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Levels of Legitimacy Development in Internationalization: MNE and Civil Society Interplay in Institutional Void

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Research Summary: *Typically, studies on subsidiary legitimation take the perspectives of compliance and isomorphism to examine MNEs' legitimacy; our study considers both isomorphism and institutional innovation perspectives to examine how subsidiaries, in collaboration with civil society actors, co-develop various levels (degrees) of legitimacy in an institutional void. The study finds four overlapping levels of legitimacy – 'acceptance', 'image', 'endorsement', and 'synergy' (a combination of acceptance and efficiency) – that subsidiaries co-develop throughout the internationalization process. We bring new insight into legitimation: that an isomorphism perspective of legitimacy alone cannot explain the complexity of subsidiary legitimation in an institutional void because subsidiaries not only earn acceptance by compliance, but also create/co-create image, endorsement, and synergy as outputs of institutional innovation. We contribute to the global strategic management in emerging economies.*

Managerial Summary: *We investigate how MNE-civil society interplay co-develops different levels of legitimacy in an institutional void, as opposed to only the 'acceptance' level. The study combines both rule-accepting and rule-changing perspectives, revealing that MNEs' strategic endeavours yield overlapping, yet increasing, levels of legitimacy – 'acceptance', 'image', 'endorsement', and 'synergy' – in internationalization. These levels are not necessarily derived from a firm's strategic initiatives using an isomorphism perspective; instead, the firm appears as an institutional entrepreneur and co-develops new institutions, which creates synergy (legitimacy + efficiency) for the firm's operation. Although it is difficult to separate the increasing levels of legitimacy, managers can use the insights to design specific strategies for each level of legitimacy and develop partnerships with local actors in legitimation in an institutional void.*

Keywords: Legitimacy levels, legitimation, internationalization, strategy, MNE, civil society, institutional void.

INTRODUCTION

Existing literature on multinational enterprises (MNEs) focuses on earning legitimacy, highlighting different perspectives on legitimacy as well as the strategies firms employ in various contexts (de Haro and Bitektine, 2015; den Hond *et al.*, 2014; Rana and Sørensen, 2014; Castelló and Galang, 2012; Meyer, Mudambi, and Narula, 2011; Forstenlechner and Mellahi, 2011; Ahlstrom, Bruton, and Yeh, 2008). In contrast, we examine how MNE subsidiaries co-develop (or lose) different levels (i.e. degrees) of legitimacy in collaboration

with civil society (CS) actors in an institutional void (IV). Institutional void is a manifestation of a suboptimal and dysfunctional institutional system, thus CS actors tend to be prevalent in and complementary to IV (Doh et al., 2017; Anderson, 2008; Stiglitz, 2000). In this study, we consider 'civil society as a broader social phenomenon [that] includes both formal (e.g. NGOs, associations and foundations) and informal organisations/groups (e.g. activist networks) as well as individuals working for the collective well-being and development of the society' (Rana and Elo, 2017:91). We therefore examine the interplay between CS actors and MNEs in IV that yields various levels of legitimacy for subsidiaries during the internationalization process.

We thus explore the strategies subsidiaries employ in the legitimation process, how they are operationalized, under what conditions (i.e. what type of IV and which internationalization phase), and what levels of legitimacy they achieve. Prior work has not explained whether firms gained anything beyond acceptance (see the works that follow Suchman, 1995); this is because these studies used the lens of 'conformance' to see how subsidiaries conform to given institutional structures to gain acceptance, which is typically associated with an institutional isomorphism perspective (DiMaggio and Powell, 1983). Through this lens, legitimacy is regarded as a strategic resource and output (Turcan, Marinova, and Rana, 2012), and legitimation is a process by which a firm's behaviour is perceived as proper within socially constructed systems of rules, norms, rationales, logics, and beliefs. Firms primarily gain acceptance by complying with social standards, and thereby attain the 'right to exist' (Maurer, 1971). Previous studies overlooked the institutional entrepreneurship/innovation perspective that examines how firms, individually or collectively, leverage resources to

transform or complement institutions or create new ones (see Maguire, Hardy, and Lawrence, 2004), developing not only acceptance, but also increasing levels of legitimacy associated with image, endorsement, and synergy (a combination of acceptance and operational efficiency). Such institutional entrepreneurs, as Lounsbury and Crumley (2007) define them, innovate new systems of meaning and practice that unite the functioning of disparate sets of institutions through their agency, power, and creativity. The institutional innovation process thus produces more than 'threshold legitimacy' (what we term 'acceptance').

The consideration of this strategic perspective (i.e. institutional innovation) lies in how scholars view institution. We build on a broader view of institution used in comparative institutionalism and comparative business systems literature that encompasses both perspectives: rule following (isomorphism) and rule/practice creating (institutional innovation). We may then explore subsidiaries' legitimation processes and strategic outcomes from a dual perspective (see Rana and Morgan, 2019). Since the boundary between the different disciplinary roots of institutionalism is fuzzy, we avoid debating a dichotomist choice of social or economic views of institutionalism; instead, we use a comprehensive view of institutions so we can examine and explain more deeply how MNEs and CS actors work together to develop different levels of legitimacy using both institutional isomorphism and institutional innovative perspectives.

We examine these issues in Bangladesh, where the MNE-CS nexus and suboptimal or dysfunctional institutional systems are evident (see Mair, Marti, and Ventresca, 2012), and where civil society both complements MNEs' operations, e.g. by collaborating on their expansion (Rana and Elo, 2017), and challenges them, e.g. by organizing protests and raising

awareness (Rana and Sørensen, 2014), making CS a double-edged sword (Yaziji and Doh, 2009). The Bangladeshi institutional context, remote from MNEs' home institutions, requires MNEs to both conform to social structures and change and/or create (or co-create) institutions to offset suboptimal conditions or a lack of complementarity in institutional systems that affects the cost of doing business and opportunities for survival.

Two liabilities, foreignness and outsiderness, make earning and maintaining legitimacy more complex for MNEs than for their local counterparts (Nell, Puck, and Heidenreich, 2015). However, there are additional reasons for this complexity. Subsidiaries (a) are involved in dual institutional contexts (Kostova and Zaheer, 1999), unlike local firms, while (b) they need to meet the expectations and standards of heterogeneous actors (e.g. local institutions, CS actors, transnational actors) (Scherer, Palazzo, and Seidle, 2013; Greenwood *et al.*, 2011; Greenwood *et al.*, 2010), and thus (c) they need to legitimize to both internal organizational and value chain actors with diverse expectations (Balogun, Fahy, and Vaara, 2017).

We argue that to overcome the liabilities of foreignness and outsiderness, subsidiaries apply legitimacy strategies that are not necessarily independent or discrete; rather, they are often combined with operational and functional strategies and applied through individual corporate or collaborative initiatives (Khanna and Palepu, 2010). Firms can therefore achieve operational aims as well as acceptance by internal and external legitimating actors. Such strategic endeavours also create additional outputs in legitimation, such as corporate/brand image (Foreman *et al.*, 2012), endorsement (Bitektine, 2011), and operational efficiency (Zimmermann *et al.*, 2014; Rana, 2014). The latter requires firms to go beyond compliance and use agency, resources, and collaborative capabilities to change, complement, or create

institutions, developing both legitimacy and efficiency (Regner and Edman, 2013; Zimmerman and Zeitz, 2002), which we call the 'synergy level' of legitimation.

The level of legitimacy an MNE achieves depends on how it operationalizes its legitimacy strategies. While 'acceptance' is the threshold level of legitimacy, 'image' is the way a firm is regarded by legitimating actors (see Cambridge Dictionary, 2018). Image eventually leads to a positive or negative 'endorsement'. Image is distinct from corporate reputation, though an enduring image is likely to affect a firm's reputation. Endorsement is the act of expressing approval, so formal and public endorsement by a reputed person or institution may produce legitimacy at a higher level. Studies of legitimacy report these constructs separately, taking an isomorphism perspective (DiMaggio and Powell, 1983) to fit into the social structure. By 'levels of legitimacy', we do not refer to micro or macro levels as presented by Bitektine and Haack (2015) or to various levels of analysis; rather, we indicate different outcomes of legitimation processes that reflect the different degrees of legitimacy firms need in order to survive and grow.

Our study makes two important contributions to global strategic management in emerging economies. First, we examine subsidiaries' legitimation in the context of institutional void by combining the institutional isomorphism and institutional innovation perspectives. Second, we demonstrate how subsidiaries develop and co-develop four overlapping but increasing levels of legitimacy during three phases of internationalization, moving beyond the level of mere acceptance to the image, endorsement, and synergy levels.

Our paper is organized as follows. First, we present a theoretical perspective on legitimacy in internationalization and IV, followed by a discussion of research process and analysis of

MNEs' legitimation in three phases of internationalization: pre-entry, entry, and post-entry. Finally, we present a discussion and framework of different levels of legitimacy development by combining isomorphism and innovation perspectives.

THEORETICAL PERSPECTIVES

Subsidiaries' legitimation in internationalization

Variations in institutional contexts present diverse challenges and opportunities for legitimation; subsidiaries thus respond by employing diverse strategies, with variations in strategic goals and engagement of various stakeholders (Saka-Helmhout and Geppert, 2011; Westney, 2009). Legitimacy 'highlights the scope of actors' behaviours associated with legitimacy assessment, shows that legitimacy can be understood as actors' perceptions of the organization, as a judgment with respect to the organization, or as the behavioural consequences of perception and judgment, manifested in actors' actions [as strategic outcomes] – acceptance, endorsement, and so forth' (Bitektine, 2011:152). As a property or impression, it is conferred on an organization by its audiences; therefore, it should be distinguished from legitimation, which is the process of social construction (Bitektine, 2011). Legitimacy generally refers to behavioural consequences and judgments of appropriateness, desirability, and acceptance of the organization by its environment (Kostova and Zaheer, 1999). Organizational institutionalism considers legitimation as compliance with institutional structure, leading to an isomorphic behaviour (DiMaggio and Powell, 1983). This is the predominant perspective of existing studies, which draw primarily on early institutional theory in sociology, such as Durkheim's symbolic system and social facts (Durkheim, 1901/1961) and, more importantly, Max Weber's (1924/68) 'rule systems' defining social

structures and governing social behaviour (including economic structures/behaviour). Organizational institutionalism, particularly by Meyer and Rowan (1977) and DiMaggio and Powell (1983), later pursued this view of institutionalism and legitimacy, considering institutional structure as a rule-enforcing mechanism to which firms/actors must conform to gain acceptance, denoting it 'institutional isomorphism'. They argue that 'institutions are taken-for-granted ways of acting' (Morgan and Kristensen, 2006:1470); organizations therefore conform to institutionalized behaviour because it increases legitimacy. Similarly, new institutional economics views institutions as 'humanly devised constraints that shape human interactions' (North, 1991:3), dictating the margins at which organizations operate and affecting transaction costs in business (Williamson, 1991). These institutional literatures, rooted in different disciplinary perspectives, conceive legitimacy as actors' conformity and compliance with social and institutional structures; this is where myopia manifests in understanding legitimation (Hotho and Pedersen, 2012). Most international business and global strategy studies adopt this perspective on legitimacy; they thus tend to ignore the agency that large MNEs, CS organizations, and their collaborations have to influence, alter, make, or complement the existing, suboptimal institutional systems.

New organizational institutionalism (Oliver, 1991; Hotho and Pedersen, 2012), especially comparative institutionalism and business systems literatures (Rana and Morgan, 2019; Morgan *et al.*, 2010) , instead argues that firms not only conform to institutional expectations but also defy them, manipulate them, and, in critical cases, innovate complementary institutions as institutional entrepreneurs. In this role, firms use their agency, resource capability, and strategic vision to produce legitimacy and operational efficiencies,

encompassing both conformity and innovation. Using a thick definition of institution (see Jackson and Deeg, 2008; Redding, 2005), Morgan *et al.* (2010:5–6) argue that 'this perspective does not require a commitment to a determinist account of institutions, but on the contrary to understanding the tension between structure and agency in specific contexts where change is always a possibility and where collective and individual actors … look to build new practices, experiment with new frames, and engage in institution-building and the process of institutionalization'.

We do not, however, claim that firms always appear as institutional entrepreneurs; rather, we argue that they can do so, depending on their resource capabilities, strategic vision, and the institutional conditions under which they work. Furthermore, 'creating institutions' does not mean that firms create new laws; rather, we argue that they – overtly or covertly – influence key institutional actors and the broader society to develop new rules, norms, procedures, and cognition, or strategically complement formal institutions by creating intermediary institutions. However, firms often, through their products and strategies, influence informal institutions to change or recreate themselves. As an extreme example, Facebook and Google have influenced formal institutions to create new rules and changed our ways of exchanging information and expressing ourselves in daily life, which are now legitimized.

At the threshold level, a firm's legitimation leads to acceptance, following a mechanism of compliance with regulative, normative, and cultural-cognitive standards, leading to the development of a threshold level of legitimacy that the firm needs in order to enter, operate, and survive in the host market (Scott, 2008). In contrast, due to the liability of outsiderness,

firms may lose legitimacy in a host market when they cannot comply with foreign institutional structures (see Johanson and Vahlne, 2009; Ghauri *et al.*, 2012; Elg *et al.*, 2017).

Like 'acceptance', 'image' is a behavioural consequence of the key audience's perception and judgment. Image denotes a general impression, positive or negative, that an organization or product presents, which the audience perceives based on the organization's actions and strategies (Wan, Chen, and Yiu, 2015). The literature distinguishes image from reputation (Foreman, Whetten, and Mackey, 2012). For example, Walmart Inc. has the image of a large retail store but a reputation as a poor workplace (see Bowman, 2015). One study describes various image types, e.g. country of origin, product performance, and external or projected corporate image, illustrating how image can be both an antecedent and a consequence of legitimation depending on how it is examined (Wan, Chen, and Yiu, 2015). An enduring image of any specific organizational aspect can lead to a particular form of reputation.

With a general level of acceptance and a particular type of image, more specific endorsement can confer another level of legitimacy for a specific aspect of a firm's behaviours and standards. For example, forest stewardship council (FSC) or fair-trade endorsements emphasize specific content approval, creating different levels of product legitimacy for specific customer groups. While formal endorsement may lead to formal certification, public endorsement by a key institutional actor or individual can also affect acceptance and image; for example, celebrity endorsement often enhances product legitimacy and branding.

It is important to note which audience confers the particular level of legitimacy, for what aspect of the organization, resulting from what actions by the organization, and to what extent the level of legitimacy conferred impacts survival, branding, and operational efficiency.

Debates over which norms and logics should be used to evaluate a given organization for different levels of legitimacy are critical in the legitimation process (Lawrence and Philips, 2004; Suddaby and Greenwood, 2005).

Unlike the above-discussed levels of legitimacy, which are generally behavioural consequences of the audience, the fourth, synergy-level legitimacy, is a combination of acceptance and a particular operational efficiency that leads to success. At this level of legitimacy development a firm can be a 'rule changer' or 'rule maker', shaping an existing institution or creating a new institution that supports the firm's mainstream business operations, producing audience acceptance by adding new value to the society/industry (Rana and Elo, 2016); thus the firm follows the institutional innovation mechanism (see Regner and Edman, 2013; Zimmerman and Zeitz, 2002). Firms often collaborate in institutional innovation with other firms, CS actors, or even state actors in order to develop a new set of rules or complementary institutions that can leverage efficiency gains in their operations. One example is how British and German corporate law firms led changes in legal and professional systems, redefining their organizational and institutional contexts to position themselves in emerging markets (see Morgan and Quack, 2005). Similarly, local firms that aspire to internationalize can also act as institutional entrepreneurs in their home contexts.

Although we illustrate different levels of legitimacy, the threshold level of acceptance is inherent in all levels. Subsidiaries interact throughout the legitimation process with the legitimating actors' judgments, which leads to the construction of subsidiary image, endorsement and socio-economic outputs (Zimmerman *et al.*, 2014; Bitektine, 2011).

In the *pre-entry phase*, subsidiaries need to acquire the regulative (Baum and Oliver, 1991) and socio-political legitimacy critical to entering the market and receive positive assessments from socio-political actors. Which entry mode is best suited to the institutional context is a critical issue at this phase. As the company is unknown to the new market, and the industry may be sceptical of new entrants, the firm must earn a threshold level of legitimacy. The necessity of selecting an entry mode under conditions of uncertainty and institutional void often leads MNEs to find a credible and locally legitimized business partner through which to enter the foreign context (Chan and Makino, 2007).

In the *entry phase*, subsidiaries aim to earn market legitimacy (Rao *et al.*, 2008), cognitive legitimacy (i.e. brand recognition), media legitimacy, pragmatic legitimacy, and socio-political legitimacy (Aldrich and Fiol, 1994; Suchman, 1995) to ensure that the legitimating actors judge their entity, activities, and products acceptable. Subsidiaries tend to collaborate with local champion firms, political and CS actors by pursuing linkage legitimacy strategies (Child and Rodrigues, 2011). This is because linkage with highly legitimate actors in an IV provides subsidiaries with acceptance, endorsement, image, and resource-dependency opportunities (Dacin, Oliver, and Roy, 2007). Subsidiaries thus need to earn and maintain internal legitimacy (Kostova and Roth, 2002) – from employees, headquarters, owner/investors, and partner/collaborators – while also balancing the pressures and expectations of various internal and external stakeholders. This is a common condition for all MNE subsidiaries due to their dual embeddedness (Nell, Puck, and Heidenreich, 2015).

In the *post-entry phase*, subsidiaries focus on business development and growth; their attention is on developing the market and expanding operations, as well as on building

reputation. Therefore, they prioritize positive image and synergy development. Subsidiaries attempt to earn socio-political legitimacy and pursue publicity and public relations campaigns (Kourula and Halme, 2008). They tend to pay more attention to defending legitimacy during this phase, as competitors, socio-political actors, and media are scrutinizing their behaviour (Gifforda and Kestler, 2008), so MNEs often become involved in various corporate social responsibility (CSR) activities together with CS and institutional actors (Zheng, Luo, and Maksimov, 2015; den Hond, de Bakker, and Doh, 2015). During this phase, business-model innovation and strategic initiatives aim to produce efficiency in operations and market development (see Zott and Amit, 2008), which eventually help build cognitive legitimacy as subsidiaries attempt to create or change institutions (Dunning and Lundan, 2009).

Civil society's role in subsidiary legitimation

IB studies have paid relatively little attention to CS as a broad concept and its relation to subsidiary legitimation (Rana, 2015). A stream of IB literature, however, has investigated NGOs as the organizational manifestation of CS and examined how NGOs influence MNE governance, transaction costs, and resource dependency in cross-border operations (Doh and Teegen, 2002; Teegen *et al.*, 2004; Doh and Guay, 2006; Dahan *et al.*, 2010). The role of other CS actors, like activist networks (den Hond *et al.*, 2014; Spar and Le Mure, 2003), professional associations, foundations, and influential individuals, has been ignored (Yunus and Weber, 2010). These actors possess agency due to membership, shared values, and social networks based on ideological and intellectual connections that are different from those of NGOs (Rana and Elo, 2017). Their heterogeneous power and resources may have various effects on MNE legitimation.

Our study, however, considers all CS actors and their nexus to MNEs in legitimation, and relies on the following definition of CS:

> *Civil society is a community of citizens characterized by common interests and collective activity, and this aspect of society is concerned with and operating for the collective good, independent of state control or commercial influence; all social groups, networks, and organizations above the level of the family that engage in voluntary collective action fall under civil society* (Oxford English Dictionary, 2019).

The past decade has seen a dramatic expansion in the size, scope, and capacity of CS around the world, aided by globalization, the expansion of democratic governance, telecommunications, economic integration, and worldwide media empowerment. CS tends to play a prominent role when ineffectual socio-political and economic institutions leave an institutional void affecting socio-political order, development, business operations, and human welfare. Furthermore, while CS has historically been defined at the national level (Schwartz, 2003), where group identity derives from citizenship and group ideologies in the nation-state (Pharr, 2003), collective actions increasingly occur across borders through transnational networks (Keck and Sikkink, 1998; Khagram *et al.*, 2002) and cognitive bonding on shared ideology (Morgan, 2001). They are manifested in global non-governmental organizations (GNGOs), e,g. Oxfam, CARE, Greenpeace.

CS is unique in its origin and roles in that it (1) is separate from political institutions, (2) works for welfare and development, (3) holds diverse value standards, and (4) is linked with global CS actors through cognitive and/or administrative networks.

CS may therefore stand against state policy when state behaviour is contrary to CS's values, while MNEs may satisfy one type of CS actor but still lose legitimacy by violating the standards and expectations of another type.

In this study, we see civil society as a social phenomenon and complementary institution occupying social space in a national and transnational context (Rana and Elo, 2017); when investigating the MNE-CS nexus and subsidiary legitimacy development, we thus include NGOs, foundations, associations, activist networks, and individuals with a welfare mindset.

In the MNE-CS nexus, CS actors may challenge subsidiary activities that fail to meet the standards and expectations of social institutions, but CS also allows subsidiaries to leverage contextual resources, social image, and endorsement (Yaziji and Doh, 2009; Rana and Sørensen, 2014). This indicates a resource-dependency perspective in which subsidiaries seek external rents through CS collaboration (Lambell *et al.*, 2008). Such resource dependency reduces the liability of foreignness and increases opportunities for MNEs in an IV. This is because subsidiaries in relational governance with CS actors (Kourula and Halme, 2008) can access complementary knowledge, which enhances contextual intelligence to adapt, navigate, and innovate in the IV. This also has spill-over effects on subsidiary legitimacy (Yanacopulos, 2005) if the collaborating partner has a higher legitimacy and image in the society (Reimann *et al.*, 2012).

Collaboration with CS actors may help subsidiaries leverage resources enabling them to enter foreign markets, expand operations, and gain competitive advantage (Rana and Elo, 2016). CS collaboration helps MNEs gain competitive advantage in upstream and downstream value-chain management (e.g. sourcing local raw materials and distributing products). The collaboration effect reduces subsidiary transaction costs in international marketing and reduces tensions with socio-political actors (Vachani, Doh, and Teegen, 2009), which helps subsidiaries earn acceptance and synergy-level legitimacy (Rana, 2014). Collaboration with

CS also shows how CS shape subsidiaries CSR activities and social sustainability in internationalization (see Marano and Tashman, 2012), and that in an internationalization process legitimacy is not a one-time resource or strategic output; instead, subsidiaries need to legitimize their business operations and corporate entities on a continuous basis.

From a subsidiary's perspective, sustainable collaboration with CS actors requires subsidiaries to ensure complementarity, mutual benefit, and shared value, and only this can yield a positive spill-over effect on subsidiary image and synergy.

Subsidiaries can earn legitimacy through marketing and management strategies (see Rao, Chandy, and Prabhu, 2008), but to earn combined legitimacy and efficiency in collaboration with CS actors, they need strategic intent and organizational capability (Rana and Elo, 2017). 'Efficiency' in synergy comes from two directions: reducing costs and enhancing benefits and effectiveness in business operations and marketing. Subsidiaries can gain efficiency by either developing a novel business model or redesigning an efficiency-centred one (see Zott and Amit, 2008). One novel way to increase efficiency is by becoming an institutional innovator in an IV context through either their own strategic initiatives or collaboration.

Table 1 shows how CS actors play diverse roles in international business including filling a regulatory vacuum (Dahan *et al.,* 2010), complementing cultural-cognitive constraints (Yunus and Jolis, 2007), filling a goods/services provision vacuum (Yunus and Weber, 2010), creating industries/institutions (Doh and Guay, 2006), co-optation (Coy, 2013), providing oversight, resources, and endorsement (Kourula and Halme, 2008; Austin, 2000), and engaging in social justice activism (den Hond and de Bakker, 2007).

Insert Table 1 here

While the co-creation process by MNE and CS leads to legitimacy and economic value creation, it simultaneously contributes to the social value creation for which CS strives (Zimmermann, 2014; Yunus and Weber, 2010). At this level subsidiaries earn synergy, and this co-evolutionary process increases opportunities for subsidiaries to leverage contextual knowledge and resources. The institutional conditions in which CS can effectively function as an 'extra institution' (King and Soule, 2007) – being independent of state influence and cultural dogmatism – depend on the nature of the existing socio-political institutions.

Subsidiary legitimation in an institutional void

Khanna and Palepu (1997) coined the term 'institutional void' (IV) to indicate weak socio-political institutions, low openness to foreign companies, and underdeveloped capital markets, infrastructure, and regulations that affect buyer-seller transactions. Their intention was to highlight the *dysfunctionality* or *absence* of mechanisms in formal institutions and markets, particularly the production factor-conditions and environmental forces, market intermediaries, and physical infrastructure that affect the organization of economic activities, particularly the transaction cost, in a society (Khanna *et al.*, 2005).

For example, microfinance NGOs emerged due to a need for collateral-free microfinance for poor Bangladeshi women in rural areas who traditionally fell outside of conventional banks' credit coverage. However, this view of institutional void is limited in that it tends to indicate only missing institutions and market intermediaries, mainly formal ones. IV can also exist in informal institutions, such as the nature and degree of social trust, reciprocity, social capital, cognition on a specific topic, etc. Although CS organizations emerge from institutional void, they cannot always compensate for the non-performing/suboptimal institutional conditions

that affect MNE operations. For example, the entire Bachelor of Medicine programme in Bangladesh had only six hours of diabetes education, so it produced doctors with little knowledge of diabetes treatment. Although the Bangladesh Diabetes Association (BADAS) promoted the welfare of diabetes patients, it could not develop a doctor education course until it collaborated with Novo Nordisk. Whitley, (2001) calls this condition lack of cohesiveness or complementarity, while Anderson (2008) and Stiglitz (2000) explain it as the ineffective performance of either formal or informal institutions and a lack of efficient complementarity in institutional arrangement, leading to suboptimal condition.

'Absent' institutions, as Khanna and Palepu (2010) point out, are mostly intermediaries and proximate formal institutions, like digital payment systems, distribution systems, or efficient capital markets; however, they are the manifestations of ineffective formal institutional rules and policies. Thus, calling them 'missing' or 'absent' is somewhat misleading. However, it is possible that formal institutions may be absent, or that informal institutions like norms and cognition may not be present in the society to support effective operation of the formal institutions. In fact, formal institutions are often present, but informal norms, social capital, and cognition may not be complementary to these formal rules, making the market and institutional system ineffective for business operations. As Anderson (2008) reports, a country may reduce its tariffs with an aim to reducing trade costs, but if the country has a high degree of corruption, international trade may still be expensive and cumbersome.

Thus, we conceive of IV from a broader perspective including missing or underperforming institutions, low complementarity, and ineffective coordination among institutional organs, leading to ineffective performance and suboptimal institutional conditions.

IV tends to manifest in three major spaces: (1) *the structural architecture of a formal institution*, (2) market *conditions*, and (3) *complementary mechanisms of cultural-cognitive and proximate (formal) institutions*. Khanna and Palepu (2010) illustrate the first two spaces where voids occur and how companies respond. Mair, Marti, and Ventresca (2012) illuminate the third type of space, demonstrating how IV is underpinned by a lack of complementarity between cultural-cognitive and proximate institutions, which the NGO BRAC complemented. A void in any of these three spaces can affect subsidiary operations, performance, and survival. Although it is more common in emerging economies, developed economies may also have institutional voids. Subsidiaries can either depend on local economic actors to bypass or navigate a void, or they can fill a void through an individual or collaborative initiative. While the IV concept focuses on the transactional efficiency subsidiaries can gain (Doh *et al.*, 2017) our paper illustrates both the legitimacy and the efficiency subsidiaries gain through collaboration with CS actors. Subsidiaries seek different types of legitimacy at different phases of internationalization due to the different levels of contextual knowledge they develop and their evolving ability to respond to institutional variations and voids.

RESEARCH PROCESS AND METHOD

Using a qualitative approach and multiple-case method (Miles, Huberman, and Saldana, 2014; Yin, 2009) we explore how subsidiaries develop/co-develop different levels of legitimacy in collaboration with CS actors in an IV. We thus aim to capture multiple actors' views on how legitimacy is developed, at what level, and how the MNE-CS nexus complements IV to create both legitimacy and efficiency. Pursuing an abductive approach, we apply both literature-driven theoretical codes and data-driven codes to develop second-

order constructs relating to the levels of legitimacy the MNE-CS nexus develops in an IV. Together with the multiple embedded case method, we use the critical incident technique (CIT) to capture the 'hidden' aspects of the levels of subsidiary legitimacy (Durand, 2016) that are likely to arise from the nexus of MNEs and CS in IV. We capture how the legitimation process leads to a certain level of 'legitimacy', which is an output of MNEs' strategic responses. We looked at both historical data and interviews to understand the process, from the pre-entry phase to the post-entry. However, we draw on a critical incident at a particular point in time for each case to derive whether the firm earned or lost acceptance and other levels of legitimacy. We then validated the levels of legitimacy derived through subsequent interviews with company, institutional actors, news reports, and company data.

In using CIT, we focused on (1) different levels of legitimacy, for which we derived initial theoretical constructs from the literature (see Wan *et al.*, 2015; Scherer, Palazzo, and Seidle, 2013; Regner and Edman, 2013; Foreman, Whetten, and Mackey, 2012; Bitektine *et al.*, 2011; Suchman, 1995), (2) the firm's advantage/gain/efficiency, (3) failure/tension/conflict, and (4) any key turning point/change, throughout the three phases of internationalization (see Rana and Elo, 2017). We then examined critical incidents primarily from the perspective of the MNE-CS nexus that affected the firm's acceptance, image, endorsement, and synergy.

Research context and actors

Bangladesh is our research context. It is described as a potential 'Asian Tiger' due to its growing investment opportunities and consumer markets (World Economic Forum, 2017); however, it has high levels of inequality and state bureaucracy and weak property rights protections, institutional performance, distribution networks, and healthcare services (Doing

Business Report, 2018). There are 2,276 registered NGOs in Bangladesh (Rana, 2014); several larger ones (e.g. Grameen Bank, BRAC, ASA, Gonoshastho Sangstha) operate various citizen-service organizations and not-for-profit companies in response to voids in healthcare, education, the microcredit/finance market, and the financial sector.

We have selected both typical and atypical cases to create theory-driven variance and divergence in the data (Yin, 2009). Ideal-typical cases represent the empirical core of an emergent model, while atypical cases produce contrasting results for predictable reasons (Pauwels and Matthyssens, 2004).

We include some prominent CS organizations that collaborate with MNEs and illustrate novel ways to respond to IV in Bangladesh. Grameen Bank (linked with Telenor), along with its founder Muhammad Yunus, jointly received the Nobel Peace Prize in 2006 for its microfinance operations that helped alleviate poverty. BADAS (Bangladesh Diabetes Association) (linked with Novo Nordisk), is the largest diabetes association in Bangladesh, composed of doctors, philanthropists, and diabetes patients. It has the largest diabetes clinic (BIRDEM) in Bangladesh, with a network of clinics all over the country.

Of the activist networks with varying ideological backgrounds, the most prominent is an activist group called the National Committee to Protect Oil, Gas, Mineral Resources, Power and Ports (NCPOGMPP) (which campaigned against Asia Energy Corporation), headed by Anu Muhammad. It has managed to halt the operations of several MNEs in entry and post-entry phases of internationalization (e.g. Stevedoring Services of America and ConocoPhillips) (Rana and Sørensen, 2014).

Moreover, we include influential individuals in CS groups; for example, Nobel laureate Muhammad Yunus is one of the few CS actors who influences social-cognitive institutions both within Bangladesh and around the world. In his work to alleviate poverty and inequality, he has not only founded Grameen Bank, but has also advocated for 'social business' concepts to address social problems (see Yunus and Weber, 2010). Such initiatives include Grameen Danone, Grameen Veolia, BASF Grameen, and Grameen Intel; these social business organizations complement IVs in Bangladesh. However, several other NGOs also work with MNEs as CSR partners. Arla donates funds to GBPSKS NGO under a CSR project, while GSK collaborates with Friendship (NGO). Nestlé collaborates with IMPACT Foundation, a global NGO, and Proshika, a large Bangladeshi NGO offering microcredit services.

Case selection and description

We purposefully selected six MNEs that provide both typical and contrasting dimensions of the MNE-CS nexus, different types of critical incidents, and varying levels of legitimacy in internationalization (see Table 2). As Ghauri and Firth (2009) suggest, we set the following *a priori* criteria consistent with our research problem: (1) CS actors should be involved with subsidiaries under different conditions in order to capture both the MNE-CS linkage effect and the institutional innovation effect, illustrating both efficiency and legitimacy; (2) subsidiaries should be at different stages of internationalization in order to trace levels of legitimacy at different stages; (3) instead of focusing exclusively on CS supporting subsidiary legitimation, we examine how CS constrains different levels of legitimacy development.

Insert Table 2 here

As shown in Table 2, Grameenphone (GP) (C1) is a joint venture of Telenor and Grameen Telecom (GTC), a sister concern of Nobel-winning NGO Grameen Bank (GB). Telenor, with a 56% stake, has controlled GP since its creation in 1996. Telenor entered Bangladesh through the active support of GB and its founder, Muhammad Yunus, and collaborated with CS on ownership share and strategic collaboration dimensions. GP's initial business model helped rural women with no purchasing power to buy cell phones and become consumers, while the physical distribution and telecom networks were almost non-existent when Telenor entered Bangladesh (Isenberg, Knoop, and Lane, 2007). GB offered microcredits to increase the purchasing power of rural female consumers and GTC sold pre-paid minutes and provided distribution and customer service through GB's network. GP (i.e. Telenor) quickly earned initial acceptance, but in post-entry it began losing acceptance and image in the eyes of its partner GB, Muhammad Yunus, and the telecom industry regulator BTRC. We capture Telenor's legitimation/de-legitimation and synergy creation dimensions over three phases.

Novo Nordisk Private Limited (NNPL) (C2) developed a strategic alliance with the non-profit Bangladesh Diabetes Association (BADAS). BADAS exclusively distributes NNPL's products to all diabetes clinics including BIRDEM hospital, which it owns. BADAS operates a clinic jointly with NNPL and the World Diabetes Federation (WDF) called CDiC that offers free medicine and treatment for diabetes-affected children and pregnant women in Dhaka, Bangladesh. NNPL provides free medicine and co-funds operations (Novo Nordisk, 2018). While juvenile diabetes is neglected in state policy and diabetes education is under-addressed in Bangladeshi medical education, NNPL filled these two voids through its collaboration with

BADAS and WDF: it (1) established the CDiC clinic and developed patient awareness programs and (2) developed an online education program in diabetology for doctors.

NNPL's internationalization was gradual, moving from indirect exports to a full-fledged subsidiary. It ultimately collaborated with BADAS for sales and to raise awareness and create affordable medication for diabetes, resulting in co-development of legitimacy and efficiency.

By contrast, Asia Energy Corporation Pty Ltd (AEC) (C3) entered Bangladesh in 2005 to extract coal at Phulbari, Dinajpur. Its aim was to construct a 500-MW power plant, a US$1.4 billion project with an estimated land requirement in a coalmine area containing 150,000 residents and their croplands in Dinajpur (Rana and Sørensen, 2014). AEC had no relationship with CS at the pre-entry phase and was met with resistance from the activist group NCPOGMPP despite official approval and support from state and local governments. Protests and blockades by NCPOGMPP halted AEC's operations in the entry phase. Both Telenor and AEC made a direct entry into Bangladesh; thus, we can compare their pre-entry phases and subsequent developments.

Arla (C4) has strategic collaborations with two NGOs: one local NGO, GBPSKS, provides free milk and education to working-class children in Dhaka as part of Arla's CSR. The other, CARE Bangladesh, focuses on bottom-of-the-pyramid marketing of Arla's milk powder, providing income opportunities to rural women and generating sales for Arla. However, the negative endorsement of global NGOs, Danwatch and Action Aid, affected Arla's legitimacy in Bangladesh and the European market, as explained in the post-entry phase section.

GSK (C5) is a joint venture with a government institution, selling mainly medicine and health products. Its strategic collaboration with Friendship (NGO) brings telemedicine services to

underprivileged people in the islands as part of its CSR. GSK has recently expanded telemedicine services through CARE in response to a medical service void in the.

Nestlé (C6) is a wholly owned subsidiary in Bangladesh, and has a strategic collaboration with two NGOs, one for CSR and the other for sourcing raw materials. Nestlé funds IMPACT Foundation to conduct a project called 'Nutrition and Health Education of Rural Women/Children' in the Meherpur district. It has developed a project to source honey from the Sundarbans mangrove forest in collaboration with Proshika NGO. The four MNEs (C2, C4, C5, and C6) entered Bangladesh through indirect modes of entry, afterwards undergoing several structural changes, so we have captured their legitimation and de-legitimation at the post-entry phase. The case companies' entry modes evolved over time, so we collected data when they had direct entry in Bangladesh (e.g. JV, subsidiary) (see Table 2). We have collected data on the case companies from the point when they established subsidiaries or joint-venture operations in Bangladesh (as opposed to direct or indirect export from abroad).

Data collection, analysis, and coding

Data was collected in two rounds in 2012 and 2017. One of the authors, a native Bangladeshi, collected data in the Bengali language to enhance the efficacy of the interviews and increase interviewees' receptiveness to the researcher (Cooke, 2002). We used direct semi-structured interviews, all available company documents, newspaper reports, published information, and observation in order to gather and triangulate rich information. Information was collected based on the criteria that (1) the respondents were well informed about the companies and attuned to society's perceptions of them, and (2) they were involved in critical incidents. We repeatedly verified the codes in two or more cases through multiple sources and developed

the themes until we reached the saturation stage of data collection. A total of forty interviews were taken (See detailed information in Appendix-1).

Analysis and coding structure

Based on the analysis framework (see Appendix 2), we followed a continuous coding method using the criteria: 'What is the critical incident of the MNE-CS nexus?', 'How has it led to acceptance or judgment/image/endorsement/synergy (positive or negative)?', 'How does the mechanism of legitimacy and efficiency creation operate?', and 'When was legitimacy attained (i.e. at which phase of internationalization)?' The codes are grouped into three phases of internationalization: pre-entry, entry (the first 3-4 years), and post-entry (Rana and Elo, 2016). Our analysis follows the framework in Figure 1 and demonstrates how MNE-CS interactions create different levels of legitimacy and efficiency in an IV. Thus, we can 'provide more relevant recommendations for managers, even if such recommendations are not generalizable to all firms in all locations at all times' (Cuervo-Cazurra *et al.*, 2017:239).

Insert Figure 1 here

We derive codes from the triangulation of data on six cases and CIT (see Gioia, Corley, and Hamilton, 2013). Using qualitative data coding logic (Langley *et al.*, 2013) we built in verbatim codes and noted firms' responses. Following Monaghan and Tippmann (2018), we identified the underlying logic of each first-order category, producing second-order themes – the levels of legitimacy (see Appendix 2). We compared and contrasted themes related to MNE responses to IV and grouped them based on the three phases. We derived theoretical codes on the levels of legitimacy from the legitimacy, synergy, and fit literatures (see Bitektine and Haack, 2015; Zheng, Luo, and Maksimov, 2015; Wan, Chen, and Yiu, 2015;

Zimmermann *et al.*, 2014; Bitektine, 2011; Zott and Amit, 2008; Suchman, 1995) (see Appendix 2).

ANALYSIS AND RESULTS

Pre-entry phase

Acceptance: In the foreign market pre-entry phase, MNEs plan to smoothly gain threshold-level acceptance to institutional actors, key CS actors, industry actors, and consumers. Although industry context is important, subsidiaries tend to make sure that competition is manageable and rivalry is not enough to jeopardize their acceptance and existence in the market. In this preparatory stage, the priority is receiving positive judgment from the legal-political actors and market. Subsidiaries often collaborate with highly legitimized market actors to gain legitimacy, but collaboration with non-market actors, particularly CS actors, often yields greater returns, as illustrated in the contrasting cases of GP (C1) and AEC (C3).

In this phase, Telenor (C1) could not finalize its decision about entering Bangladesh until Yunus and Grameen Bank (GB) agreed to collaborate, committed to an ownership stake, and expressed support for its business model (see Yunus's letter in Isenberg, Knoop, and Lane, 2007). GB committed to provide microcredits and a distribution network to offset structural voids in rural areas. Telenor, as an MNE from Norway, was a completely unfamiliar name in rural Bangladesh, while GB had broad acceptance and a good reputation there; thus, the use of the Grameen name for the newly established joint venture facilitated Telenor's acceptance by political actors and the greater society. Furthermore, before Telenor entered the market, Yunus held a press conference about Telenor that created widespread awareness and credibility for Telenor and its product (Isenberg, Knoop, and Lane, 2007).

Telenor aimed both to use Yunus's influence with political actors to get easy approval of its telecom license and to exploit GB's million members as the initial customer base. Yunus aimed to catalyse female entrepreneurship and rural employment. GP's business model provided microcredits to GB's female members, who would buy cell phones from GP and sell minutes to their neighbours. Since there were no cell phones in village areas at the time, GB members could easily make money, earn a living, and pay back the loans.

Yunus's mission and Telenor's mission – serving rural customers and stimulating local development – seemed well matched at first. Telenor agreed that it would swap its share with GB after six years of operation, giving GB governance of GP in the post-entry phase. Pre-entry preparations were housed in GB's office in Dhaka, and Yunus and GB experts consulted on every possible hurdle Telenor faced (Rana and Elo, 2017).

By contrast, the Asia Energy Corporation (C3) signed an agreement with the Bangladeshi government to extract coal in the Dinajpur coalmine using an open-pit method and to build a coal-based power plant. The Ministry of Environment approved this plan, but the activist group NCPOGMPP, led by Anu Muhammad, publicly contended that the open-pit method would destroy the local environment and farms and argued in the news media that the agreement benefitted AEC more than the national interest (Kalafut and Moody, 2008).

As the Secretary General of NCPOGMPP explained,

> *As soon as we got the official contract document and expert opinion on AEC's project, that it would harm our environment and national interest, we collaborated with the newspapers and organized a press conference and protest to inform society. Our government system is dysfunctional; very often it does not have our national interest at heart, but we cannot let it happen. (AEC1)*

Both the media and NCPOGMPP remained active; they created a negative sentiment towards the firm and its operations and lowered its legitimacy and image (Rana and Sørensen, 2014). While CS provided resources and passive endorsement for pre-entry acceptance, as in C1, it later reversed course, damaging the firm's acceptance and creating a negative image. In the pre-entry phase, despite C3's signed agreement with the government and its legal legitimacy, it began to lose cognitive and pragmatic legitimacy; the reverse was true for C1.

Entry phase

In this phase subsidiaries physically enter the foreign market. It is important that the subsidiary receives not only acceptance and positive judgment in the socio-political market but also formal and informal endorsement and complementary resource support from institutional and CS actors in order to offset both these voids and the liability of foreignness.

Acceptance: When a subsidiary enters, it may receive a positive or negative judgment from socio-political actors; a negative judgment can be decisive if it is based on an ideological stance by CS (Rana and Sørensen, 2014).

In an example of positive judgment, Telenor had high customer acceptance and fast market growth in the early stages; all phones brought to market were sold in the first few months of operations in 1997. Due to Grameen Bank and Yunus's involvement, customers and society perceived Telenor and its product as superior and socially contributing (Rana and Elo, 2017).

> *Government and political actors supported it wholeheartedly because it had complemented rural development and held shared ownership with GB, which was an engine of rural development. People did not know what Telenor was, but everyone perceived GP as a sister concern of GB, giving Telenor credibility at the initial stage.* (T1)

In the same vein, a strategic alliance between NNPL and BADAS (C2) gave NNPL and its products a high degree of acceptance in the diabetes industry. This was because the relationship with BADAS was based on shared values, mutual respect, and aligned missions. The support of BADAS, a highly legitimized stakeholder, provided a legitimacy spill-over to NNPL in both the political and medical markets. As the president of BADAS noted,

> *It is true that NNPL did not enter through us, but the collaboration with BADAS helped NNPL to be recognized in the diabetes industry very quickly. Everyone knows we work collaboratively to improve diabetes management in Bangladesh. (BAD1)*

In contrast, a subsidiary may have negative acceptance when CS actors protest to force it out of the country, as seen in case of AEC (C3). Even though AEC had received a license from the government, tensions began before its entry and continued to escalate after it began operations in 2004. AEC relied too heavily on formal approval by the state and certification from the Ministry of Environment, failing to sense the expectations of local people and CS actors in the mining industry. AEC also underestimated the agency of the CS actors and thus could not anticipate the resulting outcome – complete loss of legitimacy. AEC halted operations in 2006 due to violent protest and local opposition, led by NCPOGMPP.

The Secretary General of NCPOGMPP said,

> *It is not only a socio-economic benefit for the country that we expect MNEs to ensure in the extraction and energy sectors. We expect them to care about environmental damages, pay due diligence to rehabilitation, and compensate the affected people. None of these were considered in case of the Fulbari coal project, nor did AEC include us or local representatives in planning how to address these issues. We want to ensure people's ownership in the natural resource industries of Bangladesh. (AEC1)*

Subsidiaries may encounter similar situations at the initial stage of entry by failing to address the threshold-level expectations of society and key CS actors. MNEs that entered Bangladesh

gradually (C2, C4, C5, C6) – by exporting through agents, then setting up a liaison office and later a full-fledged subsidiary – successfully filled and circumvented institutional voids as well as created legitimacy. This is because they gathered contextual knowledge and formed relationships with key CS and institutional actors, thus developing corporate strategies that fit the context well. Five case companies sold goods or services to consumers, so collaboration with CS actors helped them create awareness, secure complementary resources, and gain access to particular consumer markets, distribution systems, microcredit facilities, etc. AEC (C3) was the only case where a firm engaged in business-to-business operations and where government approval was the key component in formal legitimacy; however, it overlooked the importance of social legitimacy and ignored the agency of CS actors to its detriment.

Image: Image building depends on the subjective judgment of stakeholders and society and on MNEs' behaviour. Subsidiaries get little time to develop their image at the entry phase as they possess little contextual knowledge. Lack of relationships with social stakeholders at this phase can make image-building difficult. MNE's global image can affect local stakeholders' and the public's perception of the subsidiary in the host context. However, a subsidiary's image is shaped by how it operationalizes promotion, public relations, and practices.

In the C1 case, once again, it was Telenor's collaboration with GB that burnished its image. The managing director of GTC explained,

> *When Telenor entered no one knew it; GB and Professor Yunus made their journey easy. Everyone began to accept it and perceived it as a respected company contributing to our country. Later they began to lose that image, from the moment they deviated from the shared goal for what they promised us before entering. (GTC1)*

A subsidiary or its practices may gain a negative image for several reasons. AEC (C3) had a low image from its entry, as it focused on formal approval while overlooking the expectations of locals and key CS actors. The activist group NCPOGMPP publicly denounced AEC, wrote several newspaper articles, and held many protests and workshops to inform the public that AEC would damage the climate, destroy adjacent productive land, affect livelihoods, and above all deprive the nation of the benefits of the mine (see Kalafut and Moody, 2008). They created an image of AEC as an exploiter. The then-mayor of Rajshahi, who was involved in negotiations between AEC and civil society when the agitation escalated, said,

> *AEC made a great mistake by not communicating with NCPOGMPP and the local stakeholders from the beginning of the operation. They thought a license to operate and support from our government to build an energy project would be enough, but they were wrong. When they had lost their image with activist groups, local people, and the media, I was requested to negotiate the tensions, but it was too late. (AEC2)*

Endorsement: Image and endorsement complement each other in an overlapping relationship. However, strategies to develop these two levels may differ. One dimension of endorsement is formal institutional approval gained through formal processes and compliance; the other, which can be active or passive, is informal endorsement by socio-political actors. Informal endorsement affects the cognitive institution, shaping a subsidiary's credibility and image in the context of low trust and acceptance for a foreign company, process, and product.

The collaboration between NNPL and BADAS was based on shared values, and BADAS's continuous endorsement was both active and passive. The Secretary General of the Bangladesh Medical Association commented,

> *Though NNPL is a world-famous company in insulin, initially it was known and recognized in the industry because of its involvement with BADAS. The BADAS president was always saying good things about it, and that … helped it gain a strong hold in the diabetes medication field. (INS5)*

Synergy: This level of legitimacy combines acceptance and efficiency for subsidiaries. It is rare to develop synergy at the entry phase due to a higher degree of liability of foreignness and lack of relationships with CS actors. However, Telenor (C1) did attain synergy in the entry phase. When Telenor entered Bangladesh in 1997, there were two institutional voids in rural areas. One was structural: an inadequate distribution infrastructure and the absence of a financial system to enable rural women to buy mobile phones and receive customer service. The other was cultural-cognitive: people lacked knowledge of how and why to use a mobile phone. GB had countrywide offices and management networks with approximately 1 million borrowing female members involved with micro-enterprises. These women were also GB shareholders. Thus, Telenor's joint venture with GB enabled it to receive local acceptance quickly and overcome the liability of foreignness in marketing. GTC, GB's sister concern, took on responsibility for selling mobile recharge cards through GB's organizational network and provided customer service. GB provided microfinancing to buy mobile phones and basic training on their use. GB's collaboration provided both acceptance and operational efficiency to GP in the rural market, which Telenor could not have earned alone (see Isenberg, Knoop, and Lane, 2007; Pirson, 2011; Rana and Elo, 2017). The general manager of GP explained,

> *Initial support of GB and Muhammad Yunus and their collaboration and endorsement influenced our society and rural market to develop a positive judgement of our product. The 'Grameen' name, in particular, which was already known, provided credible acceptance to our brand 'Grameenphone'. All the difficult tasks in the village phone project were undertaken by GTC and GB, so our success in rural markets and, later, in the country was complemented by them and thus was a shared achievement. (T1)*

Post-entry phase

Acceptance: As subsidiaries grow and expand operations, CS and institutional actors scrutinize their behaviour, while challenges for MNEs begin to multiply. Subsidiaries therefore must focus on maintaining legitimacy, avoiding de-legitimation through proactive corporate strategies and collaborative initiatives. MNEs can gain more acceptance through publicity, public relations, and CSR initiatives with CS actors (Marano and Tashman, 2012); this section, however, highlights how MNEs can lose acceptance.

First, a subsidiary may lose acceptance by a business partner, CS, or institutional actors when its strategies contravene the partner's values and mission. Lower acceptance eventually affects a subsidiary's image in the local market, and may influence its image in international markets, too, depending on the nature of the tension and the intensity of the backlash.

Case C1 illustrates this loss of legitimacy, from high acceptance and a responsible image to low acceptance and an irresponsible image. When Telenor refused to swap shares with GB at the agreed-upon date and later was charged with tax evasion, Yunus publicly criticized the company. Its misconduct continued, with charges of illegal use of VoIP (voice over internet protocol), which resulted in fines of 1.68 billion and 2.5 billion Taka in 2007 and 2008, respectively, and hiding revenue and tax evasion in 2011 (see Rahman, 2005; Reza, 2008). In 2008, Yunus issued the following statement:

> *Back in 1996, we and Telenor agreed that the joint company within six years should be a locally operated company with Bangladeshi management and majority ownership. This has not happened. Telenor is unwilling to let go control of the company. We are now being told that the words of the written agreement in a legal sense are non-committing statements.… I am confident the people of Norway will see to it that the companies that they own and control honour their written intention…especially when dealing with the poor women. The police report includes damning information regarding Telenor's*

> *involvement [i.e. in child labour, tax evasion, VoIP fraud].… The people do not understand that Telenor runs the company and that Grameen Telecom has hardly any effective say in company operations.… We cannot allow the Grameen name to be tarnished. (Mohammad Yunus, 5 September 2008, in Falkenberg and Falkenberg, 2009:363–65;Lee, 2008).*

Yunus revealed to *Fortune* in an interview in Dhaka, *'There's tension between us and Telenor; there's a philosophical difference. They're oriented towards profit maximization. We're oriented towards social objectives'* (Falkenberg and Falkenberg, 2009:362).

A statement from the managing director of GTC corroborated these assertions: *We cannot tolerate such misconduct…. They've [CEO] begun to avoid us now, and do not consult with Muhammad Yunus any longer.(GTC1)*

When asked to verify the misconduct, three high officials of the Bangladesh Telephone Regulatory Commission (BTRC) responded,

> *We think all this misconduct is done under the direction of the top management [i.e. Telenor], because when we informed them no one was punished…. [W]e believe top management does it intentionally in order to maximize profit…. Now we carefully scrutinize their activities. (Group interview: BTRC 2, 3, 4)*

The other type of subsidiary de-legitimation, losing legitimacy, may arise from external CS actors (unlike C1, where CS was part of the organization's internal structure). This phenomenon is shown by Arla (C4), which faced a negative endorsement in 2011 when Danwatch and Action Aid, global NGOs, revealed a report that Arla received European subsidies under the common agricultural policy and lowered its milk prices to undercut local companies. Although this did not seriously affect Arla's acceptability in the local market, where the Arla brand was known as 'DANO', the allegations tarnished Arla's legitimacy and image in European markets. The managing director of Arla-Bangladesh reported,

> *Despite a legitimacy crisis at the beginning of this tension, we began to communicate with both Danwatch and Action Aid and provided them with actual data and scenarios, so that they could see the reality, that there was no way we could use dumping pricing while selling milk products at premium prices. Now it is no longer an issue in the local or EU market. (ARLA1)*

Image: This section illustrates the contrast between positive and negative image. On the positive side, Abdullah Al Mamun, marketing executive of NNPL (C2), says,

> *I am very proud of the CDiC program. This program helps me promote insulin products to doctors. My family, friends, and relatives also appreciate me for working for a company like Novo Nordisk.* (Blueprint for Change program in Bangladesh, 2012:15)

On the negative side is Telenor. Since its legitimacy crisis, Telenor has focused on extensive promotion, public relations, and CSR activities with several local and global NGOs, multilateral agencies (UN, WHO), and the Bangladeshi government, aiming to regain acceptance and revive its image. Lower acceptance by key stakeholders affects firm image with employees. A GP employee reveals,

> *When I joined, GP was a prestigious place to work, but over time, as the company began to be involved in misconduct and mass contract termination [GP terminated over 300 employees without prior notice in 2012], it is no longer a good place to work. Instead it has an image of a workplace with an insecure, survival-of-the-fittest organizational culture.* (T3)

GSK (C5) adds another perspective on image and local legitimacy with CS under the CSR banner. When a deadly storm destroyed infrastructure in coastal Bangladesh in 2008, the British ambassador invited all British firms in Bangladesh, including GSK, to participate in local development. The project was to restore a Sundarbans island, Majher Chor, that was destroyed and where the livelihoods of 774 people were at risk. Friendship, a local NGO, was included as implementing partner. The communication manager of GSK explains,

> *We wanted to participate in the development process of the country at that time, and the opportunity came from the ambassador. Actually, it was not a collective initiative of the British firms led by the British High Commission in order to remake the British brand image in Bangladesh. (GSK3)*

Endorsement: The overlapping effect of endorsement is dynamic, so a negative endorsement in the pre-entry or entry phase can affect image in the post-entry phase (e.g. C1, C3). To receive positive endorsement, firms should develop relationships with key CS/institutional actors based on shared values (see the example of C2). As the Bangladeshi market lacks proper education on and awareness of diabetes treatment and management, patients and even general practitioners tend to be prejudiced against insulin, even when it is necessary. NNPL works closely with BADAS to provide specific resource support to fill specific types of cognitive void. For this, NNPL receives ongoing positive endorsement from BADAS, whose president corroborates:

> *In partnership with Novo Nordisk we have managed to increase accessibility, awareness, and affordability of quality diabetes care. Our partnership with Novo Nordisk has been going on for years and is based on shared fundamental values. (BAD1)*

Endorsement does not come from collaborative work only, but the way the subsidiary aligns its mission with CS's mission, develops mutual trust, and pursues mutually developed goals. An interview with the coordinator of CDiC reveals,

> *We know that Novo Nordisk is a research-oriented pharmaceutical company, so when it comes to prescribing insulin, I always prescribe Novo's insulin because it is the best in the market, though NNPL never asked me to prescribe their insulins. I appreciate Novo's support to establish and run CDiC. Now I plan to develop a database on diabetes-affected children in our country in order to measure our performance and control childhood diabetes growth. I have shared my plan with NNPL and applied for funding for developing diabetes education modules for the school curriculum. This way we can create awareness of childhood diabetes, which is completely missing. (BAD2)*

Synergy:

In the post-entry phase, we find two examples of synergy creation. In the first case, the subsidiary aims to fill an institutional void in collaboration with CS, and the initiative eventually creates legitimacy and efficiency for the subsidiary and benefits society. In the second, the subsidiary needs a resource that it can access through CS, so it collaborates with CS to develop a project benefitting both the subsidiary and society. The first type of effort focuses on long-term institutional innovation processes to address social problems; thus, legitimacy and efficiency are inevitable consequences. The second type focuses on the firm's resource-exploitation motive, whereby the firm develops a mechanism that benefits both the firm and society, simultaneously creating legitimacy. NNPL (C2) is an example of the first case. In the post-entry phase, for C2, BADAS focused on understanding and filling voids in the diabetes industry. Their report, *The Blueprint for Change Program* (2012:01), highlights these:

> *Rising diabetes rates present enormous challenges to poverty eradication and economic development. In Bangladesh, Novo Nordisk works with local partners to improve health for millions of people. Because of efforts to strengthen healthcare quality, diagnosis and treatment rates are improving. These efforts create value for society and Novo Nordisk.*

NNPL and BADAS jointly contribute to two institutional innovations: (1) funding the CDiC clinic and (2) diabetology education for physicians that offsets the inadequate understanding of diabetes treatment in medical education. The online program NNPL developed with BADAS was upgraded from a certificate course to a diploma, approved by the nation's Ministry of Health, and endorsed by the WDF. The marketing manager of NNPL observed,

> *Our partnership serves us in many ways: First, we need a local champion who is well embedded in the local context and who holds power in the medical*

> *market. Second, the local champion … can influence the political will and policy implications, and BADAS fulfils all these criteria. Third, diabetes medication requires awareness, availability, affordability, and accessibility of care. An accredited diabetes education and counselling program provides awareness to doctors and patients; BADAS has diabetes care centres throughout Bangladesh, so it provides availability of diabetes treatments. We, WDF, and BADAS developed a fund (US$67 ml.) to provide free care to children who cannot afford diabetes medication. Our collaboration helps us receive high acceptance in the industry and efficiency and effectiveness in our market operations.* (NN1)

The president of BADAS noted,

> *Our distance learning program has been a milestone; almost every doctor treating diabetes has attended our program, so we have managed to bring a change in this industry. Now India wants to replicate our model in Orissa. (BAD1)*

The resource-exploitation case outlined above is that of Nestlé (C6). It needed high-quality organic honey, which was expensive to import. The NGO Proshika runs a microfinance operation in the Sundarbans mangrove forest, offers loans to farmers who collect honey, manages farmers' groups, and mediates the transaction between the farmers and Nestlé. Nestlé treats this as a CSR and sourcing project, as its corporate governance manager reveals,

> *We like to create shared value in our supply chain and CSR. At a point in time, we needed high-quality natural honey, and this was only available in the mangrove forest. It was almost impossible for us to collect. We needed a partner to be an intermediary with farmers, create jobs in the forest through entrepreneurship, give a fair price and improve living standards there. Our approach has been highly appreciated in the local context and among global stakeholders. (NES1)*

NNPL, Telenor, and Nestlé can be seen as institutional entrepreneurs/innovators, though to varying degrees. Their efforts led to value creation for the firms and society, and the process and outcomes have helped the firms earn legitimacy. This is what we call synergy.

DISCUSSION AND CONCLUSION

We demonstrate the mechanisms and outputs of legitimation by MNEs in collaboration with CS actors in an institutional void. Across the three phases of internationalization, legitimation evolves and co-evolves four different yet overlapping and increasing levels of legitimacy: acceptance, image, endorsement, and synergy (see Figure 2; Table 3).

Insert Table 3 here

Figure 2 summarizes the discussion of levels of legitimacy related to institutional compliance (Y-axis) and institutional innovation (X-axis). It is assumed that the higher the level of legitimacy, the better the market position and the greater the operational efficiency and effectiveness. We argue, as does Bitektine (2011), that these levels are reflections of evaluators' judgment of a firm's actions; such judgements depend largely on how well a firm meets legal and social requirements, particularly the expectations of key stakeholders, and which strategic perspective (compliance or innovation) a firm adopts in legitimation. Through the spiral metaphor we demonstrate that acceptance is the threshold level and that firms must continue earning this threshold acceptance at the subsequent levels or else the higher levels will not stand. However, the increasing levels are not necessarily sequential; as illustrated in Figure 2, they may be earned in any order. Although one level may affect another, this does not mean the previous level is altered when the next is attained. For example, a subsidiary may earn an endorsement of high product quality but have a poor image as a workplace.

Insert Figure 2 here

On the vertical axis we have the degree of compliance with existing institutions, but there is a threshold for compliance. If the MNE cannot meet this threshold, it cannot enter the market

or, if it has already entered, it will have to leave the market. Beyond the threshold, the MNE can improve its compliance and thus earn additional legitimacy. Often CSR activities are used for such purposes, but increasing legitimacy may also require going beyond the basic standards and expectations, as Novo Nordisk did. How far an MNE will move up the compliance ladder depends on the competitive landscape and the availability of legitimizing stakeholders. The more a firm complies with institutional expectations and adjusts its business model to the given context, the higher the legitimacy level it attains.

The horizontal axis is the degree of institutional innovation (i.e. changing/complementing the existing institution or creating a new one). As we discuss legitimacy in markets with IV, the institutional innovation dimension is important, even at the threshold level. For example, if the MNE wants to introduce a new product or method (e.g. a diabetes treatment method) but no standard or awareness exists, it needs to act as an institutional innovator to create a standard and/or educate consumers to develop a new habit or perception. Again, the MNE can reach a higher level of legitimacy through a higher degree of institutional innovation.

The better the institutional entrepreneurship strategy, the stronger the synergy attained. However, image, endorsement, and synergy can be earned both by compliance and through institutional entrepreneurship, depending on how well a firm can combine both strategies and commit to pursuing dual goals. We argue that these levels are overlapping and reinforcing because threshold-level acceptance is mandatory and thus intertwined with all levels, as illustrated in the spiral in Figure 2. Although MNEs earn an increasing degree of legitimacy as they move from one level to the next, the nature of legitimacy is different at each level. In general, the four levels indicate different degrees of involvement by stakeholders. A higher

degree of acceptance, above the threshold level, may move into image and endorsement (active or passive), depending on how the MNE operationalizes its strategic initiatives, the quality of its local collaborations and the legitimacy of its local collaborators.

At the image level, relevant legitimating actors form a perception of the MNE, positive or negative, impressive or unimpressive, good or bad, etc., and the resulting impression is bestowed on the subsidiary (or its brand). At the endorsement level, stakeholders publicly announce and formally certify the MNE subsidiary or its behaviour. However, receiving an endorsement of a particular standard or practice does not necessarily mean the entire firm will have a good image, or even acceptance, at the societal level, as demonstrated in AEC's case. In fact, the endorser should be credible to the public and civil society.

At the synergy level, legitimating actor(s) tend to be directly engaged with MNEs and confer positive judgement, while their strategic endeavours simultaneously facilitate operational efficiency. We admit that synergy is not legitimacy per se, as we demonstrate in Figure 1, but a combination of legitimacy and efficiency resulting from an MNE's (individual or collaborative) strategic initiative that creates a new institution or complements an institutional void. Although a firm's institutional innovation strategies (i.e. carried out with market or non-market actors) can yield both acceptance and legitimacy, success depends on the efficacy of institutional entrepreneurship, institutional conditions, and strategic fit.

The MNE's learning and embeddedness in the local context contribute to the extent to which it can operationalize its strategic initiatives. In the case of internationalization, our analysis suggests MNEs should focus on earning threshold-level legitimacy in the pre-entry phase, while during entry they should focus both on maintaining threshold-level legitimacy and

attaining image and endorsement. Post-entry is the most competitive phase, so firms should focus on all levels of legitimacy. However, the ability to achieve the synergy level depends on the firm's business model (including the type of product and operation) and corporate strategy as to whether a firm looks for efficiency and effectiveness in its operations. Ghauri, Tarnovskaya, Elg, (2008) call this a 'market driving' strategy while Khanna and Palepu (2010) call it 'change the market context' strategy.

We present three cases of deviation from the basic model. First, some MNEs may only need a good image to be able to sell in a market. Customers may be familiar with the concept and thus may not need to see endorsement to form a judgement of the product/company. Second, some MNEs may move directly to endorsement, as this is how they can reach the threshold levels of both acceptance and image. In other words, by aiming for the endorsement level, the firm earns acceptance, image, and finally endorsement over the three phases of internationalization. Third, we should be aware of a 'reverse effect' (i.e. a downward fall in the spiral), which is movement from, for example, the endorsement level to the image level. Moreover, synergy is a special level that requires serious commitment, recognition as an institutional entrepreneur, and pursuit of dual goals – legitimacy and efficiency.

Finally, subsidiaries apply legitimacy strategies, but these are not necessarily independent or discrete; instead, they are often combined with operational and functional strategies and applied through individual corporate initiatives or collaborations with legitimating actors. Even if we can pinpoint such deviations from the basic model, we find that the model is useful as a reference for MNEs preparing legitimation strategies.

Drawing on the notion that legitimacy is a resource and an outcome, our study reaffirms that these levels of legitimacy result from internationalization strategies firms employ in their relations with CS actors. These strategies fall into two categories: compliance/adaptation and institutional entrepreneurship/innovation. The underlying conditions of any MNE-CS collaboration are complementarity and shared value, and the nature of complementarity varies based on the type of business, strategic endeavour, motivational alignment, and institutional void conditions. Thus, in the course of internationalization, subsidiaries must either adapt to or create a business model that is suited to institutional void conditions (Rana and Elo, 2017; Hennart, 2014). Although we illustrate institutional isomorphism and institutional innovation as two opposite streams firms often, by their creativity and capability, follow both strategic perspectives to gain legitimacy and efficiency simultaneously, in collaboration with CS, state, multilateral, and local actors (Cantwell, Dunning, and Lundan, 2010). In this case, gaining *efficiency* affects the firm's transaction costs, while *legitimacy* reduces the liability of foreignness in the host market (Doh and Guay, 2006).

Table 1: The roles of CS actors in relation to MNEs

CS roles	Examples
Filling regulatory vacuum	Carbon emissions reporting requires global coordination and private firm buy-in, so NGOs act as civil regulators.
Complementing cultural-cognitive institutions	The microcredit model developed by NGOs such as Grameen Bank and BRAC altered the 'no trust' between poor people and commercial banks into 'high trust' in the microcredit banking business.
Filling goods/services provision vacuum	In a context where government initiatives are not enough, the Grameen Danone social business venture markets vitamin- and mineral-fortified yogurt at an affordable price for growing children in the lower-middle and lower classes of society with the aim of alleviating malnutrition and vitamin deficiency in Bangladesh.
Industry-institution	The adoption of new EU regulations on trading genetically modified organisms was led

creation	mainly by three NGOs: ATTAC, Greenpeace, and Friend of the Earth.
Co-optation	The formalized inclusion of challengers into the authority system that they are challenging is the essence of co-optation; e.g. international fair-trade system.
Oversight	Dan Watch and Action Aid monitor organizations' actions as watchdogs (for critical transparency) and can actively protest and channel information.
Resource provision to firms	The Starbucks-CARE strategic alliance, with a philanthropic motive, initially donated to CARE projects and sold coffee to the countries CARE projects operate in. The relationship evolved into a two-way exchange of ideas and management personnel, including the joint design of workplace codes of conduct for Starbucks's coffee plantations and factories.
Endorsement and credibility provider	Receiving a Forest Stewardship Certification or joining the Ethical Trading Initiative – a leading alliance of companies, trade unions, and NGOs promoting respect for workers' rights – provides endorsement and credibility to MNEs.
Activist groups	Ideological positioning of, e.g. protection of consumers, human rights movements against extraction industries, and activist movements against Wall Street.

Source: Developed by authors.

Table 2: Descriptive information on the case companies in Bangladesh

Code	Cases	Country of origin	Sector	Entry in BD	CS link	Market share
C1	Telenor (GP)	Norway	Telecom	1997	GB+GTC+Yunus	42%
C2	Novo Nordisk (NNPL)	Denmark	Pharma	2007	BADAS	75%
C3	Asia Energy Corp. (AEC)	UK	Mining	2005	NCPOGMPP	Halted
C4	Arla	Denmark	Food	1989	GBPSKS+CARE	20%
C5	GSK	UK	Pharma	1949	Friendship	P=2.2%; V=40% H=79%
C6	Nestlé	Switzerland	Food	1992	IF+Proshika	90%

Note: P=Pharmaceutical; V=Vaccine; H=Healthcare; ICB=Investment Corporation of Bangladesh; GB=Grameen Bank; GTC=Grameen Telecom; BADAS=Bangladesh Diabetes Association; GBPSKS=Glory Bondhu Protim Samaj Kallyan Sangstha; IF=Impact Foundation; GCE=Global Coal Management Recourses, UK; NCPOGMPP=National Committee for Protecting Oil, Gas, Mineral Resources, Power, and Port of Bangladesh (activist group).

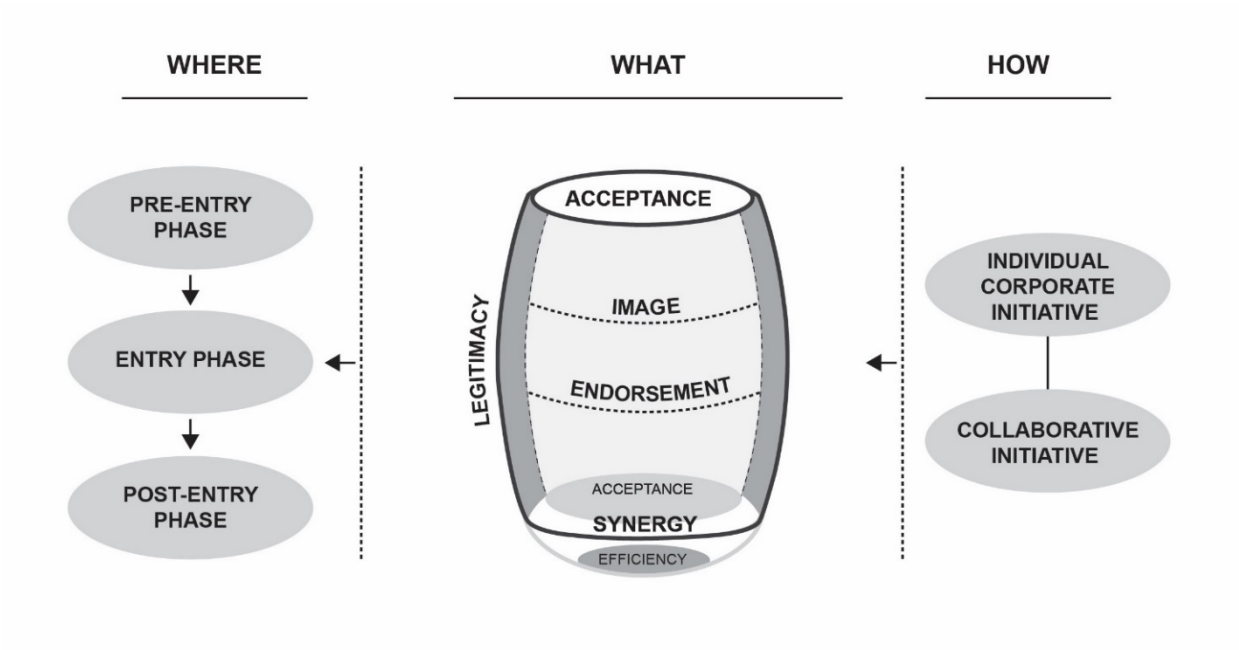
Table 3: Legitimacy at four levels

Level of legitimacy	Definition	Corporation's perspective	Stakeholder/Audience's perspective	Measures of degree of legitimacy
Acceptance	Positive judgment stemming from obeying regulative, cognitive, and normative requirements	Fulfils threshold legitimacy	Stakeholders accept the company as a compliant business	Degree of legal and social compliance

Image	Representation or perception of a phenomenon	Perception that firm creates by its actions and strategies	Stakeholders develop and bestow their impression of company	Degree of positive impression by stakeholders and people
Endorsement	Approval in written or oral form of a phenomenon	Firm's behaviour or strategies that intentionally and unintentionally initiate approval or disapproval of a phenomenon	Stakeholders' public announcement and formal certification of a phenomenon	Degree of public and/or formal approval
Synergy	Combination of acceptance and efficiency deriving from institutional entrepreneurship/innovation	Resources and competences pooled together to fulfil social and corporate goals	Stakeholders realize the social impact of institutional entrepreneurship that confers legitimacy	Quality of partnerships in institutional entrepreneurship and their effectiveness and efficiency in reaching targets

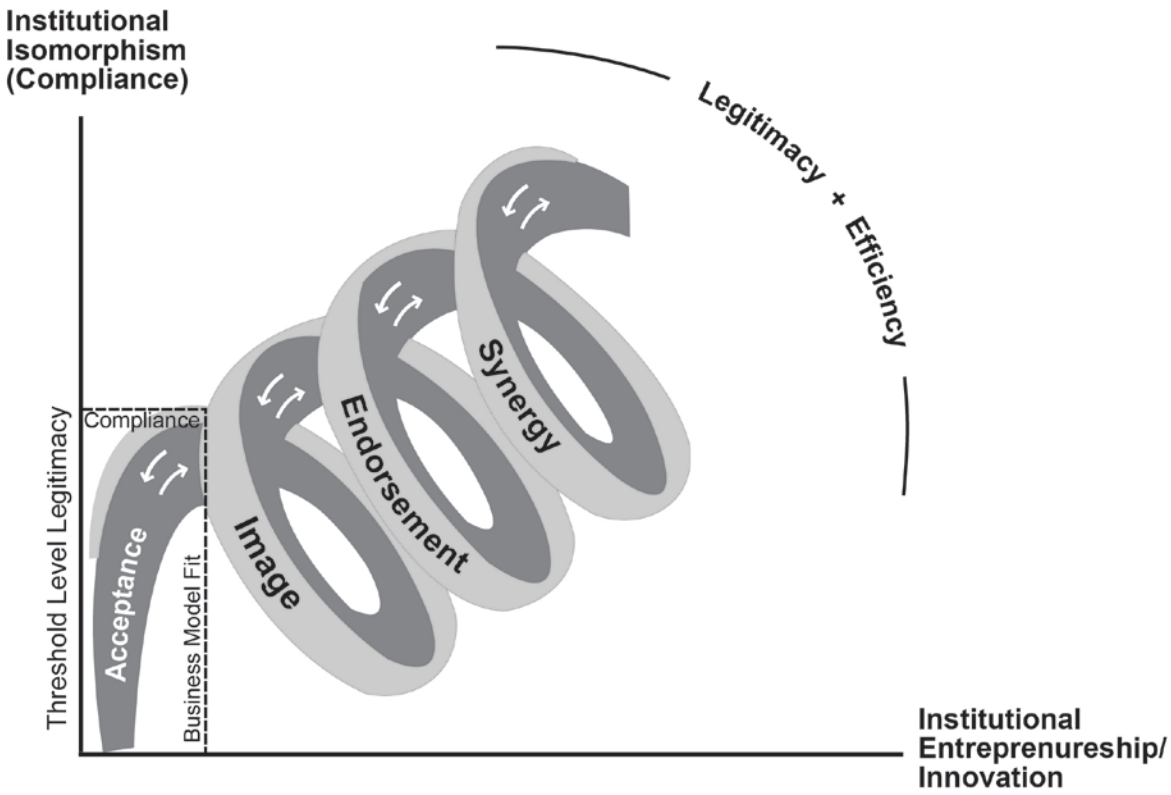
Source: Developed by authors.

Figure 1: Framework of analysis



Source: Developed by authors.

Figure 2: Levels of legitimacy in internationalization



Source: Developed by Authors

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Appendix 1: Overview of primary data sources

Case	MNEs, CS, and related institutional actors	Informants by type	No. and code

C1	Telenor	General Manager (Tech) Manager (Communication) Senior Executive (Tech)	T1 T2 T3
	GTC GB	Managing Director Manager (GB) Manager (GTC)	GTC1 GTC2 GTC3
	BTRC (Bangladesh Telephone Regulatory Commission)	Director General Deputy Director (Legal) Asst. Director (Tech) Asst. Director (Dispute)	BTRC1 BTRC2 BTRC3 BTRC4
C2	Novo Nordisk	Head of Marketing Marketing Manager Senior Executive (Logistics) Senior Executive (PR)	NN1 NN2 NN3 NN4
	BADAS	President Project Coordinator (CDiC, BADAS) Administrative Officer	BAD1 BAD2 BAD3
C3	Asia Energy Corp. (AEC) & NCPOGMPP	General Secretary (NCPOGMPP) Mayor (Rajshahi City Corporation) Negotiating Legal Officer	AEC1 AEC2 AEC3
C4	Arla	Managing Director Marketing Manager Manager	ARLA1 ARLA2 ARLA3
	GBPSKS	Chairman	GBP1
C5	GSK	Director (Finance, Company Secretary) Director (HRM) Corporate Manager (CSR) Corporate Manager (Site) Manager (Logistics)	GSK1 GSK2 GSK3 GSK4 GSK5
	Friendship (NGO)	Executive Director General Manager (GSK-Project)	FR1 FR2
C6	Nestlé	Senior Corporate Manager (CSR and Sourcing)	NES1
	IMPACT Foundation	Project Coordinator (CSR)	NES2
Institu-tional actors	Information on institutional void, roles of CS organizations, MNE's role from society's viewpoint	Director, Centre for Policy Dialogue (CPD) Supreme Court Lawyer Senior Staff Reporter (Daily JaiJaiDin) Deputy Director (Board of Investment, Government) Secretary General (Bangladesh Medical Council) Secretary General (Doctors Association of Bangladesh) Senior Executive (Food and Drug Administration of Bangladesh)	INS1 INS2 INS3 INS4 INS5 INS6 INS7
Total	***Informants***		***40***

Appendix 2: Data analysis on levels of legitimacy in the internationalization process