and the government evolves as a result of their changing interests, it affects MNEs’ image and foreign partner expectations. If Russian MNEs enter the adversarial and/or collusive stages of their relationship with the government, their reputation can be damaged, which can obstruct their ability to gain external legitimacy.

Adversarial and collusive relationships can present obstacles to gaining external legitimacy because of the conflicting nature these two relationship types have. The federal government can influence Russian MNEs’ image via the media, and by restricting MNEs’ access to the financial and human capital necessary for their operations. The regional government can restrict MNEs’ access to foreign networks, making it more challenging for those MNEs to build a positive reputation among potential partners. The regional government can also create barriers in the domestic market by not helping MNEs overcome bureaucracy. This leads to delayed delivery times for MNEs, meaning that foreign partners come to regard these MNEs as unreliable. Therefore, the government can influence directly organisational performance, and Russian MNEs’ relationships with the federal and regional governments can substantially affect the organisational attributes those MNEs use to gain external legitimacy.

My study explained that collaborative and submissive relationships with the federal government can enhance organisational performance, because the federal government allocates the access to financial resources that MNEs require to enhance their operations. Russian MNEs’ strategic importance to the domestic economy can be an advantage for them in terms of obtaining financial support from the government. This increases MNEs’ dependency on the federal government and government involvement in their operations, which in the Russian context is associated with a collaborative relationship. At this stage of the relationship, MNEs are able to deal with institutional complexity and gain external legitimacy.

Strategic importance for the regions, which is one of the major goals of regional governments, can also be essential to MNEs’ ability to deal with institutional complexity. If MNEs take an active role in regional development by financing regional social events and infrastructure, the regional government is more likely to help these MNEs overcome domestic bureaucracy. Furthermore, regional governments can also enable Russian MNEs gaining external legitimacy by giving them access to their connections with foreign companies.

Previously, scholars have identified institutional knowledge as one of the most important organisational attributes to gaining external legitimacy (Kostova et al., 2008) and addressing
institutional complexity (Greenwood et al., 2011; Luo et al., 2017). Russian MNEs gain institutional knowledge and learn of any upcoming changes to regulations through the federal and regional governments. Having this knowledge is a powerful tool that enables Russian MNEs to utilise different responses to institutional complexity. Furthermore, having this knowledge helps these MNEs to manage adversarial and collusive relationships and as a result reduce their obstacles to gaining external legitimacy. Russian MNEs’ relationship with the government and their organisational attributes can have several implications for their operations, which are discussed below.

7.1.2 Methodological Contributions

Several studies emphasise the importance of doing qualitative research in emerging markets because these markets present unconventional and complex research settings (e.g. Buckley et al., 2017; Meyer & Peng, 2016; Wright et al., 2005). Qualitative research in these markets allows for “serious engagement in deep contextualisation” (Tsui, 2007, p. 1353) through generating nuanced knowledge of complex environments (Plakoyiannaki et al., 2017). My study contributes to this scholarly conversation by enhancing the existing knowledge on conducting qualitative research in emerging economies. In particular, I illustrate that conducting research in Russia can present particular challenges, such as sensitivity of topic and unplanned group interviews (see Chapters 4 and 6). Further, understanding such challenges can also begin to question the conventional methods that are derived from more developed economies (Tsui, 2006; 2007). Conducting research in emerging markets can provide more practical solutions for conducting research in different contexts (Voldnes et al., 2014).

The context of my study is the Russian MNE. I used qualitative multiple-case study, which is a popular method in qualitative research (Welch & Piekkari, 2017; Yin, 2014). While case study is not a novel approach to study MNEs’ internationalisation (Welch & Piekkari, 2017), using the Russian context to study MNEs’ internationalisation is novel in that it provides contextual insights into conducting research in Russia. Case study approach takes into account context-specific factors, such as political, institutional and social, that MNEs develop and operate in (Voldnes et al., 2014). Traditionally, there was a need to follow concrete criteria for conducting case study (Eisenhardt, 1989; Eisenhardt & Graebner, 2007). However, because case study is less codified, it provides opportunity for researchers to find meaning of phenomena in a particular context without compromising the quality of the findings (Welch & Piekkari, 2017).

Understanding these context-specific factors proved to be a significant advantage in conducting research in Russia. For example, as discussed in chapters 4 and 6, sensitivity of the topic was an issue in accessing MNEs because some participants were reluctant to discuss the role of the
government in MNEs’ internationalisation. This is a social factor that can be explained by the suspicious nature of Russian people within organisations towards outsiders. This can also be a political factor, because Russian government plays an active role in research development in Russia, by providing financial incentives to academic community (Gel’man, 2015). As a result, the role of the government is also important in conducting qualitative research in Russia that can seriously influence a study’s methodology and the participants’ responses. Because I was not aware of this particular factor when designing the study’s methodology, I had to modify the interview guide in order to account for context sensitive elements specific to Russia (see Chapter 4). I was able to modify carefully the methodological design of my study during data collection, which was driven by social and political factors. My study brings insights into conducting research in non-Western setting that is influenced by home government.

Contextualisation of methods can occur at different phases of research process and it allows researchers to consider context-specific factors from formation of research problem, data analysis, data interpretation and reporting findings (Tsui, 2006). “Contextualization in methods means the modification of existing fishing tools and the creation of new fishing instruments” (Tsui, 2006, p. 10). Conducting interviews in emerging markets has been discussed in several studies (Tsui, 2006; Michailova, 2004; Michailova & Clark, 2004). During fieldwork, I was faced with unplanned group interviews, which seemed to be a comforting research approach for some participants. This is a crucial methodological insight that helped me to reflect on and modify my research approach during fieldwork. To my knowledge, group interviews are not common in Russia, which can be explained by the secretive and suspicious nature of Russian people. However, my research demonstrated that conducting group interviews within Russian MNEs help to generate valuable context-specific knowledge about the complex nature of Russian MNEs based on the interactions of the participants. I contribute to the growing conversation on doing research in emerging markets and how existing research methods can be modified based on contextual elements (Plakoyiannaki et al., 2017; Tsui, 2006; Welch & Piekkari, 2017).

7.1.3 Practical Implications

MNEs operate in multiple institutional environments. Their dealing with domestic institutional complexity while also gaining legitimacy in foreign markets is challenging. The findings of this study will thus be useful for policymakers in Russia, have managerial implications for Russian MNEs and benefit foreign MNEs planning to invest in Russia.

Russian MNEs consciously develop relationships with the federal and regional governments to achieve their goals; these relationships progress over time. Policymakers can use their knowledge of each relationship stage to better influence the allocation of federal and regional resources. Zheng,
Luo and Maksimov, (2015) found that there is no economic return if the government allocates resources to poorly performing firms. As a result, understanding each stage of the relationship life cycle is crucial for the Russian government to enhance MNEs’ performance and the economic development of the state and the regions. At each stage of the relationship, the government should be able to predict which response MNEs are likely to use to deal with institutional complexity. The federal government can then use this knowledge to reduce the risks associated with resources being allocated to an MNE that would use them to disobey regulations; the regional government can use this knowledge to allocate regional resources to MNEs that can prove that they will use them to enhance their performance. The outcomes of this better resources allocation are twofold: first, it can reduce institutional ambiguity and encourage Russian MNEs to conform to existing regulations; second, it can improve communication between MNEs and the government, which proved to be one of Russian MNEs’ main concerns.

For managers of Russian MNEs, relationships with the regional and federal governments can either enhance or impede their ability to manage intra-institutional complexity and gain external legitimacy. If managers can identify which stage of the relationship life cycle they have reached, they could develop an action plan for how to manage the relationship to their advantage. This is particularly relevant to the adversarial and collusive stages, during which MNEs risk failing to gain external legitimacy because of their poor ability to deal with institutional complexity. Knowledge of how to manage relationships with the federal and regional governments across the different stages can thus be invaluable to achieve organisational goals. The challenge of acquiring such knowledge is that Russian MNE managers must often undertake multiple relationships with both government levels, meaning they have to satisfy the interests of both to some extent. These relationships can be at different stages, making it more difficult for MNEs to capitalise on their benefits. Understanding each relationship stage and how it affects operations can help MNEs decide which government level is more important to satisfy at each stage.

Another implication of the findings concerns foreign MNEs that intend to invest in Russia. Foreign MNEs should use the relationship life cycle to forecast their investment. For foreign MNEs, understanding the different relationship stages can be a powerful tool. First, they can use this knowledge to build relationships with the Russian Government and MNEs, which can help them manage institutional complexity in Russia. Second, they can use the relationship stages to predict and mitigate the potential risks they may face in Russia. For example, if foreign MNEs are aware that an adversarial relationship can increase their dependency on the Russian Government, they can formulate a strategy to neutralise the risk of losing control over their operations. Having knowledge of the possible evolution of the relationship between MNEs and the federal and regional governments can thus be crucial for both Russian and foreign MNEs.
7.1.4 Study Limitations

Despite my thesis providing insightful contributions to the existing literature, it possesses a number of limitations. In this section, I examine these limitations and describe the actions I took to minimise their influence on the findings.

The study participants were Russian MNEs employees—this could be perceived as a concern when interpreting the data, because overall, the findings represent the perspective of MNEs only. This is potentially problematic in relation to interpreting the data and providing a comprehensive story about the relationship between the different actors involved (Greenwood & Levin, 2000). However, I was restricted by ethical regulations of The University of Auckland Ethics Committee from conducting interviews with government officials. I was conscious about this concern during data collection and, to minimise the risk of overcompensating my data interpretation and providing a more grounded analysis, I attended a Eurasian Summit and a conference in Russia. Here, I was able to observe the interactions between Russian Government officials and MNE employees. Further, once I had established trust with the participants, they became more open about their relationships with the federal and regional governments during the interviews. This ensured that the data was more reliable.

Another limitation of this study is that external legitimacy was examined from the perspective of Russian MNEs and not foreign partners. This can be viewed as a limitation because the data quality could be regarded as compromised (Easterby-Smith et al., 2008; Pratt, 2009), as I only undertook interviews with Russian MNEs. External legitimacy is defined as acceptance and validation from external stakeholders, who can influence the perception of organisations (Deephouse, 1996; Drori & Honig, 2013; Rottig, 2016). The findings of this research suggest that the perception of Russian MNEs is influenced by the Russian Government and foreign partners. Russian MNEs must satisfy these two stakeholders to gain external legitimacy. To ensure that the quality of the analysis and findings was not compromised, I undertook in-depth analysis of the raw data.

I also examined Russia’s contextual factors because, as the findings suggest, foreign partners partly base their perception of Russian MNEs on their understanding of Russia as a whole. ‘Context is most commonly invoked to denote what is distinctive and unique about situations or environments’ (Johns, 2017, p. 588). Examining contextual factors in terms of where organisations operate is a powerful tool in qualitative research, because it creates knowledge about strategic choices and organisational development (Greenwood & Levin, 2000; Gummesson, 2006). By examining Russia’s contextual factors and performing in-depth analysis of the data, I was able to draw conclusions about the way Russian MNEs form relationships with federal and regional governments and gain external legitimacy.
The timing of the fieldwork is another limitation. I conducted this research during July–August 2014 and February 2015, during which time Russia had sanctions imposed by the US and some EU countries. Meyer and Peng (2016) found that the research on Russia has decreased since the early 2010s because of the federal government’s re-intensified control, and geopolitical tensions between the US and EU; the authors also note that the timing when the sanctions were introduced, presents exciting opportunities for examining Russia’s institutional environment. In this study, some participants were reluctant to discuss their government relationships, because the consequences of this information being exposed was that they would lose their jobs. This timing could have affected the data quality, because the participants may have given dishonest responses. To mitigate this risk, I had to ensure the participants that the purpose of my research was scientific, and that they did not have to divulge any incriminating information. Although the research timing could have limited the findings (Meyer & Peng, 2016), it provided me with an interesting chance to examine the relationship between Russian Government and MNEs during a period of institutional changes.

7.2 Future Research

Governments plays an important role in MNEs’ international activities (Boddewyn, 2016; Ring et al., 2005). In particular, EE governments are active in internationalising MNEs to promote OFDI and maintain some degree of control over these MNEs’ operations (Pan et al., 2014; Peng, 2000). There is increased interest in the relationship between home governments and MNEs from EEs because of their active role in EMNEs internationalization since the early 2000s. Buckley et al. (2017) assert that in the IB field, there is a need to examine the relationship between local and global stakeholders to revitalise IB research. I examine the way Russian MNEs interact with their home government (local stakeholders) and foreign partners (global stakeholders). By linking the local government and foreign partners, this research extends existing knowledge of how MNEs from EEs use their relationships with these two stakeholders to manage institutional complexity and gain external legitimacy.

This study emphasises the importance of the relationships between the government and MNEs. These relationships have a dual role: first, they influence intra-institutional complexity; second, they influence MNEs’ ability to gain external legitimacy. I employed a qualitative multiple-case study to examine how Russian MNEs use their relationship with federal and regional governments. The progression of this relationship is largely influenced by the diverging interests of the two parties involved. I generalise the findings from 12 MNEs across four different industries. The level of analysis is an MNE and I do not differentiate between the industries. The four stages of the relationships are not industry specific. However, it was clear that the managers from the SOE in this study had to collaborate with the government officials because it belongs to the government. My
findings illustrate that the relationship between the government and MNEs begin at collaborative stage because their interests and goals are the same. As the interests between the government and MNEs changes, the patterns of the relationships unfold into submissive, adversarial and then into collusive over time. The interesting avenue for future research is to apply the relationship lifecycle to MNEs from different industries and examine whether the patterns unfold in different order over time.

Furthermore, this study relied on data from the MNEs, which represent the findings from the MNEs’ perspective only. To further understand the evolution of each type of relationship, future research could conduct a qualitative inquiry with officials from different government levels in Russia. Home governments at different levels influence development of formal institutions through regulatory changes and informal ones through their relationships with MNEs. This in turn affects the development of intra-institutional complexity. Conducting qualitative research with government officials, would yield additional insights into the emerging literature on intra-institutional complexity because institutional complexity is not only influenced by institutional logics, but also by the relationship between the government and MNEs.

Russian MNEs can engage in different combinations of relationships with federal and regional governments. While this study examined the scenarios that can unfold when Russian MNEs have the same kind of relationship with the federal and regional governments, it is important to acknowledge the possibility of different relationship combinations between MNEs and different government levels. For example, while Russian MNEs may enter collaborative stage of the relationship with the federal government, there relationship with regional governments can become submissive, adversarial or collusive. Different relationship combinations with governments at different levels can have a different effect on MNEs’ ability to gain external legitimacy. While collaborative relationship with the federal government facilitates MNEs gaining external legitimacy, adversarial or collusive relationship with regional governments can seriously impede MNEs’ ability to do so. However, because the federal government holds authoritative power in Russia, it would be interesting whether the collaborative relationship with the federal government can overrule the obstacles presented by regional government. Applying the government-MNEs relationship lifecycle and examining MNEs relations with different levels of government presents an an interesting avenue for future research.

This study explored how relationships with the government can affect MNEs’ ability to gain external legitimacy. However, once external legitimacy is gained, MNEs must maintain it (Deephouse et al., 2017; Peng, 2012). Future research should examine how MNEs’ relationship with the government influences their ability to maintain external legitimacy; the evolution of the relationship with the home government can also affect the strategies MNEs adopt to maintain this legitimacy.
interesting pathway for future research would be to conduct qualitative research involving the foreign companies with which Russian MNEs are in partnership to examine at what stages of relationship life cycle Russian MNEs are able to maintain and/or damage their external legitimacy.

Research on government–business relations is dominated by secondary research (Boddewyn, 2016), and highlights the fact that governments have been vital to the rapid internationalisation of EMNEs since the late 1990s (He et al., 2016; Luo et al., 2010). The Russian Government still has a strong influence on Russian MNEs’ international activities, and its role is changing because of Russia’s changing institutional environment (Meyer & Peng, 2016). The dynamic nature of Russia’s institutional environment can significantly influence the relationship between government and MNEs, as well as the roles of the governments at different levels in MNEs’ internationalisation. This in turn, can have significant consequences for MNEs’ development and internationalisation. Future research could examine the role of the government officials at different levels and how their roles in IB evolve as a result of changing institutional environment. This knowledge can have serious implications for the way MNEs deal with intra-institutional complexity and external legitimacy. Future research could examine how MNEs utilise their relationship with home government to deal with challenges presented during their internationalisation process and enhance their global presence.
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