Managing socio-political risk at the subnational level: lessons from MNE subsidiaries in Indonesia

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Abstract

Within emerging markets, institutional conditions vary significantly at both the country and subnational levels. Although the extant literature recognises the types of risk faced by multinational enterprises (MNEs) in emerging markets, it has hitherto paid scarce attention to explaining how MNEs manage such risk at the subnational level. Reporting on four case studies from Indonesia, we outline how MNEs ensure their success by maintaining active relationships with a variety of non-market actors—including opinion leaders, government officials, and communities at the subnational level. In our study, we developed a conceptual framework, showcasing how MNEs can manage socio-political risk within heterogeneous institutional settings.

Keywords: Risk mitigation strategies, Socio-political risk, Subnational differences, MNEs, Emerging markets, Indonesia

Introduction

One of the primary challenges faced by multinational enterprises (MNEs) is identifying and mitigating the risks linked to operating in emerging markets (Cavusgil et al., 2019; Dang et al., 2020; Miller, 1992). The opportunities stemming from rapid growth in such markets come with the complexities inherent in uncertain socio-political environments characterised by changing political regimes, corrupt government officials, discriminatory policies, social conflicts, and geopolitical tensions (Cavusgil et al., 2019; Müllner, 2016; Rodgers et al., 2019). Consequently, risk-management plays a critical role in the strategies adopted by MNEs to expand into emerging markets.

While internationalization theory often disregards any heterogeneity found within national borders, scholars are increasingly recognising the need to disentangle the impact of institutions at multiple levels (cf. Meyer & Peng, 2016) and to pay greater attention to any subnational level variations (Monaghan et al, 2014; Onuklu et al., 2021). Foreign business activities frequently take place not only at the national level, but also at the intersection of different locational levels within distinct geographic units (Hutzschenreuter et al., 2020; Meyer & Nguyen, 2005). Indeed, there are several worthy reasons for taking a country-centric approach to risk management, including an appreciation of a national government's involvement in trade, the availability of country-level data, and the impact of national institutions on business strategies. However, in large and decentralised emerging markets, MNEs may operate across multiple geographical levels, each of which follows its own 'rules of the game' (Ma, Ding and Yuan, 2016; Oh et al., 2020). Subnational regions often differ from one another in terms of culture, institutions, economic development level, government intervention, and social stability (Hutzschenreuter et al., 2020). Consequently, a top-down approach to risk management might not work at the subnational level, given that different regions in a host target market often feature distinct subgroups, which requires firms to adjust their risk management approaches to bottom-up ones in order to effectively deal with the various risks arising at the subnational level.

Although risk assessment has been a topic of significant interest in IB for decades (Brown et al., 2015), the mitigation strategies adopted by MNEs have received comparatively scarce attention (Bromiley et al., 2015; Dang et al., 2020). The extant MNE risk management literature primarily focusses on how marketing-related risk is mitigated through market entry decisions (Henisz & Zelner, 2010; Lu et al., 2014). Economists and business scholars have also started to investigate localized risk in relation to the extraction of natural resources, prominently featuring corporate social responsibility (CSR) in the mining industry (Frederiksen, 2018; Shapiro et al., 2018). While this literature does acknowledge the need for local CSR (Müllner & Puck, 2018), no comprehensive framework has been hitherto developed concerning how MNEs assess, manage, and mitigate socio-political risk at the subnational level.

Socio-political risk consists of two dimensions: ‘social risk’, which refers to the possibility of social unrest, nationalistic rhetoric, riots, demonstrations, or small-scale terrorist movements; and ‘political risk’, which includes nationalisation, corruption, regulations, and the inadequate provision of public services such as business licencing and transportation (Howell & Chaddick, 1994; Miller, 1992; Ting, 1988). Failing to manage political risk can have serious consequences for firms, resulting in legal actions, sanctions, or expulsion from a country, as shown by the challenges faced by Google in China in 2010 (Ahlstrom et al., 2020). When their survival is at stake, some firms will develop innovative strategies aimed at surmounting the challenges they face, while others will die out. Those that do adapt, however, can survive and even gain a competitive advantage (Oh & Oetzel, 2017). Critically, to date, scholars typically have not considered how risk may occur at different subnational levels within a single host market and how firms adjust their post-entry strategies and mitigate various types of risks. The aim of this paper is to enhance our understanding of how socio-political risk manifests itself at the subnational level and how this affects the ability of MNEs to mitigate it.

Based on the preceding discussion, our study was aimed at answering the following interrelated research questions: "*What types of socio-political risk do MNEs face at the subnational level within emerging markets?*" and "*What strategies do MNE subsidiaries adopt to mitigate such socio-political risks?*"

To this end, we conducted exploratory case studies of four large, long-established MNE subsidiaries with multiple production plants across Indonesia. We considered Indonesia to be a suitable context for the study of risk at the subnational level due to its decentralised political and economic systems and large variations in subnational cultures, especially in relation to ethnic groups (Rasyid, 2004). Prior research suggests that the liability of foreignness considerably lowers the likelihood of MNE subsidiary survival in host countries (Zaheer & Mosakowski, 1997). Thus, those MNEs that have long operated abroad are likely to exhibit a deep understanding of the risk management strategies suited to respond to the various types of government intervention and social hostility presented by host country local contexts.

Traditionally, risk management in emerging markets has been considered to be a country-level issue; however, we found that MNEs operating in multiple subnational locations employ complex and bottom-up locally adapted '*multi-regional risk management strategies'*. The findings of our study contribute to the literature on the adoption by MNE subsidiaries of strategies suited to deal with various types of risk at the subnational level (Meyer & Nguyen, 2005; Shapiro et al., 2018), and further our understanding of the interaction between the key actors involved in MNE subsidiaries and local nonmarket actors in emerging market settings (Dang et al., 2020). By combining elements of formal (e.g., policies set by the government) and informal institutions (e.g., attitudes towards non-locals) and a subnational approach (within-country institutional differences), our conceptual framework demonstrates how MNEs can mitigate their socio-political risk in multiple subnational regions within a host market. By doing so, it sheds light on the importance for firms of examining subnational variations in shaping their strategic choices in emerging markets in which they face institutional voids (cf. Khanna & Palepu, 1997, 2010), and demonstrates how MNE subsidiaries respond to various subnational level risks through the development of bottom-up risk mitigation strategies. Thus, we highlight how risk management strategies are shaped not only by country-level institutions, but also by the significant differences observed at the subnational level. Overall, our findings offer a finer-grained understanding of the role played by subnational level variations on subsidiaries' post-entry risk management strategies.

The remainder of this paper is organised as follows. We first offer a review of the existing risk management literature within the IB field, with a focus on the subnational level. Then, we outline the methodological approach taken in our study, including an overview of the research context. This is followed by the presentation of our findings in two key sections: (i) the types of socio-political risk found at the subnational level and (ii) the risk mitigation strategies implemented by MNEs. We conclude with a discussion of our empirical findings and explore their wider implications for practitioners.

Managing risk in emerging markets

MNEs are exposed to major types of risk in foreign markets, with cross-cultural risk, country risk, currency risk, and commercial risk being among the most common strategic considerations (Cavusgil et al., 2019). Although little specific reference is made to emerging markets in the MNE risk management literature, several aspects of risk management and uncertainty in such markets have been highlighted, including political embeddedness, the provision of social goods, and the development of personal relationships with the aim of establishing legitimacy

(Boddewyn & Doh, 2011; Dang et al., 2020; Luo, 2001; Okhmatovskiy, 2010; Zhu & Sardana, 2020).

The increasing complexity of the uncertainties faced by MNEs calls for them to develop integrated risk management strategies (Miller, 1992; Müllner, 2016; Simon, 1982). The extant literature provides insights into the generic risk management strategies adopted by MNEs (Miller, 1992; Müllner, 2016) and into more specific areas, such as operations management (Manuj & Mentzer, 2008), marketing (Kwok & Reeb, 2000) and exchange rate risk (Reeb et al., 1998). Scholars have also expanded their inquiry into specific types of socio-political risk, such as legal uncertainty (White et al., 2015), corruption (Sartor & Beamish, 2020), military conflict (Li & Vashchilko, 2010), natural disasters (Oetzel & Oh, 2014; Oh et al., 2020), political risk (Delios & Henisz, 2003), and socio-political violence (Oh & Oetzel, 2017); they have done so while exploring ways to mitigate the exposure to such risks through, for example, the development of political capabilities (White et al., 2015).

Our study was focussed on the social and political risks that MNEs may encounter at the subnational level in emerging markets (Miller, 1992; Simon, 1982). The rationale behind the separation of political and social risks is that they relate to two distinct stakeholder groups—government and society at large (Miller, 1992). While Rugman (1976) argued that corporate level strategies, such as international diversification, may reduce firm risk, less is known about the strategies undertaken at the subsidiary level (Oetzel, 2005) and, in particular, about the socio-political risk that is present specifically at the subnational level. This notwithstanding, Robock (1971) highlighted how micro-risks do occur at the subnational level and can affect specific firms, industries, or geographic regions, rather than all the firms in a given country. Hence, the extant literature does not quite clarify how socio-political risk manifests itself at the subnational level, how this may vary within large and decentralised countries, and how this affects the ability of MNEs to mitigate it.

Political risk can be extreme—as in the case of expropriations of foreign assets or 'grand' corruption (i.e., bribe demands made by politicians to adjudicate tenders)—or have more temporary effects, as with local regulations (Henisz & Zelner, 2005; Iankova & Katz, 2003). Although the degree of political risk may differ from country to country (Cavusgil et al., 2019; Poynter, 1982) and from region to region (Meyer & Nguyen, 2005), in emerging markets—which are unpredictable, uncertain, and characterized by institutional voids—it is generally high. Foreign investors may face different types of government interventions, ranging from arbitrary changes to regulations to the imposition of bureaucratic procedures on business transactions, to complete expropriations (Cavusgil et al., 2020). Excessive bureaucracy and red tape—resulting from a lack of transparency and a weak implementation of rules and regulations—may encourage managers to engage in corrupt practices to ensure quick access to licenses and/or favourable business deals. Petty corruption, whereby officials demand 'extra fees' to facilitate bureaucratic processes, also poses considerable risk to foreign companies operating in emerging markets (Rodgers et al., 2019). A considerable amount of IB research has been conducted on the political risk present at the national-government level during the emerging market entry phase (Dang et al., 2020; Henisz & Zelner, 2010; Zhu & Sardana, 2020). However, despite the autonomy enjoyed by regional political leaders in large and decentralised emerging markets (Meyer & Nguyen, 2005; Oh et al., 2020), relatively little research exists on the role played by any government interventions at the subnational level (Hutzschenreuter et al., 2020) or during the post-entry phase (Salmi & Heikkilä, 2015).

Social risk (also called societal risk) can take on extreme forms, in the case of revolution or civil wars and sustained campaigns of violence or terrorism (Oh & Oetzel, 2017), or moderate ones, as in nationalistic rhetoric or shifts in public opinion and protests (Simon, 1982). Deligonul (2020) noted that the value systems prevailing in a society stand adjunct to political forces. The potential for social conflicts in emerging markets calls for MNEs to be aware of and attentive to any socio-cultural and demographic issues, such as political and social unrest, poverty, and ethnic or religious conflicts (Marquis & Raynard, 2015). While research in the fields of political science and international relations has addressed conflicts between countries (Henisz et al., 2010), scant attention has hitherto been paid to the social conflicts and hostility stemming from the scepticism of local communities in regard to the intentions of foreign investors (Zhang et al., 2020).

Pondy (1967) suggested that conflict can be positioned along a continuum of feeling, perception, manifestation, and aftermath. Latent conflicts can stem from competition for scarce resources, drives for independence, or divergences of values and objectives. For instance, the likelihood of collective action increases when people perceive discrepancies between their own values and those embodied in the institutions impacting their lives (Miller, 1992). As a result of misunderstandings between parties, conflicts become tangible (perceived) and may be acted upon through lobbying, demonstration, or protest (manifestations of conflicts) (Beamish & Lupton, 2016). As conflicts can severely disrupt MNE supply chains and thereby jeopardise the attendant gains from trade, firms have an incentive to avoid disputes and prevent any active ones from escalating (Henisz et al., 2010).

To better understand the conflicts encountered by companies in the subnational regions of emerging markets, we drew on a stream of literature focussed on extractive industry firms, which often face violent or non-violent protests if community relations break down (Haslam & Tanimoune, 2016). Andrews et al. (2017) suggested that the incidence of conflicts in the extractive sector had increased rapidly between 2006 and 2013, with 843 large-scale protests in 87 countries reported over that time frame, while the Heidelberg Institute for International Conflict Research (2010) identified 363 conflicts in 2010 alone. The localized context of the impact of extraction activities on communities calls for a degree of caution in one's approach to the notion of the 'host country' institutional environment as a determinant of MNE strategy.

This is because foreign firms are often embedded in multiple and quite different local subnational contexts (cf. Meyer et al., 2011). The conflicts that arise from the localized (subnational) impact of foreign MNEs, and indeed the risk-management strategies adopted to mitigate this type of risk, remain relatively obscure in the IB literature (Dang et al., 2020; Oetzel & Getz, 2012; Shapiro et al., 2018).

The literature on extractive industry firms suggests that any conflicts with communities may be resolved by acquiring a 'social license to operate' (SLO), which generally refers to the "*ongoing acceptance or approval from the local community and other stakeholders*" (Parsons et al., 2014, p.84). SLOs are regarded as intangible constructs associated with credibility, trust, acceptance, approval, consent, demands, expectations, and reputation. At its core, the SLO concept suggests that a firm's stakeholders may threaten its ability to operate through boycotts, protests, demonstrations, picketing, or legal challenges (Parsons et al., 2014). These notions suggest an overarching concern with the well-established concept of organisational legitimacy (Kostova & Zaheer, 1999). Gehman et al. (2017) compared the two concepts and concluded that 'legitimacy' provides organizations with a kind of 'surplus', while SLOs appear to be a minimal requirement for the pursuit of projects.

Social conflicts and hostility may also stem from local community scepticism in regard to the intentions of foreign investors. This is partly because, in emerging markets, power is often concentrated in the hands of authoritarian central governments; with communities being frequently ignored in key decision-making and forced to accept unfavourable terms (Kuan Yew, 2013). Such conflicts can also be associated with any land rights and environmental issues that may arise in remote and vulnerable communities (Andrews et al., 2017) and can impose significant costs on both the communities and companies involved (Davis & Franks, 2014). To respond to local community scepticism and its resulting conflicts, foreign firms may seek to influence the ways in which they are perceived by local actors through the use of CSR (Müllner

& Puck, 2018), the employment of local community members (Kemp & Owen, 2013), the engagement of their staff in volunteering activities, etc. However, when such approaches fail and community relations break down, firms may need to bargain with formal and informal community leaders (Haslam & Tanimoune, 2016). For instance, corporate managers may resort to paying bribes to local officials (Zyglidopoulos, Dieleman, & Hirsch, 2019), or offer local investments in public good services—e.g., hospitals, infrastructure, religious facilities, or sports centres (Elg et al., 2015)—as bargaining tools aimed at improving community relations that may represent better alternatives to paying bribes.

MNEs can develop better relations with local communities and governments by enacting CSR strategies (Khan et al., 2015; Mellahi et al., 2016). Engagement in social projects in order to initiate a conversation with government representatives—or other types of non-market actors—is likely to increase the chances of securing commercial operations and establishing legitimacy in host markets (cf. Khan et al., 2015). Hence, political strategies and CSR activities are often complementary and should be aligned (den Hond et al., 2014). Nonmarket strategy research has long given separate consideration to any controversial political activities that advance business interests and to the socially responsible ones that foster a company's legitimacy (Mellahi et al., 2016). Recent contributions have turned to the question of how firms can integrate these activities (den Hond et al., 2014) in the context of managing risk in emerging markets (Rodgers et al., 2019). However, in countries characterized by governments that are considered unreliable or untrustworthy by local communities, such complementarity may not exist because any good personal relationships with host governmental actors may actually have a negative effect on the perceptions of an MNE's legitimacy among communities and thus bring about the need for additional CSR investments (Shaphiro et al., 2018).

To address the issue of risk management in an MNE's far-flung operations, the key actors in the host economy need to be identified and won over (Dang et al., 2020). Non-governmental stakeholders—such as NGOs, local communities, and informal opinion leaders—often wield enormous influence in emerging market communities (Elg et al., 2015), which points to the complexity faced by MNEs in establishing effective risk management strategies at the initial entry and post-entry phases. In those regions in which they lack an understanding of or influence over these non-market actors, firms may decide to partner with politically well-connected local counterparts through joint-venture arrangements (Elg et al., 2012). Recent research suggests that firms prefer partnership strategies in those contexts characterized by persistent pervasive corruption pressures (Sartor & Beamish, 2020; Spencer & Gomez, 2011), and thus use local partners to manage such pressures and protect their own investments. Any relationship networks established in a society can greatly influence and alter the rules of the game; by engaging with key non-market actors, firms can turn these networks to their advantage (Henisz & Zelner, 2010). For instance, the establishment of close subnational level political ties with key administrative officials provides firms with benefits that stem from the fact that "*most rules and regulations are ambiguous, and their enforcement is subject to the personal interpretations of government officials*" (Luo & Park, 2001, p. 465). Yet, despite the importance of localized risk management strategies and engagement with local officials, a recent review by Sun et al. (2021) indicates that subnational institutions are understudied, which calls for more research aimed at deepening our understanding of the dynamic interactions of MNEs with multiple subnational-level political actors in host markets.

Subnational research in IB

Subnational institutional variations have not hitherto received sufficient scholarly attention (Hutzschenreuter et al., 2020; Peng & Beamish, 2019). This is problematic because subnational regions, not countries, are typically the final destinations of FDI. Only recently has a sub-stream of literature emerged that is specifically aimed at the exploration of how firms may internationalise while considering the subnational level (e.g., Ma et al., 2013; Monaghan et al., 2014; Shi et al., 2012). This stream has predominantly focussed on location-specific subsidiary development factors, such as infrastructure and geographic diversification (e.g., Chidlow et al., 2015; Qian et al., 2013). Several studies have investigated the subnational influence of institutions on a broad range of strategic outcomes, including the performance of foreign subsidiaries (Chan et al., 2010; Ma et al., 2013) and subsidiaries' knowledge sourcing strategies (e.g., Santangelo et al., 2016). A review of the current subnational research literature stream has revealed important gaps in our understanding of how firms navigate the complexities stemming from subnational differences in emerging markets (Hutzschenreuter et al., 2020). The area is undertheorized, and most empirical studies have hitherto been focussed on China, with its large number of subnational units (provinces) characterised by diverse institutions (e.g., Belderbos et al., 2020; Chadee et al., 2003; He & Yeung, 2011), thus neglecting other important emerging market economies. Emerging markets are quite heterogeneous; thus, the examination of subnational variations across an array of such contexts may offer important insights into firms' strategic choices, including their risk mitigation strategies.

Within emerging markets, regions compete for FDI by offering more attractive institutional frameworks—with features ranging from the provision of financial investment incentives to the suppression of corruption (Meyer & Nguyen, 2005). Studies on location choices suggest that MNEs will opt to invest in areas with favourable subnational institutions that involve the least hindrance to access to local resources (Donnelly & Manolova, 2020). Several studies have looked at firm survival rates, which are lower in politically-oriented (compared to economic-oriented) subnational environments and in subnational conflict zones, where firms are exposed to greater geographically defined threats (Dai et al., 2013; Ma & Delios, 2007). Subnational institutions may also vary as a result of administrative or political decentralisation, which define the power of local authorities to implement their own policies besides those set at the central-government level (Chan et al., 2010). As governments devolve powers to subnational regions, the relative predictive power of national-level institutions is likely to diminish (Buckley & Ghauri, 2004), and legal and regulatory inconsistencies may arise (Meyer & Nguyen, 2005). Also, the institutions found in subnational regions may differ as a result of the interpretation of policies by local officials (Luo & Park, 2001; Meyer & Nguyen, 2005).

The characteristics of emerging market regions may also vary over time as a result of rapid institutional change. For instance, although firms may be encouraged to enter a region due to its favourable institutions (Ma et al., 2016), the local situation may quickly become increasingly challenging as a result of institutional transformation (e.g., due to political or administrative decentralisation). Decentralisation is often accompanied by increasing variability in governance quality (Bardhan & Mookherjee, 2006). In addition, aspects such as ongoing economic and political integration (Ma et al., 2016), the increased mobility of labour (Verbeke et al., 2016), or attitudes towards foreign investors may vary among regions (Wan et al., 2020). As a result, 'place' and 'space' have become important geographic concepts (Beugelsdijk et al., 2010) that enable IB scholars to better understand the risks involved in an MNE's operations (Dai, Eden and Beamish, 2013). Exiting from a region is costly and forces firms to deal with the risk linked to the change of environment; conversely, failing to act can result in having to face any conflicts brought about by new institutional contexts.

Subnational institutional differences can create both challenges and opportunities for foreign investors (Chan et al., 2010). For instance, local bureaucratic practices may influence barriers to entry, and corruption tends to represent a hindrance as it creates market access barriers or disrupts the production activities of those firms that choose not to engage in any questionable practices (Spencer & Gomez, 2011). However, Meyer and Nguyen (2005) noted that firms may also use informal local institutions to their advantage. Relations with local authorities can be seen as potential sources of cooperation, and can have a positive impact on subsidiary performance (Luo, 2001). Yet, research on when and how firms can leverage subnational institutions—including relationships with subnational-level political actors in host markets—is still in its infancy (Sun et al., 2021).

Thus, while scholars are increasingly recognising the need to disentangle the impact of institutions at multiple levels (Monaghan et al, 2014; Onuklu et al., 2021), significant gaps remain in our understanding of how subnational variations shape firm strategies (Hutzschenreuter et al., 2020). Such differences create challenges for foreign firms—particularly those with multiple production plants in large and decentralized emerging markets characterized by uneven institutional development—which may be required to tailor their local risk management strategies to specific regions (Ma et al., 2016; Meyer & Nguyen, 2005). While we know that firms locate in regions the institutions of which are most conducive to their type of business operation (Meyer & Nguyen, 2005), socio-political risk may still manifest locally, and it is not clear how this differs from region to region and how this affects the ability of MNEs to mitigate it. We also know that the distinct subcultures often found in subnational regions, which cause variations in such things as local traditions and even dialects, influence the behaviours of local actors (Beugelsdijk & Mudambi, 2013). Because of these differences, a top-down approach to risk management may not work at the subnational level, given that the various regions of a host target market often feature different subgroups, each of which follows its own 'rules of the game' (Ma et al., 2016; Oh et al., 2020). Hence, further investigation is required to understand how firms adjust their risk management approaches in order to effectively deal with the various risks arising at the subnational level.

Methodological Approach

Research context

Context remains a key issue in management and organisation studies (Child, 2009; Meyer & Peng, 2016), with Liu and Vrontis (2017) arguing that scholars should take into consideration the 'context' of any socio-cultural, economic, historical, political, and institutional differences, especially within emerging markets. We selected Indonesia as our country setting because of its contextual characteristics, which are described below. Our case organisations were four deeply embedded Western-European consumer goods MNEs that had operated in the country for many decades.

Between 1967 and 1998, all power was concentrated in the hands of an authoritarian central government, and foreign investors understood the rules of the game: the entrance fee to investing in the country was paid in Jakarta, the capital of Indonesia. Local communities were ignored in the consultation process and forced to accept any unfavourable terms (Kuan Yew, 2013). As tax revenues were then diverted back to Jakarta, foreign firms became the subject of a local hostility and scepticism that still persist among lower-income groups. However, since the enactment of the 1999 decentralisation law, the leaders of administrative areas have gained significant political power and economic influence within their geographical remits. Indonesia is administered by 34 provincial and 416 regency governments, all of which have the power to make their own rules (Rasyid, 2004). Conflicts involving foreign investors in Indonesia may find an explanation in what The Economist (2015) describes as a "*widespread belief that foreigners have long plundered Indonesia's resources and left locals none the wealthier*". Traditional concepts of land ownership are strong in Indonesia, and local communities feel that they have a stake in what happens in their environment, irrespective of any formal land titles or contractual rights that the central government may have awarded to MNEs (Kuan Yew, 2013), which creates a strong mistrust between the latter and local communities.

Data collection and analysis

In order to achieve a thick description of how four Western-European MNEs' were managing different types of government intervention and conflicts at the subnational level in Indonesia, we adopted an interpretative exploratory qualitative approach. This was in keeping with the need, highlighted by scholars, for in-depth qualitative studies in the IB field (cf. Birkinshaw et al., 2011; Pereira et al., 2019; Welch & Piekkari, 2017), and enabled our participants to articulate their perceptions of the institutional environment and of the strategies enacted by their firms to manage socio-political risk at the subnational level. By following the well-documented single country/multiple case study methodology (Ghauri, 2004; Yin, 2014), we were able to triangulate the information collected and to augment the external validity of our findings, allowing for replication logic (Eisenhardt, 1989; Yin, 2014).

We applied the contextual explanation technique (Fletcher & Plakoyiannaki, 2011). Our study took place in an open system—i.e., our case MNEs and their cross-border activities were deeply embedded in multiple locational levels within different geographic units. Arguably, exploring in-depth descriptions could have caused the causal connections between constructs to become less obvious. However, following the tenets of contextual explanation, we explored not only how long-established MNE subsidiaries had been mitigating the socio-political risks, but also the effects of the country- and region-specific setting, which represent an important part of the study.

Data collection

Our primary data collection mode involved semi-structured interviews conducted at different stages between 2017 and 2021. In 2017, we interviewed the senior managers of our case MNEs to identify any key challenges they had faced in the Indonesian market. In 2018 (between April and August), the first author relocated to Jakarta to understand the perceptions and thinking processes of our participants and to identify the types of risk our case MNEs had faced in different regions in the country, and how any subnational differences had influenced their strategies. Multiple visits were made to the Jakarta headquarters of each of our case firms, as well as several field trips to their production facilities in the surrounding areas. In 2019, interviews were conducted with former subsidiary directors who had returned to their home countries, and a round of interviews was conducted via Zoom in 2020 and 2021. We repeatedly followed up with most of our informants through emails, Zoom, Skype, FaceTime, texting, and other relevant communication media in order to keep abreast of any relevant events and outcomes that might have occurred in the years following the formal data collection period.

During our fieldwork period in Indonesia, we experienced many of the ‘messy problems’ outlined by Wright et al. (1988). These problems included language difficulties, cultural biases, gaining access to sites, and building trust, to name a few. The literature suggests that the best way to make sense of the ‘messy contexts’ in which MNE subsidiaries operate is to develop an in-depth understanding of ‘being there’ through an inductive approach (Welch et al., 2011; Wright et al., 1988). Depending on the participants’ preferences, the interviews were conducted in Indonesian, Dutch, and English with the aim of capturing the informants’ voices and perceptions of their experiences (Gioia et al., 2013) on the basis of localized explanations within the contexts in which they had occurred. We translated the interviews as accurately as possible, and frequently solicited the opinion of a native Indonesian speaker.

Several authors have demonstrated that context sensitivity is critical to overcoming any cultural biases and that the researchers’ experience and ability to understand the phenomena under study can be an important advantage in capturing the relevant evidence and making sense of it (Caprar, 2011; Gao et al., 2014). In such authors’ view, personal knowledge of the research context, which is linked to the researchers’ backgrounds and experiences, should be in keeping with the research tradition in which they are operating (Welch & Piekkari, 2017). It is likely that the first author's ability to speak the local language, familiarity with both the Western-European and Indonesian cultures, and prior experiences of working and living in both regions helped make sense of our participants' narratives in ways that preserved the authenticity of their perspectives. However, to bolster the validity of the analysis, the findings were discussed with colleagues and participants (one from each case) to generate alternative explanations.

To confirm the evidence across multiple sources and hence increase the internal validity of each case, we interviewed multiple respondents from each firm. We ensured that most of our participants had held both long tenures (to ensure familiarity with subsidiary development) and high seniority (to ensure familiarity with strategy formation). When possible, we also interviewed each firm's business partners, competitors, or former employees for cross-checking purposes and to gain a more holistic understanding of the reality. We also interviewed several outsiders, including embassy representatives, government officials, academics, embassy representatives, lawyers, and consultants. Our selection of multiple participants per case was aimed at ensuring data quality and mitigating any bias (Eisenhardt, 1989). To ensure confidentiality, we anonymized all the companies and respondents.

To choose our case MNE subsidiaries, we engaged in criterion sampling (Fletcher & Plakoyiannaki, 2011), whereby we purposely selected four of them to maximise our opportunities to gather the most relevant data. As our focus was on investigating companies that were deeply embedded in a host country, our case firms had to be consumer good subsidiaries of Western European MNEs with extensive experience in Indonesia (see Appendix for case descriptions). Two of our case firms (D-Nutrition and U-Products) extracted significant resources for their production facilities, while the other two required only limited resources from the local environment. Table 1 describes the four MNEs studied and our respective data collection methods.

Table 1. Summary of the profiles of the cases in the study

MNE	F-Dairy	D-Nutrition	H-Beverages	U-Products
Country of origin	Netherlands	France	Netherlands	United Kingdom/ Netherlands
Year of establishment	1960s	1990s	1930s	1930s
Employees Indonesia	2,000	15,000	500	5,000
Expatriates working in subsidiary	3	3	2	5
Principle industry	Dairy products	Foods, beverages	Beverages	Branded consumer products
Factories in Indonesia	2	24	3	9
Participants	• Operations Director • HR Director • Corporate Affairs Director • Finance Manager • Former Country Director	• Finance Director • Government affairs Manager • Government Affairs Director	• Country Director (2013-2019) • Country Director (2019-2021) • Finance Director • Supply Chain Director • Marketing Director • Former Commissioner • Former Country Director • Interview with local partner	• Head of External Affairs • Head of Communication • Head of Foundation • Import/Export Manager • Finance Director • Former government affairs manager
Other data	• Annual reports • Media articles • Strategic documents • Multiple field trips to HQ and factory	• Annual reports • Media articles • Strategic documents • Multiple field trips to HQ	• Annual reports • Media articles • Internal presentation • Multiple field trips to HQ and factory	• Annual reports • Media articles • Internal presentation • Multiple field trips to HQ
Ownership mode	Joint venture	Joint venture	Wholly owned subsidiary	Wholly owned subsidiary
Additional interviews conducted	Academics, lawyers, consultants, embassy representatives and corporate managers representing local and international firms, government officials			

Data analysis

We performed an extensive in-case analysis on multiple interviews transcripts, annual reports, press releases, and media articles, which enabled the triangulation and corroboration of the evidence (Yin, 2014). We analysed each of our four cases separately before performing the cross-case analysis. Once the latter had been completed, a regular revisitation of the stand-alone cases still proved useful to verify that the original evidence did indeed corroborate the higher-level conceptualisation. The coding process was guided by the two research questions. As a result, we developed two coding schemes; one for each question. To start, we identified the types of risks pertaining to each case, and then any cross-case similarities (see Table 2). We analysed the firms' risk management strategies by taking a qualitative content analysis approach

(Gioia et al., 2013; Gaur & Kumar, 2018) with the help of the NVivo qualitative data management software (version 10.2.1). The steps involved in developing the data structure are described next.

For our analysis, we first took an open coding approach, systematically breaking down the lengthy transcripts and thus enabling the evidence to 'speak to the researcher' (Strauss & Corbin, 1998; Suddaby, 2006). Sentence by sentence, we broke down each interview in order to document and gauge the significance of or support for particular themes across participants. Any differing or contrasting opinions invariably took the researchers back to the interview scripts for clarification. We grouped any emerging patterns of codes into first-order categories; a process that continued until no further codes could be identified (Gioia et al., 2013). The initial codes subsequently influenced the follow-up interview questions, as the researchers sought to further clarify the observed themes.

After developing the first-order categories, we identified relationships across categories and consolidated them into second-order themes to develop, relate, and separate categories (Strauss & Corbin, 1998). To do so, we sought a deeper structure by asking the critical question "*What is going on here? (theoretically)*" (Gioia et al., 2013, p. 20). To enhance construct validity, we triangulated our primary evidence by asking similar questions to multiple participants within each company, as well as through secondary data (e.g., annual reports, press releases, and company websites). During this process, it was critical for us to go back and forth between the emerging theoretical themes and the evidence, a process that was repeated until all the evidence had been accounted for and no new categories were being produced.

After the initial themes had been aggregated into second-order concepts, they were further distilled into three overarching theoretical dimensions. At this stage, the linkages and processes between different constructs started to emerge, which enabled us to further develop the data structure. Then, we re-examined the data's fit with the emergent theoretical understanding. The data structure (see Table 3) visualises the evidence analysis and ensures full transparency on the basis and development of the results (Gioia et al., 2013).

The findings emerged through an iterative process, with our prior understanding shaping our research questions, leading to interesting insights from the field, and causing us to look afresh at the academic literature on this topic. The key parts of our story that emerged inductively from the data showed that our case MNEs, which operated in multiple subnational locations: (1) were employing 'multi-regional risk management strategies' to deal with within-country variations in formal and informal institutions, and (2) were managing their subnational level risk by maintaining active relationships with a variety of non-market actors, including opinion leaders, government officials, and communities. These insights were subsequently linked back to the relevant bodies of theory, as described in our discussion section.

Findings

Our findings demonstrate how our case firms had engaged in various types of risk management in order to achieve long-term competitive viability. Indonesia's decentralisation reforms had resulted in the institution of several political decision levels, which required multiple contacts with both the central and provincial/district governments. Due to consequent variations in the '*local rules of the game*', which involved both formal (e.g., interpretation of policies set by the central government and business licensing requirements) and informal institutions (e.g., local business norms and attitudes towards non-locals), our case firms had developed risk management strategies tailored to the specific regions in which their plants were located. Even though our case MNEs had adopted relatively similar strategies to manage their socio-political risk, they had differed in their implementation tactics. Below, we discuss the factors that had led to success in some cases and to failure in others. By considering subnational heterogeneity and our initial motivation for this study, the analysis of the data led us to identify the relevant themes presented under our two key findings: the types of socio-political risk found at the subnational level, and the risk mitigation strategies implemented by MNEs.

Types of risk at the subnational level

We identified the various types of risk faced by MNEs at the subnational level (see Table 2), including social risk ('demonstrations from local communities' and 'regionalistic rhetoric') and political risk ('excessive bureaucracy' and 'unreasonable demands').

Table 2. Types of risk faced by MNEs at the subnational level in Indonesia

Social risk (1) Demonstrations from local communities	"We have had some bad experiences. We cannot establish our factories; we can buy the land, but we can never finish building the factory because they [local communities] are not engaged well. Our factory was attacked by thousands of residents; they destroyed everything. We have not been able to go back since." (Government Affairs Manager, D-Nutrition)
	"As required by local regulations and also local culture, we need to recruit local people, but we cannot hire many people locally because they do not even have schools there. What we do is recruit only the best people from the wider region, which is sometimes a bit far. There is a lot of jealousy from the local people because of that. There are many demonstrations. And also, the factory needs to close by 4pm, and the employees must go home. This is because we don't want our employees to walk home at night because there have been occasions in which employees have been kidnapped." (Former Government Affairs Manager, U-Products)
	"First, about the employment, they ask 'why do you not hire all of our people in your company?' We do hire from the area surrounding our factory, but they have to follow the steps, we can't hire everyone. But if you don't have a relationship with the local district, then you will have some issues. For instance, they can organise a rally or protest near the factory. Second, about waste management, this is the dairy industry; sometimes, bad smells come from factory. You know dairy, right? So, if you do not manage the community well, there will be rallies; they will storm right through the gate." (Corporate Affairs Director, F-Dairy)
	"After our offices had been plundered during the riots and things had calmed down, we initiated a number of social initiatives to build good relations with the community. Mostly for protection." (Former Country Director, H-Beverages)
Social risk (2) Regionalistic rhetoric	"We have 24 different sites across the country. That is a huge challenge because each area has a different culture, and different communities are involved. So, if you operate in, let's say, Bali, the concerns of the community will be very different from those found in the remote areas of North Sumatra, where we had to clarify our marketing campaign, which they felt misrepresented their local culture. When you're dealing with a local culture which involves strong tribes, these sorts of things can become a major issue because they are proud of their local culture, like 'I am the boss of this area'." (General Secretary, D-Nutrition).
	"It is different in every region or area. Culture matters. For example, the people from North Sumatra will be different from the Javanese. Local governments are always more challenging to deal with. They are very protective of their regions and of their businesses there. They have a lot of ego. They often say things like 'you must follow our rules'. Because the culture is also different, we can see that some regions are more sensitive or more stubborn, while others are more educated and advanced." (Head of External Affairs, U-Products)
	"Indonesia encompasses so many diverse cultures and belief systems. The most important thing—more than what to do—is what not to do, because you get in the papers if you do something wrong. And multinationals need to be even more careful, particularly in regions far from the capital. Xenophobic tendencies can be quite high in some regions. We have to ensure that we don't do anything that goes against any religion or anything that can go wrong in this country … and that's the challenge." (Operations Director, F-Dairy)
	"It's a very diverse country with many cultures and traditions. Traditionally, Indonesia has always been a very tolerant country for different religions and customs; however, more recently, because of religion mostly, groups from certain regions have started arguing that drinking alcohol is not part of their culture, and we have been facing issues in more conservative and religious areas. And because we are a foreign company, local politicians often claim that we try to overrule their local identity." (Finance Director, H-Beverages)
	"Our factories operate in 20 regencies, and in at least six provinces. That means we have to deal with 20 local and six provincial governments, and we also have to deal with the national government. For example, in our case, water licensing and water taxation are regulated by the provincial governments. But building, environmental, and location permits are under the

Political risk (1) Excessive bureaucracy	purview of the regional governments. We have to deal with them in regard to the regulation but also in relation to its implementation. Then, on top of that, there is the national government, which imposes environmental, sourcing, and labour regulations, and so on." (Government Affairs Manager, D-Nutrition)
	"A lot of de-bureaucratization happens in the central government; they cut the licences. When you go to the local government, the story is really very different; 180 degrees different. But we also need to secure the support of the local government because that's where our factories are located." (Head of External Affairs, U-Products)
	"The Indonesian legislation is very active and there are changes every month. And, every time there is a change, everything from labelling to product; everything has to change. And we have to go back to the government, and we have to tell them 'Hey, this is illogical.' This is part of the game here." (Operations Director, F-Dairy)
	"In Indonesia, you have more than 500 municipalities. In the past, the national government could reverse these laws if they conflicted with the national law. So, for example, if the national law says you can sell alcohol, but the regional law says you can't, the government can say 'That is in conflict with what we say.' But the constitutional court said last year that that's no longer allowed. Every local government is allowed to make its own laws, and the national government can't do anything about it." (Finance Director, H-Beverages)
Political risk (2) Bribery requests	"Sometimes—well, most of the time—they are very local minded. For example, the head of a local regency will always think, 'What can you give us?' That's the first question they ask. It's not 'What can we do for you to make this investment happen?' No; it's 'What can you give us?" (Government affairs manager, D-Nutrition)
	"Some governments are very reformed and very advanced, but others are still bringing to the table that old culture of receiving money. Sometimes, it makes it difficult to move quickly. Especially with people, not necessarily high-level executives, but the layers below them. I'm talking about local governments. They literally ask for money sometimes." (Head of Communication, U-Products)
	"We absolutely don't do corruption, which sometimes makes life difficult because local players see those things differently. We are very strict on that as a company. But some of them keep trying." (Former Country Director, F-Dairy)
	"When we needed to extend our licenses after the decentralisation, our factory outside Jakarta became part of another province. At some point, the new mayor asked us to help them set up a successful Indonesian football team that would put Tangerang on the map in Asia. He needed many millions for that in the form of sponsorship. Of course, we couldn't pay that. Dealing with the local government in Indonesia is like dealing with organised crime. Extortion. If you don't pay, you can close your business. Just like the mafia." (Former Country Director, H-Beverages)

SOCIAL RISK

Demonstrations from local communities

All firms had faced supply-chain disruptions at their production sites. Failing to engage with local communities can have major consequences, and our participants recognised the need to manage the environment around their factory premises. For instance, D-Nutrition's Government Affairs Director recalled how one of their factories had been attacked by thousands of residents from various villages in the East Javanese Padarincang District. In the blink of an eye, the process of buying land, acquiring the licenses, and building the factory, which had started quietly some years earlier, had escalated into a battle. Despite the central government's approval for building the factory, the buildings, machinery, and vehicles had been destroyed by the residents and, soon after, the company had withdrawn from the region. In addition, at several production sites, the firm had had to deal with demonstrations from residents and business owners, who blamed it for the droughts that had led to bad harvests. Furthermore, the firm had often outsourced by hiring local workers (e.g., packagers or security staff) from local contractors who paid their employees' wages that were lower than those paid by the MNE. As a result, the contracted staff had engaged in demonstrations for higher pay.

F-Dairy's Corporate Affairs Director emphasised that a lack of engagement with local communities would lead residents to "*storm right through the gate*", and H-Beverages' Former Country Director recalled that their offices in East Java had been plundered. In addition, H-Beverages' Marketing Director explained that brewing beer in conservative regions was a source of issues, as drinking beer is against Islamic dietary laws. Furthermore, U-Products' Former Government Affairs Manager noted that, in one of their factories, demonstrations were a daily concern, and that some of their employees had been kidnapped by local residents. Local management noted that the firm had been accused of hiring too few staff from the local region.

When H-Beverages had closed one of its factories in the early 2000s, the employees had demonstrated for better severance packages. According to the Former Subsidiary Director, the local HR director had suggested "*sending in a friend from the army's special forces to solve the crisis*". Instead, the Dutch Subsidiary Director had decided to fire the HR director and increase the employees' severance packages. Overall, our participants noted that a lack of engagement with the local communities had often been the cause of these issues.

Regionalistic rhetoric

Our case firms had been confronted with the enormous cultural diversity found in the Indonesian archipelago, which consists of thousands of inhabited islands (Van Marrewijk, 2004). Our participants described Indonesia's islands as countries; each with its own language, culture, religion, and ideologies. They explained that these islands' informal institutions—such as the attitudes held towards non-locals—differ considerably, which influences the approach and interaction with local actors. They also stated that, whereas the country's national government was generally welcoming towards FDI, the regional governments were often wary of the intentions of MNEs. For instance, formal and informal regional leaders often engaged in what could be referred to as 'regionalistic (as opposed to nationalistic) rhetoric', which increased the firm's regional liability of foreignness. Our participants described how local leaders often propagated proud views of their cultures and warned of foreign companies 'exploiting local resources'.

Due to this scepticism towards non-locals, the regional operations of foreign companies were frequently subjected to criticism from governments and informal leaders. For instance, D-Nutrition's management noted that, in one region, the local tribal leaders had felt that one of the firm's advertising campaigns 'misinterpreted' their culture. As a result, the firm had faced a backlash, which had subsequently led to demonstrations from residents at its production facilities. Similarly, H-Beverages had been regularly criticised by religious leaders in regard to the sale of alcoholic beverages in more conservative regions in East Java. In the past, the firm had overlooked the importance of engaging with religious leaders in such regions, which had led to unrest near several factories. Our participants affirmed that the attitudes of regional leaders towards FDI could often be synthesised as "*I am the boss of this area*" and "*What can you do for me?*", rather than "*What can I do for you?*", suggesting a regional liability of foreignness.

POLITICAL RISK

Excessive bureaucracy

As is customary in many emerging markets, the issuance of permits and other bureaucratic processes may take a long time. Although bureaucracy had always been present in Indonesia, decentralisation—which bestowed significant autonomy upon the heads of the 416 administrative districts—compounded any regional issues. Our participants described how, whereas the central government had become less bureaucratic in recent years, district-level bureaucracy had increased, and dealing with leaders in remote (and institutionally less-developed) parts of the country required specific capabilities. For instance, H-Beverages' Country Director noted that, prior to the country's decentralisation, getting hold of permits and licenses had been relatively easy, as licences could be obtained from the central government; conversely, at the time of the data collection, provincial and local governments had the power to negotiate access with foreign investors. D-Nutrition's Government Affairs Manager noted that, due to the firm's large operations, it had had to apply for different types of licenses from 20 district and six provincial governments, as well as from the national government. In addition, the participants noted that there were occasions in which regulations were inconsistent or overlapping. For instance, any national requirements pertaining to bureaucratic practices (i.e., the maximum number of days that it should take to issue a permit) were often ignored by local government officials.

Bribery requests

Our study was conducted in an emerging market known for its rampant corruption (Dieleman & Widjaja, 2019). Our participants described the difficulties they faced in operating in an 'uneven playing field'; i.e., a market in which many firms engage in corruption. Not 'playing the game' often resulted in significant delays in obtaining permits. According to U-Products' Head of Communication, engaging in corruption would lead to "*becoming* [the local officials'] *ATM machine*". When H-Beverages had applied to extend its licenses for its factory, a local mayor had asked for "*millions of dollars to set up a local football team*". In a similar vein, U-Products' Head of Foundation noted that approaching a local government was often followed by the question "*How much money can you give us?*" The participants stressed that corruption scandals would damage their MNEs' reputation not only in Indonesia, but also in their home countries.

Table 3. Data structure: Risk management strategies at the subnational level[1]

Evidence from	First-order codes	Second-order themes	Aggregate dimension	Instruments used	Actors involved
D-Nutrition H-Beverages F-Dairy U-Products	Investments in social initiatives to build relationships with the communities surrounding factory premises	Social accommodation	Legitimacy building	Social development activities, meetings with host government actors	MNE community development team, local business owners, residents, and district government
D-Nutrition H-Beverages F-Dairy U-Products	Aiming to build personal relationships with local governmental actors	Relational approach to managing the nonmarket environment		Meetings with host government actors (formal and casual dinners)	Subsidiary management, corporate affairs department, and host country governmental actors
D-Nutrition U-Products	Involving informal leaders (e.g., religious leaders and clan leaders) to influence perceptions of local communities towards the MNE	Influencing local nonmarket actors		Focus group discussions, presentations	Subsidiary management and informal leaders (religious and clan leaders)
D-Nutrition H-Beverages	Involving key opinion leaders (KOL) to influence perception of local governments and communities towards MNEs			Focus group discussions, presentations	Subsidiary management, reputable universities, hydrogeologist, district governments, and informal leaders
D-Nutrition H-Beverages U-Products	Influencing government officials at the district level: **a.** Using central government ties to influence district governments **b.** Appointing former politicians to influence central government			Regular meetings	Subsidiary management and central, regional, and district governments
D-Nutrition H-Beverages F-Dairy U-Products	Appointing indigenous managers in areas where the factories are located (rather than managers from Indonesian HQ) to function as business advisers in the matter of socio-political activities			Monthly meetings between Indonesian HQ and indigenous managers	Subsidiary management and indigenous managers
D-Nutrition U-Products	Stressing contributions to the local economy: **a.** Using strategic CSR as a bargaining tool **b.** Offering employment as a bargaining tool	Bargaining with local nonmarket actors	Negotiating with stakeholders	Negotiations with district governments	Managers from the region and district government

D-Nutrition U-Products H-Beverages	Using connections to: **a.** Speed up the licensing process **b.** Manage unreasonable demands	Leveraging political networks		Local managers relying on their political networks, code of conduct	Factory managers, subsidiary corporate affairs team, and district governmental actors
D-Nutrition H-Beverages F-Dairy U-Products	Mapping and analysing the potential impact of key interest groups on the MNE's operations to design ways to manage these relations	Anticipating risk	Risk identification	Internal meetings, stakeholder mapping	Subsidiary management
D-Nutrition H-Beverages F-Dairy U-Products	Identifying local cultural norms before investing in a region			Internal meetings	Subsidiary management
D-Nutrition H-Beverages F-Dairy U-Products	Adoption of anti-bribery principles			Code of conduct	Subsidiary corporate affairs team and district governmental actors

[1] For the purpose of developing a theoretical understanding, the data structure follows an imposed ordering; it does, however, not necessarily account for chains of events and interactions among concepts.

Risk mitigation strategies

The Data Structure (Table 3) includes the first-order codes, second-order themes, and aggregate dimensions, as well as the instruments used and the actors involved in performing each activity. The column on the left shows at which companies the strategies were observed. The next sections will present the discussion of the aggregate dimensions and accompanying second-order themes.

LEGITIMACY BUILDING

The achievement of legitimacy as respected members of local regions was regarded by our case MNEs as a primary goal and as critical in overcoming their regional liability of foreignness. Our case MNEs had been able to respond to the negative impact of social risk by acquiring legitimacy through various risk management strategies that had included social accommodation, taking a relational approach, and influencing local nonmarket actors.

Social accommodation

Social accommodation refers to the extent to which our case MNEs had responded to the social needs of the indigenous society. The firms had devoted considerable resources to building harmonious relations with the local governments and communities in the areas surrounding their factories; making social contributions and providing employment to local people had freed them from some of the constraints. Such resource commitment strategies increase the dependency of local communities on MNEs and can serve an effective risk mitigation strategy. Our participants noted that, without these efforts, they would have been stereotyped as 'foreign exploiters'. For instance, since 2009, F-Dairy had been holding regular meetings with local authorities to identify any areas in which the firm could assist the communities. As a result of these meetings, the firm had provided employment for residents and had initiated social projects aimed at supporting the development of the communities. F-Dairy's Government Affairs Director explained,

> "*We developed a programme through which our team regularly meets with the district head and several influential informal leaders to map what the issues in this area are, and then we try to solve them together. We prefer not to give money directly, but we give our products to children and help residents set up small businesses.*"

The firm had also partnered with the Indonesian Nutritionists Association for local health workers to provide nutritional support for children and run training sessions aimed at enabling residents to generate extra income. In a similar vein, U-Products had launched various community-based activities—including health and hygiene education and training in waste management—in cooperation with local governments, non-political NGOs, universities, local opinion leaders, regional newspapers, etc. According to the Head of the U-Products Foundation, such efforts were effective in eliciting community acceptance and goodwill. Similarly, H-Beverage's social contributions included distributing meat for national events and religious festivities as well as making financial donations to families, orphans, and senior citizens, with the support of the local government and the military. H-Beverage's Former Country Director recalled,

> "*After our offices had been plundered during the riots and things had calmed down, we initiated a number of social initiatives to build good relations with the community. We started very locally by providing food and medical care. We continue to do this as a way to engage with the local community to avoid similar situations.*"

In addition, the firm had also supported the construction and renovation of schools and Muslim prayer spaces and provided milk and nutritional supplements for children through local health clinics. These types of programmes were regarded by MNEs as especially valuable in the development of cooperative relations with local governments and communities. Our participants stressed their long-term commitment to communities to build legitimacy, which seemed to go beyond the more limited scope of the 'social license' needed for the projects discussed in the context of the natural resource industry.

The relational approach to managing the non-market environment

As they attempted to build relationships with key stakeholders across the country, it was essential for our case MNEs to adopt a bottom-up relational strategy that involved engaging with local communities. For instance, D-Nutrition's Government Affairs Manager noted that,

> "*The very first thing to do is to engage with the local community, we come to them to discuss, heart to heart, how we can work together. We do this even before we apply for the licences because, without their support, we cannot make this investment happen."*

U-Products' Head of External Affairs, who was in charge of government relations, emphasised the importance of cultural awareness in establishing relationships with government representatives. The host country nationals who participated in the meetings held between the MNE representatives and government officials were preferably from the local geographic region, because even Indonesians from other regions were "*seen almost as foreigners"* (D-Nutrition, Government Affairs Director). In fact, when people from the same region met, they would "*instantly and easily click"*. It also helped if the firm representative spoke the same dialect of the government officials because *"they will listen to you more"* (U-Products' Head of External Affairs).

Influencing local stakeholders

Our participants noted that, to be able to sway the perceptions of local communities, it was necessary to gain the support of a chain of recognised socially and culturally respected influencers. In response to the disruptions the case MNEs had faced at their factories, our participants emphasised the importance of developing relationships with informal leaders. For instance, D-Nutrition's Government Affairs Manager described,

> "*Before we go to formal leaders, we reach out to the informal ones; that's the very first thing. The clan and religious leaders often have more influence on the local communities. Once we get their support, we approach the local government.*"

In addition, U-Products had established relationships with retired military officers in the regions adjacent to its petrochemical factory because,

> "*Some of the retired military officers have a lot of influence with the local people. We established these relationships after some employees were kidnapped. It makes our employees feel safer and they can help calm things down when there are demonstrations, which we continue to face regularly.*" (Former Government Affairs Manager, U-Products).

The case MNEs had also enlisted the help of various types of experts to influence the local governments and communities' perceptions of their intentions. These experts were considered to be 'key opinion leaders'—which are commonly referred to as 'KOLs'. For instance, D-Nutrition had faced demonstrations from residents concerning droughts, blaming the company's extraction of water for its beverages for them. For this reason, D-Nutrition's Government Affairs Manager described how they had involved different types of KOLs,

> "*We reach out to KOLs such as reputable universities, lecturers, scientists, hydrogeologists, or other experts related to our factory. We use them to convince the locals that we are not going to cause droughts. We organise working groups and seminars with the KOLs and the local communities to communicate this early on and avoid resistance*".

Thus, together with these KOLs, the firm was regularly organising focus groups with residents and formal and informal leaders, stressing that it was not the cause of any droughts. Several local governments had imposed alcohol bans in recent years, often blaming the producing companies for any deaths related to alcohol consumption. In response, H-Beverages had collaborated with KOLs (i.e., universities and medical professionals) to communicate with different authorities in order to convey the message that the deaths had been caused by illegally distilled alcohol, and not by beer. As H-Beverages' Marketing Director noted,

> "*We play an educating and informing role towards not only the local government, but also the police. We involve the medical community to explain to them what the facts are; that the damage comes from methanol, not ethanol. We need to do this to gain their support.*"

The involvement of social actors (i.e., universities and medical professionals) had helped H-Beverages to influence local attitudes towards the consumption of beer.

Another specific strategy whereby the case MNEs had been able to indirectly influence district-level government officials had involved leveraging their own political networks at the central government level. The firms had appointed to their boards former politicians whose networks enabled privileged access to influential decision-makers in the central government. The involvement of higher-level government echelons had the potential to convince district government officials to be more accommodating towards the MNEs' operations. D-Nutrition's Government Affairs Director explained

> "*It's much more effective if the message comes directly from the government. It's really important how you package it. The local governments also have their networks with politicians at the central government. We have to make sure that the central government understands our concerns and that they communicate the same message to the lower levels.*"

Our participants also noted that issues could be raised if the regional officials perceived that the MNEs were trying to influence their decisions on multiple levels. This could jeopardise the relationships they were trying to build.

One specific way to influence local political leaders involved the appointment of managers indigenous to the areas in which the factories were located (rather than sending managers from the Indonesian HQ) to function as business advisers in regard to socio-political activities. U-Products' former Government Affairs Manager noted that,

> "*We hire people locally because they have the connections and, of course, they know the language and culture better. They will do the networking at the local level for us. We cannot send our people from Jakarta because they are often treated like outsiders.*"

In addition, D-Nutrition's General Secretary noted that it was important to hire someone "*who speaks the same dialect, and also understands the culture*". These individuals' connections and understanding of the 'local rules of the game' were necessary to manage interactions and influence local stakeholders.

NEGOTIATING WITH NONMARKET ACTORS

The firms were required to negotiate with local authorities in order to alleviate their political risk at the regional level. This involved MNE bargaining efforts and the leveraging of political connections.

Bargaining with nonmarket actors

When negotiating with local leaders in regard to entering a region or expanding their existing operations, our case MNEs had been using strategic corporate social responsibility (CSR) and offers of employment as bargaining tools. These local leaders would often kick off the negotiations with the question: "*How much money can you give me?*" The MNEs noted that, at times, not 'playing the game'—i.e., not engaging in corruption—would result in major delays or outright refusals to issue their licenses to operate. In some cases, the firms would be able to compensate by providing "*legitimate sponsorship*" (Government Affairs Manager, U-Products) as an alternative to graft. Here, the 'negotiators' looked at what sort of social programmes were needed by the local communities. When U-Products' Head of Foundation had engaged in these negotiations, these social contributions had helped in,

> "*…making clear that these are the things that we could bring to the table. So, therefore, they are not asking for money … 'No, we don't bring money. We bring our programme, which is going to support your area and your people, because if you're going to have healthy people, it's going to be better for you, right? Because you need the constituents'.*"

Thus, despite the firm's strict code of business conduct, U-Products' management in Indonesia had found an alternative way to deal with corrupt bureaucrats. Local managers had understood the investments to which the local authorities would be sensitive, and had therefore leveraged their resources during negotiations. Thus, stressing contributions to the local economy—including CSR efforts and work offers for the local labour force—had helped in securing access to investment destinations.

Leveraging political connections

The firms' managers had aimed to leverage their political connections to facilitate access to factory licences and protect themselves from "*undesirable interference*" (Former Country Director):

> "*Having the right connections was invaluable in getting the permits and licences required. Without the connections, that would have taken years. We had to lobby extensively but we made sure we had the right relationships with senior officials to speed up the process.*"

Local management from D-Nutrition explained that informal local institutions, such as corruption, usually resulted in significant delays; conversely, establishing amicable relationships with the local authorities could alleviate such problems. When H-Beverages had applied to extend the licenses for its factory, it had been presented with a bribe request from a local mayor. When the firm's management had attempted to develop personal relations with the mayor, the licenses had not materialized, and its Supply Chain Director explained "*We got the Dutch ambassador as well as the Dutch Ministers involved; they helped lobby the government and, eventually, we got the licenses*." Thus, when cooperative strategies fail at the local level, a firm may seek to leverage any existing connections at the central government level as an alternative way to deal with corrupt local officials. The resolution of such issues was mostly handled by the firms' top management, who relied on their personal connections with home governmental actors to help them access their key host-country counterparts.

RISK IDENTIFICATION

To evaluate the risks they would face in Indonesia, our case MNEs had identified various sources of risk assessment information. In their host country headquarters in Jakarta, they had established a dedicated government affairs department focussed on risk assessments based on local conditions; in the case of Indonesia, this had required strengthening the links with not only different layers of government, but also other types of actors, such as informal leaders and communities.

Anticipating risk

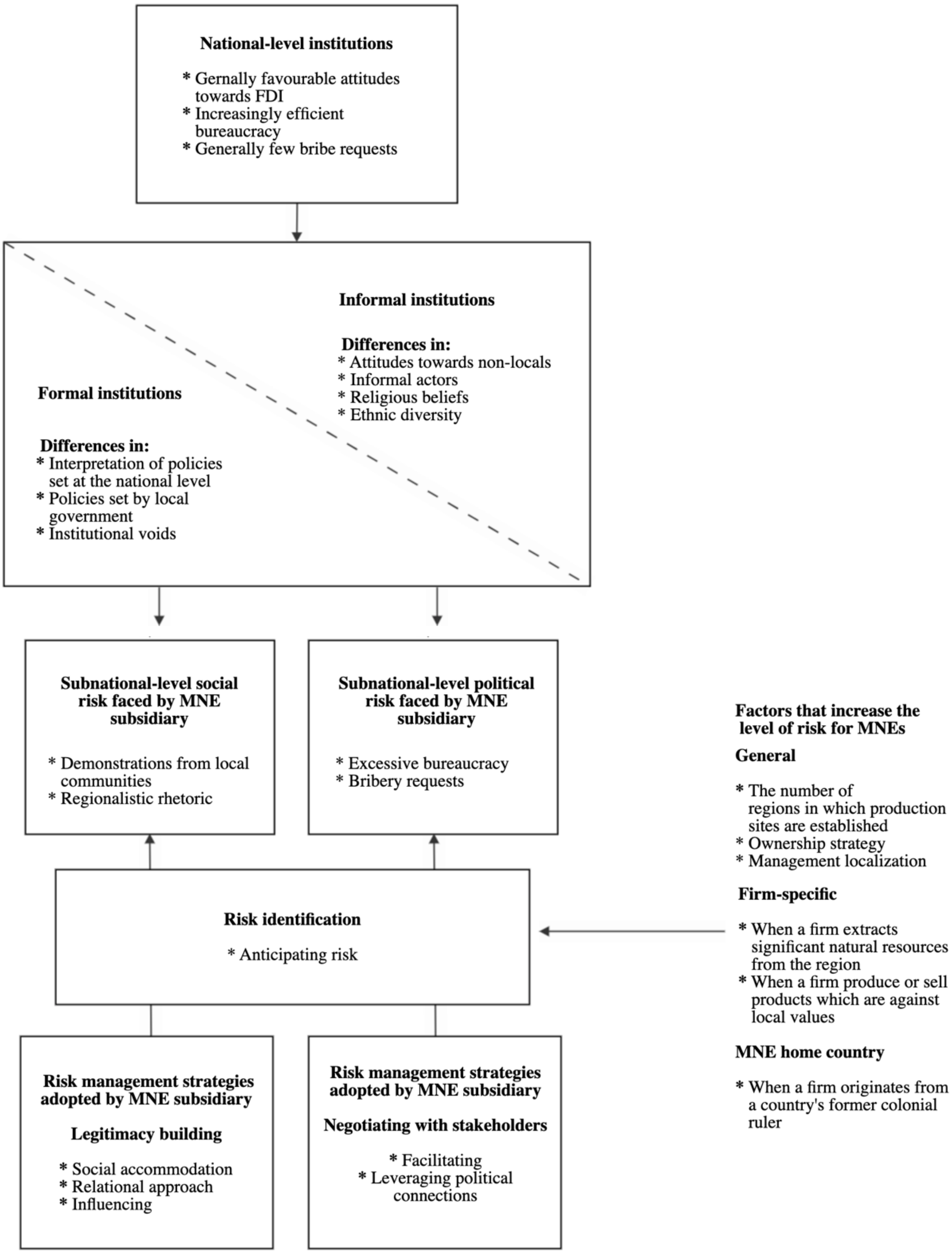
Due to the subnational heterogeneities found in Indonesian regional institutions, the firms had had to develop a region-centric risk mitigation strategy suited to anticipate the needs of the actors in each specific region. To design ways to manage these relations, the MNEs had regularly mapped and analysed the potential impact of key interest groups on their operations. Not only did the types of risks faced at the subnational level differ across regions, but variations in informal institutions (e.g., differences in dialect and religion) also required a deep understanding of the local cultures. To this end, the government affairs department established in Jakarta had thus issued detailed reports the main focus of which had been on identifying the type of risk and the stakeholders concerned, and coordinating interactions across levels of government and operating regions, as these could vary significantly across regions. Furthermore, the firms had anticipated the widespread corruption they would encounter at the regional government level, and had found ways to preserve their own anti-bribery principles and manage any political risk at the same time.

Discussion

MNEs entering into emerging markets face significant challenges—such as institutional voids and subnational institutional variations—which affect their performance and competitive advantage in such markets. Our study advances the existing risk management scholarship by developing a framework aimed at providing companies with guidelines on how to effectively mitigate socio-political risks at the subnational level while operating in emerging markets (Dang et al., 2020; Marquis & Raynard, 2015; Meyer & Nguyen, 2005). Whereas the existing studies have focussed on the impact of subnational institutions on firm performance and entry mode choice (cf. Chan et al., 2010; Beugelsdijk & Mudambi, 2013), we documented the influence of subnational institutions on the post-entry risk management strategies adopted by MNE subsidiaries, thus identifying subnational institutional heterogeneity as an important but hitherto underexplored consideration in an MNE's risk management strategy. As a result of such heterogeneity across formal and informal institutions, MNE subsidiaries are confronted with varying degrees of government intervention and hostility across regions.

Our conceptual bottom-up multi-regional risk management framework (see figure 1) adds an important feature to the existing body of work on socio-political risk management (e.g., Bromiley et al., 2015; Dang et al., 2020)—i.e., that MNEs established in multiple locations employ, at different levels (i.e., central and regional), risk management strategies that are complex and tailored to different regions. It extends prior work, which was primarily conducted in the extractive industries, by accounting for three primary differences. Compared to the comparatively short-term oriented and usually export-focussed investments made by mining firms, manufacturing MNEs regularly commit to a long-term presence in a host country, aim at capturing the local market, and do not primarily work in remote communities, but across the country in a variety of locations, often in regional centres.

Figure 1. Conceptual framework: multi-regional risk management strategies by MNEs



Foreign investors in emerging markets face complex ever-evolving institutional environments (Hoskisson et al., 2000; Meyer & Nguyen, 2005). Figure 1 illustrates the within-country institutional differences and implications for MNEs found in such markets. In this paper, we first briefly outlined the differences found between national and subnational level institutions.

While Indonesia's national government generally holds a favourable attitude towards FDI, and its de-bureaucratisation efforts and crackdowns on corruption have improved the 'ease of doing business' at the national level (World Bank, 2018), the interpretation and implementation of these policies often takes place locally. In addition, as the decentralisation reforms started in 1999, Indonesian district governments have gained increasing autonomy, and foreign investors must negotiate separately with local authorities over business permits, real estate, and access to public utilities. Even when the national government sets nation-wide policies, "*local wisdom trumps diktats from the central government*" in many regions of the archipelago (Economist, 2021). Accordingly, firms established in multiple locations are confronted with the variations in governance quality that distinguish 'better-off' and 'less-well-off' regions (Bardhan and Mookherjee, 2006). This insight also reveals that subnational contexts display different degrees of marketization and, as a result, the role played by the government differs widely across regions.

Second, we found that variations in formal and informal subnational institutions increase the risks faced by MNEs because social conflicts and political issues need to be considered on a case-by-case basis. Subnational institutional variation reflect differences found not only in local government policy and enforcement but also in local culture and business norms (Onuklu et al., 2021). Our study was conducted in an emerging market in which foreign firms depend significantly on the goodwill of local communities and authorities (Dieleman & Widjaja, 2019); for MNEs operating in Indonesia, it is not a question of *whether* to manage their relationships with non-business actors, but rather of *how* to handle such interactions. Our participants described Indonesia's stakeholder environment as a complex web made up not only of government institutions and functions, but also of informal leaders such as tribal and religious ones. As such, it requires continued interactions with stakeholders at different levels and regions. To manage these complexities, our case MNEs had set up host country headquarters in

Jakarta, with government affairs teams tasked with coordinating interactions across levels of government and operating regions.

Informal local institutions tend to draw on distinct local traditions and cultures and to show significant variation in normative values (Meyer & Nguyen, 2005). In the case of Indonesia, MNEs are faced with subnational heterogeneity—as evidenced by the country's ethnic, linguistic, and religious fractionalisation—and with variations in attitudes towards non-locals across the archipelago. For instance, differences in types of informal leaders—such as tribal leaders in North Sumatra and religious leaders in the more conservative regions of East Java—increase the complexity involved in managing nonmarket relationships across regions. In regional political and social environments, volatility is especially prevalent in the presence of institutional voids (Doh et al., 2017), which forces firms to adapt the ways in which they manage external stakeholders in specific regions. Thus, within-country differences lead MNEs to consider regional-specific factors as they tailor their risk-management approaches.

As illustrated in Figure 1, several factors increased the subnational-level risk faced by our case MNEs; we categorised these as generic, firm specific, and related to each firm's home country. First, there was the risk of the case MNEs' investments reinforcing post-colonial tendencies, especially as the home countries of three of our case firms had colonial pasts in Indonesia. Our participants noted that the local communities held protective attitudes towards their regions, particularly in relation to companies originating from their former colonial rulers. This is in line with earlier work conducted on Dutch MNEs, which shows how the Netherlands' long colonial history fuels fear among Indonesians that Dutch culture will override their national identity (Van Marrewijk, 2004).

Second, we found that the level of risk had substantially increased as the firms had established production sites in multiple regions. In line with other emerging market governments (Meyer & Nguyen, 2005), Indonesia has set up special economic zones to attract

FDI. However, for several reasons—some of which firm-specific—our case firms were operating production plants in multiple regions and outside these special economic zones. For instance, three of our case firms had been operating their factories for many decades, dating to before the Indonesian government had set up such special economic zones. These firms had established their facilities in rural areas that, over time, had become much more densely populated. These increases in population had been accompanied by increases in risk, as community demands, corruption, and bureaucracy had risen dramatically, primarily after the implementation of the decentralisation law that had bestowed increased autonomy on local governments. Furthermore, D-Nutrition's production sites needed to be close to springs, which limited their location options. Thus, while earlier work suggests that favourable institutional conditions will attract FDI (Meyer & Nguyen, 2005), our findings suggest that companies do not always have a choice on where to locate their facilities.

Thirdly, the nature of our case MNEs' operations and product categories may also have increased the level of the risks they faced. For instance, a significant problem for H-Beverages was that regional alcohol bans had been promulgated in the more conservative districts based on issues of religion and morality. Alcohol consumption is against Islamic values, and this had led to unrest near the companies' facilities. Ownership strategies and the localization of management may also have influenced risk at the subnational level as a result of the preference accorded by communities to local companies and workers. The term 'local people' should be treated with caution here, as even Indonesians or organisations from outside circumscribed local communities are generally viewed as outsiders. Instead of partnering with local firms to manage the socio-political risk, which is a common practice in Indonesia[2], our case firms had hired local employees—rather than home-country expatriates—as agents; these acted as key intermediaries

[2] When two firms enter into a joint-venture agreement, the foreign company owns the vast majority of the shares, and the local partner is not involved in the daily management.

in facilitating cooperative relations with local communities and governments. These local employees were embedded in both the MNEs and the local communities and acted as go-betweens for the two sides, enabling mutual understanding (Newenham-Kahindi & Stevens, 2018). The hiring of local employees, who were considered insiders by the local communities, had enabled our case firms to reduce their 'regional liability of foreignness' (Qian et al., 2013).

Pondy (1967) suggested that conflict may be triggered by competition for scarce resources or by divergences in values and objectives; such conflict can take the form of lobbying, demonstration, or protest (Beamish & Lupton, 2016). In the case of D-Nutrition's water extraction facilities, local residents and business owners had blamed the company for causing droughts in their regions, which had led to its facilities being attacked. Eventually, the company had had to withdraw from such regions. In the case of U-Products' oleo-chemical plant, the local residents had resented that too few of them were being employed by the company, which had resulted in demonstrations and kidnappings of company employees. As the types of conflict they faced differed depending on local formal and informal institutions, our case firms had developed region-specific risk management strategies.

Our case MNEs had adopted various strategies to mitigate the socio-political risk they faced in subnational regions; first to identify it, then to alleviate it. The identification phase had involved the mapping of key stakeholders, and the issuing of detailed reports on the local business norms in force at potential investment destinations (Dang et al., 2020). The MNEs' host country headquarters in Jakarta had specialised government affairs teams that coordinated socio-political risk across the archipelago. Due to the complexity of local operations, the Indonesian subsidiaries enjoy a significant degree of autonomy in their day-to-day management. The HQs restrict their remit to a limited range of decisions—e.g., the general direction of the business, top appointments, and major investments—but these too are made in full consultation with the subsidiaries.

The MNEs had faced two types of risk in Indonesia: social risk (demonstrations from local communities and regionalistic rhetoric) and political risk (excessive bureaucracy and unreasonable demands). To manage the social risk, the firms had strived to change the perceptions of key stakeholders (Elg et al., 2015; Girschik, 2020). Legitimacy had partly been achieved through social accommodation—i.e., participation in social projects that would generate value for the local region (Luo, 2001). These activities were actively communicated to socially and culturally respected actors, such as local government representatives and community leaders. Initiating a conversation with the authorities through social projects had enabled the MNEs to manage the local perceptions of their intentions. Through various strategies aimed at gaining legitimacy, the managers had also been able to handle any regionalistic rhetoric (Ehrnström-Fuentes, 2016, p. 434), thus counterbalancing their firms' regional liability of foreignness (Qian et al., 2013) by investing in social efforts in support of health, hygiene, and nutrition in local schools.

While the MNEs' social accommodation may appear to have been targeted explicitly towards the well-being of the general population, in reality, CSR had often been used strategically during negotiations with local authorities (Dang et al., 2020; Sun et al., 2021). For instance, the firms had leveraged CSR activities and had offered employment to the local labour force as bargaining tools suited to manage political risk—e.g., when negotiating access to regions or to speed up a business licencing process. The handling of political risk had mostly been entrusted to regionally appointed and well-connected managers who could rely on their personal connections with local formal and informal leaders.

Theoretical contributions

The findings of our study have illustrated some of the ways in which firms manage socio-political risk at the subnational level in Indonesia. Conventional IB research had hitherto explored the influence of the institutional differences between countries on firms' risk management strategies, while largely ignoring the effects of within-country differences (Hutzschenreuter et al., 2020). Our study makes several important contributions to the risk management literature. In contrast to previous studies, which were focussed on how marketing-related risk is mitigated through market entry choices (Henisz & Zelner, 2010; Lu et al., 2014), we answered the calls made for a closer examination of how socio-political risk is mitigated at the subnational level in an emerging market (Meyer & Nguyen, 2005). The lessons learned by long-established manufacturing MNEs—which had experienced and managed often costly conflicts with communities in multiple and quite different local subnational contexts in Indonesia—also substantiate the promise of a subnational approach to this important IB concern, and the value of understanding within-country differences for researchers interested in socio-political risk management.

We found similarities between our observed risk-management strategies and those identified in previous work focussed on risk at the national level (e.g., Dang et al., 2020). It has been well-established that MNEs seek to obtain social licenses to operate (Shapiro et al., 2018)—or, indeed, legitimacy (Elg et al., 2015)—through collaborative efforts that involve CSR (Girschik, 2020). The need to identify risk, negotiate with stakeholders, and build legitimacy is also a well-known factor that pertains to MNE expansion into emerging markets (Sun et al., 2021). However, we argue that the complexity linked to MNE operations in diverse subnational regions in emerging markets requires further investigation into the risk management strategies that are adopted by such firms in order to succeed in international markets (Dang et al., 2020; Sun et al., 2021). Interestingly, the types of socio-political risk we identified—which are commonly associated with emerging markets—had hardly been an issue at the national government level but had caused huge challenges at the subnational one. We found that MNEs operating at multiple locations had had to adopt complex and locally adapted multi-regional risk management strategies to take into account variations in formal and informal institutions.

One contribution to this stream of literature is a framework of the bottom-up multi-regional risk management strategies adopted by MNEs operating in heterogeneous institutional settings such as those observed in emerging markets, as summarised in Figure 1. The associated constructs and relationships in the framework underscore the types of risk and the related management strategies employed by companies. The peculiarities of the Indonesian market reveal that institutional conditions vary significantly at both the national and subnational levels. Foreign investors should not only align their operations with formal subnational market conditions, but also consider their strategies within the complex web of ambiguous and unpredictable interests held by a wide range of stakeholders across formal and informal institutional spaces (Dang et al., 2020). We emphasise the need to focus on their needs and goals—rather than on industry and country descriptive characteristics—to better guide MNEs on how to manage socio-political risks in emerging markets.

Our findings contribute to the literature on the risk management strategies employed by MNEs, and further add to our understanding of conflicts and government interventions at the subnational level (Meyer & Nguyen, 2005), and of the interaction between key stakeholders—including MNEs, opinion leaders, government officials, and communities (Dang et al., 2020). By combining the elements of the formal (e.g., policies set by the government) and informal institutions (e.g., attitudes towards nonlocals), and a subnational approach (the importance of within-country differences), our findings demonstrate that, by developing strong relations with a variety of nonmarket actors, MNEs can mitigate their socio-political risk in multiple regions within a host market. By combining different theoretical perspectives—which would have a limited appeal if applied in isolation—we extend their application to the study of risk assessment and mitigation.

We contribute to the body of literature that focusses on the conflicts experienced by extraction MNEs in emerging markets (Frederiksen, 2018; Shapiro et al., 2018). The conflicts that arise from the localized impact of MNE production plants—and indeed the risk-management strategies suited to mitigate this type of risk—remain relatively obscure in the IB literature (Shapiro et al., 2018). The literature on the extractive sector also offers limited insights into the challenges faced by MNEs operating outside this sector as they regularly enter markets with a less finite time horizon and aim at selling their products locally. Securing lasting cooperative relations with legitimacy providers and developing strategies suited to improve living standards in local regions is critical for successful long-term risk management. Our findings also have implications for firm internationalization; they suggest the need to look beyond the MNEs' initial foreign entry strategies, to encompass the dynamic processes that unfold over time.

While previous research on risk management strategies for MNEs in emerging markets has highlighted a low-involvement approach (Iankova & Katz, 2003), our findings demonstrate that MNEs operating in Indonesia are required to adopt high-involvement strategies and to engage with both formal and informal stakeholders in multiple regions. Furthermore, rather than MNEs acting as passive recipients of host country institutions, we showcase the potential for their deployment of proactive strategies suited to enhance relations with both formal and informal nonmarket actors, which is an important mechanism suited to enhance their capability of utilising and exploiting the institutional benefits found in emerging markets (Ma et al., 2016).

Our study also contributes to the growing body of literature on the subnational level in the IB field, and answers the calls made for further empirical research on institutional subnational differences in emerging market settings other than China (Hutzschenreuter et al., 2020; Liu et al., 2014; Shi et al., 2012). The interviews we conducted in Indonesia suggest that the formal policy changes initiated by the central government have had a varying impact across regions because informal institutions affect their implementation at the local level. We explored not only how differences in subnational institutional characteristics increase the risk faced by foreign investors at the subnational level, but also how they can manage such risk.

Finally, in contrast to recent research that suggests that corruption shapes company structure (Sartor & Beamish, 2020; Spencer & Gomez, 2011) our case firms in Indonesia did not follow this pattern. Sartor and Beamish (2020) found that heightened perceived levels of public corruption motivate MNEs to invest through joint ventures (JVs), rather than wholly owned subsidiaries (WOS), which suggests that local partners are needed to navigate nonmarket interactions. Partnership strategies involve benefitting from the partners' political connections to key institutional actors such as the ruling elite (Siegel, 2007) or the military (Hiatt & Sine, 2016) to appropriate greater value within the existing institutional context. Despite corruption being widespread in Indonesia (Dieleman & Widjaja, 2019), in our sample, foreign investors with long-standing experience had opted for WOS company structures or majority equity ownership ones. Instead of engaging with JV partners, these subsidiaries had adopted a range of strategies in order to engage with local governments by anticipating the latter's intervention and social hostility, developing personal relationships with subnational level nonmarket actors, investing in CSR to develop legitimacy, and negotiating pathways when the former strategies did not work. Overall, the findings of our study offer a more-fine grained understanding of the subnational level risk mitigation strategies adopted by MNEs in emerging markets.

Managerial relevance

We offer important implications for the managers of MNE subsidiaries entering or expanding their operations in emerging markets. Our findings suggest that MNEs should complement any knowledge they possess of the national level institutions; when making decisions about where to invest, it is imperative for them to invest in learning about regional institutions. Identifying boundary spanners in the nonmarket sphere is also very important when operating in Indonesia (Birkinshaw et al., 2017). When MNE subsidiaries operate in large and decentralised emerging markets, they should focus on developing relationships with not only the central government, but also with other authorities, informal leaders, and local communities in the regions in which their factories are located. Furthermore, many participants highlighted the benefits of operating in any special economic zones established by governments to attract FDI. Doing so will significantly decrease risk, as the benefits include tax incentives and quick access to licenses; however, those firms that rely on extracting resources often do not have a choice in regard to where to locate their factories.

Limitations and further research

The explanations and theorisation offered in our study are grounded in four empirical cases. These companies had been operating in Indonesia for decades and had invested substantial resources in establishing their roles as corporate citizens with social responsibilities and respect for cultural values. These efforts had been enabled by the companies' commitment to develop the local communities in which they operate and their long-term orientation, which had enabled local management to enact strategies suited to ensure the longevity of their operations. Further research could use quantitative techniques to investigate the influence of specific subnational institutional characteristics on MNE strategy and performance. We further encourage scholars to place greater emphasis on the actors who participate in the construction of firms' social responsibilities. Further research could study the conditions under which the needs of local communities are prioritised.

Another boundary condition of this study pertains to the idiosyncrasies of the emerging market context (Marquis & Raynard, 2015). Indonesia features a strong economic and social development and its social systems, although still relatively under-developed, are making progress (Girschik, 2020). Resource gaps had been easily identified by collaborating with local community leaders and government officials, and the companies' investments had improved the living standards of the communities. However, while Indonesia shares similarities with many other emerging markets, its decentralised structure distinguishes its institutional environment from those of other countries at the same level of economic growth. We therefore believe that this issue is highly relevant in other countries in which both central and local authorities wield a crucial influence on institutions of concern to businesses. Lastly, an MNE's entry mode choice may moderate the influence of subnational institutions variations on the risk management strategies adopted by it; thus, future studies could explore the moderating role played by the establishment mode choice of an MNE and its risk management strategies across emerging markets. The managerial resources, capabilities and experience accumulated by local subsidiaries could also influence their approaches to risk management; therefore, future studies should pay greater attention to these factors and to how they influence risk perceptions and risk management strategies during the post-entry phase.

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