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Subsidiary strategy processes in Latin America

Subsidiary
strategy
processes

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Abstract

Purpose – The purpose of this paper is to discuss how network relationships, with business as well as with non-business actors, affect each other and have an impact on strategy processes in subsidiaries in Latin America.

Design/methodology/approach – A qualitative approach is used in which a new strategy in a European multinational company (MNC) is studied at the subsidiary level in Brazil and Argentina. The authors discuss why the strategic processes are so different within the same MNC. During 2009-2011, 50 interviews were conducted with respondents in Latin America and at headquarters.

Findings – The results point to the importance of including relationships with both business and non-business actors to understand the subsidiary strategy processes. The authors suggest that such processes can be explained by interdependent relationships in a wider network context characterised by commitment and trust, leading to increased legitimacy among the actors involved.

Practical implications – Managers need to invest in relationships not only with business counterparts but also with non-business actors, as they are interdependent and vital for the strategy development.

Originality/value – Relationships between firms and actors such as governments and civil society are still under-researched, although they are essential, especially in emerging economies. The paper puts focus on network relationships in strategy research and contributes to the development of business network theory by extending the network to also include relationships with such non-business actors and relate it to strategy processes. There is also a contribution to research on corporate social responsibility activities with a specific focus on Latin America.

Keywords Legitimacy, CSR, Relationships, Trust, Strategy, Commitment, Networks, Non-business actors, Business actors

Paper type Research paper

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Introduction

Many multinational companies (MNCs) are aware of the new business opportunities that Latin America offers, and strategies are developed to capture these markets. Brazil stands out as the main driver of foreign investments in the region, but neighbouring countries such as Argentina are also growing fast (World Investment Report, 2012). While some firms entering emerging markets still struggle with standardised approaches (Khanna *et al.*, 2005), other firms find new ways to expand their activities. One such example is the Swedish telecommunication company, Ericsson, with its strategic focus on “Technology for Good”, where the firm relates its technology to global challenges such as human rights and climate change. In this paper, we study this strategy at the subsidiary level in Brazil and Argentina with the intention of developing an understanding of why the strategic processes are so different in two subsidiaries of the same company in the same region in an emerging market. The two subsidiaries differ, for instance, when it comes to size, but they have the same main customer, and



most importantly, they have the same strategic intent. So why is one subsidiary actively working with and developing the strategy requested by headquarters, whereas the other is not?

During the past couple of decades, numerous studies have been made on heterogeneity among subsidiaries (Birkinshaw and Hood, 1998; Paterson and Brock, 2002), showing that subsidiaries within the same MNC often have different roles. The focus has mainly been on internal conditions. However, as pointed out by Andersson *et al.* (2002, p. 980): “Few studies have more explicitly examined the importance that a subsidiary’s external network of specific business relationships has on its market performance and strategic role within the MNC”. We will use a similar approach by arguing that the strategic processes in subsidiaries can be related to the external relationships and interdependencies in each subsidiary’s network. However, while Andersson *et al.* focus on relationships with customers and suppliers, we will develop the discussion by putting the emphasis on some other important relationships, i.e. the business network will be expanded to include non-business actors. This is in line with Hadjikhani and Thilenius (2005), and their focus on the impact of both horizontal and vertical connections on relationships. Hence, our purpose is to discuss how relationships, with business as well as with non-business actors, affect each other and have an impact on the strategy process.

There is a long tradition of studying relationships within a business network context (Håkansson and Snehota, 1989; Ford *et al.*, 2003). While the importance of relationships with customers and suppliers is well-known, other counterparts have received more limited attention. This is noted by Welch and Wilkinson (2004) who emphasised that in an increasingly globalised and embedded business environment, research on business networks, including actors located outside the strictly business relationship, is necessary. In the rather small stream of business network research where non-business actors have been included, the focus has mainly been on political actors (Hadjikhani, 2000; Hadjikhani and Ghauri, 2001, 2006; Welch and Wilkinson, 2004). There are, however, more sectors in society that are gaining importance in business contexts, in particular civil society with its non-governmental organisations (NGOs). This development is related to the liberalisation of the world economy during recent decades, which has altered the political power; the role of the nation-state has diminished, which, in turn, has led to the increased importance of other actors such as MNCs (Pellow, 1999) and also to civil society actors such as NGOs (Christmann and Taylor, 2002). They are also central actors in strategies related to corporate citizenship/corporate social responsibility, where MNCs leverage their resources and expertise to create public goods, often in partnerships with NGOs (Bhanji and Oxley, 2013).

As a contribution to business network theory, we concentrate specifically on actors that are not traditionally studied within this line of research, i.e. non-business actors, thereby seeking to consider not only political entities but also NGOs. How do relationships with these actors affect strategy processes? Strategy research on emerging economies has been conducted from a number of different theoretical points of view, such as institutional theory, transaction cost theory, a resource-based perspective and agency theory (Hoskisson *et al.*, 2000; Wright *et al.*, 2005). Each has its merits, but there is still a dearth of studies building on a network perspective. This was also pointed out by Baraldi *et al.* (2007) in their comparative analysis of different strategic approaches, where they conclude that strategy researchers seem to have neglected networks, and

that network researchers have also tended to neglect strategy. Emerging economies are often characterised by high uncertainty and a deficiency of stable institutions, and in such business environments, relationships and networks act as substitutes for contracts, laws, regulations, etc., making them highly important for business strategy (Hoskisson *et al.*, 2000; Peng and Luo, 2000; Doh and Teegen, 2002). Consequently, the significance of networks makes it vital for networks to be included in research on strategies in emerging markets such as Brazil and Argentina.

An additional contribution will also be made to the corporate citizenship/corporate social responsibility literature concerning strategy differences among subsidiaries. Within this line of research, Campbell *et al.* (2012) have shown how different kinds of distances from headquarters to subsidiaries – geographic, cultural, economic and administrative – affect the motivation, willingness and ability to engage in such activities. Their conclusion is that subsidiaries from more distant countries are less likely to engage in corporate social responsibility activities, which, however, does not seem to explain the strategy processes in our case, given the differing outcomes in two units with similar distances.

Hence, to fulfil the purpose of understanding the local strategy processes of subsidiaries, we will study the role of business as well as non-business counterparts in the local strategy-making processes. The method used is a case study on the local strategies of the Swedish multinational telecommunications firm Ericsson in its subsidiaries in Brazil and Argentina.

Literature review

In the business network perspective, the focus is on interaction and cooperation between specific actors, which is in contradiction to traditional economic theory where the actors are considered to be mainly competing. In the interaction, resources are exchanged and the actors adapt to each other. The interactions create unique relationships among mutually dependent actors that are hard to imitate, but these different relationships are also connected to other relationships, thereby creating a network of interdependencies (Håkansson and Snehota, 1989; Andersson *et al.*, 1994; Håkansson *et al.*, 2009). This implies that when discussing strategy in a network perspective, the actions of other counterparts outside the borders of the firm must be taken into consideration, and this increases the complexity. This complexity can be further regarded as heterogeneity when it comes to subsidiary differences attributable to the embeddedness of subsidiaries in their local networks. As each subsidiary has relationships with specific actors that are different from the relationships of other subsidiaries within the same firm, the possibilities for the MNC to implement a strategy become more complex.

In the Introduction section, we indicated that vertical relationships, i.e. relationships with customers and suppliers, have been highlighted in business network research, whereas horizontal relationships have been subjected to a more limited focus, although such relationships may have a considerable influence on the focal business relationship. As pointed out by Hadjikhani and Thilenius (2005, p. 136), “there remains an empty space for studies encompassing both horizontal and vertical dimensions”. In the following, we divide the horizontal relationships into political actors and civil society actors (such as NGOs).

When it comes to relationships with political actors, it is often insisted that firms are influenced by political decisions formulated at different levels. Researchers in political

science have long stressed the hierarchic power of the state (Nowotny *et al.*, 1989; Maddison, 1991), and some have also referred to the heterogeneous nature, emphasising the specificity of the relationship between firms and political organisations (Chaudhri and Samson, 2000; Hadjikhani *et al.*, 2008). Another stream of research focusses on firms' possibilities to influence through lobbying, whereby the firm attempts to engage with political actors to gain support (Boddewyn, 1988; Hadjikhani and Ghauri, 2006). While the above-mentioned perspectives develop unitary views, in which either the political unit or the firm is in focus, we employ a relational view where the counterparts involved are interdependent. This is in line with Crane and Desmond (2002) and Hadjikhani (2000), who suggested the adoption of a dyadic perspective a decade ago for the study of the interaction between multinational firms and political organisations. We expand this approach by including other relationships in the network, in this case, civil society actors.

When studying network interdependence with civil society actors, we are specifically interested in the role of NGOs, as firms' relationships with them seem to be increasingly important (Pellow, 2001; Christmann and Taylor, 2002; Yaziji, 2004; Teegen *et al.*, 2004; Vachani *et al.*, 2009). From the more confrontational relations during the 1990s, co-operation has become increasingly common (Perez-Aleman and Sandilands, 2008). One underlying reason for the evolving co-operation is the immense complexity of some of the major problems facing companies, for example, those regarding environmental issues, where the high level of difficulty requires a large number of actors to be addressed (Hartman *et al.*, 1999; Starik and Heuer, 2002; Wilson *et al.*, 2010; Ritvala and Salmi, 2011).

The above-mentioned discussion indicates that firms are embedded in a complex network consisting of business as well as non-business counterparts, all of which influence one another. In the following, we will relate to central elements in the relationships and discuss the implications when the business network perspective is expanded to include non-business actors.

Conceptual framework

The concept of *legitimacy* can be related to interdependences in a network analysis including non-business actors. An oft-cited definition of legitimacy is that it is "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions" (Suchman, 1995, p. 574). Suchman also points out that legitimacy is created through relations with other actors. According to Campbell *et al.* (2012), foreign subsidiaries can improve their legitimacy by investing in corporate citizenship/social responsibility activities. In relationships with political actors, Hadjikhani *et al.* (2008) argue that, although the legitimacy of the political actors is perceived by the business actors, it is primarily appreciated by the public, who are also the voters. Political legitimacy is, in part, based on the creation of jobs and tax income, which firms create. Firms, in turn, are dependent on the regulatory system created by the national government. Hence, these relations generate part of the interdependence between the private and the public sectors (Hadjikhani *et al.*, 2008).

In the business–NGO relationship literature, legitimacy is described as one of the most important reasons for interaction across the sectors. For example, it is said that alliances with non-profit organisations can enhance the firm's image through positive

media attention, as well as by repelling attacks from environmentalists (Milne *et al.*, 1996; Hartman and Stafford, 1997; Arts, 2002; Argenti, 2004; Vachani *et al.*, 2009). For NGOs, on the other hand, the basis of legitimacy reached from co-operation with firms is presented in terms of a higher efficiency achieved compared to, for example, political lobbying.

We put forward the suggestion that the gains from interaction and the basis for interdependencies in terms of legitimacy are not “automatic” – a prerequisite is commitment and trust in the relationship.

Commitment can be explained in terms of the size of investment or actions towards the counterpart alone or towards the partner and his connected actors (Becker, 1960). Commitment goes along with the desire to continue the relationship, i.e. it “is an implicit or explicit pledge of relational continuity between the exchange partners” (Dwyer *et al.*, 1987, p. 19). It seems as if the commitment of time and effort is of relevance when a firm is entering into cross-sector relationships (Argenti, 2004), i.e. developing relationships with non-business actors. Hartman and Stafford (1997) point to the complexity of the collaboration and underline the importance of patience and of being management savvy to be able to handle the differences in values, organisation structures and decision-making styles.

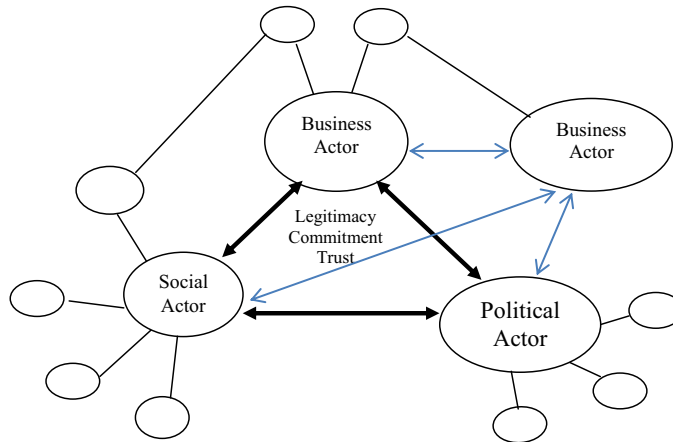
To commit resources, the actors must also trust each other. There are abundant definitions of trust, but there seems to be a general agreement that trust is the expectancy and willingness of the exchange parties to interact and that mutuality is preserved (Morgan and Hunt, 1994). Novel relations logically need more commitment to build trust than those already established (Hadjikhani *et al.*, 2008). Pappi and Henning (1998) describe the complexity of attaining trust in network governance involving both public and private actors, arising from the trade of “promises”, not actual “commodities”, and because of the differences in the nature of the participants, i.e. the social distance. Many scholars describe trust as the main theme in the collaboration success, especially in terms of differences in values, organisation structures and decision-making styles (Milne *et al.*, 1996; Hartman and Stafford, 1997; Arts, 2002; Argenti, 2004; Gilbert and Behnam, 2012) (Figure 1).

To summarise, firms are embedded in networks consisting of relationships with both business and non-business actors: these relationships are interdependent and affect each other, i.e. they form networks of connected relationships. Important elements in the relationships are legitimacy, commitment and trust. In the following, we will describe the networks of two subsidiaries within the same MNC, and the description will focus on how differences in relationships with business and non-business actors in each subsidiary’s network affect their strategy processes.

Methodology

The analysis is based on a qualitative case study where the network relationships in two subsidiaries within the Swedish telecommunication company Ericsson are studied. Such a qualitative study is recommended when the focus is on new and complex areas, especially when the external natural setting is difficult to investigate (Doz, 2011) and in hard to reach regions (Ghauri and Firth, 2009), as well as when surroundings are complex owing to the existence of intercultural and institutional settings (Birkinshaw *et al.*, 2011). The choice of context for this study is theoretical, in the sense that emerging economies are a proper setting for the theory generating aspect of business networks

Figure 1.
A network of
interdependent
business and
non-business
relationships



including non-business actors. Further, within the studies of emerging markets limited attention has been paid to Latin America, despite the substantial economic importance of the region, with a population of over 550 million and a gross domestic product of approximately US\$4 trillion.

The choice of subsidiaries is also theoretical in the sense that the subsidiaries show examples of where the strategy was undertaken and not which enables us to study the process in both scenarios. Concerning their comparability, the size of the units involved is significantly different, with the Brazilian subsidiary being bigger and located in a more important market than the Argentinian one. However, given that other smaller subsidiaries in the same region, such as Chile, Peru and Venezuela, have undertaken projects within the strategy in question, the size does not seem to be the major reason for adopting the strategy. The comparability is also enhanced because the subsidiaries, as already indicated in the introduction, are within the same company, region and, hence, “distance” from headquarters, and they also have the same strategic intent – a focus on “Technology for Good”.

The research is abductive, deductively applying the network theory’s relationship focus as the framework for the data collection and coding for its main concepts, while the questions and general approach were inductively open and exploratory. To limit bias, respondents with different experiences of and perspectives on the “Technology for Good” strategy were interviewed, and such retrospective interviews can be considered fairly accurate, especially when recent events are of primary concern (Eisenhardt and Graebner, 2007). For a general view of the subject, respondents were first interviewed at headquarters in Sweden, and more specific information was then obtained through interviews at the subsidiaries in Brazil and Argentina. A project in the Amazon area was also visited, and key persons involved in this project were interviewed. The vast majority of interviews were done face-to-face, with only a handful taking place by telephone and by e-mail. Documents were studied as a basis for the interviews, and using the “snowball method”, key people were recognised. In total, 50 interviews were conducted during the period 2009-2011 (35 within Ericsson and the rest with other counterparts).

In addition to the interviews, annual reports, corporate responsibility reports and other internal documents from Ericsson were studied, as was their website. Websites and documents of connected actors, newspaper articles and reports from universities concerning the results of the Amazon project have also been included. Finally, observations were made on site, including in the Amazon project communities, which will be described more extensively in the following section.

All data were coded in a systematic manner, applying Atlas.ti; this started during the collection phase. From the beginning, the differences in the undertaking of strategy were evident, and the processes were then coded in terms of reasons for the course of action. With the continuous study of theoretical concepts and interpretation of the codes based on these (Sinkovics *et al.*, 2008), in a second round, code-families were constructed, which were later defined in the theoretical categories of trust, commitment and legitimacy. These category results from the two subsidiaries were then contrasted and formed the basis for the description and analysis of the strategy processes.

The case of Ericsson in Brazil and Argentina

The Swedish multinational network supplier Ericsson was founded in 1876, and today, it is the market leader in the telecommunication industry. Recently, its strategic focus of technology development has been canalised through the “network society” initiative where the five billion people already connected are to be superceded by the strategy of connecting 50 billion connected items. Some world development issues, such as poverty alleviation and climate change, are important aspects of this main strategy, called “Technology for Good”, where they leverage their core competence to capture new business opportunities. The firm also points out that this strategy is based on co-operation with their most important stakeholders:

At Ericsson our approach to “Technology for Good” is to work in private/public partnerships. We have seen time and time again with the initiatives in which we are engaged, that when we work together with Governments, NGOs and international organisations we can have a much bigger impact than anyone of us could alone (Ericsson.com/news).

The telecom industry is highly regulated, and the business actors involved are dependent on licences from the political actors. Governments are also vital potential customers for the firms. Not least in emerging markets, the role of political actors is increasingly important, and to develop political relationships, there is a need to be seen as a legitimate actor by committing resources to social projects. Below, we will compare the “Technology for Good” strategy processes in the subsidiaries in Brazil and Argentina to see how they are related to legitimacy in the networks.

Ericsson Brazil

The geographic region of Latin America has around 8,000 employees and is managed from the regional head office in São Paulo, Brazil. Ericsson has been present in the Brazilian market since 1924 and has about 3,000 employees in that country. As the only Ericsson subsidiary in Latin America, the Brazilian unit has all parts of its operations running: sales, service, manufacturing and R&D. Ericsson’s present strategy in the Brazilian market is based on the network society view, with its focus on “Technology for Good”. Brazil is the sixth biggest economy in the world, with a good deal of its population still living in rural zones. One of the major projects is to increase telecom

services by getting rural areas connected. The description below illustrates how this was accomplished in the Amazon communities Belterra and Suruacá.

The project started in July 2009 in cooperation with Vivo, one of Ericsson's (2009) four main customers. In addition to development of the local society in economic terms by bringing connectivity to the area, the intention was also to enhance education, health and social inclusion. Vivo had previous knowledge and experience from social development projects, so Ericsson could learn from them while they provided Vivo with technological knowledge. A radio base was installed in Belterra, and because the return on investment was much better than anticipated, Ericsson and Vivo decided to continue to pursue their expansion. A more radical venture was undertaken in the more distant community of Suruacá, with positive results. The project affected the relationship between the two firms in a very positive way. Before the project, Vivo had been one of the worst accounts in Ericsson's customer portfolio; however, after these social development projects, it was instead considered to be the best one.

As one of the respondents in Ericsson expressed:

They see us as a partner now in the task of changing people's lives.

But this "Technology for Good" project was also affected by other actors. Both Vivo and Ericsson were unfamiliar with the territory, geographically, socially and from a business context, so they needed to obtain knowledge by acquiring local experience of the region, and on the most pressing social issues and local needs. In addition, they needed to obtain legitimacy and trust from the communities. After extensive research, the NGO Saúde & Alegria (S&A), which had been active in the region since 1987, was chosen as a partner. S&A had well-established connections and legitimacy in the local community, as well as experience of communication technologies from the NGO's involvement in connectivity projects for several years both in the urban and the local Amazon area. However, the goals of S&A and Ericsson were not always aligned, which resulted in some delays, but with time, the project developed and was used as a successful example of partnership with an NGO. It was, for instance, used by Ericsson at United Nation's global COP 16 (Convention on Climate Change), where it received much attention. For S&A, the relationship with Ericsson and Vivo was important because S&A needed a project to show efficiency and productivity to the government, which is their most probable funder.

The Amazon project also influenced Ericsson's relationships with political actors, and it was used to enhance the firm's credibility. The subsidiary has committed resources by appointing a person to be in charge of corporate responsibility activities. Ericsson Brazil mainly has contacts with the telecommunications ministry and explains that relations are developed through a process of "constant building with blocks of trust". Even when there are no urgent matters, Ericsson employees from the Brazilian unit go to Brasilia every week to maintain contacts. The firm underlines the importance of being considered to be a "good citizen", and with the government's emphasis on "Technology for Good" in areas such as education and health, the government is becoming an increasingly plausible customer. Ericsson has, for instance, leveraged the project when new techniques needed to be showcased to different ministries, and on these occasions, it has been important to be considered a legitimate partner. Ericsson gets quite a lot of assistance through their good connections to Vivo, as Vivo has even more contact with the government and the different ministries than Ericsson. Officials

from the government are invited to events where Ericsson (and Vivo) promote innovations and push for developments in the area of connectivity and communications. In addition, Ericsson has a great deal of interaction with the public regulating agency, Anatel, whose policy document shows the aim of assuring access to communications throughout the entire country as well as the reduction of poverty and the development of rural areas. Given their good connections and experience, some customers go through Ericsson to reach Anatel.

Ericsson Argentina

Ericsson has been present in Argentina even longer than in Brazil – since 1921. The subsidiary is a sales unit with around 200 employees, but it also constitutes a hub for the southern countries in the region. Since 2009, the pressure from the headquarters in Sweden concerning the implementation of Ericsson’s “Technology for Good” strategy has increased, and the management of the subsidiary describes the strategy as “Ericsson’s main flag”. Hence, the strategy is perceived as important, and one person has been appointed responsible for this area. However, the actual activities are described as being very simple and formal. According to the subsidiary’s top management, the Argentinean market is complicated when it comes to activities related to the “Technology for Good” strategy, but the management is attentive to genuine opportunities to embark on activities within this field.

The subsidiary has tried to influence its customers by giving some suggestions on “Technology for Good” projects, but these have not been successful. Their main customer, Telefónica, also contacted Ericsson once concerning an initiative in their programme “Pro-niño”, a programme providing aid through broadband connectivity for some schools in a rural area. Ericsson showed cheap alternatives they could apply and produced a report on the effects anticipated, but the project never materialised.

The relationship with the government was described by the customers as exhibiting a lack of trust arising from the risk that the government would take away their licenses. A solid and predictable government was something they missed. For Ericsson Argentina, a continuing issue in the relationship with the government is the actual contribution of Ericsson to society. The government has expressed discontent with Ericsson being present in the country for many years without making any important local investments, such as production units. According to Ericsson, however, the firm would achieve cost reductions by installing a laser factory in the country, but the uncertain political situation means that the risks are perceived to outweigh the possible gains. Thus, this rather weak relationship with political actors has, according to some respondents, made Ericsson lose some business. One example was the possibility of becoming a partner/supplier in the governmental programme to provide free Internet in parts of the country.

A project in line with the “Technology for Good” strategy was considered with a bio-tech company developing medical technological devices. The devices made can be connected to the telecommunication networks to monitor and measure the level of glucose in the blood, and the information is automatically sent to a centre of coordination, connected to the hospitals. Ericsson Argentina’s role in this process would be to integrate all the components, connecting the service providers with the telecommunication operators. The main idea of the project would be to combine social

deeds with profitability. When asked about their social development work in the subsidiary, the person in charge of the project said:

The truth is we work little with such issues. This is something we should be doing [...] helping to improve the health of elderly people in particular by the use of technology. Ericsson has started to see such projects as new business opportunities.

According to the project leaders at Ericsson Argentina, an argument for entering this sort of business is the goodwill gained in public perception when supporting hospitals and health programmes. But there is also a need to find new areas in which to operate, owing to the saturation of the market of “conventional customers”, and Ericsson sees potential in the four million retired people in Argentina who could use this medical device. The public and private spending on health is substantial and contributes to economic gains as well as through the positive image it presents of the company. In neighbouring countries, in cooperation with NGOs, Ericsson has been successful in similar projects, but in Argentina, success has been elusive. As those interviewed said, maybe they did not search enough. It can be noted that future business opportunities are identified in the expansion of connectivity to rural areas, which is in line with the goals of the government, however, this was not considered to be a primary strategy in the subsidiary. Concerning collaboration in public projects, one respondent mentioned that Ericsson missed out on the digitalisation of public television, as the government did not even know that the firm had knowledge within this field.

Local network effects on subsidiary strategies

Below, we will analyse how the different counterparts have affected the “Technology for Good” strategy in the two subsidiaries, and base the discussion on the concepts of legitimacy, trust and commitment.

In Brazil, Ericsson engaged in the new strategy with enthusiasm and joined efforts with its customer Vivo. The initial commitment in Belterra paved the way for increased trust and commitment in the more radical venture in Suruacá, and during the process, the relationship between the firms became stronger. The project was important for enhancing the legitimacy of both companies in the rural community, but also, and in particular, for developing and strengthening their relationship(s) with the political actors. In the Argentinean subsidiary, the situation was different: the customers had not committed to similar projects, and they did not seem interested in doing so when Ericsson proposed this to them. Given Ericsson’s role as a supplier, the company was unable to engage in projects without being connected to an operator. Hence, the absence of a relationship put a stop to the implementation of this strategy.

When it comes to relationships with the political actors, there are considerable differences: Ericsson Brazil shows a high degree of commitment, and they have invested both in terms of production units and R&D, while in Argentina, the subsidiary is principally a sales unit. There, the local authorities demanded stronger commitments to the market in terms of the establishment of production units. The main reason for the unwillingness for further commitment in Argentina, despite the eventual economic returns expected, is the lack of predictability of the regulatory framework and also a lack of trust that the government will meet its obligations. Trust-building with governments is described as something that is achieved through commitment in activities which enhance the firm’s role as a legitimate citizen (Campbell *et al.*, 2012). In this vein, the new

strategy increases the importance of establishing good relations with the ministries of health, education and transportation, in addition to which the activities are expected to develop a positive image of the firm in the eyes of the government. If we look at the expanded role of the government in terms of not only being the regulator but also having a role as a potential customer, the need for commitment and trust-building is enhanced. Ericsson Brazil with its more trustful relationship with the government, and the success of its battle to achieve legitimacy, has been more successful in its implementation of the new strategy.

In Brazil, the cooperation with the local NGO was crucial for the development of the Amazon project. The NGO was vital for this, not only in terms of providing legitimacy to the project but also because of its knowledge and experience. A substantial amount of time and effort were committed by Ericsson and Vivo to identify the most appropriate NGO for the project. In Argentina, the difficulties of working with similar projects were described in part to be caused by the lack of partners from civil society with the necessary knowledge. However, it should be noted that Ericsson did not commit enough resources to trying to find such partners.

Above, we have discussed the direct relationships, but even more interesting are the indirect connections. The relationship between the operator and the government is very important in the highly regulated telecommunications industry, and the operator Vivo's relationships with political actors in Brazil were beneficial for Ericsson. Ericsson committed considerable resources to building up trust with the communications ministry, but the firm did not do this with the other ministries to the same extent, which Vivo had done. However, Ericsson was able, through increased commitment and trust with Vivo, to leverage Vivo's relationships with the government (in the same way, Vivo was able to take advantage of Ericsson's trustful relationships with the communications ministry) and thereby gain more trust from the government. In Argentina, the situation was quite the opposite; the customer did not have trust in the government and expressed a fear of not being able to attain future gains from investments. The commitment to the relationship with the NGO who enabled the project in Brazil also increased the government's trust, as it made it possible for Ericsson to have services and products to showcase for the ministry. The legitimacy gained from the commitment to the United Nation could be expected to affect Ericsson Brazil's relationship with the local authorities, as the project had been presented on various occasions as a "flagship" programme. For the NGO involved in the project, the relationships with the business actors (Ericsson and Vivo) were useful because their contacts with the political actors were required to legitimise the NGO's need for financial support.

In addition to the importance of relationships with business *and* non-business actors – both direct and connected – the descriptions highlight the effects of trust, commitment and legitimacy for the strategy processes. While, in the Brazilian case, trust and commitment among all actors involved was reinforced and led to increased legitimacy, in Argentina, legitimacy did not develop because the firm did not commit enough resources owing to distrust in the government. According to Govier (1994), distrust is the expectation that others will not act in one's best interests or, according to Lewicki *et al.* (1998), the expectations regarding the other party's conduct are negative. Our results indicate that the concept of distrust deserves more attention, as it can explain why a firm does not find it worthwhile committing more resources and searching for legitimacy.

A plausible explanation for the differing strategies adopted could be connected to the availability of resources in the subsidiaries: Brazil is a much larger market, and the subsidiary has more resources at hand than the Argentinean unit. However, as pointed out in the methodology section, other smaller subsidiaries in the same region have undertaken projects within the frame of the “Technology for Good” strategy, showing the possibility to do so in terms of resources. The respondents in Argentina also underscored that efforts had been made to convince the customer, hence showing the intention of undertaking such a project. The decision of where to apply the resources available, however, depends on where most outcome is expected, and it seems that the lack of both direct and indirect trust in the government in Argentina has made the decision to commit appear too risky, thereby eliminating the possibility of engaging in legitimising commitment.

Concluding remarks

A general conclusion from this study is that context matters in developing a strategy: a single firm/subsidiary is highly dependent on its context concerning the strategy process and, thus, the network view has been useful in understanding the differing outcomes of the strategies adopted by the subsidiaries. The two cases point to the importance of including both vertical and horizontal relationships in an extended network context, i.e. it is not only other business actors that affect the subsidiary strategy, but non-business counterparts can also be very influential. While earlier contributions to relationships with non-business counterparts have tended to study business-political relationships, this study also includes civil society actors. Both direct and connected relationships in the network have been highlighted, and the way that trust, commitment and legitimacy in the relationships affect the possibilities of implementing strategies has been illustrated. In particular, in Argentina, the lack of trust in the political actors has had negative effects for the possibilities of the subsidiary under study to obtain projects related to the new strategy.

The description also shows that the strategy process is interactive rather than independently developed and implemented within the firm. What happens in one relationship may affect others, in a way that is not always explicit or possible to foresee. As firms are embedded in relationship networks that extend beyond the boundaries of the firm, theory must be developed to take the external network into consideration when strategy is discussed. Hence, there is a need to stop making a distinction between “firm” and “environment”, which is what mainly differentiates the network perspective from traditional approaches (cf. Baraldi *et al.*, 2007). Although this increases the complexity, it comes closer to an understanding of the reality and the more limited possibilities for a firm to be in control of its own development.

Hence, the contributions show the need to take the context into account, not only the direct but also the indirect network relations when studying strategy processes. In addition to this, relations to non-business actors must be taken into account with an added emphasis on civil society actors. This is of special interest when it comes to strategies related to corporate social responsibility/corporate citizenship. As pointed out by Yang and Rivers (2009), most research in this area has mainly focussed on the developed world, and it is now increasingly important to understand the challenges and opportunities subsidiaries face in developing such strategies in foreign markets. While earlier contributions in this line of research have highlighted headquarters’ role and the

importance of the distance from headquarters, our contribution is to indicate that the willingness and ability to implement such strategies is highly dependent on interdependent relationships in the subsidiary's network. Of specific interest is to study this on the rapidly growing markets in Latin America.

Implications for future research, management and society

There are several important implications of this study: We have already indicated that the issue of trust/distrust deserves more study. For instance, differences in political trust could be further examined, relating them more closely to the governments' policy concerning foreign direct investment. Argentina has, for example, sent signals in the form of actions such as nationalisation of foreign-owned companies, that may increase the uncertainty for foreign MNCs, while regulations in a similarly run country, Venezuela, has managed to persuade foreign companies to make legitimising commitments despite the political uncertainties.

As pointed out by other scholars (Ritvala and Salmi, 2011), when studying the strategy process of how firms engage in development projects, the network effects are crucial, but the organisational and personal levels also matter. Our data, for example, indicate that personal initiatives have been of importance. The role of the organisation, especially the subsidiary-HQ relation, needs to be studied more explicitly.

The research presented here is based on data concerning two subsidiaries of one company; further case studies and surveys including more firms/subsidiaries will hopefully enhance our understanding of the complex phenomena related to network relationships and strategy processes. Managers have long experience of doing business with other firms while the importance of developing relationships with other counterparts, not least when entering emerging markets, often fails to be recognised. Nowadays, when it is quite common to put the emphasis on strategies related to corporate social responsibility/corporate citizenship, when expanding in these markets, relationships with non-business counterparts become even more important. Hence, the network, consisting of both business and non-business actors, must be taken into account when working on strategies in local subsidiaries. For actors from other sectors of society, more knowledge of the complex interdependencies is also beneficial and will hopefully give an understanding of the necessity of committing resources, i.e. of the need to invest in relationships to develop trust and attain legitimacy. If crucial actors in the network are not aligned with the strategic intent, it proves hard to undertake the strategy alone, regardless of the availability of resources.

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