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Multinational Companies in Low-Income Markets

An Analysis of Social Embeddedness in Southeast Asia

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With a foreword by Prof. Dr. Li-Choy Chong

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Foreword

"Alleviating poverty through the pursuit of profit" has become a catch phrase for many entrepreneurs and business people who started to focus their businesses on the lower incomes segments of the population at the "Base of the Pyramid" (BOP). Despite such business interests, there is, as yet, insufficient theoretical and empirical work done in this emerging field. Social embeddedness, which facilitates the leveraging of local knowledge and expertise and the earning of the trust of the local people, is deemed essential for the successful implementation of a BOP strategy.

What does social embeddedness mean? What does it entail for the businesses? How should businesses be embedded in the local networks? Dina Badry seeks to answer these questions in her excellent dissertation through her conceptualization and empirical research which examines the different strategic intentions of business units operation at the BOP level and their potential network partners, following social network theory.

I have little doubt that this study has contributed to our understanding of social embeddedness and will prove itself to be invaluable for academics as well as practitioners.

Prof. Dr. Li-Choy Chong

Acknowledgements

Writing this dissertation has been a significant academic and personal challenge in my life. Fortunately, I have received invaluable support, patience and guidance from many people to whom I want to express my sincere gratitude.

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I would also like to acknowledge Tetra Pak Indonesia and Tetra Pak Thailand for their willing support in providing the data for my empirical study. I especially thank Mignonne Akiyama for her time and effort to provide me with the necessary information and insight into Tetra Pak’s low-income market activities by inviting me to visit communities and schools and introducing me to the people concerned as well as NGO members.

I extend many thanks to my friends who have not only been encouraging during my research but also provided the necessary social balance, especially Charlot, Jasper, Katie and Tim. I would like to thank Thip for caring about my physical wellbeing and introducing me to the Thai language and culture. I am also indebted to Tobi for his continuous support, both personally and professionally, for his knowledgeable input and constructive criticism as well as for his encouraging words during the times I really needed them.

Finally and most importantly, I'd like to thank my family. I'm grateful to my sisters Samira, Scherin and Leila for their encouragement, enthusiasm and warmth even if I was far away. And I'm especially grateful to my parents, who have always had unwavering faith in me and without whom I would never have been able to achieve so much.

St. Gallen, May 2009 Dina Badry

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BOP base of the pyramid
cf. compare (Latin: confer)
ed./eds. editor/ editors
e.g. for example; for instance (Latin: exempli gratia)
etc. and so forth (Latin: et cetera)
et al. and others (Latin: et alii/alia)
GNP gross national product
i.e. that is to say; in other words (Latin: id est)
MNC multinational company
NGO non-governmental organisation
p. / pp. page/ pages
R&D research and development

Abstract

The market-based activity of multinational companies (MNCs) in low-income markets is increasingly capturing the attention of academics. Nevertheless, there remains a lack of empirical and theoretical work on how MNCs should approach these markets. Social embeddedness has been identified as a critical success factor for the operations of MNCs in low-income markets. The importance of social relations to local partners has been stressed to gain a market understanding and to access critical knowledge. Following this logic, the purpose of this dissertation is to examine the concept of social embeddedness in the context of low-income markets in more detail and with a specific focus on the Southeast Asian context.

Based on survey data gathered from two subsidiaries of a European MNC, I examine relational and structural network aspects contingent on distinct strategic intentions. Additionally, I distinguish stakeholder partnerships and cross-sector partnerships in order to reveal detailed results and tangible implications for corporate leaders. The establishment of trust, especially in cross-sector partnerships, turns out to be essential in order to succeed in the approach to serve low-income consumer markets.

Zusammenfassung

Das wachsende Interesse und die Bestrebungen internationaler Unternehmen, einkommensschwache Märkte zu erschließen, erregt zunehmend die Aufmerksamkeit von Wissenschaftlern im Bereich des internationalen Managements. Dennoch ist die Zahl der theoretischen und empirischen Arbeiten auf diesem Gebiet lange nicht ausreichend. ‘Social embeddedness’ wurde als kritischer Erfolgsfaktor identifiziert, der es Unternehmen ermöglicht, in einkommensschwachen Märkten erfolgreich operieren zu können. Durch die Bildung und Pflege sozialer Kontakte zu lokalen Partnern können Unternehmen nicht nur Zugang zu kritischem Wissen gewinnen, sondern auch die Umstände und Bedürfnisse ihrer potentiellen Kunden besser verstehen. Das Ziel dieser Dissertation ist es, das Konzept ‘social embeddedness’ im Zusammenhang mit einkommensschwachen Märkten genauer zu untersuchen, um konkrete Implikationen für Theorie und Praxis ableiten zu können.

Basierend auf Daten, die aus einer Umfrage in zwei Tochtergesellschaften eines europäischen Unternehmens gewonnen wurden, untersuche ich relationale und strukturelle Aspekte von sozialen Netzwerken in Abhängigkeit unterschiedlicher strategischer Zielrichtungen. Zusätzlich unterscheide ich Partnerschaften mit Stakeholdern sowie Partnerschaften mit Regierung und der Zivilgesellschaft, um detaillierte und umsetzbare Ergebnisse für Manager zu erhalten. Zusammenfassend lässt sich sagen, dass die Etablierung von Vertrauen das wichtigste Kriterium für den Erfolg von Unternehmensaktivitäten in einkommensschwachen Märkten herausstellt.

1. Introduction

For decades, economic and social development in low-income countries has been almost exclusively on the agenda of selected institutions. Universities and think tanks have studied development issues on the academic side, while governments, related organisations, such as development banks, and non-governmental organisations have been fostering development in practice. Until recently, both sides have widely ignored the role of private business in the development of low-income countries (World Business Council for Sustainable Development 2007). Lately, however, both academia and governments have begun incorporating the influences businesses can assert on economic and social development.

The engagement of MNCs in low-income developing countries not only holds opportunities for the individual company but also impacts positively on the economic and social development of the specific country (Prahalad 2005). More and more, private enterprises are considered promising future drivers for alleviating global poverty in developing countries (e.g., Prahalad and Hammond 2002). Actions towards fighting poverty were traditionally based on philanthropic approaches enabled by the charitable donations of companies, organisations and governments. The major pitfall of such development aid is the uncontinuous flow of means that makes it nearly impossible to feed development projects steadily and thus to ensure ongoing progress and sustainable development (Lodge and Wilson 2006). Therefore, charity and foreign aid are not able to exhaustively overcome poverty, but can at the most provide temporary relief or partial support (Yunus 1998).[1] By contrast, a market-based approach is distinct from charity or philanthropy as the benefits for the poor are generated through business activity. The company's social engagement, thus, becomes part of its main corporate activity. Addressing social issues is not peripheral to strategy but rather central to it.

[1] The effectiveness of development aid has been extensively discussed between J. Sachs and W. Easterly. While the former defends the usefulness and importance of foreign aid, the latter considers charitable donations to developing countries a "waste of money". I refer the interested reader to Sachs, J. (2005): "*The End of Poverty*" and Easterly, W. (2006): "*The White Man's Burden*".

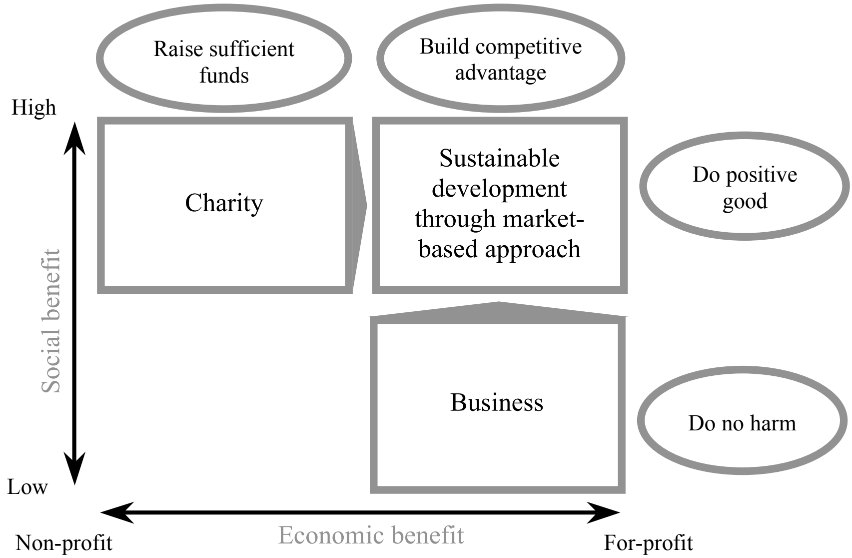

Figure 1: The market-based approach

While traditional approaches base their action on the assumption that the poor are unable to help themselves, the market-based approach is derived from the recognition that low-income does not eliminate market processes as practically all poor households are involved in the trade of cash or labour to tackle everyday life (Hammond, Kramer, Katz, Tran and Walker 2007). Thus, the market-based approach considers people as consumers and producers rather than helpless sufferers. The potential for large-scale social impact and wealth creation offers opportunities to low-income communities, citizenship sector organisations and businesses. As Mohammed Yunus states, "Charity is limited. Business in unlimited" (Frankfurter Allgemeine Zeitung 2006). This new economic approach could replace the current one, wherein a wide gulf exists between a capitalist system driven by profit maximisation and charity to those who lose out in this capitalist system (Yunus 1998). Thus, the market-based approach in low-income markets should be perceived as a promising means of poverty alleviation, for both policy makers and MNCs because of the enormous opportunity for future growth, new market share and rising customer share. Since the bi-polar model with profit maximisation at the one end and charity at the other is “inadequate and particularly ill-equipped to address the problem of poverty” (Yunus 1998, p.65), Yunus (1998, p.63) claims that this new approach is “social consciousness driven capitalism”.

The operations of MNCs in BOP markets can have two distinct impacts depending on the company's focus. First, operating in developing countries in general impacts the overall economic growth of that country. Opinions regarding the exact impact of such growth remain divided, as some researchers doubt that it benefits the poor tiers of the population (Roemer and Gugerty 1997), while others have shown that overall economic growth can reduce poverty to a large extent (Ravallion and Chen 1997; World Bank 2000; Dollar and Kraay 2002). Besides this general effect of business activities in developing countries, the focus on providing products and services to low-income markets in developing countries, which I refer to as the market-based or BOP approach[2], provides even more diversified benefits. This can be seen when local customers benefit directly from income-generating opportunities as well as from the additional value of products that enhance their standard of living (Prahalad 2005; Hammond, Kramer et al. 2007). For example, offering financial services to low-income communities in the form of micro-credits can directly improve productivity, earning power and access to jobs, whereas products or services to secure clean drinking water result directly in greater welfare (Hammond, Kramer et al. 2007). As this approach seems a promising way for companies to enter new markets as well as to reduce poverty, researchers are becoming increasingly interested in this subject (e.g. Prahalad and Lieberthal 1998; Prahalad and Hart 2000; Hart and Christensen 2002; Prahalad and Hammond 2002; Hart and Sharma 2004; London and Hart 2004; Prahalad and Ramaswamy 2004; Hart 2005; Prahalad 2005; Hammond, Kramer et al. 2007).

Nevertheless, this stream of research can be regarded as relatively young and unexplored, although the situation is changing as more and more MNCs are considering expanding the market for their products by targeting low-income customers in developing countries. In many cases, when MNCs approach emerging markets, they focus mainly on the rising upper- and middle-class population (De Soto 2000), as these customer tiers are similar to those that such companies usually serve in developed countries (Hitt, Dacin, Levitas, Arregle and Borza 2000). For these companies, successful entry into financially constrained markets has traditionally entailed modifying an existing product into a less-sophisticated, lower-cost product to bring its cost in line with the anticipated purchasing power of the new market (Hart 2005). However, this strategy of exclusively lowering prices without adjusting the product or

[2] Henceforth, the notion market-based and BOP approach refers to the strategy of foreign MNCs to serve low-income markets in developing countries with products and services in contrast to simply out-sourcing operations to developing countries.

service to the specific needs of customers has caused many companies to fail when entering low-income markets (Prahalad 2005). Indeed, the needs and behaviours of potential customers in BOP markets are profoundly dissimilar to those of high-income markets due to fundamentally different living situations and habits. BOP markets cannot be considered a downgraded version of developed markets but need a focused product innovation to be successfully targeted (London and Hart 2004). Products and services that consider the unique needs of the BOP customer are, for example, water filters and point-of-use treatment solutions to purify drinking water, nutrition fortified food and drinks, solar-powered LED lighting, and high-tech home cook-stoves as well as microfinance and low-cost remittance systems (Hammond, Kramer et al. 2007).

To address these special needs, researchers suggest combining a company's advanced technology and global knowledge with a deep cultural understanding of the needs and conditions that people deal with in these markets (Hart 2005). Only the combination of the resources that are incorporated within the company with the local knowledge that lies outside the company will enable MNCs to develop contextualized products and services that provide real solutions to the people in these markets. Consequently, it does not prove feasible to copy traditional business models and focus exclusively on crucial issues for operating in developed markets, such as technology, intellectual property, or rule of law; nonetheless, many scholars focus on these factors when examining emerging markets (e.g. Arnold and Quelch 1998; Hoskisson, Eden, Lau and Wright 2000). Additionally, relying on traditional partners that act according to the global capitalist system and western approaches (De Soto 2000) is inappropriate to successfully operating in BOP markets as these partners often have the same limited view of the suitability and effectiveness of products for the new target customers (Stiglitz 2002). Only the interaction with partners familiar to the environment can provide MNCs with access to information on the local context and on people's real needs and habits (Hart and Sharma 2004; London and Hart 2004; Prahalad 2005).

The need to become socially embedded in the environment has been emphasised by researchers as a crucial condition for MNCs in BOP markets to benefit from the opportunities and resources that lie outside the company (London and Hart 2004; Hart 2005; Weiser, Kahane, Rochlin and Landis 2006). The capability of social embeddedness is considered by London & Hart (2004) as an additional capability that is the most important besides national responsiveness, global efficiency and worldwide learning as addressed in Bartlett &

Ghoshal's (1989) trans-national model. Nevertheless, literature on the BOP approach lacks answers as to how companies should be integrated into the social network with local partners in BOP markets. My dissertation addresses this question by combining network theory with empirical insights. This allows the examination of both the network configuration and the character of linkages that MNCs need to develop for different members in low-income communities according to the project's specific intention.

1.1 Purpose and Relevance of The Research Project

Theoretical and empirical work on the BOP approach is rare and deserves more attention because practical experience reveals difficulties in acting in this specific market (London and Hart 2004; Hart 2005; Prahalad 2005). Nevertheless, the BOP approach embodies an important discipline for future research in international strategy as it examines future sustainable growth opportunities of MNCs as a solution for reducing global poverty (Ricart, Enright, Ghemawat, Hart and Khanna 2004). The relevance and importance of the market-based approach in fighting poverty has just recently been emphasised by the granting of the Nobel Peace Prize to Mohammed Yunus and Grameen Bank for "their efforts to create economic and social development from below" (The Norwegian Nobel Committee 2006).

Prior research stressed the importance of social embeddedness, more specifically social relations to local partners, as a crucial condition for acting successfully in low-income markets (e.g., London and Hart 2004; Hart 2005; Prahalad 2005). Yet which kind of embeddedness is most suitable for MNCs in low-income markets has not been investigated – a gap in the literature that this paper aims to fill.

I examine the concept of social embeddedness in-depth from a theoretical perspective, emphasising the importance of social issues in business and the role of external relationships of firms, drawing from different theoretical frameworks such as the literature on corporate social responsibility, stakeholder theory, transaction cost theory, resource-based theory, institutional theory and social network theory. This allows explanations of the importance of social networks in these markets as well as insights into which type of ties MNCs could maintain to different organisations and members of the local community. Based on this knowledge, I develop a theoretical model relating different embeddedness configurations to the performance of strategic initiatives. The resulting hypotheses are in turn tested in an empirical study. This not only contributes to the literature on BOP, but also extends previous research on social networks by relating network concepts to the distinct environment of low-income communities in developing countries in Southeast Asia.

Besides these theoretical implications, my study additionally reveals interesting implications of practical use. As MNCs become more and more involved in the market-based approach in low-income markets, particular guidelines on how they can serve these markets successfully constitute valuable information for corporate leaders. Not only the suggestion that they *should* embed themselves in the local network, but also the answer to *how* they should achieve this is an important implication allowing MNCs to operate successfully in low-income markets.

I chose the specific context of Southeast Asia for three reasons. Firstly, the largest population of people living in poverty can be located in Asia. For example, over 70% of the rural dwellers worldwide without access to sanitation can be found in Asia (Asian Development Bank 2006). According to the World Bank (2005) nearly 60% of the population in Southeast Asia live under the poverty line of $2 USD per day. Hammond, Kramer et al. (2007) even depict the BOP market in Asia as substantially the largest: with an aggregate income of $3.47 trillion based on their calculation that the BOP market in Asia represents 83% of the region's population and 42% of its aggregate purchasing power - a significant share of Asia's rapidly growing consumer market. Thus, the approach of alleviating poverty through market-based approaches could be especially beneficial for regions where poverty is quite extensive. Secondly, the market-based approach in low-income countries can only be effective if the incentives for MNCs to enter these markets seem promising. The large BOP market in Southeast Asia with its substantial purchasing power offers an attractive new market for MNCs. Additionally, the Asian Development Bank has identified a strong correlation between economic growth and poverty reduction in Southeast Asia, which indicates that the market-based approach in these markets can be especially beneficial for MNCs, profiting from growth, and for the population, profiting from reduced poverty. Finally, in Southeast Asia, socially oriented business activity plays an important role in society (Seelos and Mair 2005). Examining the significance of social relations for the success of market-based strategies in these markets can reveal some interesting insights.

1.2 Research Strategy and Method

There are basically two methods available to investigate the topic in the present study, namely qualitative and quantitative research methods. While qualitative methods can gain rich and holistic data and allow the investigation of new and more complex situations (Bettis 1991; Miles and Huberman 1994; Weick 1996), they impede the establishment of reliable and generalisable results (Denzin and Lincoln 1994). Quantitative methods, on the other hand, provide greater objectivity and reliability, which facilitate the generalisability and comparability of results. Nevertheless, these methods might neglect tacit yet important factors that are necessary to interpret test results thoroughly (Snow and Thomas 1994). As no method is unconditionally superior but rather more appropriate in different research settings, Yin (1994) suggests considering the advantages and disadvantages of each approach in order to select the method that fits the particular research approach best.

The objective of my research is to gain insight into the interrelations of factors determining the success of social embeddedness and performance to explain how MNCs should embed themselves in low-income markets in Southeast Asia. Usually, when an academic field is emerging and lacking grounded theory, qualitative research can provide valuable theoretical bases examining this field (Eisenhardt 1989). However, my intention is to advance the emerging field of research on the market-based approach in low-income markets by transferring well-established theories and constructs to the field and combining them with the circumstances of the new research area in order to explain specific interrelations, thus enabling a better understanding of this relatively young approach. More specifically, I take the embeddedness construct from the network theory and put it into the context of MNCs serving low-income markets in order to investigate how MNCs should be embedded in these specific markets so that they can operate successfully. By adopting a well-established theory in a new context, I can shed light on how well known mechanisms work in a new context, and I can enhance this new research area with important insights. Although the research topic is, as yet, relatively untapped territory, the theories underlying my study are already well grounded. This allows the proposition of specific relationships between important variables. In the present study, I investigate the relationship between the embeddedness of MNCs in the local social network and the performance of strategic initiatives that MNCs are conducting in these markets.

Thus, this investigation explains causal relationships between existing constructs that are deducted from already mature theories. Therefore, I chose to adopt a quantitative research approach, as it is more appropriate for the specific objective of the present study.

In order to explain why and how the key variables are related (Eisenhardt 1989; Snow and Thomas 1994), I derive hypotheses from established theory that are consistently developed in the present study. A consistent theory must be developed on logical explanations (Whetten 1989). Therefore, I establish causal relationships between the studied variables where “logic replaces data as the basis for evaluation” (Whetten 1989, p.491). After this process of theory development, I test the derived hypotheses to examine if the proposed relationships are supported by empirical data. In the methodology section (Chapter 5), I explain, in detail, the research strategy followed in this study, including a description of the data collection process via online questionnaires and the chosen measures and statistical methods used to test the hypotheses.

1.3 Structure of this Study

The presented study is divided into seven sections. Subsequent to this introduction (Chapter 1), the emerging research area on the market-based approach in low-income markets is integrated into established research streams providing the theoretical foundation for this paper (Chapter 2). In the third section, I outline the characteristics of low-income markets in Southeast Asia emphasising the need for MNCs to become socially embedded in the local social environment (Chapter 3). Next, I build the theoretical model and derive the hypotheses to be tested in the study. These focus on the influence of possible network configurations and types of social ties on performance (Chapter 4). Therefore, the different network partners are introduced as well as a contingency framework to thoroughly explain the relationships. In Chapter 5, I describe in detail the adopted methodology, i.e. data collection and measurement of constructs as well as analyses and results. Thereafter, I discuss the results of the present study as well as its contributions and implications and indicate some limitations of the paper (Chapter 6). The study concludes with a final summary and statement (Chapter 7).

2. Theoretical Perspectives and Literature Review

The body of research on MNCs entering low-income economies and adopting a market-based approach is relatively young and hence limited. Integrating this stream of research into existing literature highlights the relation between this new research subject and established research topics. Roughly, two fields of literature can be identified with which the BOP approach can be associated. Adopting a social perspective, the BOP approach can be related to the literature examining the relation between business and society. As entering low-income markets can be considered a response to the public demand of social liability of corporations, and as it is additionally intended to have a strong effect on society, it is in accord with the baselines of literature on business and society. Thus, the basic assumptions of this line of research are also underlying constructs of the BOP approach. Therefore, I review the main aspects of the literature on the integration of social issues in business activities and emphasise the fundamental suppositions. From a different angle, the BOP approach can also be linked to the line of literature on business strategy in developing countries. This research applies established theories developed in the literature on strategy to the specific environment of developing countries. The BOP approach also fits this stream of literature and thus allows the application of these theories as it focuses on strategy in developing countries, albeit with a specific focal point of low-income markets. Figure 2 gives an overview of the main contributions in each stream of literature.

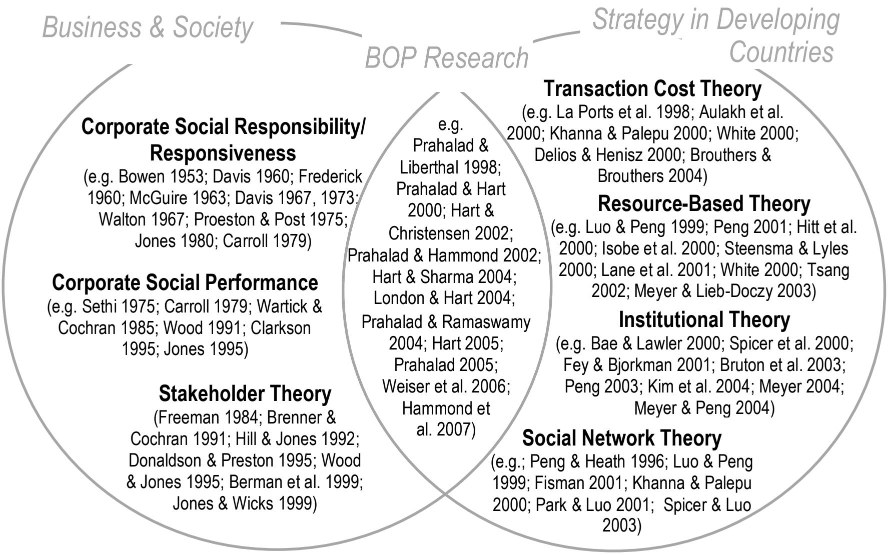

Figure 2: Overview of the literature on the BOP approach

The review of both streams of literature is revealing with regard to approaching the BOP research area from different angles and also relating it to a more established line of thoughts and theories. The underlying and sometimes overlapping assumptions of the outlined theories, especially with regard to external relationships, also hold true for the market-based approach in low-income markets. Thus, my argumentations in the following chapters will partly be based on these assumptions. In the following, I review the literature in the field of business and its responsibility towards society as well as on strategy in developing countries emphasising the main premises and arguments.

2.1 Social Issues in Business Activities

Nearly a decade ago, the debate about the relationship between the business activity of corporations and society first emerged (Friedmann 1962). After Friedman’s statement that the only obligation of business is to make profits, many scholars dedicated work to the topic of corporate social responsibility and corporate social responsiveness as well as the following integrative approaches of corporate social performance and shareholder theory. As the literature on this topic is varied and plentiful, only a short review will be provided in the following. It will serve to emphasise the main assumptions only to the extent necessary for the present study.

2.1.1 Corporate Social Responsibility and Corporate Social Responsiveness

Doubting Friedman's efficiency view stating that the exclusive purpose of business is business and that the social responsibility of business is to make profits (Friedmann 1962), academics founded a new stream of thinking based on the argument that there should be a closer relationship between business and society. The questions why corporations should be socially responsible and what it means to be socially responsible are the focus of research on 'corporate social responsibility' (e.g., Bowen 1953; Davis 1960; Frederick 1960; McGuire 1963; Davis 1967; Walton 1967; Heald 1970; Johnson 1971; Davis 1973; Preston and Post 1975; Jones 1980). Scholars argue that a corporation has not only economic and legal obligations but also social liabilities that exceed the traditional obligations of business (McGuire 1963). As consequences of business activities might affect the interests of society, corporations should consider ethical concerns besides economic intentions, even if these voluntary actions may involve costs (Davis 1967; Walton 1967). While this early literature was focussing on grasping the meaning of corporate social responsibility, later contributions in this field progressed to conceptualise it as they attempted to reach a more detailed classification of the concept (Abbott and Monsen 1979; Carroll 1979; Zenisek 1979; Tuzzolino and Armandi 1981; Dalton and Cosier 1982). Nevertheless, the amount of differing definitions led to an ambiguity regarding the notion of corporate social responsibility, which in turn makes its assessment rather difficult if not impossible and provides little guidance regarding suggested action (Ackermann and Bauer 1976). As Votaw (1973) puts it:

> *"The term is a brilliant one; it means something, but not always the same thing, to everyone. To some it conveys the idea of legal responsibility or liability; to others it means socially responsible behaviour in an ethical sense; to still others the meaning transmitted is that of 'responsible for', in a causal mode; many simply equate it with a charitable contribution." (Votaw 1973, p.11)*

Besides corporate social responsibility in the sense of congruence of corporate behaviour with social norms and values, the notion of corporate social responsiveness also emerged (e.g., Ackermann 1973; Blake 1974; Ackermann 1975; Sethi 1975; Ackermann and Bauer 1976; Sethi 1979; Strand 1983). Some authors see the emergence of corporate social responsiveness as an evolutionary step in the discussion around the social involvement of business (Murphy 1978; Sethi 1979) and as an advanced view compared to corporate social responsibility (Wartick and Cochran 1985), as this approach is rather more managerial than philosophical (Frederick 1978). The concept of corporate social responsiveness takes the importance of a social orientation in business even further by exceeding the mere consideration of social norms in business operations and adapting corporate behaviour to social needs (Sethi 1975). Consequently, incorporating social behaviour according to this approach denotes that corporations respond with their actions to existing social demands. With an even stronger formulation, Fitch (1976) regards solving social problems as the responsibility of companies. The market-based approach in low-income markets could be seen as an approach following this logic. Corporations try to enable poor populations in developing countries to participate in market transactions by providing products and services thereby alleviating poverty, one major social problem. But there still remains a major difference. Profitability - implicitly or explicitly always considered the main focus of business – and social responsibility were treated as two separate but compatible aspects in literature in this area. Other than in the BOP approach, corporate social responsibility and responsiveness regard distinct activities for gaining profitability on the one hand and responsibility regarding social matters on the other. Thus, classifying the BOP approach under the problem-solving corporate social responsibility understanding of Fitch (1976) neglects the idea that profitability can be gained *through* solving social problems and not exclusively *besides* solving them. Drucker (1984) incorporated this aspect into his definition of corporate social responsibility. He regarded the mere compatibility of profitability and responsibility as insufficient and proposed "to turn a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well-paid jobs, and into wealth" (Drucker 1984, p.62).

2.1.2 Corporate Social Performance

The concept of corporate social performance has emerged as a response to the ambiguity around the various terms and understandings on the topic of the social involvement of business (e.g., Sethi 1975; Carroll 1979; Wartick and Cochran 1985; Miles 1987; Wood 1991;

Clarkson 1995; Waddock and Graves 1997). Nonetheless, efforts made in trying to make social issues tangible in order to be able to measure corporate social performance had only limited success. None of the approaches made were accepted or consequently enhanced as an organising concept and formal theory among scholars in this field of research (Wood 1991; Jones 1995; Rowley, Behrens and Krackhardt 2000).

In particular, research on the link between corporate social performance and corporate financial performance is of theoretical as well as of highly practical interest. A variety of studies are concerned with this link as its proof would solve a major debate and lead to what Kofi Annan has claimed (2001), "a happy convergence between what your shareholders pay you for and what is best for millions of people the world over". These studies treat corporate social performance as an independent variable, which predicts financial performance as well as a dependent variable, which is predicted by financial performance and mostly found in a positive relationship between the social performance of a firm and its financial performance.[3] Why these results have not gained more attention in the public debate and in the business world is mostly due to the variety of rather intangible and imprecise measures of corporate social performance. While, on the financial side, performance is measured consistently with market and accounting measures, corporate social performance is fixed to a variety of factors that are hard to measure and mostly impossible to compare, such us the Fortune reputation rating (McGuire, Sundgren and Schneeweis 1988), forced choice survey instruments (Aupperle, Carroll and Hatfield 1985), content analysis of documents and case study data (Abbott and Monsen 1979; Clarkson 1991), the index from the Council of Concerned Businessmen (Sturdivant and Ginter 1977) and rankings from *Business and Society* (Moskowitz 1975). Each of these approaches has significant limitations. While the Fortune data set is considered biased toward the financial performance of firms rather than providing objective indicators of purely social performance (Fombrun and Shanley 1990), survey based approaches may create self-report bias. As Gatewood and Carroll (1991) pointed out, the validity of the indexes and ranking instruments depends substantially on the knowledge of the evaluators, which is difficult to judge and makes an objective measurement nearly impossible.

Nevertheless, these studies reveal that corporate social performance, although difficult to measure in an objective and comparable way, contributes to financial performance when the firm follows its traditional objective of maximising wealth (Margolis and Walsh 2003).

[3] For an overview of these studies see Margolis and Walsh 2003.

2.1.3 Stakeholder Theory

The stakeholder theory was introduced by Freeman (1984) to advance the possibilities of investigating the relationship between corporate social performance and corporate financial performance. As a result of differing theoretical assumptions and methodological proceedings, the analyses of this relationship conducted by many researchers (e.g., Alexander and Buchholz 1978; Shane and Spicer 1983; Aupperle, Carroll et al. 1985) revealed ambiguous results (Cochran and Wood 1984; Ulmann 1985; McGuire, Sundgren et al. 1988; Wood and Jones 1995). The stakeholder theory represents an approach to strengthen the understanding of the link between social and financial performance by recognising the implicit and explicit contracts that corporations have with multiple stakeholders (Freeman 1984; Donaldson and Preston 1995; Jones 1995; Ruf, Muralidhar, Brown, Janney and Paul 2001). The aim of the stakeholder theory is to understand the structure and dimension of a corporation's relationships to parties within the society so as to reveal to whom firms are responsible and how and why they should manage these relationships (Wood and Jones 1995; Ruf, Muralidhar et al. 2001).

Shareholders are therefore only one of the numerous stakeholder groups that companies must consider when making decisions (Clarkson 1995; Donaldson and Preston 1995; Jones 1995; Wood and Jones 1995; Mitchell, Agle and Wood 1997). According to Freeman's (1984) definition of stakeholders as "any individual or group who can affect or is affected by the achievement of the organisation's objectives" (p.46), groups typically referred to as stakeholders comprise - but are not restricted to - customers, suppliers, employees, local communities, governments and shareholders (Berman, Wicks, Kotha and Jones 1999). Wood and Jones (1995) emphasise three roles of stakeholders, i.e. setting norms for corporate action, experiencing the effects of corporate behaviour and in turn evaluating this behaviour (Wood & Jones 1995). Consequently, the firm is trying to manage its relationships to its stakeholders in order to meet the normative obligation to them and to channel the activities of the stakeholder to enable profit maximisation (Berman, Wicks et al. 1999).

The stakeholder theory was embraced by many scholars engaged in research on business and society, which led to a variety of contributions (Alkhafaji 1989; Preston and Sapienza 1990; Brenner and Cochran 1991; Goodpaster 1991; Hill and Jones 1992; Jones 1995; Jones and Wicks 1999). Despite differences in several perspectives, some basic assumptions and values are shared by all contributions in this field, i.e. the belief that all stakeholders have respectable demands, the rejection of ethical egoism, the concern for others, the compatibility of morality and capitalism, and the view that healthy and efficient capitalism requires a fairly high level of morality (Jones and Wicks 1999).

It can be concluded that the literature on social issues in business has been continuously advanced over the last few decades. Starting by incorporating thoughts of social responsibility for business, aside from the provision of goods and services, a more inclusive approach has been developed with corporate social responsiveness trying to align social and business goals and to include interests of various stakeholders in the stakeholder theory. While the attempts to make corporate social performance more tangible and therefore measurable have not been substantially successful until today, a basic positive relationship between social and financial performance became obsolete. The research on the market-based approach in low-income markets continues the efforts made in the field of social issues in business by predicting social as well as financial performance in cases where corporations focus on market-based and profit-oriented models in low-income markets.

2.2 Theories in Strategy Research on Developing Countries

In the literature on strategy and international business, growing importance is placed on developing countries. In trying to investigate and explain phenomena in this setting, researchers have applied traditional theories in their studies on developing countries. Hoskisson, Eden et al. (2000) and Wright, Filatotchev, Hoskisson and Peng (2005) provide a comprehensive overview of these studies. Besides the transaction cost theory, resource-based theory and institutional theory, with which different topics on developing countries have been investigated, the social network theory is being applied more recently in research on developing countries (Peng and Zhou 2005). In the following section, I present the main propositions of these four theories and emphasise their relevance and validity for developing countries, along with a brief review of literature that adopted the respective theory in the context of developing countries. To account for the focus of the present study on social embeddedness, I will additionally emphasise the assumptions made in the outlined theories regarding the establishment of external social linkages.

2.2.1 Transaction Cost Theory

The transaction cost theory deals with the ideal transaction mode of corporations arguing that organisations choose this best possible mode between the extremes of market exchange and hierarchy, which leads to the lowest possible transaction and production costs (Williamson 1975; Williamson 1985; Williamson 1991; Williamson 1993). Researchers in this area claim that there is a trade-off between the costs of transactions on the markets and the costs of organising the transactions hierarchically. Consequently, in cases where the transaction costs of markets are high due to high uncertainty, large asset-specific investments, and infrequent transactions among a small number of agents, organisations tend to avoid market transactions in favour of transactions that are more hierarchically arranged (e.g., Williamson 1985; Podolny 1994; Klein and Murphy 1997).

Besides the two extreme forms of market transaction and organisation, hybrid organisational forms exist as an intermediate form of governance. These transaction modes balance costs caused by possible market uncertainty on the one hand with administration costs of hierarchical forms on the other (Jarillo 1988; Kogut 1988; Williamson 1991). Network structures and strategic alliances are prominent examples of these intermediate governance structures (Jarillo 1988; Kogut 1988; Mitchell and Singh 1996).

The transaction cost theory was adopted in international management as a theory of internationalisation and mainly used to investigate organisational forms and foreign market entry (Dunning 1993; Wright, Filatotchev et al. 2005). Other research founded on the transaction cost theory in the context of developing countries deals, for instance, with diversification (Khanna and Palepu 2000), the impact of the environment on decision-making (White 2000), FDI and ownership levels (Delios and Henisz 2000), the impact of different kinds of uncertainty on service and manufacturing firms (Brouthers and Brouthers 2003), and successful business strategies by developed country exporters (Aulakh, Kotabe and Teegen 2000). The specific characteristics of developing countries play a pivotal role when adapting the transaction cost theory that evolved in the context of developed countries. As such, economic instabilities and weak market systems represent institutional voids that cause uncertainties. The lack of accurate information available in developing markets as well as weak legal mechanisms to enforce contracts are two key factors associated with high transaction costs for market-based transactions in the form of measurement and enforcement costs (La Porta, Lopez-de-Silanes, Shleifer and Vishny 1998; Choi, Lee and Kim 1999). Yet, as on the other hand the need for information is critical, intermediate governance structures are seen as the dominant strategy in developing countries. Network relations can provide an efficient organisation mode that reduces the uncertainty inherent in the business behaviour and environment in developing countries.

2.2.2 Resource-Based Theory

The resource-based view argues that firms possess resources and capabilities, which enable them to achieve and sustain a competitive advantage (Barney 1991; Barney, Wright and Ketchen 2001). Scholars suggest identifying, developing and deploying key resources that enable companies to maximise their value, which includes not only internal resources but also resources outside the firm's boundaries. According to the resource-based view, partnerships and network connections between organisations represent a way to aggregate, share and exchange resources to reach a resource configuration superior to the configuration of exclusively internal resources, especially in cases when corporations lack strategic resources or possess valuable resources to share (Eisenhardt and Schoonhoven 1996). The resources referred to in the resource-based theory are regarded as being valuable, rare, imperfectly imitable, and non-substitutable (Barney 1991). Accordingly, network resources (Gulati 1998; Gulati, Nohria and Zaheer 2000) and knowledge (Grant 1996; Kogut 2000) can be considered resources in the sense of a resource-based view point, whereas scholars of the knowledge-based theory emphasized knowledge as the most strategically significant resource of the firm (Grant 1996).

The resource-based view has gained importance in international business literature in the context of developing countries (Peng 2001; Peng 2001). Popular areas of research focus on entry strategies and partner selection (Hitt, Dacin et al. 2000), entry timing (Luo and Peng 1999; Isobe, Makino and Montgomery 2000), organisational learning in international joint ventures (Steensma and Lyles 2000; Lane, Salk and Lyles 2001; Tsang 2002), and post-acquisition integration (Meyer and Lieb-Doczy 2003). Besides, strategic flexibility has recently been capturing the attention of scholars adopting the resource-based theory to developing countries (Sanchez 1995; Uhlenbruck, Meyer and Hitt 2003). Strategic flexibility refers not only to resources but also to the ability of managers to coordinate these resources (Sanchez 1995; Uhlenbruck, Meyer et al. 2003). Due to constant change and uncertainty in the environment of developing countries, flexibility is regarded as an important success factor (Newman 2000; White 2000; White and Linden 2002; Uhlenbruck, Meyer et al. 2003). Additionally, by considering knowledge as a critical resource inherent in the external network, scholars have emphasised the particular importance of knowledge acquisition in the uncertain environment of developing countries (Peng and Luo 2000; Peng 2001; Batjargal 2003) where companies have to rely on external resources in order to have access to this knowledge.

2.2.3 Institutional Theory

How the political, social and economic system encircling organisations affects the activity and behaviour of those organisations is the subject of the institutional theory (North 1990; Scott 1995). The institutional theory suggests that the actions of organisations occur as a response to the conditions and pressures inherent in their environment. These are not only of a competitive and efficiency-based nature, but exist also in the form of social rules and expectations influencing the structure and behaviour of the organisations (Oliver 1997; Scott 2003). The interaction between firms and institutions (Harriss, Hunter and Lewis 1995), gaining legitimacy through conforming to social expectations (Baum and Oliver 1991) and the embeddedness of organisations are of concern for scholars in the area of the new institutional theory (Meyer and Rowan 1977).

As the development of the institutional system is a main characteristic of developing countries, the importance of this theory in strategy research on developing countries is not surprising (Meyer and Peng 2004). Continuous change of the formal and informal institutional rules in developing countries presents a unique challenge for organisations as they depend on the surrounding structures (Peng 2003). The unfamiliarity of the institutional surrounding makes market entry in developing countries especially difficult for companies from developed countries. Besides the need to understand and follow formal and informal rules, these companies are urged to establish legitimacy for their activities in these countries. To address this need, collaborations and social networks with organisations familiar with the institutional surroundings are established, thus enabling MNCs to gain legitimacy (Meyer and Rowan 1977; Powell and DiMaggio 1991; Scott 1995). Researchers investigated these aspects in various areas. Some focused on the experience and capabilities in unfamiliar environments in emerging economies (Meyer 2001) while others looked at human resource management practices in host countries (Bae and Lawler 2000; Fey and Bjorkman 2001). Meyer (2004) scrutinised MNC's spill-over effects in emerging economies, and May, Steward and Sweo (2000) concentrated on environmental scanning in developing countries while Spicer, McDermott and Kogut (2000) emphasized the importance of network linkages in developing countries. A popular focus is the importance of business groups and the positive and negative effect these can exert on the activity and performance of companies (Khanna and Palepu 2000; Bruton, Ahlstrom and Wan 2003; Kim, Hoskisson, Tihanyi and Hong 2004).

Thus, the institutional theory stresses the importance of the external network relationships of foreign MNCs to institutions familiar with the peculiarities of the institutional environment in the given market. Such networks enable MNCs to understand the common rules inherent in the business environment in order to gain legitimacy and operate successfully.

2.2.4 Social Network Theory

The work on social networks shifts the focus of the organisational theory from the behaviour of the individual organisation to the interaction between different organisations (Salancik 1995). The basic tenor of the social network theory is that organisations are embedded in social ties with other actors and that these networks influence the behaviour of the organisations (Granovetter 1985; Zukin and DiMaggio 1990; Burt 1992; Uzzi 1996; Dyer and Singh 1998; Gulati, Nohria et al. 2000; Rowley, Behrens et al. 2000). Podolny & Page (1998) characterise networks by the repeated and enduring exchanges and relations between the actors within the network. This rather broad definition includes a variety of network relations found in practice, e.g. intra-corporate relations at the firm level, strategic alliances, research and development consortia and business groups as horizontal inter-firm relations, buyer-supplier relations as vertical inter-firm relationship and government-sponsored technology programs as examples of cross-sector relationships. The social network theory assumes that the social context determines the strategic actions of organisations (Gulati 1999). As network ties comprise critical resources leading to a variety of benefits for the network partners that could not otherwise be gained, the importance of the network in which organisations are embedded is emphasised by researchers in this area (cf. e.g., Granovetter 1985; Gulati, 1998; 1999)

In turbulent environments, where formal institutional constraints such as market infrastructure and legal frameworks are under-developed or under-enforced, firms tend to share resources and information through cooperative relationships that promote innovation and new experiments in products and processes (Spicer, McDermott et al. 2000; Luo 2003). Developing markets present a distinct challenge for corporations from developed countries as information markets are often not fully developed thus making information not easily accessible. Ties to partners that possess crucial information or who are able to access information - e.g. on the formal and informal rules in these markets or consumer behaviour - are a valuable resource and facilitate substantiated decision-making (Luo and Peng 1999). Thus, the need for information in developing markets is met best by network relations between actors (Daft, Sormunen and Parks 1988; Boyd and Fulk 1996).

Studies based on the social network theory in developing countries examined, for example, the influence of firms' political connections (Fisman 2001), the benefits of affiliation with business groups (Khanna and Palepu 2000), the utilization and impact of guanxi on firm performance (Park and Luo 2001) and the network-based growth strategy building on trust and informal agreements (Peng and Heath 1996).

In summing up, all introduced theories could be well applied as strategies in developing countries accounting for the specific characteristics and inherent problems of these circumstances. While the BOP approach can be seen as the next logical step in the development of the research on business and society improving and integrating the thoughts of prior studies, in the line of strategy research, the BOP approach represents a specific new area, even within the field of developing countries. Nonetheless, the significance of the surrounding and the resulting implications holds also for the specific focus of market-based strategies in low-income markets. Yet, it is conceivable that more distinct factors influence this specific approach, which is examined in the rather recent literature that has been developing on market-based strategies.

3. Specificities of Low-Income Markets in Southeast Asia

Several scholars have suggested that the concept of embeddedness is an important factor when studying the behaviour of organisations that acknowledge the influential role of social relations in business (Zukin and DiMaggio 1990; Granovetter 1992; Grabher 1993; Gulati 1998; McEvily and Marcus 2005). To what extent and for which purpose social relations can be significant is mostly determined by the specific circumstances of the respective market. Therefore, in this chapter I outline the idiosyncrasies of low-income markets in Southeast Asia in order to reveal the challenges that MNCs face in these markets (3.1) and to disclose why social relations to local partners can assist in overcoming possible difficulties inherent in the market (3.2). Yet beforehand, it is important to clarify what the term MNC implies in the sense in which it is used throughout this study.

The term MNC has been widely used in international business research. Despite the fact that MNCs are the focus of innumerable studies, there exists no consistent definition in literature. Most commonly, MNCs are regarded as large corporations that conduct their business beyond the regulatory reach of their home country and that focus their vision, strategy and operations on many countries around the world. Dunning (1993) captures this comprehension in a concise definition that describes an MNC as an "enterprise that engages in foreign direct investment and owns and controls value-adding activities in more than one country" (p.3). Various approaches exist to further classify MNCs, mainly according to their levels of internationalisation, which quantitatively characterises the ratio of a corporation's national activity with its activities in other countries. Possible criteria to classify MNCs are the level or percentage of foreign assets, foreign investments, foreign operations, and foreign sales. In today's world, almost all firms are multinational to some degree, by exporting and importing raw materials or finished products; by employing foreign capital, people and processes; or by investing in foreign assets and having foreign shareholders. I refer to MNCs as corporations that have more than one subsidiary and have ventured into the focus market but with their headquarters outside developing countries in Asia.

3.1 Definition and Characteristics of Low-Income Markets in Southeast Asia

This chapter is concerned with the specific characteristics of low-income markets in Southeast Asia that constitute the need for MNCs to become embedded in the local social network, thus having critical impact on the strategy and behaviour of MNCs in these markets. The challenges these market characteristics constitute for MNCs are outlined along with the potential positive effects of social relations in tackling these obstacles.

3.1.1 Defining Low-Income Markets for this Study

The so-called base of the pyramid (BOP) approach, which refers to business opportunities in low-income markets, was first addressed by Prahalad (Prahalad and Hart 2000). He defined BOP markets by drawing on the classification used by the United Nations of least developed countries as economies with an income level below $1,500. Subsequent studies adopted this classification of the market; thus, no alternative categorisation has been adopted in literature (see e.g., Hart and Christensen 2002; London and Hart 2004; Hart 2005; Lodge and Wilson 2006; Weiser, Kahane et al. 2006). However, a recent publication by Hammond et al. (2007) adjusted the definition of the BOP population segment based on a detailed analysis of national household surveys, including not only low-income populations but also the lower-middle-income tier with annual incomes up to and including $3,000 of purchasing power parity in 2002. This definition yields a market comprising 4 billion people who constitute about 60% of the world's population and a $5 trillion global consumer market (Hammond et al. 2007). [4]

Not surprisingly, BOP markets can mainly be found in developing countries. The terms *developing country, emerging country, less developed country* or *third world country* are often used interchangeably as they are all, at least partly, defined by the absolute level of economic development measured by per capita income (Arnold and Quelch 1998). Other factors such as the degree of industrialisation or relative pace of development are sometimes used additionally, e.g. despite classifying all countries with high per capita income as developed countries, the World Bank identifies five high-income economies as developing countries because their economic structure is rather undeveloped with a low degree of

[4] See Appendix 1 for a detailed list of all BOP markets around the world

industrialisation[5]. However, for the purpose of studying business opportunities in low-income markets, the level of per capita income is the decisive factor. In the following, I use the term *developing country* using income as the only criterion for this classification. The BOP market as defined by Hammond et al. (2007) conforms, to a large extent, to the classifications of the United Nations and the World Bank's perception of low-income and lower-middle-income economies.[6] However, the definition of the BOP market is even more precise. While the criterion of income per capita used to classify countries constitutes an average factor, it reveals no information regarding the distribution of income. Although the average income per capita might be relatively low, there are still considerable income differences within these countries. The definition of the BOP segment accounts for these differences in income. Within these low-income and lower-middle income countries, it only focuses on the low-tier population who live on less than $3000 per year rather than considering the population as a whole. In the present study, I focus geographically on BOP markets in Southeast Asia, of which Indonesia and Thailand are the bases for my empirical study. Consequently, I refer to BOP or low-income markets as the population segment living on less than $3000 per year in low- and lower-middle-income countries in Southeast Asia.

	BOP population (millions)	BOP share of total population (%)	BOP income (millions) PPP	US$	BOP share of total income (%)
Asia	2,858	83.4	3,470,000	742,000	41.7
Bangladesh	144	100	142,293.9	29,187.9	100
China	1,046.2	80.8	161,127.6	32,986.1	55.2
India	1,033.9	98.6	93,710.1	16,962.1	92.7
Indonesia	213	97.8	24,035.8	6,177.1	92.2
Malaysia	19.2	80	38,072.3	16,274.6	43
Nepal	23.4	95	22,981.7	3,736	74.2
Philippines	23.6	30	56,023.7	13,096.4	10.8
Sri Lanka	17.1	90	21,788.9	5,325.2	67.3
Thailand	46.6	75	79,632.7	23,383.6	46.7
Vietnam	76.2	95	84,582.8	16,003.3	82.9

(Hammond et al. 2007, p.111)

Figure 3: BOP markets in Asia

[5] These countries are Hong Kong, Israel, Kuwait, Singapore, and the United Arab Emirates.

[6] The World Bank defines low-income economies by an income below $875 and lower-middle income between $876 and $3465, whereas the United Nations classify least developed countries with an income below $1500 and low-income countries with an income between $1501 and $3000.

Indonesia and Thailand are both classified as lower-middle-income economies according to the World Bank classification (World Bank 2006). In Indonesia, 99% of the population can be regarded as potential customers in the BOP. As shown in figure 3, more than half of the population is in the BOP 1000 segment, disposing of an income of between \$500 and \$1000 per year.

INDONESIA
Total national household market \$214,912.1 million
Population 208.6 million
Households 52.1 million

BOP segment	Population: **Total** (millions)	**Share** (% of national)	**Urban** (% of segment)
BOP 3000	2.1	1.0	98.3
BOP 2500	5.0	2.4	96.2
BOP 2000	12.8	6.1	86.8
BOP 1500	35.6	17.1	70
BOP 1000	108.3	51.9	39.5
BOP 500	42.9	20.6	17
BOP total	206.8	99.1	45.1

(Hammond et al. 2007, p.129)

Figure 4: The BOP market in Indonesia

In comparison, Thailand presents a different picture. While in Indonesia the lower BOP tiers are relatively more extensive than the upper tiers, in Thailand the emphasis is rather on the middle and higher tiers. The BOP 500 makes up only 0.7% of the population while more than half of the population lives on an income of between \$1000 and \$2500 a year. Another major difference between the BOP markets in these two countries is revealed when examining the share of the BOP market in urban compared to rural regions. While only 18% of the total BOP market is located in urban areas in Thailand, up to 45% of the BOP population can be found in municipal areas in Indonesia. Therefore, MNCs in Thailand face scattered rural communities when serving BOP markets, whereas potential BOP customers in Indonesia are more likely to be found in urban shantytowns.

THAILAND
Total national household market $163,832.5 million
Population 57.4 million
Households 11.4 million

BOP segment	Population: Total (millions)	Share (% of national)	Urban (% of segment)
BOP 3000	24.8	8.4	42.7
BOP 2500	6.8	11.8	30.9
BOP 2000	9.7	16.8	18.6
BOP 1500	12.9	22.5	11.4
BOP 1000	8.7	15.1	6.6
BOP 500	0.4	0.7	2.4
BOP total	43.3	75.4	18.5

(Hammond et al. 2007, p.146)

Figure 5: The BOP market in Thailand

Overall, the total BOP market in Indonesia is more than four times as big as the BOP market in Thailand. I chose to examine the two BOP markets of Thailand and Indonesia in the empirical part of my study simply because of the differences they exhibit, i.e. market size, rural and urban location, and lower and higher BOP tier. In this way, I can disclose if the results of my study are influenced by the fact that the markets differ or if my argumentation is valid for a wide range of BOP markets.

3.1.2 Characteristic: Low Income and Poverty

According to the definition of low-income markets, their main characteristic is the potential customers' modest income which amounts to less than $8 USD a day. As most MNCs have not operated in impoverished markets before, entering low-income markets represents an unfamiliar challenge. Offering low prices to make goods and services affordable for the target group while generating worthwhile financial returns is a complex task. Instead of merely cutting prices by reducing product features, MNCs are challenged to create price-performance relations that are radically different from those in developed countries (Hart 2005; Hammond et al. 2007). These markets demand a focus on the reduction of capital intensity to reap profits with low margins as the prices per unit are compelled to be affordable for low-income customers (Prahalad 2005). The profitability is achieved by selling huge quantities of products at low margins, contrary to top of the pyramid markets where units with high margins are sold in modest quantities (Prahalad 2005). Accordingly, the focus of MNCs must rather be on the effective use of capital in the form of price performance improvements than on gross margins.[7] Competing in BOP markets, where radically lower cost structures are essential, is a powerful source of learning that can eventually translate into potential supply chain efficiencies in both manufacturing and services even in established markets (Prahalad and Hammond 2002). Additionally, as the availability of spending money is quite low, customers in low-income markets tend to buy small amounts of goods more frequently instead of spending higher amounts of money in small time intervals (Prahalad 2005). Thus, in addition to the need of packaging products in single-use or other small units in order to make them affordable to the BOP, MNCs have to be able to handle a significant number of small transactions. This is pertinent for MNCs operating not only in the fast-moving consumer goods sector, but also in the food and communication sectors (pricing voice or text messaging in small units or offering internet access for short time periods) (Hammond et al 2007).

Due to the poor environment, the needs and values of consumers in low-income markets are in many ways structurally different from those of customers in developed markets. Often the rough conditions in low-income markets as well as the poor living conditions of the people there require specialised products and high quality technologies, i.e. to preserve nutrition and prevent perishability without refrigeration. Innovations are needed to tailor products and services to the needs of the low-income population and to offer the functionalities needed to get along with the conditions in the environment (Prahalad 2005). Such innovations can also be beneficial for a company’s operations in developed markets as these could lead to dramatic improvements in costs and quality (Hart and Christensen 2002). Innovations made for local peculiarities can mostly be transferred to other low-income markets around the world as similar requirements for products are demanded throughout low-income markets in different countries, which constitutes a global opportunity for local innovations (Prahalad 2005).

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[7] For example, Unilever is active in India with its subsidiary Hindustan Lever Limited (HLL), which produces several items for the top of the pyramid market as well for the BOP. With its soap for the higher-income population, it gained sales of $180 million with a gross margin of 25% and return on capital employed of 22%, as compared to its BOP product with $100 million sales, a gross margin of 18% and return on capital employed of 93% which reflects the importance of capital efficiency in the BOP market (Prahalad 2005).

The most suitable way for MNCs to approach low-income markets is therefore to identify commonalities across these markets that impact consumer behaviour and then to design strategies for these markets as a group (Dawar and Chattopadhyay 2002).

3.1.3 Characteristic: Informal Economy

Low-income markets usually lack an efficient formal market system and exhibit large informal economies (Hart 2005; Prahalad 2005; Hammond, Kramer et al. 2007). As opposed to developed countries, where the average size of the informal economy accounts for 18% of GNP, the informal market in developing countries is more than twice as big and constitutes 41% of GNP (Schneider 2002). The reasons for entrepreneurs in developing countries tending to participate in the informal rather than the formal economy are fundamentally different from those found in the developed world (London and Hart 2004). In developed countries, the much smaller informal economy exists primarily to evade taxes (The Economist 1999). In contrast, the main reasons for not entering the formal economy in the developing world are the costs and complications associated with joining the formal market system since registering a business in most developing countries is a time consuming and costly task (De Soto 2000). The International Labour Organisation (2002) believes that more than 70% of the workforce in developing countries operates in the informal economy.

Besides entrepreneurs avoiding the formal economy, established companies from the formal sector shy away from low-income markets, too. This is because such markets are not considered attractive due to the low incomes of potential customers and the large proportion of informal transactions in the market. Consequently, there is no strong formal economy developing. This in turn forces low-income communities to rely on a limited number of suppliers and their arbitrary prices that are only possible where no efficient market system exists (Prahalad 2005). This results in the paradoxical situation that low-income consumers, usually served by small companies and the informal sector, tend to pay higher prices for the same products and services than consumers of higher income levels. This poverty premium paid by low-income customers for goods and services is generated by inefficiencies in access to distribution, traditional intermediaries and local monopolies (e.g., Pannarunothai and Mills 1997; Fabricant, Kamara and Mills 1999; McIntosh 2003). MNCs' entrance into the market can potentially improve competition, lower prices and increase consumer choice, conceivably with products and services that were previously unavailable or unaffordable.

Cost differences in low-income Dharavi and high-income Warden Road in India

Cost	Dharavi	Warden Road	Poverty premium
Annual interest for credits	600%-1000%	12%-18%	53
Municipal grade water (per cubic meter)	$1,12	$0,03	37
Diarrhea medication	$20	$2	10
Rice (per kilogram)	$0,28	$0,24	1,2

(Prahalad and Hammond 2002)

Figure 6: Poverty premium paid in low-income markets

The difficulty for MNCs caused by the large informal economy in low-income markets is the missing link between the formal and informal economy. In order to successfully operate in low-income markets, MNCs must be able to bridge the formal economy in which they operate and the informal sector in which their potential suppliers and customers live. As informal economies are characterised by being grounded primarily on social contracts as opposed to legal contracts that are essential in the formal sector (De Soto 2000), a promising way to connect to these economies is the establishment of ties between the MNC and actors within the informal sector or actors that already have connections to this sector, such as NGOs and other local organisations.

3.1.4 Characteristic: Deficient Infrastructure

The term infrastructure refers to the institutional conditions in the market, the channels to access information and the physical means of connectivity in order to access markets.

Institutional infrastructure

The institutional infrastructure of markets in developing countries is rather weak and therefore characterised by institutional voids, as outlined above (Khanna and Palepu 2000). A market characterised by weak specialised intermediations, such as legal rules, generates market failures and increases the cost of doing business. Consequently, in low-income markets, the emergence of opportunism is ubiquitous as legal contracts can hardly be enforced due to the weak legal infrastructure (Peng and Zhou 2005). Thus, MNCs used to operating in developed markets based on strong legal systems have to adapt the way of doing business in order to operate efficiently despite the difficulties provided by the market infrastructure. Leveraging social ties and relational contracts can function as alternative governance mechanisms to reduce the uncertainty that is common in low-income markets (Peng and Heath 1996). Therefore, trust and reputation built in social networks are especially important mechanisms where the institutional regulations are weak.

Infrastructure to access information

The knowledge needs of MNCs in low-income markets not only relate to general knowledge of the local economy, politics and customs but also include knowledge regarding operating conditions, factory regulations and, most importantly, knowledge of customer needs and habits as well as marketing methods. Information regarding customer needs and behaviours are easily accessible in the developed markets with which MNCs are familiar. Well-established market research processes conducted by the company in addition to easily accessible information provided by market research institutions both supply MNCs with the critical information necessary to design products and services suitable for target customers. Conversely, accurate knowledge about potential consumers - their needs and habits - is not readily available in low-income markets (Grosh and Glewwe 1995). The limited access to potential customers and the absence of market research institutions constitute major obstacles to MNCs serving these markets successfully (Prahalad 2005). Without knowledge of the customers, who are fundamentally different from their traditional customers, it is nearly impossible for MNCs to design products and services that these customers actually need and appreciate (Letelier, Flores and Spinosa 2003). Thus, for MNCs to gain this critical knowledge, they need to access alternative sources, namely local partners. Entrepreneurs, communities and other locally operating organisations possess the necessary knowledge of customers and the experience in the market processes that foreign MNCs lack. Therefore, by engaging with local partners, MNCs can overcome the obstacle of lacking knowledge of the market and can access the local market intelligence of their partners.

Infrastructure to access markets

Infrastructure in the sense of physical connectivity through roads or communicational means, i.e. mail service or telephone lines, is rather underdeveloped in low-income markets. Especially in rural regions of developing countries, customers are scattered and transport capabilities restricted. Around 75% of the population in low-income developing countries live in rural areas compared to an almost equal percentage of people in developed countries living in urban areas (World Bank 2006). Problems of access are particularly severe in rural areas located far from roads that are regularly used for motorised transport services. A lack of roads or railways makes it difficult and costly for MNCs to transport raw materials to factories and their finished products to the market. An estimated 900 million rural dwellers in developing countries are without reliable access to transportation (World Bank 2006), representing the immense number of potential customers MNCs have restricted access to because of infrastructural weaknesses. The distribution of products and services is especially difficult in low-income markets as the weak infrastructure complicates the possibilities of MNCs to make their goods available to potential customers (Prahalad 2005). This could result in costly distribution processes if MNCs rely on traditional ways of conducting business. In addition to the problem of physically distributing the actual product, the marketing activities are fairly restricted because MNCs have limited options to provide customers with information on products and services. Thus, advertising campaigns through magazines, radio or television have limited success in low-income markets, as potential customers simply do not have access to these communication channels. Also in this case, links to local partners who are used to the environment and possess particular knowledge can assist MNCs in overcoming the restricted accessibility of potential customers.

3.1.5 Specific aspects of Asia

Low-income markets around the world basically share the characteristics outlined above. However, specific cultural traditions, values and beliefs in the Asian culture determine the behaviour of people in general and business interactions in particular. For companies, especially from western countries entering markets formed on eastern cultural mores, it is crucial to understand the differing cultural habits regardless of whether these markets are developed or still developing. Moreover, in low-income developing markets where people are distant from foreign cultural influences, cultural values and traditions will be even more present in people’s behaviour than in developed markets.

Trying to identify the cultural peculiarities of Asia as a whole is an impossible task to accomplish as the Asian region consists of a variety of heterogeneous cultures that exhibit different cultural characteristics. The immense cultural diversity and the long-standing religious, political, ethnic and linguistic division in the region contradict a definition of distinctly 'Asian Values' that characterise the nature of all social life across the Asian region (Sen 1997). Nevertheless, one generic characteristic shared by most of the Asian cultures is said to be the importance of social ties between people on any level, between family members, friends, community members and colleagues as well as between organisations. According to Needham (1956), the Chinese psyche believes that people are always considered as embedded in ongoing relationships and can never be abstracted from their societal net of relations. Every person is related to other actors and thus a part of multiple networks (Fei 1992). This in turn entails that each individual be simultaneously responsible for the order within multiple networks. Likewise, morality is embedded in social relationships in the sense that the responsibility of the single actor leads to mutual surveillance as an essential part of the institutionalisation of social relationships in Asian societies (Biggart and Hamilton 1992). Group orientation and the belief in the importance of the community are considered the foundation of Asian societies (Inoguchi and Newman 1997). High levels of social interaction create social cohesion and social capital for the individual who is not an isolated being, but a member of a society leveraging the opportunities that such networks and associations represent (Koh 1993) This relational logic leads to a society that is based on social networks. Every institutional sphere, including the economy, is based on a structure of relationship networks (Fei 1992). Thus, social relationships are institutionalised in Asian societies in the same way as individualism is in western societies (Biggart and Hamilton 1992). Asian economies are organised through networks of economic actors based on the high value of social relations in contrast to the competitive individualism institutionalised in western market structures (Biggart and Hamilton 1992). The associative thinking inherent in the Asian culture formed the network structure of Asian capitalism, in which collectivism has considerable significance (Needham 1956).

Using Hofstede's Individualism Index, countries can be compared with regard to the relative importance of individualism versus collectivism within the society (Hofstede 1997). Individualism indicates the degree to which people in a society are integrated into social networks and the extent to which social ties between individuals are loose versus integrated into strong, cohesive groups. Countries with a high score of individualism are characterised by loose ties between individuals while on the other side a low score of individualism points to the importance of social networks between individuals in society (Hofstede 1997). The following table shows the scores of the Individualism Index of 50 countries and 3 country regions.

Position	Land or Region	IDV-Scores
1	USA	91
2	Australia	90
3	Great Britain	89
4/5	Canada	80
4/5	Netherlands	80
6	New Zealand	79
7	Italy	76
8	Belgium	75
9	Denmark	74
10/11	Sweden	71
10/11	France	71
12	Ireland	70
13	Norway	69
14	Switzerland	68
15	Germany	67
16	South Africa	65
17	Finland	63
18	Austria	55
19	Israel	54
20	Spain	51
21	India	48
22/23	Japan	46
22/23	Argentina	46
24	Iran	41
25	Jamaica	39
26/27	Brazil	38
26/27	Arabic Countries	38
28	Turkey	37
29	Uruguay	36
30	Greece	35
31	Philippines	32
32	Mexico	30
33/35	East Africa	27
33/35	Yugoslavia	27
33/35	Portugal	27
36	Malaysia	26
37	Hong Kong	25
38	Chile	23
39/41	West Africa	20
39/41	Singapore	20
39/41	Thailand	20
42	El Salvador	19
43	South Korea	18
44	Taiwan	17
45	Peru	16
46	Costa Rica	15
47/48	Pakistan	14
47/48	Indonesia	14
49	Columbia	13
50	Venezuela	12
51	Panama	11
52	Ecuador	8
53	Guatemala	6

(Hofstede 1997, pp. 66/67)

Figure 7: Hofstede's Individualism Index

Individualism prevails in developed and Western countries, while collectivism is common in less developed and Eastern countries. Looking at the countries of Southeast Asia, it becomes obvious that they are all ranked at the lower end of the table with low scores of individualism. The Philippines are the most individualistic of the Southeast Asian countries with a score of 30 out of 100, while Indonesia represents the most collectivist society of these countries with a score of 14 as the 6th most collectivist country of all those listed in the table. The relatively low scores of Southeast Asian countries on the Individualism Index indicate the importance of social relations in these societies. This fact makes it especially interesting to investigate the social embeddedness phenomenon of MNCs in low-income markets in Southeast Asian countries, as social ties are an essential part of market and business interactions in these societies (Biggart and Hamilton 1991).

3.2 Conclusion: Importance of Social Relations

The outlined characteristics reveal the difficulties foreign MNCs need to overcome in order to operate successfully in low-income markets, resulting in the need to adapt business strategy and operations accordingly. A common solution allowing MNCs to master the challenges provided by the new foreign market is collaboration that are based on social relations with local partners (London and Hart 2004; Hart 2005; Weiser, Kahane et al. 2006). Considering the peculiarities of the market, two main reasons why it is crucial for MNCs to engage in local social networks when applying a market-based strategy in low-income markets in Southeast Asia can be identified: external conditions and internal resource needs.

Firstly, institutional weaknesses in the form of limited legal and regulatory frameworks and the uncertain business environments of low-income markets in Southeast Asia provide conditions that make relying on in-personal and contractual market transactions rather costly compared to leveraging social relations. These costs are mainly determined by the legal infrastructure, which is usually not well-established in developing countries and under continuous change (Peng 2003). Thus, the existence of institutional voids in low-income developing countries is commonly associated with a substantial utilisation of social relationships (Peng and Heath 1996). Both the transaction-cost theory and the institutional theory suggest the formation of social relations with other organisations in such an uncertain and institutionally weak environment (Meyer and Rowan 1977; Powell and DiMaggio 1991;

Scott 1995; La Porta, Lopez-de-Silanes et al. 1998; Choi, Lee et al. 1999). Social ties and relational contracts reduce uncertainty and the opportunism arising from the weak regulatory system (Peng and Zhou 2005). Additionally, the importance of social relations in Southeast Asian countries facilitates operations if those operations are also based on social relations because this allows for the utilization of existing social networks. Grameen Bank, for example, built its successful micro loan business model on existing social relations in communities. Based on the morality and responsibility inherent in social ties between community members, Grameen Bank offers loans to groups of customers so that the social pressure of maintaining the order in the network serves as security for the loan (Yunus 2003). Default rates are extremely low, less than 1.5 % among 2.5 million customers (Prahalad 2005). The key to this strategy is to engage local people and leverage the strength of the environment to become truly embedded in the local context (London and Hart 2004).

Second, the need to become socially embedded also arises from the perspective that the resources MNCs exhibit within firm boundaries are not sufficient to operate successfully in foreign low-income markets. Local intelligence and crucial knowledge lie outside firm boundaries and are only accessible through social networks (Gulati 1998; Hart 2005). The interaction with partners familiar with the environment of low-income markets are thus essential for MNCs to access crucial knowledge on the local context and to overcome their foreignness, enabling MNCs to gain legitimacy in the market (Prahalad 2005; Hart 2005). This argumentation is in line with the reasoning of the resource-based theory and social network theory outlined in Chapter 2.2. Hart (2005) emphasises the importance of building social relations by suggesting consideration of the business environments of low-income markets and their idiosyncrasies as bases for creating a competitive advantage, assuming that the critical knowledge for success lies beyond the firm's boundaries. Internally missing resources of MNCs in low-income markets constitute various needs that can be met by local partners. Procter & Gamble, for example, recognised that its own competencies lie in product marketing, science-based product development, quality assurance and up-market distribution (Hart 2005). Experience proved that these capabilities are not sufficient to successfully enter low-income markets. Thus, the company joined forces with local partners to handle local production, ensure down-market distribution and tackle the educational elements of the business.

The main resources needed by MNCs that can on the other hand be provided by local partners are access to knowledge and markets, which are crucial for R&D, supply, distribution and marketing.

Research & Development (R&D)

Missing knowledge regarding customer needs makes R&D activities especially difficult for MNCs in low-income markets because the weak institutional infrastructure restricts the research possibilities that MNCs usually deploy. The lack of knowledge and experience in the market, combined with the limited availability of information due to the weak institutional infrastructure, constitutes the need for appropriate network connections. The failed attempts of MNCs at introducing products developed for high-income markets into low-income markets show how important local knowledge is for successful product development (Prahalad 2005). Suez, a utility company providing water, sanitation and energy, successfully expanded its services into low-income markets by cooperating with local development NGOs that were familiar with the customer needs in the specific markets (World Business Council for Sustainable Development 2004). Leveraging the knowledge and expertise of these organisations allowed Suez to learn about the needs and habits of the poor communities in which the business was operating. In this way, Suez was able to adapt its business model accordingly to deliver more effective services and at the same time to mitigate risk by possessing a deeper understanding of the operational context. In another example, Hindustan Lever Limited requires its managers to spend six weeks living in rural areas to generate knowledge about the hygiene needs and practices of the rural poor (Hart and Sharma 2004). This knowledge has not only resulted in new product ideas such as a combined soap and shampoo bar, but also in the idea of street theatres for promotional and educational purposes (Hart and Sharma 2004).

Supply

The supply in low-income markets by MNCs can either be organised through the global supply chain of the MNC or by leveraging local supply opportunities. Even though raw material can be sourced globally, a local network of suppliers can create considerable long-term benefits for the company (London and Hart 2004; Hart 2005; Prahalad 2005; Weiser, Kahane et al. 2006). Local supply sources can offer less costly and faster direct access to needed resources when compared with relying on the global supply chain. Through the interaction with local suppliers, MNCs gain invaluable insights into the way local operations are conducted and into possible peculiarities of a specific local context. Apart from operational benefits, MNCs can support the legitimacy of their activities in the market by relying on local resources and institutions as this proves the intention of enhancing the local economy. Supporting the establishment of an efficient local supply chain affects, in addition to MNC's access to new sources of supply, the development of the local economy and thus the value of the location from which MNCs will benefit in a long-term view. Resulting effects on the reputation of the MNCs in the local market as well as in other markets represent additional benefits that can also lead to performance effects (Prahalad 2005).

Distribution

Another important factor often hindering successful operations of MNCs in low-income markets is the difficulty of market access caused by the deficient infrastructure of the local environment along with the foreignness of MNCs to the market. Facilitated access to local markets, effective distribution channels to reach widely spread and poorly connected customers, and gaining legitimacy for initiatives in the local market are important needs that can be satisfied by local partners. CARE worked with women micro-entrepreneurs in 50 villages to organise a bargaining unit - Village Women's Enterprise Bangladesh (WEB) - that could purchase shoes from Bata Bangladesh at wholesale prices and then act as distributors at the village level (World Business Council for Sustainable Development 2004). Because of their local knowledge, the women in each village were able to access hidden markets, thus overcoming barriers to distribution that Bata had previously not been able to circumvent. As a result, the women micro-entrepreneurs have gained economic empowerment which has raised their status in their communities and doubled their incomes; Bata has gained access to a market that was previously inaccessible; and thousands of rural Bangladeshis have been able to gain access to a needed consumer product at a much lower price. But also in urban areas, using traditional distribution channels might not be suitable to reach the target group since the target customers live in distinct areas in cities that are again difficult to reach. Nike, for instance, experienced with its World Shoe project that sticking to traditional distribution channels was not a successful strategy for reaching low-income customers (McDonald, London and Hart 2002). Nike designed an athletic shoe for low-income customers ($10-$15 per pair) to be sold in China, but relied on its high-end retailers in big cities to sell this new product. This led to the impractical situation where the low-end World Shoe stood side by side with the expensive high-end products Nike usually sells. Without linkages to local distributors who can cope with a weak infrastructural environment and direct and constant contact with customers, MNCs will probably fail to reach these target groups in these markets. Local distributors drive distribution between nearby communities often finding unconventional means for distribution (Sanchez, Rodriguez and Ricart 2005). Relying on such unconventional yet efficient, the low-cost distribution channels of local partners can secure the availability of products in low-income markets.

Marketing

The marketing activities of MNCs are dependent on the access to potential customers as well as on the openness of customers to the provided information. Contact to customers through community groups or NGOs provides an alternative channel of communication enabling MNCs to market their products. Additionally, low incomes and the limited offerings available to potential customers lead to the absence of needs for particular products, making a considerable effort in education necessary to market products. For example, in many low-income countries, the use of sanitary goods is not common although it could substantially reduce the prevalence of water-born diseases caused by low hygiene standards, which can account for a considerable number of deaths in developing countries (Prahalad 2005; World Health Organization 2007). Thus, ways have to be created that enable MNCs to demonstrate the advantages of such products to potential customers. This is best done by building a network of local partners that are trusted by potential customers to satisfy educational needs. Such educational campaigns in cooperation with local partners helped Procter & Gamble to raise awareness among the targeted communities on topics such as unsafe drinking water or "hidden hunger"[8]. This in turn created demand for the products Procter & Gamble developed to help solve these problems (World Business Council for Sustainable Development 2004).

Lacking knowledge on which products and services customers demand and how to market these products to reach the customers are two of the main reasons why MNCs fail in low-income markets (London and Hart 2004; Hart 2005; Prahalad 2005; Weiser, Kahane et al. 2006). Establishing network ties with a diversity of insiders enables MNCs to gain a deep understanding of the local market and become a part of the local landscape, which in turn

[8] "Hidden hunger" describes a disturbed physical and intellectual development of children caused by missing essential micro-nutrients like iodine and iron

leads to trusted relationships in local communities enabling the company to acquire critical knowledge (Granovetter 1985). Social embeddedness allows MNCs to build on social capital and constitutes a competitive advantage, as it cannot be duplicated easily by potential competitors (Gulati, Nohira and Zaheer 2000).

4. Theoretical Model and Hypotheses

In the previous part I have outlined *why* it is crucial for MNCs to become socially embedded in the local network. In this part of the paper, I outline *what* social embeddedness entails and *how* MNCs should be embedded in the local social network. First, I define social embeddedness and the relevant network partners (4.1). Then, I introduce a contingency approach, which determines the favourability of distinct embeddedness configurations, based on which I derive hypotheses proposing the different influences of embeddedness on performance (4.2).

4.1 Social Embeddedness

In this study, the connectedness of MNCs with local partners via social relations is conceptualised by the notion of social embeddedness. This concept has been used in several studies on intra- and inter-firm social networks, alliances and social capital (e.g., Zukin and DiMaggio 1990; Uzzi 1996; Uzzi 1997; Dacin, Ventresca and Beal 1999; Gulati and Gargiulo 1999; Gulati, Nohria et al. 2000; Rowley, Behrens et al. 2000; Gnyawali and Madhavan 2001; Andersson, Forsgren and Holm 2002). In the following section, I introduce the embeddedness concept in more detail starting by discussing its fundamentals and defining embeddedness in the context of this study. Then, the potential local network partners for MNCs are introduced. Thereafter, I present different dimensions of embeddedness that allow the subsequent analyses of embeddedness and its effects on performance.

4.1.1 Defining Social Embeddedness

The concept of embeddedness is based on the idea that corporations are connected to other actors via linkages of a social network (e.g., Granovetter 1985; Zukin and DiMaggio 1990; Burt 1992; Uzzi 1996; Dyer and Singh 1998; Gulati and Gargiulo 1999; Gulati, Nohria et al. 2000; Rowley, Behrens et al. 2000; Gnyawali and Madhavan 2001). A firm's network and each of its linkages to other actors is considered as a resource in itself (Andersson, Forsgren et al. 2002). The foundation of this concept is the assumption that the behaviour of organisations cannot be considered independent from the social surroundings, but rather it is influenced by the social relationships organisations hold to each other (Gulati 1999). As stated by

Granovetter (1985, pp. 481/482) “the behaviour and institutions to be analyzed are so constrained by ongoing social relations that to construe them as independent is a grievous misunderstanding”. Numerous scholars have investigated the embeddedness perspective in various settings, such as value creation (Moran and Ghoshal 1996; Nahapiet and Ghoshal 1998; Tsai and Ghoshal 1998; Tsai 2001), inter-firm alliances (Gulati 1998; Gulati and Gargiulo 1999; McEvily and Marcus 2005), entrepreneurship (Larson 1992; Hite 2003; Simsek, Lubatkin and Floyd 2003), strategy (Baum and Oliver 1992; Uzzi 1997; Dyer and Singh 1998; Andrews and Knoke 1999; Powell, Koput, Smith-Doerr and Owen-Smith 1999) and managerial performance (Galunic and Moran 2000; Gargiulo and Benassi 2000).

It is argued that the social network a company is embedded in allows the acquisition of valuable network resources and capabilities that otherwise lie outside the firm’s boundaries and aids in the discovery of new opportunities (Gulati 1999; McEvily and Marcus 2005). These resources, which are dissimilar to a firm’s internal resources, resemble social capital in the way that they are immanent in the relationships between actors instead of “lodged either in the actors themselves or in physical implements of production” (Coleman 1988, p.89). Networks of exchange can provide network resources including access to diverse knowledge (Burt 1992), e.g. regarding new alliance opportunities (Kogut, Shan and Walker 1992; Gulati 1999), third-party endorsement (Stuart, Hoang and Hybels 1999), capabilities and trustworthiness of current and potential partners (Gulati 1999), as well as being able to provide goods, services, legitimacy and cooperation (Uzzi 1996). Thus, the embeddedness of the firm in networks of external social relationships with other organisations provides critical resources and therefore holds significant implications for a firm’s economic performance (Mowery, Oxley and Silverman 1996; Nahapiet and Ghoshal 1998; Gulati, Nohira et al. 2000). From a strategy perspective, it is therefore important to examine the effect of social embeddedness on a firm’s performance (Gulati, Nohira et al. 2000). The process of establishing a network is path-dependent and thus individually different for diverse players. Each organisation passes through a specific development of creating network ties, which makes this process hard to imitate for potential competitors. Accordingly, the particular network resources constituted by the linkages between actors are not easily duplicated and constitute a competitive advantage for the respective organisation (Gulati 1999; Gulati, Nohria et al. 2000).

Authors of prior studies emphasising the need for MNCs to become socially embedded in low-income markets did not always explicitly clarify their understanding of social embeddedness (cf. e.g., London and Hart 2004). Also in other research fields, different understandings of embeddedness can be found. For example, Uzzi (1996, 1997) uses the term “embedded relation” as opposite to “arm’s-length relation”, which implies a classification of the social linkage and not only the mere existence of a connection between two players. According to this author’s definition and characteristics of embedded ties, embeddedness seems to imply a close relationship between partners, comparable with strong ties in the terminology of Granovetter (1973). Opposed to this understanding, Ahuja (2000) measures embeddedness according to the number of linkages an actor holds, which is usually referred to as the density of the network (Burt 1992). Nevertheless, most scholars base their research on a wider definition and share a common understanding of social embeddedness that considers economic action and social relations as dependent of each other. They refer to social embeddedness as the fact that the purposeful behaviour of a social unit is influenced by the concrete and enduring social relationship in which the unit is embedded (Powell and Smith-Doerr 1994; Baum and Dutton 1996; Gnyawali and Madhavan 2001). From a strategy perspective, social embeddedness refers to the degree that social relationships affect the strategy of organisations (e.g., Miller 1996). Not only social relations themselves, but additionally the norms and values associated with the social network are represented by the notion of social embeddedness (Zukin and DiMaggio 1990). I adopt this understanding in my study and denote social embeddedness as the connectedness of an organisation in the local social network of relations, thus being linked to the surrounding social network.

> *Social embeddedness in this study represents the fact that the economic action of a social unit is determined by the social connections enclosing the unit along with the norms and values inherent in these relations.*

The term does not, therefore, include any valuation on the structure of the network or the nature of the relationship. For the purpose of this study, only social relations within the *local* social network will be considered, since the social embeddedness in the specific local environment is the principal issue enabling successful operations in low-income markets (Hart 2005; Prahalad 2005).

4.1.2 Typology of potential Network Partners

While in the previous sub-chapter the focus was on clarifying what social embeddedness entails, this section deals with relevant partners for MNCs in the local social network. Pertinent local network partners should be able to assist in handling the specificities of the market and providing MNCs with resources outside their boundaries in order to enable them to operate successfully in these markets. To identify the relevant partners, I refer mainly to findings from studies and literature on the market-based approach in low-income markets, which emphasise the need to build relationships with local actors rather than traditional partners like national governments and large domestic companies that are, equally, foreign to the specific local environment of low-income markets (Prahalad and Lieberthal 1998; Hart and Christensen 2002; Prahalad and Hammond 2002; Hart and Sharma 2004; London and Hart 2004; Prahalad and Ramaswamy 2004; Hart 2005; Prahalad 2005; Weiser, Kahane et al. 2006; Rangan, Quelch, Herrero and Barton 2007; Sullivan 2007). Apart from customers and suppliers, which are more often referred to in studies on networks in general (McEvily and Marcus 2005), in developing countries (Dyer and Nobeoka 2000) and low-income markets in particular (Letelier, Flores et al. 2003), the potential partners in focus of my investigation are additionally NGOs, community groups, local entrepreneurs and local governments, since these have been described as valuable network partners for MNCs (e.g., London and Hart 2004; Hart 2005; Prahalad 2005).

Suppliers, customers and small businesses are more familiar partners to MNCs and they are directly related to the companies' business, whereas NGOs, community groups and governments represent non-commercial stakeholders that are affected by the action of the company, but whose relationship to the company is usually not for commercial but rather for social and environmental purposes. In literature, collaborations of businesses with organisations from the civil society or government sector, so called public-private-partnerships, have therefore been treated separately from collaborations between private-sector organisations (Gray 1989; Sternberg 1993; Austin 1998; Bartling 1998; Kanter 1998; Young 1999; Austin 2000; Stone 2000; London and Rondinelli 2003; Rondinelli and London 2003; London, Rondinelli and O'Neill 2005). Due to the characteristics of each sector being based on different missions and goals, cross-sector collaborations between private businesses and the public and civil society sector provide unique challenges for all parties involved (Schaffer and Hillman 2000; London and Rondinelli 2003).

Following this logic, I examine commercial stakeholders, i.e. customers, suppliers and local entrepreneurs, and non-commercial stakeholders, i.e. governments, NGOs and community groups, as two distinct groups of network partners. I introduce the possible network partners of each group emphasising why interactions with the respective partner are favourable for MNCs serving low-income markets.

4.1.2.1 *Commercial Stakeholder Partners*

Local suppliers mainly differ from the suppliers that MNCs are used to cooperating with in the aspect that they are familiar both with and to the local environment of the low-income markets, which the MNCs aim to penetrate. This includes knowledge about regulations and informal rules in the particular market and knowledge of the local context regarding supply and production possibilities. Thus, relying on local supply channels offers distinct advantages for MNCs. Not only does a local supply create the possibility to procure qualitative products at competitive prices (Weiser, Kahane et al. 2006), but additionally it allows the MNC to leverage the specific knowledge and expertise of their supply partners. Due to their local knowledge, local suppliers can provide the foreign company with innovative ideas regarding products and services that suit the market (Weiser, Kahane et al. 2006). They are able to identify valuable, culturally specific opportunities to create new markets, as they can discern lucrative markets long before foreign MNCs are aware of these opportunities (Weiser and Zadek 2000). Nonetheless, local suppliers are often quite small, in-experienced and financially too fragile to meet the requirements of MNCs (Weiser, Kahane et al. 2006). Thus, to develop them into efficient and reliable suppliers, MNCs have to transfer skills by offering technology and training (Weiser, Kahane et al. 2006). For local suppliers, cooperating with MNCs not only constitutes a business and income opportunity, but also provides the chance to share knowledge and learn from an experienced partner.

The potential *customers* of MNCs in low-income markets are substantially different from the customers that MNCs usually serve. The low amount of dispensable money to be spent on goods and services at any one time, the need of specific product features, and the unfamiliarity with some kinds of products that are used on a daily basis in developed countries call for a dedicated and radically different approach to low-income markets (cf. Chapter 3). These customers are a highly valuable source of information as their needs and habits determine necessary products, product features and service requirements. Due to the unfamiliarity of foreign MNCs with these specific needs that arise from the particular environment of low-income markets, this information is crucial if they are to succeed in these markets. Additionally, the strong social interconnectedness of societies in low-income markets in Southeast Asia can be utilised to spread the word about the company, its products and efforts. Nonetheless, it is very difficult for MNCs to connect to its target group (Prahalad 2005; Weiser, Kahane et al. 2006). Traditional means of connecting to customers used in developed markets such as advertisements in the media or direct contacting methods such as telephone or mail are barely possible as the infrastructure for such application is hardly available.

Local entrepreneurs are usually lone individuals or families running a small business such as selling essential products or providing basic services. These entrepreneurs are members of communities and therefore embedded in a well-established network within these communities, which enables them to access knowledge about the needs and habits of potential customers of MNCs (Prahalad 2005). In some cases, they hold additional linkages to other communities establishing a wide-reaching network providing them with further knowledge. Moreover, local entrepreneurs are familiar with the rules in the social and economic context. Such entrepreneurs can act as local distributors for MNCs (Weiser, Kahane et al. 2006). As well as gaining access to the market that could not be reached with traditional distribution channels, collaborating with local entrepreneurs can reduce distribution costs while increasing the acceptance and trust of local customers. For example, Hindustan Lever distributes many of its products, which are especially designed to fit low-income customers, through small, locally owned rural stores that are located within low-income communities (Weiser, Kahane et al. 2006). Local entrepreneurs are often interested in becoming linked to MNCs as this cooperation represents an opportunity to enhance their business possibilities by offering more or better products as well as building income and assets.

4.1.2.2 Non-commercial Stakeholder Partners

A non-commercial stakeholder partnership is characterised by the "voluntary collaborative efforts of actors from organizations in two or more economic sectors in a forum in which they cooperatively attempt to solve a problem or issue of mutual concern that is in some way identified with a public policy agenda item" (Waddock 1991, p.481). This includes any kind of collaboration, from transactional collaborations, i.e. short-term, constrained and largely self-interest oriented, to integrative (Austin 2000) and developmental (Googins and Rochlin 2000; Wymer and Samu 2003), i.e. longer term, open-ended and largely common-interest oriented (Selsky and Parker 2005). These non-commercial stakeholder partners are either civil society organisations or public sector organisations.

Civil society

Civil society has been defined in many ways (e.g., Walzer 1991; Cohen and Arato 1994). I refer to civil society as the association and action organised by citizens on a not-for-profit voluntary basis in order to pursue social values and public purposes independent of the state and the market (see e.g., Wuthnow 1991; Walzer 1998). Such activities include helping individuals in need, solving community problems, or making other general contributions to the wellbeing of society. Civil society agencies include non-governmental organisations (NGOs) that focus on issues like poverty alleviation, human rights, environmental degradation and other issues of social, economic and political development. Other civil society organisations are charitable societies, churches, neighbourhood organisations, community groups, civil rights lobbies, unions and a wide range of other agencies (Brown, Khagram, Moore and Frumkin 2000). My investigation focuses mainly on two types of civil society organisations. On the one hand, there are community groups, community-based organisations or local NGOs that arise out of peoples' own initiatives and are organised and active on a local level. On the other hand, national and international NGOs, like Transparency International, Amnesty International, CARE or OXFAM, are active in low-income markets carrying out a range of activities, such as providing services to poor populations, building local capacity for self-help, analysing and advocating policies that support disadvantaged constituencies, or fostering research and information sharing (Vakil 1997). Collaborations between civil society organisations and businesses tend to focus on environmental issues and economic development initiatives, but also address health and educational issues (Selsky and Parker 2005).

Residents initiate *community groups* in order to represent the interests of their community regarding political, social, economic or environmental issues. These groups are usually initiated due to the emergence of specific problems or changes or by arising ideas of how to positively change the conditions on a local level. Thus, these groups aim at protecting the rights of the community as well as enhancing the living and working conditions in poor communities. In other words, community groups possess knowledge and experience of the local context, have already identified existing problems and have the motivation to create change. At the same time, the individual members of these groups are also potential customers, possessing similar knowledge and experience. They have network links that connect to a wide range of influential individuals living in communities in low-income markets (Weiser, Kahane et al. 2006). Compared to individual customers in low-income markets, community groups constitute a more easily accessible network partner for MNCs. Since these groups have committed themselves to solving problems and to supporting the community, they are more likely to be willing to communicate with MNCs in order to represent the interests of the community and to prevent actions that could eventually harm the community. Moreover, community groups could have an interest in establishing links to MNCs to foster social change (Fabig and Boele 1999) or to becoming more important institutional actors (Doh and Teegen 2002). Partnering with community groups can assist MNCs in gathering crucial knowledge and social capital and in accessing existing networks (Millar, Choi and Chen 2004).

NGOs engaged in low-income markets have diverse characteristics, ranging from small local organisations to internationally operating large international NGOs that are organised to work across national boundaries (Yearbook of International Organisations 2006/2007). The aim of NGOs in low-income developing countries can be summarised as supporting people in tackling the harsh living conditions and in providing solutions to improve living standards. Although NGOs usually work on a non-profit basis and are driven by an altruistic motivation (Austin 2006), the objective of identifying problems and providing solutions is comparable to the objective of MNCs in low-income countries even if the motivation of MNCs is utilitarian rather than purely philanthropic. MNCs try to provide solutions in the form of products and services that will enable them to grow and make profits. To achieve this, these solutions need to be appropriate, i.e. increase the living standard of their low-income customers. Thus, disregarding the motivation, both NGOs and MNCs are looking for ways to increase living standards in these poor communities. Established NGOs have usually been engaged in the community for a longer time and have therefore been able to acquire local intelligence. Consequently, they possess knowledge regarding the conditions and problems of the local community and might, in addition, have already earned the trust of individual communities (Weiser, Kahane et al. 2006). Since they touch society at the grassroots level, they have the ability to adapt quickly to new situations and can use new and experimental methodology in tackling social issues. Establishing network links with NGOs provides both parties with access to valuable resources that they would not be able to retrieve on their own. For MNCs, partnering with NGOs not only represents a source of crucial local knowledge facilitating efficient operations, but also offers the opportunity to enhance reputation and to get indirectly linked to other influential societal stakeholders (Kanter 1998; Austin 2000). At the same time, NGOs benefit from the technological, managerial and organisational expertise of corporations that often hinders long-term sustainable development work (Austin 2000), and they gain access to financial resources in order to scale their projects to a level that secures sustainable solutions. While not long ago, NGOs were not interested in working with businesses, today they want to help companies operate in poor countries and poor neighbourhoods (World Business Council for Sustainable Development 2007). They understand that partnering with companies assists them in realising their own goals, such as improved sanitation, water supplies, healthcare, housing and business opportunities in the developing world (World Business Council for Sustainable Development 2007).

Public sector

While civil society organisations focus on the special interests of social groups within a society, government organisations focus on general public interests. Government organisations seek to create and maintain public order and distribute public goods while using their authority to raise money and create the desired public conditions (Najam 1996). State organisations include various levels of government, e.g. bureaucracies, such as departments or ministries; state-appointed bodies, such as the judiciary, regulatory boards and councils; agencies providing public services, such as housing and economic development; and finally government-controlled enterprises, such as utilities, education systems and health care institutions (Waddell and Brown 1997). Collaborations between governments and businesses tend to focus on infrastructure development and public services with important social implications such as water and electricity (Selsky and Parker 2005).

On the political level it is more favourable for MNCs to establish links to local partners, in this case to *local governments* rather than national governments to avoid potentially corrupt arrangements (Hart 2005). Besides, local governments are more interested in providing the framework for an enhanced living and business environment in the community. As the influence of governments is traditionally strong in Southeast Asia, contacts to local governments provide MNCs with the necessary legitimacy to operate in the market and also to access knowledge on the local context and the problems and needs in the community. Yet, equally for public sector organisations, establishing links with MNCs offers several incentives. The market-based approach of MNCs supports the efforts of local governments in solving social and economic problems and increasing public wellbeing (Waddell and Brown 1997). In the end, governments benefit from the economic growth in cases where MNCs succeed in serving the market, as this leads to increased public revenues. Additionally, collaborations with private-business organisations represent opportunities to involve others in providing public goods at lower costs and to a wider range of citizens (Waddell and Brown 1997).

4.1.2.3 Distinctiveness of Non-commercial stakeholder Partners

Collaborations across organisational boundaries in general, both within one sector and spanning different sectors, usually signal a need for organisational learning. Yet the very cross-sector nature of collaborations between businesses and NGOs or governments presents distinct challenges to creating the context and the capabilities needed for successful cross-organisational learning (Von Krogh, Ichijo and Nonaka 2000; London and Rondinelli 2003). Although I do not restrict my analysis to learning co-operations but also include any other form of collaboration, knowledge is a critical and perhaps the most important resource shared in non-commercial stakeholder partnerships in low-income markets.

The difficulties, especially in non-commercial stakeholder partnerships, are generated by the essential dissimilarity between the organisations (Waddell and Brown 1997; Austin 2000; London and Rondinelli 2003; London, Rondinelli et al. 2005). NGOs, for instance, are not only structured in a fundamentally different way to corporations but also differ regarding their core values and mission (London, Rondinelli et al. 2005 2004) as well as in their views on business and social priorities (Waddell and Brown 1997; Lewis 1998). While corporations usually adopt a hierarchical structure for decision-making, NGOs frequently apply a more democratic system (Westley and Vredenburg 1991; Laufer Green Isaac 2004). Moreover, in the case of corporations and NGOs, these two parties traditionally have taken opposing positions, since NGOs often act as a watchdog observing business practices with regard to their effects on the society and the environment. This fuels mutual hostility, mistrust and ignorance (Gray 1985; Westley and Vredenburg 1991; Bendell 2000; London, Rondinelli et al. 2005). In fact, mistrust, the fear of loss of control, and misunderstandings of the motivations and intentions are the main fears identified in cross-sector alliances (Long and Arnold 1995). In their study on non-commercial stakeholder collaborations, Laufer, Green and Isaac (2004) revealed one main reason for the failure and difficulties in such partnerships: Both business executives and non-profit leaders held decidedly negative, stereotypical views of each other, partly due to the different organisational cultures in which business and civil society executives operate, thus reinforcing their negative preconceptions.

The basic requirement for effective communication and inter-organisational learning is, at the least, a moderate level of similarity between the partners (Van de Ven and Walker 1984; Lane and Lubatkin 1998). The knowledge exchange between organisations with similar bases of knowledge, similar organisational structures and similar dominant logics proceeds more effectively than in the case of a low similarity organisations (Lane and Lubatkin 1998). Differing backgrounds, values and fields of expertise of organisations from different sectors reflect a relatively low similarity, which complicates the knowledge exchange in non-commercial stakeholder partnerships (London, Rondinelli et al. 2005). As a result, the partners need to establish a cross-organisational relationship that enhances the transfer of knowledge resources between the partner organisations (London, Rondinelli et al. 2005; Selsky and Parker 2005). The key success factor to establishing such a relationship is the capability to build trust among the partners. Overcoming historically grown incompatibilities (Gray 1985) and fostering the trust necessary to work cooperatively (Ring and van de Ven 1992; Das and Teng 1998) are the main challenges of non-commercial stakeholder partnerships in low-income markets. While corporations often expose internal operational activities, NGOs expose their credibility to public criticism (Austin 2000). Thus, in order to cooperate effectively, the two parties must trust each other. Personal social relationships are particularly important to the establishment and strengthening of such inter-organisational trust (Austin 2000).

4.1.3 Dimensions of embeddedness

Taking social embeddedness as a crucial criterion to operating successfully in low-income markets, the question remains *how* MNCs should be embedded in the social network of relations to local partners in these low-income markets. To examine the nature of embeddedness, it is important to take a more detailed look at the construct of embeddedness and recognise its different dimensions. In this way, it is possible to draw conclusions regarding which aspects of embeddedness have a positive influence of a firm's performance. This in turn facilitates answering the overall research question of this paper, i.e. how MNCs should be embedded in the social local network in low-income markets.

The vast amount of literature and studies in the area of social networks reveal a variety of conceptualisations of embeddedness (Andersson, Forsgren et al. 2002). Thus, various dimensions of embeddedness have been identified and studied, namely structural, relational, positional, cognitive, cultural and political embeddedness. While structural embeddedness focuses on the configuration of the network structure, relational embeddedness deals with the type of the individual dyadic relationships (Zukin and DiMaggio 1990; Gulati 1998), and positional embeddedness captures the impact of the position a unit occupies in its network (Tsai 2001). The similarity of mental models is the focus of cognitive embeddedness (Tsai and Ghoshal 1998), while management culture is the main topic for cultural embeddedness (Meyer and Rowan 1978) as power struggles are for political embeddedness (Zukin and Di Maggio 1990). These dimensions have been used in various compositions, e.g. Zukin and DiMaggio (1990) combined cultural, cognitive and political embeddedness, whereas in other studies, relational, structural and positional embeddedness have been combined (Gulati and Gargiulo 1999), or structural, relational and cognitive embeddedness (Nahapiet and Ghoshal 1998) or simply the two dimensions of relational and structural embeddedness (Granovetter 1992 1998). As too broad a conceptualisation of embeddedness makes it impossible to develop convincing and important arguments (Powell 1990), it is important to carefully select the dimensions to be studied according to the intention of the research. For the purpose of this paper, I choose the dimensions of structural and relational embeddedness for two reasons. First, these two dimensions are the most commonly and widely accepted dimensions of embeddedness (Dacin, Ventresca et al. 1999). According to Dacin, Ventresca and Beal (1999) the consideration of network relations as strategic resources is as common to most of the works on social relations as is the recognition of a structural and relational dimension of embeddedness. This is grounded in the works of Granovetter (1992) who emphasises "the fact that economic action and outcomes, like all social action and outcomes, are affected by actors' dyadic (pair wise) relations *and* by the structure of the overall network relations" (Granovetter 1992, p.33, emphasis and parentheses in original). Second, Gulati (1998) emphasises the importance of the relational and structural perspective of the embeddedness construct, especially when focussing on the impact on a firm's performance.

Relational embeddedness, being concerned with the characteristics and the quality of relationships between two actors, thus focuses on the dyadic level of a network (Coleman 1990). This dimension refers to direct relationships between actors and stresses the role of weak or strong ties for a single dyadic relationship (Granovetter 1973; Larson 1992; Uzzi 1996). In other words, the relational view of networks refers to the question of how well the actors know each other, and it has been conceptualised primarily as the strength of relationships. According to Granovetter (1973, p.1361), the strength of the ties is determined by the amount of time spent on maintaining the ties, the emotional closeness between the partners and the reciprocity of exchanges. In most studies, the frequency of interaction has been used as an indicator for the intensity of a dyadic relationship (Hite 2003). Strong ties are associated with a high frequency of interaction and commitment as opposed to weak ties that are characterized by infrequent interactions and low intimacy (Wasserman and Faust 1994; Scott 2000). Research has yielded contradictory suggestions on which intensity of ties a firm should choose since both types, strong and weak, provide distinct advantages and are both considered to have a positive influence on a firm's performance (e.g., Rowley, Behrens et al. 2000; Andersson, Forsgren et al. 2002). Strong ties are regarded as enabling trust between the partners and the exchange of fine-grained information (Krackhardt 1992; Larson 1992; Uzzi 1997; Gulati 1998), while weak ties are less costly to maintain (Hansen 1999) and are associated with the benefit of providing novel and unique information (Granovetter 1973).

Structural embeddedness shifts the perspective beyond the dyad to the system of the network dealing with the characteristics of the relational structure regarding the configuration of the network around a focal social unit (Zukin and DiMaggio 1990; Nahapiet and Ghoshal 1998; Gnyawali and Madhavan 2001). The focus is not on the immediate ties of the focal organisation, but rather on the connections between all direct contacts of the firm providing the unit with indirect channels for information and reputation effects (Granovetter 1992; Gulati and Gargiulo 1999). Thus, in comparison to the relational perspective which is concerned with the depth of a single dyadic relationship, the structural view on embeddedness covers how the "dyad's mutual contacts are connected to one another" (Granovetter 1992, p.35). This essentially entails that contacts be linked not only directly to each other, but also indirectly through mutual third partners. Structural embeddedness is therefore determined by the number of partners interacting with each other, directly and indirectly, by the potential interactions among connected actors, and by the spread of information through these interactions (Granovetter 1985, 1992). The structural dimension of embeddedness is usually conceptualised by distinguishing between dense network structures of highly interconnected actors and sparse network configurations characterised by a low connectedness between contacts of the focal unit. Network density can be assessed by the proportion of established ties to all possible ties (Kenis and Knoke 2002) or the number of ties one actor is holding (Koka and Prescott 2002).

Both structural network configurations – dense and loose - are considered to provide distinct benefits for the focal unit. The benefit of a dense structure, which represents a closed network because all the actors are highly interconnected, is the development and establishment of shared behavioural norms (Rowley 1997) and cooperation (Walker, Kogut and Shan 1997) through collective monitoring and sanctioning (Coleman 1988; Coleman 1990; Bourdieu and Wacquant 1992). On the other hand, a sparse network configuration, meaning that the partners do not share many mutual contacts, provides non-redundant information and thus an efficient way to obtain relevant information (Burt 1992; Burt 2000; Rowley, Behrens et al. 2000).

Concerning the favourability of one network configuration over the other, research has again - as in the case of relational embeddedness - produced contradictory implications, which makes it difficult to suggest how firms should be structurally embedded (Gargiulo and Benassi 2000; Rowley, Behrens et al. 2000). While Burt (1992) argues in favour of sparse networks because non-redundant ties provide a wider reach to access new knowledge and diverse information, Coleman (1988) stresses the positive effect of dense networks of social ties promoting trust and cooperation among members. These two forms of social capital are not necessarily contradictory, but are rather valuable under distinct conditions and for different purposes (Burt 1998, p.45). Picking up this consideration, I analyse which sort of tie strength and which sort of network configuration is favourable for MNCs in the specific context of low-income markets contingent upon the strategic purpose.

4.2 Contingency of Social Embeddedness in Low-Income Markets

In the preceding section, I have outlined the main effects of structural and relational embeddedness on a firm's performance based on existing theory. Both strong and weak ties on the relational perspective as well as dense and sparse networks on the structural perspective of embeddedness can be beneficial for the focal organisation. This immediately poses the question of how an organisation should be embedded in its surrounding network since any kind of embeddedness holds distinct and unique benefits. It is unanimously agreed that a superior embeddedness situation constitutes a competitive advantage (Ahuja 2000; Rowley, Behrens et al. 2000; Moran 2005). Yet the opinions are split on what defines superior embeddedness, i.e. which kind of relational tie and which network configuration is more favourable. Burt (1992) tried to solve this debate by proposing a contingency approach accepting the fact that the distinct embeddedness configurations are beneficial under different circumstances. The seemingly opposing recommendations of theorists as to how companies should be embedded are then no longer contradictory, but rather applicable and valuable under distinct conditions as examined by some recent network studies (Burt 1997; Podolny and Baron 1997; Uzzi 1997; Walker, Kogut et al. 1997; Burt 1998; Gabbay and Zuckerman 1998; Hansen 1999). Thus, to propose which relational and structural embeddedness is most advantageous for MNCs in low-income markets, I need to consider the specific conditions that may influence the favourability of distinct benefits.

In particular I examine the type of strategic initiative with regard to exploiting existing resources or exploring new opportunities as critical contingency in the present study. I chose the exploitation-exploration distinction (March 1991; Levinthal and March 1993) as it is of not only theoretical but also practical importance. From a theoretical perspective, this approach covers many different types of specific work tasks, but it is at the same time sufficiently distinct to draw meaningful conclusions. For this reason, the exploitation-exploration framework is well established in management and learning theory and drawn on in numerous studies (Lewin, Long and Carroll 1999; Rowley, Behrens et al. 2000; Fleming 2001; Hansen, Podolny and Pfeffer 2001; Crosson and Bedrow 2003; Holmquist 2003; Gupta, Smith and Shalley 2006; Jansen, Van Den Bosch and Volberda 2006; Lavie and Rosenkopf 2006; Miller, Zhao and Calantone 2006; Kane and Alavi 2007). At the same time, the distinction between explorative and exploitative strategies is easily applicable in practice.

It is not a theoretical construct that can be drawn on in management practice, but a practicable classification for strategies that either discovers new opportunities or improves existing conditions.

In the following, I use the basis of the exploration-exploitation framework to explain which specific embeddedness features are more favourable over others for the distinct purpose of the initiative regarding the relational and the structural embeddedness dimensions. After introducing the exploration-exploitation framework as typology for strategic initiatives of MNCs (4.2.1), I describe the contingent effects on relational embeddedness (4.2.2) as well as on the structural dimension of embeddedness (4.2.3) based on this framework. For each case, hypotheses are derived, based on existing theory. I conclude this chapter by discussing possible interdependencies between the two dimensions of embeddedness (4.2.4).

4.2.1 Exploration-Exploitation as a Contingency Framework

MNCs focus their strategy mainly on two distinct purposes: exploring new opportunities and exploiting existing opportunities. This distinction was introduced by March (1991) and refined by Levinthal and March (1993). "The essence of exploitation is the refinement and extension of existing competencies, technologies and paradigms. The essence of exploration is the experimentation with new, uncertain alternatives" (March 1991, p.85). Strategies designed for exploitation focus on existing information to enhance existing knowledge, competencies and procedures, while exploration strategies employ search and experimentation to discover novel competencies and new ways of doing business (Hansen, Podolny et al. 2001). For the following examination, I refer to the strategic initiatives of MNCs instead of general strategy for two reasons. Firstly, strategic initiatives are usually pursued by relatively small and autonomous entities within the company, such as project groups and self-managing teams (Lovas and Ghoshal 2000), and are therefore identified and assessed more easily than general strategy. Secondly, referring to strategic initiatives allows the examination of a variety of activities within the same MNC, both explorative and exploitative initiatives, that are altogether strategically significant (Bower 1970; Lovas and Ghoshal 2000; Burgelman 2002).

Since exploitation initiatives reap present profits and exploration initiatives secure future returns (Levinthal and March, 1993), the mix of both types of strategic initiative is critical for the long-term success and the survival of the firm (March 1991; Crossan, Lane and White 1999; Floyd and Lane 2000; Burgelman 2002; Crossan and Berdrow 2003). Exclusively exploring new opportunities leads to unutilised discoveries, while solely exploiting existing opportunities keeps the firm from building future opportunities. To create and maintain a competitive advantage, firms need to engage in the strategic processes of "exploring new possibilities and exploiting old certainties" (March 1991, p.71). In other words, exploratory basic research - invention and risk-taking, which aims at new knowledge and capabilities - precedes exploitative utilisation of these resources to create value (Cohen and Levinthal 1990). For example, the innovation of a new product for low-income markets requires the acquisition of basic knowledge on the needs, habits and living environment of potential customers. This knowledge can be acquired in an exploratory strategic initiative aimed at acquiring new customers and gaining access to a new market. To use this newly acquired knowledge for the completion of the product and its commercialisation in exploitative strategic initiatives, complementary capabilities are needed, e.g. legal and regulatory competence, marketing and distribution (Rothaermel and Deeds 2004).

Thus, explorative and exploitative initiatives require different kinds of information (Rowley, Behrens et al. 2000; Hansen, Podolny et al. 2001). Exploration includes the gathering of new and general information, which leads to broad searches in order to identify many different opportunities and experiment with viable alternatives (March 1991). In contrast, the required information for exploration is explicit knowledge, i.e. facts that are easily codifiable and transferable (Kogut and Zander 1992). In the case of an exploitation strategy, the emphasis is on refining existing knowledge (March 1991) by gathering specific know-how that will provide deeper knowledge in a particular area. Exploitation requires, therefore, a deeper understanding of specific tacit knowledge rather than a wider grasp of general information (Rowley et al. 2000). Thus, the solution space for exploitative initiatives is well defined and limited in comparison to the open solution space of explorative initiatives (Rowley, Behrens et al. 2000).

In the following, I explain how these information requirements between the strategy concerning the exploration of emerging changes and the exploitation of existing knowledge influence the advantageousness of different configurations of embeddedness.

4.2.2 Contingent Effects of Relational Embeddedness

The distinction between explorative and exploitative strategic initiatives provides the main contingency factor determining the value of the relational characteristics of network ties. In other words, the decision of how the relationship to specific partners should be arranged in terms of strong and weak ties depends on the intention the firm is following with the specific strategic initiative. I argue that this is not the only contingency. Additionally, for the relational perspective, I look at the nature of the partnership - commercial stakeholder or non-commercial stakeholder partnership - to determine which type of tie is more favourable for having a positive influence on initiative performance. Therefore, I examine in the following sub-chapters the contingent effects of exploitation and exploration initiatives separately for commercial stakeholders (4.2.2.1) and non-commercial stakeholder partnerships (4.2.2.2) assuming that the nature of network partners influences these conditions.

4.2.2.1 Effects in Stakeholder Partnerships

In exploration initiatives, the intention is to grasp a basic picture of various different alternatives without the need for a detailed understanding of every piece of information (March 1991). As the organisation seeks novel information and emerging trends, it aims at a high diversity and high volume of information. Accordingly, the focus is on covering a relatively broad range of general information, i.e. explicit knowledge (Rowley, Behrens et al. 2000). Weak ties hold specific benefits for exploration initiatives, as they are especially advantageous in situations where the firm intends to gather primarily novel information (Granovetter 1973) and to access high volumes of diverse explicit knowledge (Rowley et al 2000). As mentioned earlier, the maintenance of weak ties requires limited time and commitment; hence, organisations can afford to hold weak ties to a large number of actors (Hansen, Podolny et al. 2001). The contact to many partners also enables the organisation to gather a large amount of information (Burt 2000; Burt 2002). Weak ties not only promote the access to a high volume of information, but also widen the reach into diverse parts of the surrounding network, consequently providing diverse information and new, foreign insights from many different actors (Granovetter 1973; Rowley, Behrens et al. 2000). Although some information noise comes with the accumulation of large amounts of information, this is tolerable for organisations interested in exploration in order to access a wider breadth of sources (Rowley, Behrens et al. 2000).

In contrast, new information and ideas are hardly accessible via strong ties as these are argued to appear more likely between socially similar units that hold similar opinions and similar knowledge (Granovetter 1973). Additionally, establishing and maintaining strong ties requires a considerable investment (Leana and van Buren III 1999; Adler and Kwon 2002; McFadyen and Cannella 2004) and is therefore only bearable for a limited number of contacts, which restricts the possibilities of gathering high volumes of information (Kraatz 1998). Since in exploration initiatives the intended knowledge is explicit, i.e. facts that are easily conceived and transferred, it is dispensable to maintain strong ties (Hansen 1999; Reagans and McEvily 2003). Strong ties promote a trusted communication environment, as the interaction between partners is quite frequent (Granovetter 1985; Krackhardt 1992). But for the general information required for exploration, such a communication environment is not necessary to gather successfully the explicit knowledge needed (Hansen 1999). Thus, weak ties are sufficient for accessing general information (Hansen 2002; Reagans and McEvily 2003) and are even superior to strong ties when high volumes of diverse and novel information are needed to pursue the initiative successfully, i.e. to contribute to initiative performance in terms of meeting previously set goals. Therefore I postulate:

> *Hypothesis 1a: In exploration initiatives, a low degree of tie strength in stakeholder partnerships positively influences initiative performance.*

However, in the case of exploitation initiatives, the information requirements shift from general information to specific know-how (March 1991). Firms are primarily interested in the refinement and extension of existing knowledge (March 1991), and therefore aim at detailed knowledge in order to gather specific pieces of know-how to improve existing processes, technologies or products: Exploitation initiatives are concerned with a detailed understanding of tacit knowledge rather than broad searches for general novel information (Rowley et al. 2000). As know-how is difficult to articulate and can not be shared easily (Nelson and Winter 1982; Szulanski 1996), it requires training, personal experience or intense interaction to be transmitted (Kogut and Zander 1992). This can only be assured by maintaining strong ties to network partners through which connected actors learn about each other and establish mutual trust (Marsden 1990; Hansen, Stanford and Graduate School of 1996; Uzzi 1996). Trust in relationships promotes the willingness of people to engage in social exchange in general and in cooperative interaction in particular (cf. e.g., Ring and van de Ven 1992; Putnam 1993; Ring and van de Ven 1994; Putnam 1995; Tyler and Kramer 1996). Trust reduces the fear of opportunistic behaviour (Gulati 1995; Zaheer, McEvily and Perrone 1998) and assures the organisation that it can rely on the intentions and behaviour of others in order to make decisions (March and Simon 1985; Krackhardt 1990; Moran 2005). Although strong ties require more frequent interactions and commitment of resources (Granovetter 1985; Krackhardt 1992), they facilitate the transfer of tacit knowledge across organisational boundaries due to the trust developed by those frequent and close interactions between the partners (Uzzi 1996; Dyer and Nobeoka 2000; Hansen 2002). Trust between organisations additionally establishes confidence in the accuracy of the knowledge and recommendations provided by the partner (Boisot 1995; Uzzi 1997). This is important as, in exploitation initiatives, firms are less tolerant of information noise since they intend to rely on details of specific information. Therefore:

Hypothesis 1b: In exploitation initiatives, a high degree of tie strength in stakeholder partnerships influences initiative performance positively.

4.2.2.2 Effects in Non-Commercial Stakeholder Partnerships

As outlined above, in the case of exploration initiatives, the corporation aims at the acquisition of novel, rather general information (March 1991). Obtaining such information from commercial stakeholder partners requires weak ties since these are conduits for novel information from different parts of the surrounding network, thus providing the firm with a high volume of diverse information (cf. Chapter 4.1.3). Given the un-relatedness of the actors in cases of a relationship across sectors, it is difficult to create a linkage for resource exchange as the parties lack a shared language and common knowledge, which are important for efficient communication (Tsai 2000). Knowledge cannot be transferred easily, considering the existence of different organisational cultures, structures and goals (Nonaka and Takeuchi 1995; Reagans and McEvily 2003). Thus, it is important to establish a cross-organisational relationship that enables the transfer of knowledge resources between non-commercial stakeholder partner organisations (London, Rondinelli et al. 2005). The key success factor for establishing such a communication and exchange platform appears to be the capability to build interpersonal relations and trust among the linked actors (London, Rondinelli et al. 2005). Trust has been identified as one of the critical elements common to most forms of collaborations (Larson 1992; Ring and van de Ven 1994; Wasserman and Galaskiewicz 1994; Dickson and Weaver 1997; Burke and Stets 1999), but it is particularly essential in cross-sector collaborations (Austin 2000). Hence, even in cases where the corporation intends to explore new opportunities, which usually does not require a trusted relationship, a certain level of trust is assumed to be essential for diverse organisations in order to initially enable resource exchange.

According to Hansen (1999) knowledge sharing requires the willingness and ability of the partners to engage in such exchange relations. The willingness of organisations to engage in collaboration is reduced by the belief that the partner will act opportunistically (Gulati 1998). This mistrust in the partner's intention can be eased through prior relationships, which facilitate the establishment of trust between organisations. Since previous partnerships between organisations from different sectors are rather rare, the necessary trust for effective resource exchange can only be achieved through frequent and intense interaction. While I argued against the establishment of trust through strong ties in the case of exploration in stakeholder partnerships, exploration in cross-sector collaborations does require a trusted relationship. As a result, the establishment of weak ties to NGOs and local governments is not sufficient or is even inferior for exploration initiatives.

Even if the partners are willing to exchange resources, they may lack the ability to share knowledge in non-commercial stakeholder partnerships due to the fundamental differences in partners' governance structures, objectives and operating styles (Sagawa and Segal 2000). Thus, a basic understanding of the culture of the potential partner's organisation is crucial for the successful exchange of knowledge (London and Rondinelli 2003), i.e. that the organisation can correctly understand and utilise the received information. Often, knowledge transfers across institutional boundaries are riddled with false starts, different interpretations of the same ideas, or other disruptions (Reagans and McEvily 2003; Zellmer-Bruhn 2003). The differences between the organisations can easily lead to misunderstandings even if the exchanged knowledge is supposed to be explicit as in the case of explorative initiatives. But as "a wholly explicit knowledge is unthinkable" (Polanyi 1966) the differences in work values and organisational cultures can impede knowledge transfer significantly (Allen 1977; Dougherty 1990; Baum and Berta 1999; Yeung 1999). The foreignness of MNCs in low-income developing markets makes the interpretation of new information more difficult. As they are prone to misinterpreting the common cultural codes, information that is explicit for local organisations could be more difficult to understand for foreign MNCs. This is tolerable in relations with more familiar partners, like large corporations, because companies are at least used to these types of partnerships. But adding the dissimilarities between the organisations of different sectors and the unfamiliarity and lack of experience of interaction with such organisation could possibly result in a level of information noise that is too high to be tolerable. There needs to be at least some alignment in the knowledge of the partners to facilitate knowledge transfer (Dinur, Inkpen and Hamilton 1998). The more the new information deviates from the natural context of the knowledge of the organisation in terms of environment, culture, strategy, decision making, organisational structure and technology, the more difficult the mutual understanding will be (Dinur, Inkpen et al. 1998; Reagans and McEvily 2003). Nonaka and Takeuchi (1995) also emphasise the need for knowledge redundancy. Because "the same knowledge, apparently, is more tacit for some people than for others" (Nelson and Winter 1982, p. 78), overlapping areas of expertise facilitate knowledge transfer (Reagans and McEvily 2003). Learning about the culture and operations as well as the needs and constraints of each other's organisations can establish a condition of overlapping knowledge (Austin 1998; Drumwright, Cunningham and Berger 1999; Austin 2000; Sagawa and Segal 2000; Rondinelli and London 2003; London, Rondinelli et al. 2005; Weiser, Kahane et al. 2006), especially, when the knowledge exchanged between partners serves a social purpose (Austin 2000, p.82). As a corporate manager stated according to the study of Austin (2000, p.86):

> *"The hardest challenge is the cultural difference between corporate and non-profit organizations. Once you understand how they work, think, and operate, you can get a lot of great things accomplished. If companies can take the time to really develop a relationship, that's what they need to do."*

Establishing strong ties across institutional boundaries facilitates the transfer of resources (Reagans and McEvily 2003), which is also necessary in exploration initiatives in order to reduce the uncertainty and possible sources of misunderstandings thus enabling the organisation to utilise the received information effectively. Practical evidence in prior studies supports the importance of strong ties in cross-sector collaborations (London, Rondinelli et al. 2005). In many cases, MNCs restrict their relationships to a limited number of selected partners and invest in these linkages in order to make them productive and efficient, rather than spreading their linkages across many partners (Austin 2000). The maintenance of interpersonal ties between the organisations demands a high frequency of interaction and, as such, considerable time and effort (London, Rondinelli et al. 2005). This indicates the favour of strong ties over weak ties, since strong ties are characterised by a high frequency and intimacy of interaction to a rather small number of actors. Corporations rely on this strategy in cross-sector collaboration although it represents a considerable investment and increases dependency on the partner since it also increases the probability of enhanced performance (Austin 2000). While corporations are assumed to rely on weak ties in intra-sector collaborations for explorative initiatives, in non-commercial stakeholder relationships, strong ties seem necessary, even in the case of exploration, to overcome the unfamiliarity, dissimilarity and mistrust between these organisations and to enable successful resource exchange. Thus, I argue:

> *Hypothesis 2a: In exploration initiatives, a high degree of tie strength in non-commercial stakeholder partnerships positively influences initiative performance.*

Since, in exploitation initiatives, trust is an even more important factor in enabling resource transfers and successful collaborations due to common understandings, the same argumentation is as applicable for non-commercial stakeholder partnerships as for intra-sector partnerships. Therefore:

> *Hypothesis 2b: In exploitation initiatives, a high degree of tie strength in non-commercial stakeholder partnerships positively influences initiative performance.*

4.2.3 Contingent Effects of Structural Embeddedness

In addition to the relational perspective on the nature of ties, the exploitation-exploration categorisation is also useful for understanding the conditions under which either a dense network, i.e. the partners of the focal firm are highly interlinked, or a sparse network is advantageous. Different structural settings can be suggested based on the different information requirements for exploitation and exploration (Rowley et al. 2000). In contrast to the relational dimensions of embeddedness, where the distinction between commercial stakeholder partners and non-commercial stakeholder partners is crucial because it provides different suggestions on how MNCs should be linked to each of these groups, this distinction is rather restricting when looking at the structural dimension. Accordingly, for the structural perspective, it is decisive to concentrate on the whole network as links between all contacts play an equally important role in the exploration and exploitation initiatives of the focal firm. Focussing on the structure of the network with non-commercial stakeholders separately from the structure of the stakeholder network ignores possible links between actors of both groups, which could have important implications for the embeddedness of the firm. Therefore, I explain, in the following, the contingent effects on the structural dimension of embeddedness on the basis of the exploration-exploitation framework for the whole network surrounding the focal firm to include every linkage influencing the prescription on how MNCs should be structurally embedded.

Pursuing an exploration strategy implies aiming at a high volume of diverse information (March 1991). Sparse networks are claimed to be advantageous in this case, as redundant information is avoided and access to divergent perspectives can be gained (Burt 1992; Burt 2000). The less a firm's contacts know and interact with each other, the more likely the information and knowledge available to these contacts will be non-redundant (Moran 2005). This enables access to a broader range of people who typically dispose of more diverse information and knowledge. As sparse networks offer a wider reach than highly connected networks, especially in the perspective of distinct regions of the network, information from different perspectives can be gathered, thus assisting the organisation in realising new innovations and alternative strategic directions (Rowley at al. 2000). Dense network connections are in this case rather constraining. Shared behavioural expectations develop in highly interconnected networks (Rowley 1997) because ties between actors ease the diffusion of norms across the network (Meyer and Rowan 1977; Oliver 1991). This in turn constrains the openness of an embedded firm to new alternatives and unconventional ideas since innovations are subdued as aberrant behaviour (Coleman 1988) hence resulting in "collective blindness" (Nahapiet Ghoshal 1998, p.245).

Burt (1992) stresses the efficiency of sparse networks with few redundant contacts because they return more diverse information for the same costs as dense networks. In fact, a firm gains unique information and perspectives from different partners by occupying "structural holes". This happens when a firm's partners are not connected to one another or similar others (Burt 1992). In this position the firm is the only link between otherwise unconnected actors allowing it to channel the information exchange between these two actors. This position gives the company efficiency and brokerage advantages by enabling non-redundant information exchanges (Burt 1992). Consequently, a sparse network configuration in which the firm occupies structural holes requires a rather limited number of ties to access unique, diverse information, which in turn provides the firm with the capacity to efficiently acquire and mediate resources (Burt 1992; London and Hart 2004). As shown in the case study by Sharma, Vredenburg and Westley (1994), MNCs can bridge and mediate between government development agencies and local entrepreneurs suffering from poor infrastructure in order to improve market conditions, thus enabling local economic development and a significant position in the local economy.

Even if the company is not the organisation linking two otherwise unrelated organisations but is itself linked to an indirect organisation via an immediate contact, this sparse network configuration could nevertheless be advantageous for the company in explorative strategic initiatives. In this way, the MNC gains access to a third party, which it could possibly not reach without the connecting actor. Non-traditional partners, like local community groups and NGOs, are such third party actors, and are usually more difficult to reach and co-operate with for MNCs (Garcia and Vredenburg 2003). The bridging organisation, which could be a local company or local entrepreneurs, mediates between organisations that may be widely dissimilar in wealth, culture, values, interests and structural characteristics (Garcia and Vredenburg 2003) as in the case of MNCs and civil society organisations. In this way, the MNCs gain access to information and resources from physically and psychically distant actors. These information and resources are crucial for the exploration initiatives of the firm where the parties to the collaboration are unable to negotiate directly due to mistrust, tradition or logistical problems (Gray 1989; Sharma, Vredenburg et al. 1994). Thus, for strategic initiatives intending the exploration of diverse information, low-density network structures should be preferred.

> *Hypothesis 3a: In exploration initiatives, low-density network structures positively influence initiative performance.*

If the firm is engaged in exploitation initiatives instead, the requirement of specific knowledge makes the benefits of dense networks more valuable. As the exploitation of resources requires rather specialised and tacit knowledge, it is crucial to establish a network structure facilitating the transfer of such knowledge. In networks that are highly interconnected, norms of cooperation as well as shared behavioural expectations are quickly established (Coleman 1988; Rowley 1997). Thus, behaviour deviating from common rules is constrained, as any divergence can be readily detected in dense networks and in turn sanctioned by the group (Walker, Kogut et al. 1997). When a contact deceives a partner, its reputation suffers and mutual partners will restrict the contact to the deceiving end (Kreps 1990). Trusting that the partner sticks to the commonly shared rules facilitates the transfer of less tangible resources and tacit knowledge, which can only be transferred and utilised based on a shared contextual understanding (Hansen 1999, Moran 2005). This platform of common rules supports the trustworthiness not only in the partner but also in the knowledge gained from the respective partner (Rowley et al. 2000). Redundant sources of knowledge that exist in a highly connected network are, in contrast to the case of exploration initiatives, beneficial in exploitation as the similar information available allows for triangulation in order to additionally validate the gained knowledge (Coleman 1988). Besides, more exact information can be obtained by relying on redundant ties, which facilitate the strategy of exploiting existing knowledge in order to refine and improve it (Rowley et al. 2000).

Thus, high interconnectedness as well as strong ties are favourable in the case of an exploitation strategy:

> *Hypothesis 3b: In exploitation initiatives, high-density network structures positively influence initiative performance.*

4.2.4 Interdependence of Structural and Relational Embeddedness

Literature on social networks has focused strongly on the structural dimension of embeddedness, while the relational dimensions have been somewhat disregarded. However, more important than discussions about the relative importance of structural and relational embeddedness is the question of whether these dimensions can be treated independently. In other words, are the implications for the relational perspective on network ties the same for different structural configurations of the underlying network? This consideration should be kept in mind when investigating how MNCs should be embedded in their local networks, even if prior research in this field tended to ignore a possible interdependence between relational and structural embeddedness or could not prove potentially mutual effects. Rowley et al. (2000) found indications for their hypotheses that structural embeddedness is exerting a moderating effect on relational embeddedness. Based on this result, treating the dimensions of embeddedness independently could result in misleading findings. Yet, their test result is statistically not significant. They argue that a dense network establishes a trust-based relationship on the structural dimension, while trust is constituted on the relational dimension through strong ties. Since establishing and maintaining strong ties are considered costly because the time and other resources necessary could be invested in other functions, Rowley et al. (2000) conclude that for constituting a governance mechanism, the additional benefit of strong ties in a dense network is limited. This holds true only if, indeed, the trust established through interconnectedness and strong relationships was in both cases only functioning as a governance mechanism.

Hosmer (1995) distinguishes, in his literature review on trust, between different levels of trust. Trust comprises various components such as goodwill, i.e. respect for the other's interests (Friedman 1991), reliability and predictability of actions and openness referring to the willingness to share ideas and information with the partner (Butler and Cantrell 1984). On the system-level (between a variety of actors within a social structure) a distinct kind of trust can develop through the establishment of norms. This type of trust refers to the system working as a mechanism to sanction deviating behaviour within the "social organisation of trust" (Coleman 1984, p. 85). In the perspective of structural embeddedness, this system-level trust emerges in dense networks as the "social expectations shared by everyone involved" (Zucker 1986, p. 54). It can be considered as common understandings including broad social rules and legitimate social processes (Hosmer 1995).

The notion of trust on the dyadic level, which originates from strong ties on the relational dimension, reaches further. While trust in the network provides a platform of common understandings assisting smooth interaction by governing the system, trust between social units encourages interaction, a deep understanding and the openness to share knowledge and resources. As emphasized by Dyer and Nobeoka (2000, p.365), redundant ties are helpful in locating potentially valuable knowledge, but strong ties produce the trust necessary to facilitate the transfer of tacit knowledge. Consequently, acknowledging different benefits for strong ties and dense networks will not lead to substituting effects. Therefore, I argue:

> *Hypothesis 4: The positive effect of a high degree of tie strength on initiative performance is not stronger in low-density than in high-density networks.*

4.2.5 Relative Importance of Structural and Relational Embeddedness

Although I assume that the relational and structural dimensions of embeddedness are not interdependent with regard to trust, it remains unclear if the two dimensions differ in their relative importance. In other words, is it conceivable that one embeddedness dimension is relatively more influential for the success of the initiative than the other dimension?

I consider the uncertainty of low-income markets to determine whether it is the structure or the quality of social embeddedness that plays a more significant role for successful BOP initiatives. Not only is the environment uncertain with regard to its development, but also MNCs are foreign to this surrounding and as such not familiar with the practices and routines that are common in these markets. Activities in these markets are thus hardly predictable. Geertz (1978) examined interactions in a highly uncertain market place, where "information is poor, scarce, mal-distributed, inefficiently communicated, and intensely valued" (Geertz, 1978: 29) and discovered that actors tend to rely on existing frequent relations in such circumstances in order to reduce uncertainty. Similarly, Podolny (1994) argues that with increasing uncertainty and risk, actors depend more and more on partners to whom they have close and frequent relations. The common implication of these studies is that under uncertainty, such as in an unfamiliar and developing environment, the relational dimension of embeddedness seems to be of particular significance (Moran 2005). The same dynamic may be observed in MNCs in low-income markets. Due to the foreign environment, the quality of the specific interpersonal relation with local partners is relatively more important than the interconnectedness of these partners to each other in order for uncertainty to prevail. Thus, the high level of uncertainty in the environment, combined with the paucity of good quality information, turns well-established social relations into valuable assets (Moran 2005).

> *Hypothesis 5: The effect of tie strength (relational dimension) on initiative performance is greater than the effect of density (structural dimension) on initiative performance.*

5. Methodology

In the previous section I derived a theoretical model proposing relationships between different embeddedness configurations and the performance of strategic initiatives. More specifically, I examined the impact of tie strength and network density on initiative performance for both exploration and exploitation initiatives considering different partner groups (H1a, H1b, H2a, H2b, H3a, H3b). I also discussed potential interdependencies between the structural and relational dimension of embeddedness (H4) and examined the relative importance of structure and quality of relations for the distinct initiative types (H5).

To test the hypotheses developed in Chapter 4, I need to define an appropriate network sample, and collect data on the structure and quality of relations between the initiative teams and local partners and on the type and performance of initiatives. The underlying constructs are measured with thoroughly selected measures that allow the subsequent analysis of the proposed relationships. In doing so, I have to consider potential problems inherent in my approach to collecting and measuring data in order to ensure the quality of my study.

Therefore, in this chapter I outline my approach of choosing an MNC for the data collection, of defining the sample and the proceeding of the data collection (5.1), before I describe the measures used, considering validity and reliability issues (5.2). Next I describe the testing of the hypotheses (5.3) followed by the outline of the results (5.4). I conclude this chapter with a discussion on the results and findings of this study (5.6) and final conclusions (5.7).

5.1 Data Collection and Sample

I first introduce the company from which I gathered the data for the present study (5.1.1). I then present sampling issues that are of general concern in studies on social embeddedness (5.1.2) before I describe the specific sampling and data collection process of this study (5.1.3). In the planning of sampling and data collection, it is important to consider potential biases that could distort the results of any study. Therefore, I conclude this section with an outline of potential biases that could occur in the present study and methods to test and avoid such biases (5.1.4).

5.1.1 MNC in Focus: Tetra Pak

The MNC from which I collect the data necessary for the empirical analysis has to fulfil specific requirements in order to construct an appropriate data set for the hypothesis testing: The company characteristics have to be in line with the definition of MNCs for this study (cf. Chapter 3); the company should follow a market-based approach in low-income markets; and it must be active in Southeast Asia. From my extensive research on the market-based approach, I knew that at this rather early stage, only a manageable number of MNCs are engaged in low-income markets, even fewer when excluding companies outside the regional focus of the present study.

My decision to collect data from Tetra Pak Thailand and Tetra Pak Indonesia was based on several reasons. First, the Tetra Pak subsidiaries perfectly fit my definition of MNCs as they are two of a total of 43 subsidiaries, and they are located in the region of Southeast Asia with their headquarters in Europe. Second, Tetra Pak has not yet been the focus of any study with regards to the market-based approach, at least not at the point in time when I conducted my study. Third, Tetra Pak Thailand and Tetra Pak Indonesia are engaged in several activities in low-income markets, i.e. dairy development, dairy production, school feeding programmes, carton recycling and health and nutrition educational programmes. All these projects are aimed at low-income communities with the strategic goal of addressing social issues like poverty, health problems and malnutrition in order to develop new markets. Thus, these projects perfectly fit my definition of market-based activities in low-income markets. Additionally, Tetra Pak was awarded the World Business Award in 2006 for its support of the United Nations Millennium Development Goals. The award recognises the significant role business can play in implementing UN targets for reducing poverty. Tetra Pak was honoured for its Food for Development activities and its innovative and productive approach to sustainable development based on the belief that development programmes should be built around economically viable investments. Thus, Tetra Pak seemed to be the ideal company for my research. In the following, I provide basic information about Tetra Pak as well as an overview of the company’s activities in low-income markets.[9]

[9] The outline of this sub-chapter is based on Tetra Pak company sources, i.e. company reports, customer magazines and information I received from, interviews with Tetra Pak managers.

Headquartered in Lausanne, Switzerland, Tetra Pak employs more than 20,000 people in over 150 countries worldwide. Tetra Pak produces complete processing, packaging and distribution systems for the food and beverage industry. In 2000, Tetra Pak established the Food for Development Office (FfDO), which is responsible for coordinating and making available the company's knowledge in school and agricultural development programmes. The FfDO works in close partnerships with governments, development agencies, NGOs and customers to supply dairy industry expertise, know-how in packaging and processing solutions, recycling, advice and practical implementation in support of school milk programmes (cf. figure 8). The establishment of local production and local capacity by the training and education of dairy farmers, and equipment financing based on commercial terms combined with school milk programmes ensures self-sufficiency and provides a base for sustainable economic development. The FfDO's work is part of the company's continued commitment to initiate and support socially and economically sustainable agricultural, feeding and food development programmes.

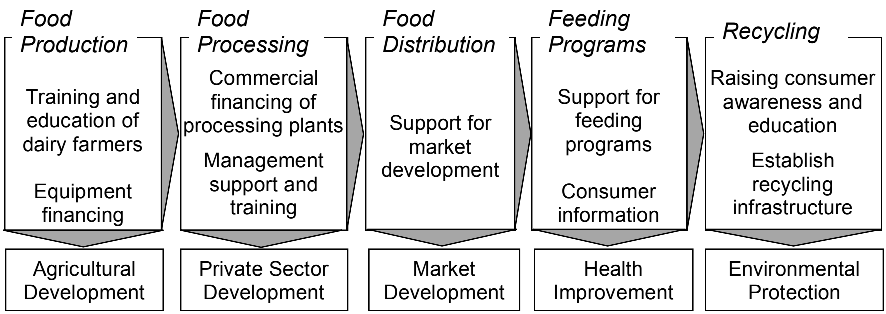


Figure 8: Tetra Pak's projects in BOP markets along the value chain

The antiseptic processing and packaging systems of Tetra Pak make possible the production of long-life products that can be distributed and stored without refrigeration or added preservatives for many months. Additionally, the packages are able to preserve contained nutrients and vitamins. Therefore, antiseptic packaging is playing an essential and beneficial role in developing countries where poor infrastructure does not allow for the efficient distribution of food, where clean water and electricity are not easily accessible, where food wastage is often high and where fortified drinks can be an essential source of nutrition.

Addressing vitamin and mineral deficiency with fortified drinks is seen as one of the most affordable and effective ways to achieve sustainable development in many of the poorest countries in the world where approximately 800 million people suffer from malnutrition.

One of the main focuses in the market-based approach of Tetra Pak is the support of school feeding programmes in low-income communities. School feeding programmes represent a long-term development effort that improves the nutritional status of millions of children and contributes to the development of the agricultural sector in developing countries, as well as developing new business for food producers. Indeed, school feeding programmes often function as catalysts for increasing demand for locally produced and processed high quality milk and thus for investments in the dairy sector by building a milk drinking culture among school children. Agricultural growth has special powers in reducing poverty across all developing countries worldwide. Cross-country estimates show that GDP growth originating in agriculture is at least twice as effective at reducing poverty as GDP growth originating outside agriculture (World Bank 2008).

	1990	2003
Raw milk production	43,544 tones	731,923 tones
Milk marketed	290 million litres	1,146 million litres
Farmers income	800 million Baht	26,800 million Baht
Per capita milk consumption	2 litres	23 litres

(Suwanabol 2005)

Figure 9: Effects of school milk programs in Thailand

At the same time, school feeding programmes improve the health and learning capacities of children. Regular consumption of fortified milk aids the normal growth and development of children, improves general health and good nutritional habits as well as increasing school performance and attendance. Due mainly to its high nutritional value, milk – particularly cow's milk – has played a major role in feeding programmes. Yet recently Tetra Pak started continuous efforts to develop new drinks using local produce and customising flavours to suit local preferences, e.g. ginger and pandan flavour. Soy beans, rice, corn, peas and cassava are other raw materials that have been processed and fortified with nutrients to satisfy specific nutritional requirements of populations from low-income communities.

Tetra Pak also supports the recycling of their packages by further developing recycling capacity as well as promoting collection among customer. For example, in Thailand, used beverage cartons are collected from waste dealers all over the country and recycled into paper and plastic-aluminium-composite products. In this way in 2007, about 9,000 tons of used beverage cartons could be recycled. Additionally, Green Board – a panel board made by heating shredded used cartons, waste from Tetra Pak factories, and polyethylene and aluminium residuals from paper mills – has several uses, such as in construction, decoration and furniture. In 2006, The Green Board Factory produced almost 12,000 sheets, which were processed from about 480 tons of Tetra Pak packaging materials. To further promote recycling in local communities, Tetra Pak runs workshops in conjunction with government agencies on paper and handicraft production, helping communities to manage used cartons and turn them into value-added products.

5.1.2 Sampling Issues in Studies on Social Embeddedness

The starting point of any analysis on embeddedness in a social network is to predefine the boundary of the relevant network, i.e. specifying all the relevant actors in the network who should be included in the analysis (Laumann, Galaskiewicz and Marsden 1978; Laumann, Marsden and Prensky 1983; Laumann, Marsden and Prensky 1989). This is a critical issue in network studies since the task is to analyse interdependencies between actors where the omission of important connections can lead to ambiguous results (Barnes 1979). Social network studies basically used two alternative approaches to specify the relevant population (Laumann, Marsden et al. 1983; Laumann, Marsden et al. 1989; Marsden 1990; Wassermann and Faust 1994). In the realist approach, the members of the network themselves are asked to draw the boundary around their network of relations by specifying the nodes to be included. It assumes that the network actors are aware of one another and include every important actor. Using a nominalist approach, the network in focus and its pertinent actors are discriminated by the point of view of the researcher based on theoretical and analytical purposes. Here, the underlying assumption is that the investigator has the necessary knowledge to specify the network (Knoke 1994). As it is often difficult for the researcher to determine the relevant network boundaries due to the complexity of social networks, the validity of the realist approach is considered higher (Laumann, Galaskiewicz et al. 1978).

What determines the necessary data for an accurate study on social networks is the level of analysis. While a whole network approach on the macro-level includes the entire network where data on all the actors and their relationships are required (Labianca, Brass and Gray 1998), on the micro-level the egocentric network approach focuses on a local network surrounding a focal unit (Marsden 1990; Wassermann and Faust 1994). Thus, data is collected either on the entire network or on a sample of relations depending on the focus of the study. Both approaches have their advantages as well as drawbacks. While the whole network approach provides information on all interactions inside the network, it can cause inaccuracies because defining the appropriate network boundary is crucial and often both difficult and time-consuming (Laumann, Galaskiewicz et al. 1978). It has been shown that individuals provide less accurate network data on distant individuals (Krackhardt and Kilduff 1999) while they are able to provide more accurate data on that part of the network they are most familiar with (Kumbasar, Rommey and Batchelder 1994). As a result, sampling issues are rather limited for a local network since egocentric networks only include the direct contacts of the focal units and the relations between those direct contacts (Marsden 1990), i.e. that part of the network the actors are most familiar with. This facilitates the access to relevant data and accelerates the data collection process as information on all of the ties within an individual's social networks is not required. This comes at the cost of eventually missing relationships distant from the focal unit, yet this method provides a reasonable representation of an individual's overall network (Burt 1984; Burt 1985; Marsden 1987; Marsden 1990; Wellman 1993; Burt 2002).

5.1.3 Sampling and Data Collection in this Study

In order to construct an appropriate sample and collect relevant data, various steps were necessary in the process of my study. First, I screened MNCs that satisfied the specifications of this study and I chose Tetra Pak as the preferred research object. To enlist Tetra Pak's support for my project, I first introduced my research by contacting the executive responsible for sustainable business at Tetra Pak Indonesia. Pronouncing the management's interest in contributing to my research project, I was invited to present the study, clarify details and discuss the requirements and process of the data collection with the relevant executive and the managing director. Offering their support for my project, they additionally referred me to Tetra Pak Thailand, asking for their cooperation for my project. Thus, I discussed my research with the executives of Tetra Pak Thailand who also offered their support.

In the next step, specific strategic initiatives with which Tetra Pak Thailand and Tetra Pak Indonesia approach low-income markets had to be identified, as these are the unit of analysis in this study. In literature, strategic initiatives have often been central to the analysis of strategy (see e.g., Burgelman 1991; Hart 1992; Lovas and Ghoshal 2000; Burgelman 2002; Volberda and Baden-Fuller 2003), mostly due to the facilitated assessment of strategic initiatives in practice compared to general strategy. Following the procedure of previous studies, I asked the designated contact persons of both subsidiaries to identify relevant initiatives with regard to specific criteria. For the present study, these initiatives have to focus on business activities for low-income markets, to be strategically significant, and to have been assembled within the last 2 years - as it can be problematic to collect data further back (Hansen, Podolny et al. 2001) - while both successful and unsuccessful as well as exploitative and explorative initiatives were needed.

Then I developed the questionnaire used to collect the necessary data for the present study. I decided to define the relevant networks based on a realist approach using egocentric techniques based on self-reported questions to discover the presence or absence of social ties as this is the most common method used to gather network data (Marsden 1990). Adopting an egocentric approach seems reasonable in the present study, as the theories underlying my hypothesis are more strongly associated to ego networks. Burt (1984) introduced a procedure for collecting egocentric network data where the affiliations in a respondent's network are assigned with the aid of name generators and additional data with the aid of name interpreter items. With this method, it is possible to gain information about characteristics of partners (e.g., whether they are local entrepreneurs, members of NGOs, etc.), about the properties of the relationship between the focal unit and its partners (e.g., frequency of contact, intensity) and about the existence of ties between pairs of alters (e.g., densely connected) (Burt 1984; Marsden 1990). Therefore, each initiative team member is asked to respond to a question that generates names of people in their social network outside the company who had assisted them in working on the initiative or whom they assisted in related issues (Fischer 1982; Burt 1984; Wassermann and Faust 1994; Burt 2002): "Think of the people who acted as a critical source of knowledge and other resources for this initiative during the past year. These are people you contacted when you needed assistance" (Reagans and McEvily 2003). It is important to consider the point in time when the dependent and independent variables are measured. Including network relations that were established after the completion of the initiative could distort the interrelations between dependent and independent variable. Therefore, only network relations that already existed before the completion of the initiative are included in the sample (see also, Burt 1992; Burt 1997; Podolny and Baron 1997; Hansen, Podolny et al. 2001). As the name generators are specific to the strategic initiative, it is unlikely that inappropriate network relations will be included. Moreover, this specification limits the potential bias of including ties that existed before the initiative but are no longer existent for the completion of the initiative.

The respondents also described their relationship to every contact in the resulting roster and noted if these direct contacts were in turn linked to one another using Burt's (1984) procedure for gathering specific information about five alters (see Chapter 5.2.2 for details). Based on this self-reported information about the egos' contacts, a network can be constructed for each initiative team (Marsden 1990; Hansen, Podolny et al. 2001). Therefore, the data on the strategic initiative and the individual network data are merged, assigning the individual's network ties to the initiative that the individual worked on (Hansen, Podolny et al. 2001). This is illustrated in figure 1. Respondent X assigns actor A and B as direct contacts outside the company, and they are in turn linked to one another. Respondent Y names actor A and actor C as outside contacts that are not linked to each other. Respondent X and respondent Y work together on the same strategic initiative. In order to construct the network in which this initiative is embedded, I aggregate the individual networks of respondent X and Y into a team network. Accordingly, this strategic initiative is embedded in a network of three direct contacts, namely actors A, B and C.

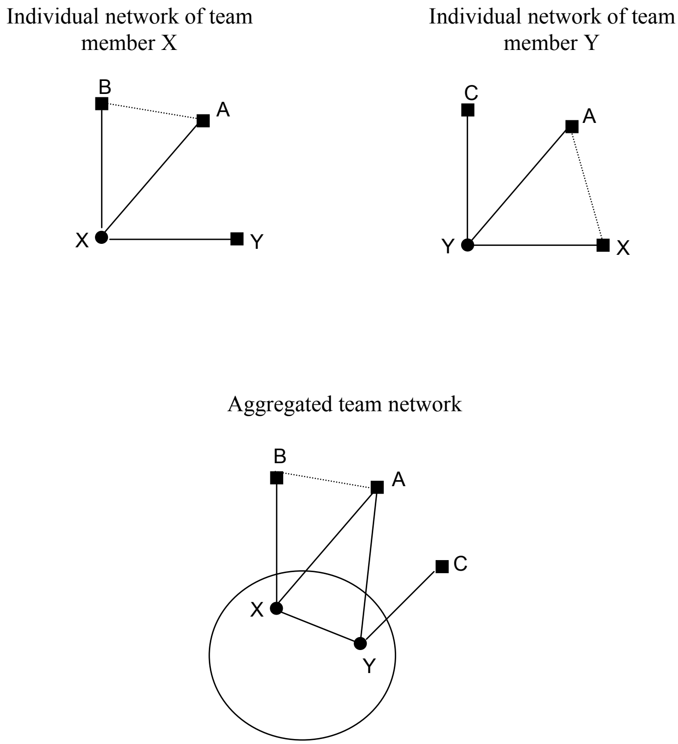


Figure 10: Individual networks and the aggregated team network

The required data was collected in self-reports of web-based questionnaires, as self-reports are considered most suitable for studying small networks (Marsden 1990).[10] Additionally, web-surveys are quite efficient as they are a fast and relatively in-expensive method for collecting data of which results can be quantified (Snow and Thomas 1994; Simsek and Veiga 2001) The response rates of web-based questionnaires are considered to be at least comparable (Kaplowitz, Hadlock and Levine 2004) and even higher (Kiernan, Kiernan, Oyler and Gilles 2005) than in traditional paper-based post mail surveys. To account for the limited attention span of respondents in surveys, the questionnaire was designed accordingly and used only one name generator question and limited the network size to five persons per respondent.

[10] See Appendix 2 for the pages of the questionnaire

Furthermore, web-based surveys allow for a dynamical customisation of the questionnaire as questions can be omitted, shortened or adapted according to the answers the respondent provided in previous questions. In self-reported studies, respondents tend to depict relationships accurately, especially when the relationships being studied are in the close network of the focal actor (Marsden 1990). Thus, in this study, self-reports seem to be a reliable method for the data collection as the egocentric technique is only concerned with the direct contacts of the focal actors, about which the respondent usually has accurate information.

The questions used in the questionnaire of the present study were directly drawn from previously established studies that have already been used extensively in research on the specific topic. As these measures were already tested in prior studies, a pre-test of the questionnaire was not necessary. Nonetheless, I discussed every question with the respective contact in the companies ensuring the appropriateness and comprehensiveness of the phrasing. Some minor adjustments in phrasing have been made in order to customise and clarify the wording. Upon the advice of the designated contact persons in both subsidiaries, I channelled the questionnaire to the initiatives teams via these contact people. They introduced the research project to each initiative manager, emphasising the interest and importance of their participation and asking for their support. The survey was conducted as an email survey where the link to access the web-based questionnaire was distributed by email from the dedicated contact person.

We agreed on a 4-week deadline for the respondents to fill in the questionnaire with a follow-up remainder via email from the contact person to the initiative manager with an additional deadline of another 2 weeks. In this way, I was able to achieve a surprisingly high response rate of 100% on 62 initiatives. The resulting sample consists of 30 initiatives that are executed by Tetra Pak Thailand and 32 initiatives by Tetra Pak Indonesia. The questionnaires were filled in by 52 respondents, of which 22 work for Tetra Pak Thailand and 30 for Tetra Pak Indonesia. I collected data on 11 initiatives that were answered by only one respondent while multiple respondents delivered the data on the remaining 51 initiatives. Among the 34 exploitation initiatives and 28 exploration initiatives, 40 initiatives were regarded successful – according to the respective management rating – and 22 unsuccessful.

	List of initiatives			
	Support for training of dairy farmers	Commercial financing of dairy plants	Improve existing distribution channels	Improve packaging solutions
	Establish milk collection centres	Technical support and training for dairy plants	Support distributors for market development	Support for school feeding programs
Exploitative Initiatives	Improve quality and yield of milk	Equipment financing	Train local communities in recycling	Nutrition, health and safety
	Establish ways to increase milk production of farms	Establish ways to increase production	Establish guidelines for proper storage and handling	Create guidelines to educate school children regarding the importance of milk
	Reduce dependency on milk imports	Develop possibilities to increase farmer's income		
			Improve availability of fortified packaged milk in low-income markets	Create possibilities to raise environmental awareness
			Develop possibilities for products fortification	Establish infrastructure for carton recycling
			Create possibility to reduce costs of production/distribution	Establish awareness for the need of carton recycling
Exploitative Initiatives			Develop possibilities to provide consumers product information and	Educate school children regarding carton recycling
			Create possibility to reduce costs of distribution	Develop new environmentally friendly packaging solutions
			Develop new products (soybean, rice, pea)	
			Improve affordability of packages	
			Improve existing products	
			Establish new distribution channels	

Table 1: List of initiatives

5.1.4 Examination of Potential Biases

In any study, the risk emerges of potential biases that can distort the results, making conclusions and interpretations easily unfeasible. To ensure the robustness and quality of my results, I choose methods to avoid several biases and conducted tests to detect possible biases inherent in my study. In the following, four kinds of biases are explained that could occur in the present study along with my approach to detect and limit these biases.

Single-Source or Common method bias

Common method bias indicates that the measurement technique introduces systematic variance into the measures, which results in differences between the observed and the real relationship between variables (Podsakoff and Organ 1986; Aviolo, Yammarino and Bass 1991; Doty and Glick 1998; Podsakoff, MacKenzie, Lee and Podsakoff 2003). This risk emerges when some or all of the observed variables are gathered from a single source, such as one survey instrument, particularly when self-reported measures are employed (Spector 2006). As most of the data of the present study are based on responses from the initiative team members from the same survey, I need to determine if single-source bias might present a problem in the current sample. All independent variables, network density and tie strength are therefore suspect to single source bias, while I tried to avoid single-source bias in the dependent variable by gaining data from multiple sources, i.e. the initiative team members and the corporate headquarters.

Specifically, I attempted to isolate the potential covariance due to artifactual reasons using Harman's single factor test as proposed by Podsakoff and Organ (1986). Harman's single factor test relies on factor analysis. The underlying assumption of using this test to investigate common method bias is that substantial common method variance would correspond to the emergence of either a single factor or one general factor that explains the majority of the covariance in the variables (Podsakoff, MacKenzie, et al. 2003). Thus, I ran a principal component analysis with the data of the present study to investigate if one single factor accounts for the majority of the original variance in the study variables. The un-rotated factor analysis evinced four distinct factors with Eigenvalues greater than one while each accounts for not more than 30 percent of the variance. The first factor accounts for 26.9 percent of the variance, while the other three factors explained an additional 18 percent, 15 percent and 12.6 percent. The cumulated variance explained by the four factors aggregates to 72.6 percent of the overall variance explained by the variables in the study. Thus, as the analysis revealed more than one factor with no factor explaining the majority of the variance, common method bias or single-source bias does not represent a major concern for the current dataset.

The single-factor test provides only an indication of whether variance in the observed measures is partially attributable to a method but it is not able to statistically control method effects (Podsakoff, MacKenzie, et al. 2003). Thus, for initiative performance, I additionally applied another approach using triangulation to detect common method bias directly, i.e. the degree to which correlations are inflated due to a method's effect (Spector 2006). Therefore, I collected data on the initiative performance from two different sources using different instruments. I asked the initiative team members to report on the performance of their initiative in the questionnaire while I additionally asked my contact persons in the two companies to judge the performance of the initiatives in interviews. Running a linear regression with the performance score resulting from the survey and an alternative logistic regression with the dichotomous performance score obtained from the interviews revealed no significant differences. This even more accurate approach to detecting common method bias also did not indicate the existence of this bias in the present data set. Thus, I conclude that common method bias is a minor threat for the results of this study.

Multiple and single respondent bias

In the present study, the data used for the analysis is typically obtained from multiple respondents. Nevertheless, for some initiatives only a single respondent's ratings are used, and these are subsequently treated in the same way as the scores from initiatives with multiple respondents. This procedure is only feasible if no systematic differences in ratings from these two groups occur in the data set. In the present survey, multiple respondents reported on 51 initiatives, whereas 11 initiatives were each covered by a single respondent only. In order to detect potential differences between the ratings of multiple and single respondents, I employ the Kolmogorov-Smirnov test. This test determines whether the two groups of single and multiple respondents differ significantly by comparing the empirical distribution functions of the two samples (Backhaus, Erichson, Plinke and Weiber 2000). The results of the test in the present study reveal no significant differences between single and multiple respondents at the $p<0.01$ level. Thus, I conclude that multiple and single respondent bias does not affect the data in the present study, which permits the treating of all initiatives equally.

Inter-rater agreement bias

In cases where data is gained from multiple respondents, it is possible that the responses vary across the respondents. Significant deviations of the responses from the mean indicate a considerable bias of individual connotations in a sample. In order to avoid inter-rater agreement bias, some researchers select only one rater. However, this approach is not very well accepted since it is nearly impossible for the researcher to identify from a group the one most knowledgeable and confident informant who accurately reports on the situation (Kumar, Anderson and Stern 1993; Simsek and Lubatkin 2003).

In the present study, all members of the initiative teams are asked to provide data on their network relations and initiative performances. The single responses are then used to measure the initiatives' overall scores. Therefore, it seems important to consider the issue of inter-rater agreement bias and examine if this bias is inherent in the measures used in this study. As these measures are quite diverse, it is reasonable to examine the potential threat of inter-rater agreement separately for each independent variable - tie strength and density - as well as the dependent variable - initiative performance.

For the measure of tie strength, inter-rater agreement is not an issue due to the nature of the measure. In order to obtain information about tie strength, each team member was asked to rate his/her *individual* relationship to outside partners with regard to frequency and closeness of the contact. They were not asked to judge the initiative team's *overall* frequency and closeness to these partners. Thus, each respondent judged a different "objective", i.e. the individual relationship. It is not realistic to assume that these ratings are in accordance; furthermore, it is not even desirable that the respondents agree on the nature of their relationships. In order to obtain the overall measure of tie strength for the initiative itself, the individual scores of team members were averaged. Inter-rater agreement is, thus, not relevant in this case.

With regard to network density, however, inter-rater agreement *is* an issue. The respondents were asked to judge if their respective contacts know each other. In cases where two or more members of the same initiative team have the same contacts, they are asked to rate the very same relationship. Deviations of responses in these cases can lead to inter-rater agreement bias. In order to detect such inconsistencies, I screened the responses of each initiative team.

It seemed quite common that members of the same initiative team had one or more contacts in common. However, in the present data set, there occurred no cases where team members judged differently concerning the existence or non-existence of relations between shared contacts. Consequently, I can conclude that inter-rater agreement bias is not inherent in the data on density.

In order to assess inter-rater agreement on the performance measure, I employ the method of triangulation. I ask not only initiative team members but also management executives to rate the performance of their respective initiatives. While the performance measure obtained from the team members, i.e. the mean of ratings of all team members, is possibly distorted by inter-rater agreement bias, the external measure is, by nature, free of such bias as it is acquired by a single respondent. I correlated the average performance score of team members with the absolute score of executives to detect possible deviations between these two measures. The high correlation index of 0.856 indicates the accordance of the two measures. This in turn implies that there are no, or only minor, deviations in the team members' assessments. Minor deviations are averaged out due to using the mean of scores resulting in the accordance of these scores to the executives' rating on the same objective. In any case, inter-rater agreement bias is also not a threat for the dependent variable and therefore not an issue for the present study.

Non-respondent bias

Assuming a difference in motivation, engagement and satisfaction between early and late respondents is the reason for testing whether significant deviations occur in the responses between early and late respondents in the gathered data set (Newman 1962; Armstrong and Overton 1977; Fowler 1993; Borg 2000; Newman 2000). These differences could result in discrepancies in the survey data, as more motivated and satisfied team members are assumed to report more positively on their initiative and outcomes while late respondents are assumed to report more negatively due to their more critical and less satisfied attitude (Borg 2000). In order to detect this potential threat to external validity, the responses of early and late respondents were compared. I divided the respondents into two groups: those of the early respondents and those of the late respondents. Early respondents were those who completed the questionnaire within the initial 4-week period, while late respondents were those who completed the survey after the follow-up. Running a t-test revealed that the two groups of early and late respondents exhibit no significant differences in the survey data. Based on these non-significant results, I conclude that there is no notable difference in the responses of the two groups and thus non-response bias represents no difficulty in the present study.

Retrospective report bias

Incomplete recall and retrospective rationalisation of past events can be the reason for another potential bias based on self-reported surveys (Golden 1992). In the present study, the questions are aimed at already completed or nearly completed initiatives assembled within the last year. This restriction is made to limit the retrospective report bias, since it can be difficult to report on events that lie further back (Huber and Power 1985; Hansen, Podolny et al. 2001). A considerable proportion of initiatives examined in the survey was still not completed at the time of data collection, which ensures a high quality response due to the timely close point of action. Collecting data from multiple respondents additionally reduces the risk of non-accurate reports as it is improbable that all respondents distort descriptions in the same way due to insufficient recall. Thus, the retrospective report bias should be minimal in the present study.

5.2 Measures

This chapter is concerned with the appropriateness, selection and description of measures that fit the purpose of this study. Firstly, validity and reliability issues are considered (5.2.1). Next, I describe the measures used to assess the dependent variable (5.2.2) and the independent variables (5.2.3). Additionally, control variables that have to be considered are introduced in order to assess all possible influences inherent in the model (5.2.4).

5.2.1 Validity and Reliability Issues

The quality of the measures, with which the constructs under investigation are conceptualised and their effects calculated, is a crucial consideration when conducting a study. I attempt to ensure that the measures in the present study accurately represent the concepts of interest (validity) and that they are consistent over time (reliability). In the present study, only well-established measures from previous studies that have already been tested and proven reliable and valid are employed. A variety of measures that have been established over a long period of time exist to assess social networks (see e.g., Wasserman and Faust 1994; Scott 2000). Thus, there has already been a fruitful and extensive discussion in literature about their reliability and validity. I especially chose measures that are considered to be most reliable and valid out of a variety of existing measures in this literature stream. This procedure alone should in fact be sufficient to account for the reliability and validity of the measures used in the present study. Nonetheless, I take additional precautions to ensure the validity and reliability of the measures used and apply tests to assess their quality. These are described in the following chapters for each of the single measures adopted in the present study.

5.2.2 Dependent Variable

The dependent variable in the present study is the performance of the strategic initiative. In order to assess initiative performance and the impact of embeddedness on initiative performance, precisely when an initiative is considered successful has to be defined. The conceptualisation of initiative performance varies widely in literature. Some studies measure performance by the resource commitment and top management attention (e.g., Bower 1970; Birkinshaw 1997; Lovas and Ghoshal 2000; Burgelman 2002), while others focus on outcomes, such as project goals and satisfaction (McGrath 2001; Wielemaker, Volberda, Elfring and Baden-Fuller 2003) or financial performance (Floyd and Wooldridge 2000). Which view of initiative performance is most suitable for the present study depends on the specific circumstances of the study and which measure best represents the construct underlying my hypotheses. The basic argumentation of the market-based approach in low-income markets is that the successful operation of MNCs in terms of organisational performance will in turn improve the living conditions of people in these markets and stimulate economic development (e.g., Prahalad and Lieberthal 1998; Prahalad and Hart 2000; Hart and Christensen 2002; Prahalad and Hammond 2002; Hart and Sharma 2004; London and Hart 2004; Prahalad and Ramaswamy 2004; Hart 2005; Prahalad 2005; Hammond, Kramer et al. 2007). In other words, if MNCs consider their operations in these markets as successful when measured by operational and financial performance measures such as ROI, access to new markets, growth of customer base, company growth etc., this will lead to a better social performance of the company in terms of generating social benefits. Based on this general logic of the BOP approach, the operational and financial performance of the company is in focus of the present study and as such the underlying construct of the proposed hypotheses.

Accordingly, I assess initiative performance on the basis of initiative goals. In order to gain a differentiated and comprehensive measure, I follow the approach of McGrath (2001) who assessed the performance of projects on various dimensions. Using a 7-point Likert scale, the initiative members are asked to "Assess the performance of the strategic initiative over the last three months on each of the following dimensions: A) Meeting staffing goals B) Meeting time expectations C) Meeting quality parameters D) Meeting reliability parameters E) Meeting cost parameters F) Meeting efficiency parameters G) Meeting client satisfaction/expectation H) Meeting service expectations." To ensure the reliability of this measure, I calculate Cronbach's Alpha which exceeds 0.7 for the sample, representing a high value (Nunally 1978). The resulting scores for each dimension are then averaged for all members of each initiative team. To obtain the one score measuring the performance of each initiative, these average scores are totalled and averaged across all dimensions. Following this approach, potential biases of individual responses are eliminated allowing a more conservative interpretation of results as assumptions about normality are more easily justified (Gresov, Drazin and Van de Ven 1989; McGrath, MacMillan and Venkataraman 1995).

This measure to assess performance is a composite measure with various key items. In order to gather valid results, I have to ensure that the items are indeed appropriate for measuring the underlying construct and testing whether the measure is unidimensional. In other words, multiple indicators of the same theoretical construct should be positively and strongly related. Therefore, I run a principal component analysis, which allows the extraction of common underlying factors. Components belonging to one factor are highly related. By rotating the factor matrix, the loadings of the extracted factors become obvious. High factor loadings indicate that the components contribute highly to the variance of the factor. The principal component analysis extracted one single factor accounting for 88.9% of the variance with high loadings over 0.9 for each item. Thus, all items contribute significantly to the initiative performance, which ensures that the measure used is unidimensional.

Additionally, I assess a second performance measure from the viewpoint of the corporate headquarters. This is done for two reasons. First, recalling the intention of the stated hypotheses, I investigate how MNCs should be embedded in local social relations to increase the performance of initiatives that are aimed at market-based activities in low-income markets. Thus, for the purpose of this study, it is important that the strategic initiatives be integrated into the current strategy of the MNC since I use the initiative as an indicator for the company's strategy. Therefore, it is reasonable to additionally define the success of a strategic initiative in cases where it is integrated into corporate strategy and accordingly supported by top management. Corporate headquarters should judge if single initiatives are successful or not in terms of top management support and integration in the overall strategy. An initiative is accordingly considered unsuccessful in cases where it is abandoned and not sustained with corporate resources. Second, I assess this additional measure for the performance of initiatives because the first measure could be biased since the team members are asked to judge their own success. Such self-reported performance measures often suffer potential success biases (Podsakoff and Organ 1986). The judgement of the corporate headquarters regarding the performance of the initiatives is rather objective and therefore an important addition to eliminate potential bias and ensure the quality of the study.

5.2.3 Independent Variables

The independent variables in focus of my investigation are network structure and tie strength.

Network structure

In this study, egocentric techniques are used; thus, local density is the measure of interest to examine the interconnectedness of the focal team's direct partners. Typically, the focal unit, as well as the relations to its direct contacts is disregarded in an egocentric network when measuring local density; only the links between direct contacts are included (Scott 2000, p.72). For the calculation of the network structure the quality of ties is not pivotal. Some researchers only include strong relations between alters to regard the network structure as dense. Yet, most scholars define density not with regard to the strength of ties but only with regard to the existence of a relationship between the actors, no matter if strong or weak. Accordingly, only the existence of the contact between alters is measured to compute network density in this study.

Focussing on the egocentric network entails measuring the local density rather than global network connectedness. Thus, only the connectedness of ego's direct contacts is included in the density measure while contacts and links between actors in more distant regions of the network are disregarded. Using a local density measure is justified by the fact that the theoretical arguments used to formulate the hypothesis on structural embeddedness are mainly attached to ego networks, such as the closure argument of Coleman (1988) proposing collective norms and sanctions within a dense network between direct contacts. A global measure of density would entail that the overall connectedness of the network was having an impact on the focal actor, which is not supported by the adopted theories (see also, Rowley, Behrens et al. 2000). Structural characteristics of distant network parts seem unlikely to impact behaviour in the ego's network, which is supported by Garcia-Pont and Nohira's findings (Garcia-Pont and Nohria 1999).

Network density in egocentric networks is usually measured by cohesion indicating the presence of ties between the focal unit's direct partners (see e.g., Marsden 1990; Ibarra 1995; Podolny and Baron 1997; Galunic and Moran 2000). The data capturing the existence of indirect[11] ties between direct contacts are gained from the questionnaires of the initiative team members being asked to assign the presence of a tie between each pair of the listed partners (Burt 1992; Burt 1997; Podolny and Baron 1997; Hansen, Podolny et al. 2001). This procedure is based on two assumptions (Hansen, Podolny et al. 2001): First, the reporting on indirect ties should not be systematically biased across the different initiative teams. This includes that members of all teams are equally biased so that the information gained regarding indirect ties are equally accurate across the teams (Krackhardt and Kilduff 1999). Second, following the approach adopted by Hansen, Podolny and Pfeffer (2001), I have to make assumptions about unknown data between direct contacts. The approach of investigating egocentric networks that are aggregated by the individual networks of initiative team members can result in missing information on relationships between contacts. This is illustrated in figure 11 recalling the example of figure 1 including the matrices. As actor C is no direct contact of respondent X, and actor B is no direct contact of respondent Y, it is unknown if these two actors A and C are linked to each other. This piece of information is missing since neither of the respondents was asked to report on the link between those two actors. They were only asked to assess the relationships between contacts they named in their own network.

[11] I refer to indirect ties as relationships between direct contacts of team members. Direct ties involving the focal actor as well as ties between team members are excluded when indirect ties are computed.

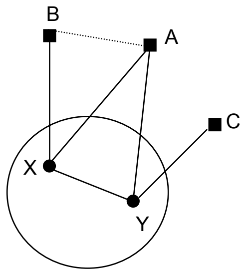
Individual network of team member X

Individual network of team member Y

	X	Y	A	B
X	●	1	1	1
Y	1	●	0	0
A	1	0	●	1
B	1	0	1	●

	X	Y	A	C
X	●	1	1	0
Y	1	●	1	1
A	1	1	●	0
C	0	1	0	●

Aggregated team network



	X	Y	A	B	C
X	●	1	1	1	0
Y	1	●	1	0	1
A	1	1	●	1	0
B	1	0	1	●	?
C	1	1	0	?	●

Figure 12: Individual networks and the aggregated team network including matrices

According to Hansen, Podolny and Pfeffer (2001, p.20) "there is no reason to believe, however, that the extent of indirect ties for unreported contacts should differ systematically from the extent of ties for reported contacts". Thus, the second assumption for the procedure in this study is that the ratio of unreported indirect ties to the possible number of indirect ties that are unknown equals the ratio of reported indirect ties to the possible number of indirect ties that respondents could report on.

The density measure is usually calculated as the ratio of the number of reported indirect ties and the maximum possible number of indirect ties - if each partner was tied to every other. In order to calculate the appropriate density measure for the present study, I have to adjust the maximum possible number of ties among the team's partners' needs as not all ties could possibly be reported. Thus, the maximum number of possible indirect ties is reduced by the number of ties that could possibly occur between partners who are named by different team members. The local density measure is then calculated as the number of reported indirect ties divided by the adjusted maximum number of possibly reported indirect ties.

Strength of ties

Tie strength is concerned with the quality of the social relations between the initiative team members and outside partners. The original definition of tie strength goes back to Granovetter (1973, p. 1361) who interpreted the strength of a relational dyad as the "combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services which characterise the tie". In subsequent research, scholars rendered the notions of Granovetter's explanation of tie strength in four dimensions, namely frequency of interaction, closeness between actors, intimacy of the relation and reciprocity of interaction (see e.g., Marsden and Campbell 1984; Nelson 1989; Hansen 1999). Of these four, frequency of interaction is the measure that can be assessed most precisely as it is a clear notion, which ensures the accuracy and reliability of results. The other measures (closeness, intimacy and reciprocity) are more difficult to grasp for both the researcher, with regard to a valid and reliable operationalisation, and the respondent as it can be hard to describe and judge subjective feelings such as intimacy. This is especially true for inter-organisational relationships that are related to a business task where these personal measures do not seem appropriate (Hansen 1999). Moreover, Granovetter (1973) states that the frequency measure acts as a proxy for the other three dimensions he defined for tie strength, since usually a high frequency of interaction between units is accompanied by high values of the other notions. This has also been confirmed in a more recent study of Reagans and McEvily (2003) for frequency and closeness discovering that people are emotionally close to those contacts with whom they interact more frequently.

Following the majority of prior research (cf. e.g., Granovetter 1973; Hansen 1999; Rowley, Behrens et al. 2000; Hansen, Podolny et al. 2001) on networks, I will consider frequency as a measure for tie strength in this study. Nevertheless, to account for the existence and usage of other possible measures for the construct of tie strength and to ensure convergent validity of the frequency measure, I additionally assess the closeness measure as a control in my study. I choose this measure since some researchers define frequency and closeness as the two main dimensions of tie strength (Marsden and Campbell 1984).

After the respondents generated a list of names comprising their direct contacts, they were asked to describe their relationship with each of these contacts in terms of communication frequency. As egocentric techniques are adopted in this study, a tie exists from the respondent to the contact if the respondent reports a relationship as well as in the quality he reports it (Reagans and McEvily 2003). There is no requirement of the named contact to confirm the existence or the quality of the relationship (Reagans and McEvily 2003). Following previous research in this field, I ask only one socio-metric question to assess the frequency of interaction on a 7-point Likert scale (Ibarra 1993; Labianca, Brass et al. 1998). The question is phrased rather similarly to those of prior research and also the order of the scale (from very strong to very weak) is adopted here from the majority of previous studies (see e.g., Hansen 1999; Hansen, Podolny et al. 2001; Reagans and McEvily 2003). In this way, I assure the quality of the measure and common method bias can be kept low. Literally, respondents are asked: "How frequently did you interact with each of the listed contacts for issues related to the initiative task (on average over the past year). 1=once a day, 2=twice a week, 3=once a week, 4=twice a month, 5=once a month, 6=once every second month, 7=once every three months."[12]

[12] Due to its construction, the measure of frequency associates high levels of frequency with a low score. Thus, a negative relationship between the measure for frequency and performance would imply a positive relationship between tie strength and performance. In order to make interpretation more intuitive, I recoded the frequency measure so as to reveal the inverse value in the regression output that can be literally interpreted with regard to the hypotheses.

I adopt well-established methods for this procedure in my study with regard to reliability and validity issues. The common problem that respondents find it hard to recall the relationship and to report on its quality (Marsden 1990) is minor in the present study because the respondent just named its partners and also because the number of listed contacts is quite low. Additionally, the specific formulation of the question on the frequency of interaction enhances the reliability of this measure even more (Bandura 1986). According to Freeman, Romney and Freeman (1987) respondents are quite accurate when they are asked to report on typical patterns of their life, such as daily work. Since my socio-metric question is related to the main task of the respondent, it can be assumed that the reports are quite accurate.

The construction of symmetric, non-directional socio-matrices has proved to be most suitable for computing social network measures (Wassermann and Faust 1994; Scott 2000). For each initiative team, I assessed the relations between each team member and outside partners. This is done for each initiative team incorporating the relations of each team to outside partners. I assessed the score of frequency for each initiative team by using the average frequency score of all its contacts. In order to ensure convergent validity, I additionally use a different socio-metric question for each initiative team to measure closeness on a 4-point Likert scale: “How close are you with the listed contacts” 1=distant, 2= less than close, 3=close, 4=especially close”. I calculate the closeness score of each team by the average closeness of all of the team’s ties to outside partners following the procedure adopted for the frequency measure. Using the Pearson Correlation Index, I examined if the measures of frequency and closeness are in fact consistent. The correlation index of 0.559 at a $p<0.01$ level of significance confirms the uniformity of the two measures. Consequently, for the analyses of this study, I used frequency as the only measure to assess tie strength.

The hypotheses on the relational dimension of embeddedness (H1a, H1b, H2a, H2b) are separated by the categorisation of the partners in terms of commercial stakeholder and non-commercial stakeholder partnerships. In order to analyse tie strength separately by partner groups, I assess the relations to stakeholder partners and the relations to non-commercial stakeholder partners individually. The information on the affiliation of the particular partner is assessed within the name interpreter items described above. The frequency score is computed twice for each team separated by the partner’s affiliation.

Exploration/Exploitation

The main contingency investigated in this study besides the differentiation between commercial stakeholder and non-commercial stakeholder partners is the type of strategic initiative. To determine whether an initiative is explorative or exploitative, the specific characteristics of each type of initiative have to be consulted. As outlined, exploratory initiatives are aimed at the discovery of new resources and ideas while exploitative initiatives focus on the utilisation of existing resources and knowledge. In order to measure these characteristics, previous research conceptualised exploration and exploitation on a continuum in terms of the degree of newness to the company (see e.g., Hansen 1999; Hansen, Podolny et al. 2001; Reagans and McEvily 2003). In doing so, they focused on different dimensions in which the task is new to the company. While Hansen et al. (2001) only draw on experience and expertise with regards to technologies and markets, McGrath (2001) included a much wider range of dimensions to measure the degree of exploration, e.g. products and services, target customers, distribution channels, markets, customer needs etc. For the present study, the various dimensions McGrath conceptualised seem more appropriate as they correspond more accurately with the sort of newness a company faces in low-income markets.

The plan to include the question assessing the exploration or exploitation character of the initiative in the questionnaire was dropped after extensive discussions with my executive contacts. I followed their advice and refrained from asking the initiative members to judge the character of the initiative as a more precise and reliable evaluation can be expected from the management.

Thus, we discussed each initiative with regard to their newness in the dimensions chosen by McGrath (2001): partners, product/service offered, market or clients served, customer/clients need, competition faced, system used, know-how, skills, technology used, and distribution channels. On the basis of these dimensions it was rather simple for the executives to classify the initiatives into the groups of explorative or exploitative initiatives.

5.2.4 Control Variables

To reduce threats to internal validity, I incorporate some control variables in the analysis that might influence the relationships between the studied variables. Possible effects exerted by these variables have to be considered when interpreting the results of the study in order to reveal the true relationships between the studied variables.

To make the initiatives comparable and exclude any undesired effects, I consider two initiative-specific variables that have been identified by prior research to exert possible influence on initiative performance (Bryson and Bromily 1993; McGrath 2001). Differences in size might affect the initiative's performance following the same logic as researchers recognised that firm size influences collaboration and performance. It can be assumed that larger initiatives have more resources at their disposition than smaller initiatives. This in turn might influence the performance of the initiatives in the way that initiatives with more resources can more easily increase their performance, while small initiatives simply do not possess the means to generate comparable performance. Additionally, differing initiative sizes might also affect the embeddedness of the team. Small teams have probably fewer contacts that might be stronger compared to big teams. Thus, I have to control these effects of initiative size to be able to compare initiatives of different sizes. Initiative size can be assessed by counting the number of people working on the initiative (Hansen, Podolny et al. 2001; McGrath 2001).

Apart from the size of the initiatives, the varying scope of initiatives might also influence the performance (Bryson and Bromily 1993). The more important an initiative is, the more management attention and support it will enjoy and, accordingly, more resources will be allocated in such initiatives. Teams that dispose of relatively more resources are more likely to gain higher performance. Furthermore, initiative teams with great impact can attract more attention which could lead to various but weak ties influencing the embeddedness perspective. The scope of single initiatives can be measured along various dimensions, such as their impact on profit, market share, costs etc. (Papadakis, Lioukas and Chambers 1998). After discussing this aspect with my management contact in each of the respective companies, I decided to obtain the information regarding the impact of the initiatives not from the initiative teams but from the management team as proposed by my contact person. Doing so will provide more accurate information on the scope of the single initiatives as the management is in a position to judge the importance of the initiatives more precisely than the team members themselves. Therefore, the impact of each initiative on profit, market shares and sales was evaluated by my contact persons in the management team on a 7-item scale ranging from 1= "very low impact" to 7="very high impact".

As I obtained the data for this study on two different research sites, it is necessary to include control variables that account for possible effects resulting from the single sites. Although both research sites are subsidiaries of the same multinational company, different locations of business along with cultural differences can be especially important in controlling when social networks are in focus of the research. Thus, I included a dummy variable for each location with a value equal to 1 for Tetra Pak Thailand and a value equal to 0 for Tetra Pak Indonesia.

5.3 Analysis

This chapter outlines the method employed to analyse the collected data using the measures described above. Additionally, the specific requirements that have to be satisfied in order to apply the method of analysis are explained and tested for the data of the present study.

5.3.1 Multiple Hierarchical Regression Analysis

The computer program SPSS was used for all tests and analyses applied in this study. I test the hypotheses established in Chapter 4 performing a hierarchical regression analysis. I chose this method of analysis as it allows me to specify the order in which the variables are entered into the regression model. Based on logical and theoretical considerations, the variables can be entered separately one after the other or in blocks (Backhaus, Erichson et al. 2000; Tabachnick and Fidell 2000). Hierarchical regression is used to evaluate the relationship between a set of independent variables and the dependent variable, controlling or taking into account the impact of a different set of independent variables on the dependent variable. As opposed to conventional regression analysis, where all variables are entered at the same time, hierarchical regression reveals the effects each variable or block of variables additionally exerts (Tabachnick and Fidell 2000). It therefore allows the determination of the relative importance of each independent variable or block of variables (Hair, Anderson, Tatham and Black 1998).

I followed a common hierarchical regression procedure that specifies three blocks of variables: a set of control variables entered in the first block; a set of predictor variables entered in the second block to measure the main effects; and in a third block, interaction terms to test the relationship proposed in Hypothesis 5 regarding the interdependence of relational and structural embeddedness. The result of the regression with controls only shows the influence the controls exert on initiative performance. Thus, it reveals if any effect is significant and how much variance is explained by the control variables. This result can then be compared with the output of the regression model where all independent variables are additionally included. The model including the predictors is expected to explain substantially more variance and significant influences of the predictor variables on initiative performance. The last model measures the interaction between tie strength and density by including an interaction term into the regression. To allow for the specific intention of Hypothesis 5, only situations where strong ties are supposed to exert a positive influence on initiative performance are tested with the interaction term. Thus, for the sample of exploitation initiatives, two interaction terms were included into the regression: one accounting for the interaction between tie strength to stakeholder partners and density, i.e. the product of these two measures, and the other term representing the interaction between tie strength to non-commercial partners and density. In exploration initiatives, only in the relation to non-commercial stakeholders are strong ties considered to positively influence initiative performance. Therefore, only in this case, I incorporate the interaction term consisting of the product between frequency to non-commercial stakeholders and density. The specific results of the regression analysis are presented in the following chapter and discussed in the subsequent section.

5.3.2 Required Sample Size

To employ multiple hierarchical regression analysis, a minimum sample size is required for the results to be meaningful. If the sample is too small, the results are too specific to the underlying sample and therefore lacking generalisability (Hair, Anderson et al. 1998). Thus, an acceptable level of statistical power has to be reached in every study. In other words, the probability of the test to reject a false null hypothesis should not be in-significantly small. A rule of thumb for the minimal required sample size to run a regression analysis is to have 4 to 5 times more cases in the sample than independent variables (Aiken and West 1991; Hair, Anderson et al. 1998; Tabachnick and Fidell 2000).

The units of analysis in the present study are the strategic initiatives of Tetra Pak Indonesia and Tetra Pak Thailand, which follow a market-based approach in low-income markets. I gathered data from 62 strategic initiatives which determine the overall sample size. Yet, I conduct the regression analysis dividing the overall sample into two groups with regards to their strategic intent: strategic initiatives aimed at exploiting existing resources on the one hand and initiatives focussed on exploring new opportunities on the other. This separation of cases is necessary because, as I assumed in Chapter 4, the strategic intent of the initiative determines which embeddedness configuration is more favourable. Thus, the sample for exploitation initiatives comprises 35 cases while the sample for exploration initiatives contains 28 cases. Testing 3 control variables and 3 independent variables provides, in the case of exploitation initiatives, 5.8 times more cases than variables, and in the case of exploration initiatives, 4.6 times more observations than variables. In the interaction model, the number of variables increases by the two interaction terms in the situation of exploitation initiatives diminishing the ratio to 4.3, while for the exploration sample, one interaction term is added resulting in a ratio of 4. In any case, the demanded threshold of a minimum ratio of 1:4 variables to observations is exceeded in all models, the main effect models and the interaction models for exploitation and exploration strategies. Accordingly, I can assume that the sample size in the present study is adequate to obtain statistically powerful results.

5.3.3 Preconditions for Multiple Regression

Multiple regression analysis can only be applied if the respective data set satisfies some necessary preconditions. Without these requirements being fulfilled, the results of the regression analysis are considered in-valid and any conclusions futile. These necessary assumptions are normality, linearity, homoscedasticity and independence of the residuals, as well as linearity and absence of multi-collinearity of the independent variables. In the following, I examine whether these prerequisites are fulfilled in the present data set in order to apply multiple hierarchical regression as, otherwise, some transformations have to be considered.

Preconditions for the residuals

A graphical examination is the common procedure to test if the distribution of the residuals, i.e. the differences between the observed and predicted values, is approximately normal. Therefore, the residuals are displayed in a histogram or a probability-plot-diagram, which allows the comparison of the distribution of the residuals with a normal distribution. For the present data set, the graphs show quite a similar distribution to normal, especially for the sample of exploration cases. Nevertheless, as a visual comparison of the distributions is rather disputable, I additionally employed a statistical test to ensure the normality of the residual. The Kolmogorov-Smirnov test examines the hypothesis "the variables are normally distributed" with a certain significance allowing a clear statement regarding the distribution assumption of the residuals. In the present sample, I ran the test for the whole sample as well as for the two sub-samples separately on a level of significance of 0.01. In each case, the Kolmogorov-Smirnov test confirmed the conclusion of the visual examination assuming that the residuals follow a normal distribution. Thus, the normality of residuals can be presumed for the present study.

The linearity of the residuals is usually examined by employing a graphical method. Scatter plots display the relationship between the residuals and the predicted values of the dependent variable allowing conclusions regarding the nature of the relationship (Montgomery, Peck and Vining 2006). Therefore, I plotted the standardised predicted values and the standardised residuals in a coordinate system and analysed the resulting graph with regard to a specific pattern. In both sub-samples, the scatter plots of the predicted scores against residuals did not reveal any specific order, confirming the linearity of the relationship. Additionally, I plotted the standardised residuals against the dependent variable. Again, the graphs did not indicate any pattern, which re-affirms the result of the previous graphical analysis.

In order to examine the homoscedasticity of the residuals, I generated and scrutinised the partial regression plots for all control and independent variables. This procedure displays for every independent variable its relationship with the dependent variable excluding the influences of the respective other independent variables. Thus, the gradient of the regression line in the partial scatter plots corresponds to the predicted coefficients in the regression model. If the variance of the residuals of each variable is equally distributed along the predicted values of the dependent variable, the consistency of the variance of the residuals can be assumed (Tabachnick and Fidell 2000). An explicit order of the residual distribution, i.e. increasing or decreasing deviation with higher values of the dependent variable, therefore, suggests an un-equal distribution of the residuals and thus heteroscedasticity. The partial regression plots for both sub-samples in the present study did not indicate any specific pattern. This result affirms homoscedastic residuals in this study. Nonetheless, I additionally applied the Glejser-Test to verify my results of the visual examination. The test assesses the hypothesis that homoscedasticity is prevalent in the model. In order to test this proposition, the absolute values of the residuals are regressed on the predicted values of the dependent variable. I employed this regression resulting in in-significant models, which confirms the presumption of homogeneous residuals in the present data set.

The final assumption that the residuals have to satisfy is the independence of the residuals among each other. In cases where the residuals correlate, the regression coefficients seem more significant than they are in reality. In order to avoid unreliable test results, I apply the Durbin-Watson-Test to assess whether the error terms of the present data set are correlated (Tabachnick and Fidell 2000). The common rule of thumb proposes that values of the Durbin-Watson coefficient between 1.5 and 2.5 indicate no correlation while values under 1 or over 3 suggest a correlation between the residuals (Backhaus, Erichson et al. 2000). For the present data, the test provided a value of 2.076 for exploration initiatives and a value of 1.654 for the sample of exploitation initiatives, which are both in the interval to reject the assumption of auto-correlation. Thus, I conclude that the residuals of the present data set are independent.

Preconditions for the independent variables

For the independent variables, a necessary precondition to apply a linear regression model is a linear relationship with the dependent variable. As a rule of thumb in regression analysis, in cases where the standard deviation of the residuals exceeds the standard deviation of the dependent variable, non-linearity is possible. This is not the case in the present data. Nevertheless, I consult once more the partial regression plots to examine the nature of the relationship between each independent variable and initiative performance. If linearity is not supported by the visual test, the variables have to be transformed in order to be able to use multiple regression (Albers and Skiera 1999; Backhaus, Erichson et al. 2000; Tabachnick and Fidell 2000). Yet, I could not detect any obvious pattern indicating a rather curve-linear relationship. Quite the contrary, particularly the variables “frequency with stakeholders” in the sample of exploitation initiatives and “frequency with non-commercial partners” in the sample of exploration initiatives display a clear linear pattern when plotted against initiative performance. As I only conclude from the absence of any curve-linear pattern to the linearity of the relationship, I additionally employ a statistical test to confirm this conclusion drawn from the scatter plots. The ANOVA table generated by SPSS displays an additional test for linearity. The F significance value for the non-linear component appears for each variable in both sub-samples above the critical value of 0.05. Thus, linearity of the predictor variables can be assumed (Hutcheson and Sofroniou 1999; Schumacker and Lomax 2004).

Secondly, the independent variables need to also be independent of each other, i.e. not multicollinear. An unacceptably high level of inter-correlation among two or more independent variables makes it impossible to separate the effects of the predictors (Hutcheson and Sofroniou 1999). In this case, the influence the correlated variables exert together on the dependent variable is provided correctly, but the relative strength of the explanatory variables is unreliable, i.e. the beta weights and R-squares cannot be interpreted reliably while the predicted values are viable (Tabachnick and Fidell 2000; Schumacker and Lomax 2004). Thus, it is ideal to have uncorrelated independent variables that show a high correlation with the dependent variable. As a first assessment whether the independent variables are correlated, the correlation index between each pair of variables is examined. A common rule of thumb proposes a correlation above 0.8 as a sign of possible mutlicollinearity. In the present sample, the highest correlation is 0.48 between the frequency measures in exploitation initiatives. A more reliable test to discover possible high correlations between the explanatory variables is to examine tolerance. Tolerance is defined as 1-R-squared, with R being the multiple correlation-co-efficient, and thus provides a value for each predictor that takes interaction effects with all other independent variables into account (Backhaus, Erichson et al. 2000). Tolerance values that fall below a commonly used threshold of 0.1 indicate multicollinearity. Additionally, I use the variance inflation factor that is the reciprocal value of the tolerance value. Values exceeding 4 are a sign of high correlations between the independents. In the present data set, multicollinearity is no threat as tolerance values for all variables in both sub-samples are rather high while variance inflation factors are in-significantly low. Only the interaction terms show relatively high interdependence with the density measure when added to the examination. As the interaction term is a multiplicative term consisting of variables in the analysis, frequency and density, it is even probable that collinearity emerges between these variables. This topic has extensively been discussed in literature (see e.g., Friedrich 1982; Cronbach 1987; Brambor, Clark and Golder 2006; Kam, Franzese and Franzese 2007) with the tenor that collinearity between a product term and its component parts represents no major concern for the interaction analysis and thus no reason to omit possibly valuable interaction effects (Friedrich 1982; Jaccardi and Turrisi 2003; Brambor, Clark et al. 2006).

In summary, all necessary preconditions are satisfied in the present study in order to apply multiple hierarchical regression analysis. The results of the analysis are outlined in the following chapter.

5.4 Results of the Regression

In this chapter I present the results of the analysis testing the proposed hypotheses. Applying multiple hierarchical regression analysis, I constructed three models for each sub-sample according to the blocks of variables entered into the regression equation. The first model, Model 1, comprises control variables only (country, initiative size, impact). Model 2 includes all controls and all independent variables (tie strength in stakeholder partnerships, tie strength in non-commercial partnerships, density) to test the direct effects proposed in Hypotheses 1, 2, 3 and 5. Model 3 additionally contains interaction terms to examine the possible interaction between tie strength and density as proposed in Hypothesis 4.

The results of the regression are displayed in table 2. The only control variable that asserts significant influence on initiative performance is the impact of the initiative in the case of exploitation strategies as shown in Model 1. However, Model 1 only explains 14.9 percent of the variance of the dependent variable for the exploitation sample and 5.6 percent in the exploration sample. Thus, with an F-value of 1.753 and 0.475 respectively, Model 1 is not significant.

Regressing all independent variables together with the control variables resulted in highly significant ($p < 0.001$) Models 2 for both sub-samples. The Exploitation Model accounts for 52.9 percent of the variance explained while the Exploration Model even constitutes 79.4 percent of the variance of the dependent variable. As proposed, the Exploitation Model 2 reveals significant ($p < 0.05$) positive influence on initiative performance for all independent variables. Hypothesis 1b and 2b - predicting a positive relationships between high tie strength and initiative performance in stakeholder and non-commercial partnerships - are supported by the outcome of the Exploitation Model 2. Furthermore, this model supports Hypothesis 3b, proposing a positive relationship between high density and initiative performance. In the case of exploration initiatives, only tie strength to non-commercial partners shows a significant ($p < 0.001$) effect in Model 2. Strong ties in non-commercial partnerships positively influence initiative performance as proposed in Hypothesis 2a. Tie strength to stakeholders shows a small positive effect, while density is only rather slightly related to performance (β = 0.002). Thus, the postulated inverse relationships between tie strength and initiative performance (Hypothesis 1a) and density on initiative performance (Hypothesis 3a) are not supported.

The direct-effects presented in Model 2 additionally allow conclusions regarding the relative influence of tie strength compared to density (Hypotheses 5). The standardised regression coefficients displayed in table 2 reveal the relative importance of the variables with regard to their influence on initiative performance. In the Exploitation Model 2, tie strength exerts a similar level of influence in stakeholder partnerships (β = 0.366) and non-commercial partnerships (β = 0.361), which is relatively, although only slightly, higher than the influence that density has on initiative performance (β = 0.333). This result supports Hypothesis 5 in which I predicted a higher influence of tie strength on performance relative to the influence density exerts on performance. The Exploration Model 2 provides additional support for Hypothesis 5. Density reveals a regression coefficient close to zero (β = 0.002), thus having nearly no effect on performance at all, while tie strength in non-commercial partnerships reached a coefficient close to one (β = 0.916).

Models 3, examining the interaction effects between tie strength and density, both failed to achieve a significant change in R square with a negligible increase in the variance explained at 0.069 percent for the exploitation and 0.014 percent for the exploration case. These results support Hypothesis 4, in which I postulate the independence between tie strength and density, i.e. the independence between the relational and structural dimension of embeddedness.

Results of the stepwise hierarchical regression analysis

	Model 1		Model 2		Model 3	
Variables	**Exploit**	**Explore**	**Exploit**	**Explore**	**Exploit**	**Explore**
Step 1: Control variables						
Country	.201	-.070	.190	.209†	.202	.166
Initiative size	.048	.192	.367*	.170	.333*	.142
Impact	.403*	.060	.333	.000	.370*	-.064
Step 2: Predictor variables						
Tie strength to stakeholder			.366*	.020	-.296	-.009
Tie strength to non-commercial			.361*	.916***	-.200	-.779***
Density			.333*	.002	1.022*	.618
Step 3: Interaction terms						
Tie strength stakeholder x Density					.109	
Tie strength non-commercial x					-.880	-.657
R^2	.149	.056	.529	.794	.598	.809
F	1,753	.475	5.053***	13.528***	4.655***	12.097***
ΔR^2			.380	.738	.069	.014
ΔF			7.255***	25.146***	2,160	1,517

N=62. *** p< .001; ** p < .01; * p < .05; † p < .10 (2-tailed)

Table 2: Results of the regression analysis

6. Discussion

Overall, I conclude that the results of the above analyses substantiate, at least to a certain extent, the arguments derived in this study. In the following chapter, I discuss the results of my analyses in more detail (6.1). Additionally, I outline how the present study contributes to theory as well as practice and I derive implications for corporate leaders (6.2). I conclude this chapter by pointing to some limitations of the present study (6.3).

6.1 Discussion of Findings

The main finding of this study is that social embeddedness, especially being connected to non-commercial partners, is enhancing the success of initiatives in a market-based approach to low-income markets. Thus, the adoption of the exploitation-exploration framework as a contingency as well as the distinct analysis of commercial and non-commercial stakeholder partners proved to be a well-designed approach allowing a detailed examination with interesting insights.

The results of the exploitation model indicate the importance of frequent and close interactions to local partners for the success of BOP operations. Both stakeholder and non-commercial partners are equally important in providing information and other resources that contribute to the performance of the initiative. These findings are in line with prior research in this field stressing the importance of embeddedness in the local social network (London and Hart 2004; Hart 2005; Prahalad 2005). Also according to my prediction, the flow of information in a highly connected network enhances the success of initiatives that aim at exploiting existing capabilities. Granovetter's argument that "such cohesive groups are better not only at spreading information, but also at generating normative, symbolic, and cultural structures that affect our behaviour" (Granovetter 1992, p.35) is thus also valid in the specific environment of low-income markets. The uncertainty in the market and the unfamiliarity of the MNC with the market conditions might intensify the importance of behavioural norms and trust that are cultivated by a dense network structure and strong relations.

Contrary to my hypothesis and to the suggestions of other researchers adopting the exploitation-exploration framework, a low extent of tie strength to stakeholder partners does not contribute to initiative performance in exploration strategies. It has been argued that weak ties to partners are beneficial in exploring new resources due to the vast amount of novel and diverse information they provide. Yet, this suggestion is not supported in the present study. Here, weak partnerships to stakeholders show no significant effect on the performance of the initiative while frequent and close relations to NGOs, community groups or government organisations strongly enhance initiative performance. One might argue, that the crucial information MNCs require on the needs and habits of potential low-income customers can be provided rather by non-commercial partners than by traditional stakeholders. As it is this kind of information and knowledge MNCs seek in explorative strategies in order to innovate new products and services that fit low-income markets, non-commercial partnerships are crucial for their success.

As predicted, cross-sector partnerships have to be treated separately as they exhibit specific characteristics that influence the embeddedness suggestion. Accordingly, strong ties are necessary in cross-sector partnerships due to differing agendas, the unfamiliarity to other sector partners, and the traditionally-grown mistrust between sectors (cf. Chapter 3). In order to enable an effective relationship where information can readily be shared, a specific level of trust is necessary in cross-sector partnerships. This trust needs to be built and maintained by frequent and close interactions between the partners. As a substantial part of the information and resources needed by MNCs in low-income markets is on the side of non-commercial partners, a trusted relationship with these partners is crucial for a BOP approach to be successful. Thus, the specific environment of low-income markets determines that strong ties in non-commercial partnerships substantially improve initiative performance, while prior research focusing on exploration in developed markets recommended weak ties. In summary, due to the unfamiliarity of foreign MNCs in low-income markets, the importance of trust that enables an efficient knowledge transfer in cross-sector partnerships seems to outweigh the importance of plentiful and diverse information in exploration strategies. Thus, for exploration as well as exploitation, strong relationships to cross-sector partners are necessary to enhance performance.

Concerning the influence of density on initiative performance in exploration strategies, my findings indicate no significant effect. The connectedness between MNCs' partners does not seem decisive for exploration initiatives in low-income markets. Researchers suggest loosely connected partners for exploring new opportunities as such network configurations widen the reach of the company into different locations within the network, providing the MNC with different and various information that is essential when exploring new opportunities. On the other hand, densely connected networks are considered rather constraining for this purpose due to the redundant information available that restricts the openness to new ideas (Nahapiet and Ghoshal 1998). Yet, neither of these effects seems relevant in the present study. At the same time, my findings reveal a dominant influence of high levels of tie strength to non-commercial partners on performance. Thus, personal dyadic relationships are crucial while the relations among these contacts play no significant role. One might speculate that the unfamiliarity of MNCs with the market on the one side and with the culture and mode of action of non-commercial partners on the other side, particularly necessitates the assistance in transferring and decoding knowledge, which is enabled through strong personal ties. As already emphasised by Coleman, trust is especially important in uncertainty in order to enable exchange in the first place (Coleman 1990).

My findings support that trust on the network level and trust on the dyadic level are of a different kind. The trust established through network structure between various actors develops a group identity that solidifies cooperative routines (Coleman 1990). Through the visibility of actions, opportunistic behaviour can be discovered and sanctioned, which establishes a form of calculated trust (Coleman 1988; Moran 2005). In contrast, the trust developed on the dyadic level between two actors encourages the exchange of resources and establishes a common language that enables the decoding and incorporation of the exchanged knowledge. Adopting the distinction of Hansen (1999) between the willingness and ability to share resources, it can be argued that the trust on the network level engenders the ability to share knowledge through common rules - as un-cooperative behaviour will be sanctioned - while the trust on the personal level develops the willingness to exchange knowledge through a close relationship that encourages helping behaviour. Thus, even if the partners are able to share knowledge or other resources due to the existent network connections, only the willingness of the partners to share, which is increased through personal trust, enables the actual exchange.

Overall it is noticeable that the findings support neither a positive relationship between a low degree of tie strength and performance nor a low level of density and performance. The advantages of a loosely connected network structure and of weak ties seem not to be pivotal under the specific circumstances examined in the present study. All significant influences on initiative performance are based on trust, i.e. high level of tie strength to all partners and high density in exploitation initiatives as well as strong ties in non-commercial relations in exploration strategies. System level trust enabling the development of behavioural norms as well as personal trust in dyadic relations might be essential to the success of market-based initiatives in low-income markets. This conclusion is in line with prior case studies in the BOP literature indicating the significance of trust in operations in low-income markets. Consequently, one can argue that in uncertain and unfamiliar contexts, it is a valuable asset to have trusted relationships in a dense network of reliable contacts (Moran 2005).

6.2 Contributions to Theory and Practice

With the present study, I am contributing to the international management literature by evincing how MNCs should be embedded in low-income markets contingent upon the specific strategic intention of the respective initiative. Researchers in this rather under-investigated field of BOP research have repeatedly stressed the importance of social relations to local partners (London and Hart 2004; Hart 2005; Prahalad 2005). The results of my study not only support this suggestion but also specify in which situation which kind of relation to which partner can be beneficial in order to achieve the strategic goal. To my knowledge, tie strength specifically for commercial stakeholder partners and non-commercial partners from civil society and governments has not been examined before. As in the case of exploration strategies, the relative importance of the relations to the distinct partners differs significantly. While strong relations to non-commercial partners strongly influence the success of the initiative, the relation to commercial stakeholders exhibits no significant impact. Thus, this study confirms that it is useful to investigate social networks in distinctly different ways for the two partner groups in order to obtain specific results. This in turn opens avenues for further research to investigate in depth the type of embeddedness necessary to succeed with the market-based approach in low-income markets. Revealing that, for exploration strategies, close and frequent contact to non-commercial partners is especially important, it would be interesting to disclose if there is a difference in importance among these non-commercial partners. Is it preferable to invest in relations to NGOs rather than government agencies? Can the relations to customers, which are considered difficult to establish and maintain, be substituted by strong relationships to NGOs or community groups?

My study not only contributes to the literature on BOP, but also extends previous research on social networks. As conflicting opinions exist regarding the usefulness of strong in comparison to weak ties (e.g., Granovetter 1973; Krackhardt 1992; Larson 1992; Uzzi 1997) as well as on the advantage of dense over loose networks of relations (Coleman 1988; Burt 1992), my research contributes to existing knowledge by applying the exploitation-exploration framework to identify contingent effects for the particular setting of low-income markets in Southeast Asia. In this way, I reconcile the seemingly contradictory recommendations on embeddedness (Burt 1992) by relating network concepts to the specific environment of low-income communities in developing countries in Southeast Asia. Thus, I defined specific conditions and circumstances allowing clear suggestions as to which embeddedness configuration is more beneficial in this distinct environment.

A variety of studies focus on social networks within teams (e.g., Burt 1997; Podolny and Baron 1997) or on the management level (e.g., Gargiulo and Benassi 2000; Moran 2005), thus addressing individual-level ties that were mostly within the same organisation (e.g., Burt 1997; Podolny and Baron 1997; Hansen 1999; Tsai 2000; Hansen, Podolny et al. 2001). In contrast, I examined strategic initiatives as units of analysis. I analysed the team-level network aggregating individual team members' statements regarding their network relations to external partners outside the focal organisation. My study therefore extends existing research that has addressed the effects of individual-level intra-firm networks by analysing team-level inter-firm relations.

Additionally, I examined both embeddedness dimensions simultaneously and, most importantly, in their relation to each other. While some researchers only focused on network structure discussing Burt's structural hole theory and Coleman's closure argument (e.g., Coleman 1984; Burt 1992; Ahuja 2000; Gargiulo and Benassi 2000; Gnyawali and Madhavan 2001; Zaheer and Bell 2005), others limited their research entirely to the quality of relations by analysing the effects of strong compared to weak ties (e.g., Granovetter 1973; Nelson 1989; Krackhardt 1992; Hansen 1999; Rindfleisch and Moorman 2001; Uzzi and Lancaster 2003). My findings indicate that studies focusing on one dimension are viable - at least in the context of my study - as the effects of network structure and tie quality seem to be independent, i.e. trust developed in the network has different effects then the relational trust between two individuals. Furthermore, the quality of relations has a stronger effect on performance compared to the connectedness of contacts in situations where strong ties are beneficial. Future research could reveal further interesting insights in the relative importance of the structural and relational dimension; e.g., is structure relatively more important in the context where weak ties and a sparse structure are beneficial?

Besides these contributions to theory, my study provides interesting implications for management practice, which can be guidance to solve some of the difficulties that MNCs experience in their approach to serving low-income markets. Extending existing knowledge and providing particular guidelines on how to be embedded in the existing social network in low-income markets constitute valuable information for corporate leaders and can facilitate successful operations. First, as a frequent and close relationship to local partners seems to be of high significance, these relations should be intensively cultivated. Especially when compared to network structure, the relative focus should be on the quality of dyadic relationships. Thus, networking to extend network reach and increase diversity is not necessarily beneficial. On the contrary, time should be better invested in cultivating relations to outside partners and in building trust and a common understanding through ongoing interactions. Investing in relationships with non-commercial partners is profitable in any case as strong partnerships with cross-sector partners are favourable in exploration as well as exploitation initiatives. However, the effort put into maintaining frequent contact with stakeholder partners could be limited to exploitation strategies, as they seem to pay off only in strategies where the utilisation of existing competencies is in focus. My findings suggest that networking in the sense of establishing useful contacts is not sufficient. Considerable time and attention has to be dedicated to deepening the established ties by recurring and integrative exchanges. Thus, companies should limit their relations to a small number of carefully selected partners and invest heavily in building trust and making these relationships highly productive and powerful. This may increase the dependency on the partners, but at the same time it increases the probability of enhanced performance (Austin 2000).

A second implication concerns the staffing of initiatives. The composition of teams on new initiatives could be guided according to the findings of my study. Knowing that strong ties to commercial partners are only beneficial in exploitation initiatives, company members who already spend time and effort on cultivating relations to these partners should work on exploitation rather than on exploration initiatives. In this way, the required links to outside partners and the necessary trust to share knowledge effectively can be capitalised on at the very beginning of the initiative. Thus, the time necessary to complete the initiative can be reduced enormously as the trust between partners already exists. The effort and time that would have been spent on building the necessary trust can therefore be invested in the initiative task itself. With regards to non-commercial relations, the case is rather trivial as for both exploitation and exploration initiatives, enduring and faithful partnerships are desirable. However, corporate management should encourage team members to invest in cross-sector partnerships. Workshops could be initiated where company members are sensitised to specific problems inherent in such relationships and advised on how to solve any problems that may arise. Additionally, the management should promote the exchange of experiences between team members regarding difficulties and problems in cross-sector partnerships. As a more radical approach, team members could be sent to the low-income communities that are the focus of the initiative so that they could live and work “in the field”. Cemex adopted this approach successfully in the housing sector by sending team members door-to-door in low-income communities. In this way, they could not only experience and learn about the practices and difficulties of potential customers, but also have the chance to establish ties, build trust and provide confidence to non-commercial partners. Also Hindustan Lever Limited sends its managers to live in rural areas for a while to generate knowledge on local habits as well as to establish trust with potential customers and community groups necessary for efficient future interactions.

Additionally, examining the relational dimension of embeddedness that is distinct for both commercial stakeholder partners and non-commercial civil society and government partners allows detailed insights into the preferable characteristics of the relationship specific to the affiliation of the partner. This is considered especially interesting for the practical realisation of the market-based approach. As the market-based activities of MNCs in low-income communities are deemed a powerful way of fighting poverty and enabling sustainable business at the same time, such contributions are desirable and meaningful (Ricart, Enright et al. 2004).

6.3 Limitations

While this study contributes to theory and practice as outlined above, it is not without its limitations. The context of my study is very specific, i.e. low-income markets in Southeast Asia. The same applies to the results. Nevertheless, they should be helpful in other contexts, especially to other low-income markets in developing countries around the world. The importance of social networks to local partners stressed by researchers in the field of BOP study was not restricted through specification to a region but rather applicable to low-income markets in general (Hart and Milstein 1999). It is not so much the region that determines a specific approach to these markets as the particular characteristics of these markets, i.e. poverty, weak infrastructure and considerable informal economy (cf. Chapter 3), and these are basically shared by all low-income markets worldwide (Hart and Milstein 1999). Thus, while I focus my study on these markets in Southeast Asia in particular, the implications are most probably also applicable for MNCs approaching low-income markets in the rest of Asia, Africa and South America. Nevertheless, due to possible cultural variations (Hofstede 2001), future research could examine if the results drawn here are transferable to other low-income markets or if cultural factors play an equally important role as market characteristics.

Obtaining full network data would have been desirable to reduce measurement errors. I obtained network data on the presence of ties to outside partners, on the frequency of contact and on the connectedness of the partners from the initiative team members only, without verifying these data with the respective partner. The ideal way to ensure the accuracy of the data is to interview the partners cited by the initiative team members in order to obtain information regarding mutually acknowledged ties (Marsden 1990). Yet, studies have shown that rates of reciprocation among respondents are high enough to assume that self-reports reflect more than perceptions (Marsden 1990; Krackhardt 1995; McEvily and Zaheer 1999). Freeman et al. (1987) argued that the answers on relations are fairly reliable especially when the focus is on typical patterns of social interaction. Similarly, Kashy and Kenny (1990) conclude from their inspection of the Bernard, Killworth and Sailer studies (Bernard and Killworth 1977; Killworth and Bernard 1979; Bernard, Killworth and Sailer 1980; Bernard, Killworth and Sailer 1982) that respondents were veracious when describing the frequency of interaction with partners. Others argued in a different way stating that the perception of informants regarding their network rather than the actual network is of importance as these perceptions have real consequences (Krackhardt 1987; Krackhardt 1996). Indeed, Kilduff and

Krackhardt (1994) found evidence in their study that the impression of being some important person's friend in an organisation increases the individual's performance reputation, while actually having such a relation exhibits no effect. Consequently, I believe that the data obtained from the initiative members provide sufficient accuracy in order to reveal reliable results.

Finally, I restricted the effects analysed in the present study to positive network effects only by excluding any possible negative consequences of tie strength or density. In the discussion regarding the effects of tie strength and density (Chapter 4), I indirectly assumed such negative effects when arguing that strong ties are costly and sometimes difficult to maintain or that densely connected networks can limit the company's flexibility. Thus, there are also negative effects associated with social networks that possibly subvert performance as examined in other studies (cf. e.g., Hansen, Podolny et al. 2001). My intention in the present study was to inspect the suggestion of prior research in the field of BOP in more detail stating that network embeddedness is crucial for foreign MNCs to serve low-income markets successfully (London and Hart 2004; Hart 2005; Prahalad 2005). Thus, I tried to specify which kind of relation is beneficial in which situation and to which partner. For this purpose, possible negative effects arising from embeddedness seemed to be rather insignificant. Nonetheless, synthesising positive and negative effects of social networks could yield additionally valuable insights that future research could provide.

7. Conclusion

To sum up, this dissertation examined how MNCs should be linked to local partners in order to access the local intelligence and other resources that are crucial to success in developing low-income consumer markets. In particular, based on the distinct characteristics of low-income markets in Southeast Asia, I discussed the importance of social embeddedness in the local network and examined the quality of relations and the structure of the network by conducting an empirical analysis of 62 strategic initiatives from two subsidiaries of one MNC operating in low-income markets. I identified the network configuration and tie quality that enhance the success of strategic initiatives contingent on the particular strategic intent and separately for commercial stakeholder partners and cross-sector partnerships. Overall, I can conclude that the embeddedness of MNCs in the local social network in low-income markets affects the success of strategic initiatives. Particularly worthy of mention is the finding that partnerships across sectors and those network characteristics that imply the establishment of trust are exceptionally important with regards to superior performance.

Research on the market-based approach is still in its early stages. This dissertation has contributed to knowledge in this field by applying established theoretical constructs in order to approach this rather young research field. The significant results of the dissertation and the implications for corporate leaders indicate the usefulness of adopting such constructs to gain theoretical insights that can be applied in practice. The success of the BOP approach, i.e. enhancing local economic development and reducing poverty as a result of profitable and thus sustainable corporate activity, is of significant importance in tackling one of today’s main worldwide social problems. Further research is therefore needed to empower corporations to serve low-income markets successfully in order to improve sustainable development and substantially reduce poverty.

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9. APPENDIX

9. APPENDIX

9.1 Appendix 1: List of BOP markets

	BOP population (millions)	BOP share of total population (%)	BOP income (millions) PPP	US$	BOP share of total income (%)
Africa	486	95.1	429,000	120,000	70.5
Cameroon	14.7	95	15,354.1	4,710.1	75.6
Côte d'Ivoire	15.6	95	14,242.9	6,536.1	75.9
Ethiopia	65.6	95	83,544.1	10,151.1	85.8
Mali	12.6	100	9,202.7	2,769.2	100
Mozambique	17.6	95	12,917.6	2,408.3	71.1
Nigeria	121	100	74,419.2	27,572.1	100
Senegal	9.3	95	9,303.8	2,942.6	72.6
South Africa	33.6	75	43,511.1	10,072.7	30.9
Tanzania	36.2	100	11,318	5,408.2	100
Uganda	23.8	95	22,303.5	3,696.5	76.8
Zambia	18.5	100	9,315.3	4,008.3	100
Asia	2,858	83.4	3,470,000	742,000	41.7
Bangladesh	144	100	142,293.9	29,187.9	100
China	1,046.2	80.8	161,127.6	32,986.1	55.2
India	1,033.9	98.6	93,710.1	16,962.1	92.7
Indonesia	213	97.8	24,035.8	6,177.1	92.2
Malaysia	19.2	80	38,072.3	16,274.6	43
Nepal	23.4	95	22,981.7	3,736	74.2
Philippines	23.6	30	56,023.7	13,096.4	10.8
Sri Lanka	17.1	90	21,788.9	5,325.2	67.3
Thailand	46.6	75	79,632.7	23,383.6	46.7
Vietnam	76.2	95	84,582.8	16,003.3	82.9
Eastern Europe	254	63.8	458,000	135,000	36
Georgia	4.9	95	5,546.6	1,613.4	82.6
Kazakhstan	13.1	85	23,933.6	6,720.7	69.1
Poland	17.4	45	37,423.4	17,489.1	22.6
Romania	20.2	90	34,471.8	10,741.8	78.3
Russia	86.4	60	16,423	4,741.6	33.4
Ukraine	29.4	60	65,818.4	11,673	41.5
Uzbekistan	23.9	95	22,936.9	5,273.9	82.9
Latin America & Caribbean	360	69.9	509,000	229,000	28.2
Argentina (urban)	17.1	45	28,990.7	7,318.4	13.4
Bolivia	7.7	90	7,473	2,700.9	56
Brazil	114.5	65	171,585.3	58,272	22.6
Chile	8.6	55	15,927.1	7,019	20.1
Colombia	30.5	70	41,979.7	12,061.2	28.2
Costa Rica	2.4	60	4,086.7	2,394.3	27.1
Dominican Republic	5.6	65	9,746	3,666.2	28.6
Ecuador	11.5	90	12,558.6	6,740.4	61
El Salvador	4.5	70	5,928.2	2,679	25.8
Guatemala	10.2	85	13,472	6,395.4	54.9

Haiti	7.8	95	4,260.6	958.2	62.9
Honduras	5.8	85	7,435.4	2,768.8	50.3
Jamaica	2.2	85	2,304.6	1,879	46.9
Mexico	76.5	75	105,075	75,052	39.8
Nicaragua	4.3	80	5,647.9	1,319.6	36.7
Panama	2.2	70	2,988.2	1,972.5	28.3
Paraguay	3.8	65	5,552.6	1,223.8	25.4
Peru	21.4	80	33,797.2	14,243.7	54.1
Suriname	0.3	85	360.6	108.2	50.4
Uruguay (urban)	1.4	45	2,705.6	1,271.9	16.4
Venezuela	21.4	85	26,741.4	18,784.6	57.9

Hammond, Kramer et al. 2007, p.111

9.2 Appendix 2: Questionnaire

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This questionnaire is a crucial part of an international research project on strategic management that explores the influence of social networks on the performance of strategic initiatives. I kindly ask you to go through the questionnaire, answer all questions and return it to me. You will need about 15 minutes for the whole process. As soon as I have analysed the data I will provide your company a report of the findings.

This research project seeks to explore how social networks to local partners influence the performance of initiatives that are aimed at providing products and services to underserved markets. The underlying logic is that crucial local knowledge often lies outside the company in these markets, which make co-operations to local partners necessary.

The provided information will be handled highly confidential and only be used for the purpose of this study.

1) Which subsidiary of Tetra Pak do you work for?

- ○ Tetra Pak Indonesia
- ○ Tetra Pak Thailand

2) Please indicate your sex.

- ○ Male
- ○ Female

3) Please indicate your age.

Please select

Next>>

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In collaboration with Tetra Pak representatives, we identified four main areas, in which Tetra Pak is active in low-income markets, i.e. dairy development, dairy production, market development and health & environment.

Additionally, we specified single initiatives for each of the mentioned areas.

Please indicate which initiatives you work in

1. Dairy development (farming, raw milk)

- [x] Support for training of dairy farmers

How many external partners affiliated to another organisation than Tetra Pak did/do you work with on the initiative 'Support for training of dairy farmers' on average during the past year?

- [ ] Establish milk collection centres
- [ ] Improve quality and yield of milk
- [ ] Establish ways to increase milk production of farms

2. Dairy production (commercial)

- [ ] Facilitate financing of dairy plants
- [ ] Technical support and training for dairy plants

3. **Market development (BD)**

- [ ] Develop new products (soybean, rice, pea)
- [ ] Establish/Improve distribution channels
- [ ] Support distributors for market development
- [ ] Establish guidelines for proper storage and handling
- [ ] Develop possibilities to provide consumers product information and education
- [ ] Train local communities in recycling (making paper from used cartons)
- [ ] Create possibility to reduce costs of production/distribution
- [ ] Develop possibilities for products fortification
- [ ] Improve affordability of milk packages

4. **Health & Environment (recycling, nutrition)**

- [ ] Improve/Develop environmentally friendly packaging solutions
- [ ] Support for school feeding programs
- [ ] Nutrition, health and safety
- [ ] Create guidelines to educate school children regarding the importance of milk
- [ ] Create possibilities to raise environmental awareness
- [ ] Establish infrastructure for carton recycling
- [ ] Establish awareness for the need of carton recycling

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Please assess the performance of the initiative [Support for training of dairy farmers] over the last 3 months on each of the following dimensions:
1=to no extend 7=to a very great extend

	1	2	3	4	5	6	7
1 Meeting staffing goal	○	○	○	○	○	○	○
2 Meeting time expectations	○	○	○	○	○	○	○
3 Meeting quality parameters	○	○	○	○	○	○	○
4 Meeting reliability parameters	○	○	○	○	○	○	○
5 Meeting cost parameters	○	○	○	○	○	○	○
6 Meeting efficiency parameters	○	○	○	○	○	○	○
7 Meeting user/client satisfaction/expectation	○	○	○	○	○	○	○
8 Meeting service expectation	○	○	○	○	○	○	○

How many people did/does the team of Tetra Pak working on the initiative [Support for training of dairy farmers] consist of? ____

Think of the people (outside your company), who acted as a critical source of knowledge and other resources for the initiative *[Support for training of dairy farmers]* (up to 5 people).

	Organisation *	Position	Affiliation *	Other affiliation
Partner 1			Please select	
Partner 2			Please select	
Partner 3			Please select	

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Please indicate if the listed contacts are in any kind related to each other/know each other, be it a professional or social linkage. If so, please tick the box between these partners.

	HSG	XY Corporation	XY NGO
HSG		☐	☐
XY Corporation			☐
XY NGO			

How frequently do (did) you interact with HSG for issues related to the initiative task (on average over the past year)?

Please select

How close are you with HSG?

Please select

How frequently do (did) you interact with XY Corporation for issues related to the initiative task (on average over the past year)?

Please select

How close are you with XY Corporation?

Please select

How frequently do (did) you interact with XY NGO for issues related to the initiative task (on average over the past year)?

Please select

How close are you with XY NGO?

Please select

Next