**Fending off and filling in – Shifts in strategy and commitment as reaction to institutional turbulence in emerging markets**

## INTRODUCTION

While scholars have pointed out that emerging markets are characterized by weak and unstable institutions (Khanna & Palepu, 1997), the influence of changes in institutions, and market entry firms' ongoing response to them seems not to have been explicitly researched (Child & Tse, 2001; Peng & Heath, 1996; Peng, 2003). Emerging market institutions are observed to have strong involvement in economic exchanges (Marinova, Child & Marinov, 2012). As emerging markets undergo transitions, regulative institutions are the first to be changed to reflect the new economic system. Based on a review of the extant literature, we contend that the majority of studies on institutions and internationalization has a short-term and static view on these phenomena (Beamish, 1993; Luo, 1997; 2001; Luo & Peng, 1998; 1999, Nguyen, Le, & Bryant, 2013). Despite dramatic institutional changes in several emerging markets, studies on internationalization tend to view institutions (Quer, Claver, & Rienda, 2011) as background factor or independent variable, which influence the firms' entry strategy. Consequently, there is a lack of studies on how institutions re-currently change over a longer period of time and how this relates to firms' strategy and commitment in the foreign market. Depending on the level of predictability and the extensiveness of institutional changes, these changes may have a significant effect on internationalization.

This study focus on regulative institutions, which are codified and standardized rules, such as government policies, regulations, and laws that are intended to define the nature of business and transactions (Scott, 1995). We conceptualize institutional changes that occur in a short time as institutional turbulence. Institutional turbulence is the result of updates and modifications to regulative institutions by the government in response to institutional voids in the market (Khanna & Palepu, 2010). Changes made to improve institutional voids are not settled once and for all, as they do recur over time. Therefore, a government's attempt to fill institutional voids may be an ongoing process, which can cause the recurrence of institutional turbulence. Firms entering foreign markets experiencing institutional turbulence face challenges to manage the internationalization, as the institutional turbulence can be difficult to predict, and extensive changes resulting from the turbulence may pressure the firms from multiple fronts. As firms internationalize by acquiring knowledge and making commitments, institutional turbulence may inhibit the process of market entry by hindering the routines and learning (Johanson & Vahlne, 1977, 2009; Newman, 2000). Accumulated knowledge can become obsolete through turbulent changes (Hadjikhani, 1997), and firms may also feel vulnerable due to these turbulences and experience difficulty in establishing trust with local actors (Tsui-Auch & Möllering, 2010).

Yet, institutional turbulence may also have positive effects, as uncertainty may also encourage foreign firms to seek new strategies and invest resources differently (Santangelo & Meyer, 2011). Opportunity may be discovered through the institutional turbulence as firms act entrepreneurially to respond to the new market situation (Eckhardt & Shane, 2003; Schumpeter, 1943). Foreign entrants may have incentives to conform to the changes in regulations to meet the government's expectations and enjoy preferential treatment or avoid punishment (Sun, Mellahi & Thun, 2010). They may also work with government and other actors to be better positioned in the institutional environment and gain success in international operations (Boddewyn & Brewer, 1994; Boddewyn & Doh, 2011; Child, Rodrigues & Tse, 2012; Oliver, 1991, 1997). Additionally, institutional turbulence sometimes also allows the firm to escape the need to conform to institutional pressures, as the isomorphic pressure foreign entrants receive may be drastically reduced because of the frequent institutional turbulence (Yildis & Fey, 2012).

This paper started out to understand how institutional turbulence influences the market entry of the foreign firms in emerging markets, and the shifts in strategy and commitment they make in response. The relation between international firms and institutions is an often-overlooked critical dimension of internationalization (Hadjikhani & Johanson, 1996; Rodrigues & Child, 2008). We address this gap by investigating how firms respond to the change of regulation in China. Our findings indicate that, over time, foreign firms strategically shift commitment to reflect the interests of the local political and business actors in the host institutional environment (Cantwell, Dunning, & Lundan, 2009; Child et al., 2012). Our aim is to capture the dynamic relation between institutional turbulence and the behavior of foreign firms i.e. how they adapt to changes in the market.

## INSTITUTIONS AND INTERNATIONALIZATION – A LITERATURE REVIEW

Institutions tend to be considered as background information or treated as a single factor for studies on the internationalization (Hoskisson et al., 2000; Meyer & Gelbuda, 2006; Meyer & Peng, 2005; Peng, 2003; Wright et al., 2005). The understanding of institutional changes and the influence they might have on the internationalization is rather unclear (Karhunen, 2008; Yang et al., 2009). In line with Peng (2003) and Santangelo and Meyer (2011), we believe there is a need to include time dimension and strategic dynamic to examine how institutional turbulences influence foreign firms in the host markets during their internationalization processes. To substantiate this, firstly, a literature review has been carried out on how institution of the host market is treated during the internationalization of the firm in the past studies. We used two sets of keywords (foreign market entry / international expansions / internationalization AND institution / regulation / laws / government) to identify researches that have empirically investigated the relation between institutions and internationalization. Our search focused on top-tier management journals and identified 37 articles published between 1995 and 2018. The review could be summarized in the following way:

1.The absence of a time dimension in past studies, and their lack of consideration of the expansion stage during the internationalization of the firm, highlights a knowledge gap regarding the internationalization of the firm and the influence it may experience by the evolving institutions.
2. Most of the studies treat institutions as a source of risk that can potentially depreciate foreign entrant's firm-specific advantages. A basic assumption of these studies is that firms are risk-avoiding, and they tend to select countries with mature institutions, thus they view institutions as an independent variable.
3. there is a rather limited understanding of the influence institutions have during the expansion, despite the ongoing call for scholarly attention to the activities of the firm after the initial entry stage, and how they change over time.

### Theoretical framework

*Institutional turbulence and its effect on entering firms*

Although scholars recognize that institutions cannot be treated as background information for studies focused on emerging markets (Hoskisson et al., 2000; Meyer & Peng, 2005; Peng, 2003; Wright et al., 2005), institutions tend to be considered as one factor. There is little understanding of what they are and what influence they actually have (Gao et al., 2010; Nguyen, et al. 2013; Quer et al., 2011; Yan et al., 2009). Emerging market institutions are observed to have even stronger involvement in economic exchanges (Marinova, Child & Marinov, 2012). We focus on regulative institutions, which are codified and standardized rules, such as government policies, regulations, and laws that are intended to define the nature of business and transactions (Scott, 1995). As emerging markets undergo transitions, regulative institutions are the first to be changed to reflect the new economic system. When the regulative institutional changes cluster in time, we define it as institutional turbulence (Johanson & Johanson, 2006). In other words, institutional turbulence arises when governments react to institutional voids and attempt to fill these by creating new laws and regulations, or modifying current ones to reflect the market change (Khanna & Palepu, 1997). Changes made to improve institutional voids are not settled once and for all, as they do recur over time. Therefore, a local government's attempt to fill institutional voids may be an ongoing process, which can cause the recurrence of institutional turbulence.

*Internationalization, strategy shift, and commitment shift*

Institutional turbulence is a concern for firms during the expansion. How, why, and where they expand in the market refers to strategy development during the expansion stage. Through strategy, activities are performed and heterogeneous resources are combined in order to achieve return on the firm's tangible and intangible investments (Mintzberg & Waters, 1985). Sudden and unexpected obstacles or opportunities arising can spur firms to adjust their strategy. Strategic shift describes a change of direction in the strategy development in internationalization when encountering institutional turbulence. Strategic shift is a particularly evident among firms entering emerging markets, as market movement can expose institutional voids and lead to recurrent institutional turbulence (Santangelo & Meyer, 2011). As firms are directly exposed to the institutions, most of the reorganization of resources and activities will occur at this level.

Strategic shifts may lead the firm to switch operational mode, ownership structure, or re-organize existing business activities, such as open or close divisions and functions. It can also be a switch between centralized or decentralized mode of operations. Through a view that the firm is a loosely coupled organization, strategic shift can lead to stronger integration between units within the firm (Bartlett & Ghoshal, 1989; Forsgren, Holm, & Johanson, 2006; Vahlne, Schweizer, & Johanson, 2012). Additional resources and power may be distributed to subsidiaries to allow them to have better control over the internationalization (Birkinshaw, 1996; Birkinshaw & Hood, 1998). Strategic shift presents a deliberate, intended change made by the firm in order to gain control and manage the internationalization, and it can also come from changes that emerge from reacting to changes in the institutions (Mintzberg, 2007; Mintzberg & Waters, 1985; Santangelo & Meyer, 2011). Facing *ex ante* preparation cost and *ex post* adjustment cost, Santangelo and Meyer (2011) find that firms entering emerging markets are likely to follow a consistent commitment strategy when they encounter great institutional voids, and pursue a strategy of increased commitment when facing institutional uncertainty. Moreover, a high degree of local embeddedness of a foreign firm may also encourage development of a strategy that differs from that of its headquarters (Benito et al, 2009; Birkinshaw & Hood, 1998, Forsgren et al., 2005; Hutzschenreuter et al., 2007; Meyer et al., 2011). Over time, foreign firms shift strategy to reflect the interests of the government and other actors in the institutional environment so as to obtain legitimacy and preferential treatment (Cantwell et al., 2009; Child et al., 2012).

In realizing strategy, firms make departures from the intended strategy. This strategic shift reflects on the commitment made by the firm, in terms of the amount of resources invested and the degree of commitment involved (Johanson & Vahlne, 1977). A change in commitment is a result of an increase or decrease in investment. Highly committed responses may include more advanced forms of internationalization, such as the transformation of an organization from a sales subsidiary to a subsidiary with production and R&D capabilities, while smaller commitment may mean that the organization is kept intact, while the various activities performed are changed. Two types of commitments are important during internationalization. The first is internal commitment, which refers to how the firm organizes its own resources, in terms of entry mode, where it places its employees, and how it structures operations in the foreign market (Ghoshal & Bartlet, 1990; Johanson & Wiedersheim-Paul, 1975). Institutional turbulence and strategic shift enable the firm to not only increase or decrease commitment, but also find different ways to organize resources and activities (Hadjikhani & Johanson, 1996).

The second type is external and has to do with how the firm develops relationships with local actors. The important aspects of external commitment include the extent to which these are sustainable and characterized by mutual investment and interdependence among partners in business networks (Björkman & Kock, 1995; Blankenburg Holm, Eriksson & Johanson, 1999). Institutional turbulence and strategic shift can lead a firm to increase resources and involvement with local actors to facilitate social good (Boddewyn & Doh, 2011). A shift in commitment to specific relationships with counterparts in the market may enable firms to achieve a better network position, and in return to exert stronger influence (Boisot & Child, 1999, Oliver, 1997). A shift in strategy and commitment may enable a foreign firm to actively respond to institutional turbulence. Firms can choose to reduce commitment in certain areas to protect them from opportunistic behavior by local actors and prevent the loss of competitive advantage (Chen et al., 2009; Bevana, Estrin & Meyer, 2004). Resource-rich firms may strategically invest resources in relationships with particular actors and activities to obtain a better position from which to exercise influence in the market (Rodrigues & Child, 2008).

*The interrelatedness between turbulence, strategy and commitment*

We further propose a conceptual framework to investigate the dynamic relation between the processes of institutional turbulence, strategic shift and commitment shift, as displayed in Figure 1. Not only do these processes have linkages among them, they also influence each other. In other words, changes that take place in one of the processes may be contingent on development in another process. Within the processes of institutional change, strategy development, and commitment, there are institutional turbulence, strategic shift and commitment shift; they are interrelated as these responses in resource allocation reflect the adjustments made by the firm to adapt to institutional turbulence in the market. The dynamic relation between these processes can be observed by tracking and analyzing the events that lead to institutional turbulence and the corresponding response on a firm level. Thus, institutional turbulence eventually leads to shifts in strategy and commitments.

*Institutional turbulence at different levels*

Some institutional changes of turbulent nature can be observed to be pervasive as on a national level while others impact entering firms on an industry level. From our literature review we conclude that there are certain gaps that remain to be filled in this field. First, several scholars (e.g. Benito & Welch, 1994; Santangelo & Meyer, 2011), have pointed out the importance of studying the time dimension, and preferably through longitudinal research. Here our study makes a contribution. Secondly, institutions are usually regarded as an independent variable, and also often as fixed between change periods. We believe there is a need for studies that capture the dynamic aspects in the sense that, a firm's activities in terms of commitments to the local market may also affect the institutions. Hence, we address the importance of studying the effects of institutions as well as business activities on market structures. Adopting the conceptual idea by Johanson & Vahlne (2009) and their internationalization process model, makes it clear that the effects of changes in a market cannot be assumed to be unidirectional. Thus, it is important to study not only how firms react to institutional turbulence but also how the firms in the market affect the institutions. This is crucial if one wants to understand the dynamic forces in the market.

## Method

We adopted a historical approach and employ a qualitative, multiple-case study method to investigate the market entry of three Swedish firms that have been operating in China for more than 20 years. Studies of Swedish firms made interesting cases as a relatively small domestic market and strong product development capabilities often spurred them to become pioneers in internationalization. In addition, Swedish firms were among the first to enter China after economic reforms were initiated in 1979. Historical analysis made it possible to trace changes over time. It was not possible to manipulate or influence these changes, and they could not be observed utilizing a contemporary data set. Furthermore, institutional changes occurred at different points in time and in different contexts. Not every industry in China had developed in a synchronized manner, and as a result, there were variations in the institutional change experienced in different industries. Through studying these variations, we could understand the interdependencies between the processes, and how the interconnections unfold over time. The historical dimension facilitated a co-evolution view, and made it possible to see how institutional voids affect actors and their actions, which affected how the institutional void is resolved. Moreover, we pursued deliberate, theoretical sampling in selecting DeLaval, Elekta and Höganäs as the firms for investigation. Qualitative study is suitable for making inquiries that uncover the process of change in institutions and firm behavior, and provides rich descriptions, such that hidden patterns are revealed. All three firms are Swedish manufacturing firms that have been operating in China for more than 20 years, although across different sectors including the dairy industry (DeLaval), medical device industry (Elekta) and powder metallurgy and automotive industries (Höganäs). Their histories of market entry are similar in terms of time frame and stage of operation.

To construct these three case studies, we collected and utilized both interview and archival data. It is recognized that the ability to utilize multiple sources of data and collection methods is a strength of the case study. A semi-structured interview guide was produced, and we conducted interviews with key informants in order to reconstruct their activities in China for the period covering market entry to 2010. Key informants include managers from Chinese subsidiaries and Swedish headquarters, key customers, and industry experts. The use of key informants allowed us to focus on extracting strategic information, which tends to be controlled by a few decision makers occupying upper management positions. These interviews followed the protocol lasted between 30 and 120 minutes. They were recorded with permission and conducted in either English or Chinese, depending on the informant's preference, and later transcribed in English.

Overall, 28 interviews lasting 40 to 180 minutes each, were conducted in China and Sweden between 2009 and 2013. The archival data are from a period between 1979 and 2010, and were extracted from company archives, annual reports, meeting notes, industry and trade journals, government announcements found in public records and documents on policy, laws, and regulations, as well as Chinese and foreign media.

## CROSS-CASE ANALYSIS

*Institutional turbulence*

In the Höganäs case four periods of high turbulence, followed by strategy shifts, are evident. The first happens in 1995-1998, when the auto industry opens for FDI and big car manufacturers enter the market. The government stopped subsidizing local steel makers. This led to that that Höganäs begun to import from Europe and China and plan to start simple production in 1999. In 2000-2002, the institutional situations changes; prices on energy and raw materials increased significantly and the Chinese government decided to close down small steel manufacturers. Moreover, import and export procedures relaxed after China joined WTO. A strategy shift followed in 2002-2003. Production was abandoned and instead Höganäs increases the focus on market development and import of iron powder became part of the new strategy. The third link between high institutional turbulence and strategy shift started with deregulation in auto industry, a policy to increase car manufactures' control over market and encourage component companies to upgrade, which happened in 2006. As a result, Höganäs began to interact closer with customers and to start R&D cooperation with car manufacturers. An R&D center for Asian Pacific region was established. Finally, the fourth connection was in 2007-2008 when the Chinese government issued an auto industry revitalization policy and five related regulations. Höganäs answered on this strategically on this turbulence by giving the Chinese operations, especially for R&D, a global role.

The Elekta case shows three intensive periods of high institutional turbulence, where two of them, 1995 and 2005-2007, could be viewed as industry-specific. In 1995 after three years of growth, Elekta, several rules were issued that had the consequence that Elekta were not permitted to sell the Gama knife in China. The latter of this periods began with a begin scandal with corruptions and bribes at SFDA, which in the end meant tighter rules for the whole industry. In both these case, Elekta was forced to completely reconsider the strategy and make a shift. The first shift meant a change in focus from Gamma knife and running a sales office to produce the operation table Linac in China. The second shift, in 2006-2007, resulted in a strategy where Elekta began R&D and developed a distribution network for both Gamma knife and Linac. In between these shifts, there was also a high turbulence in 2002, resulting in buying out the joint venture partner and beginning to source in China.

The DeLaval case demonstrates three periods of institutional turbulence, which completely changed the business conditions. The first happened 1995-1999, as a consequence of the shopping basket program and a few laws aimed to increase production and consumption of milk products. DeLaval's strategic answer was to buy out the joint venture partner and to begin to invest in the market. The strategy was to have complete control of the operations and not to share ownership with Chinese partners, and to increase the market presence. The next period of high institutional turbulence took place when China joined WTO. DeLaval increased its presence in the market and started to interact closer with both industrial associations and universities. The final turbulent period is a result of melamine crisis in 2008. A large number of new rules and laws were issued and covered the whole dairy supply chain. DeLaval's strategy implied trying to take a central role in the industry, starting various projects and programs in order to train and inform the market. China became one of DeLavals's key markets.

One period of high turbulence, which the three cases have in common, took place from 2000 to 2002. The main change was China joining the WTO, which directly lead to shifts in the strategies. But, the new strategies established differed between the firms. While Elekta decided to increase sourcing from China and to begin to search for local partners, Höganäs abandoned the existing production, focused on market development and to increase import of iron powder. Thus, when the institutional turbulence in this period increased, firms shift their strategies, but in different directions.

Institutional turbulence is seen before, as a preparation, and, after, as consequences of this episode. Connected to the "WTO episode" the entering firms experienced both restrictions (local manufacturing was more strictly regulated than before), as well as opportunities (fewer importation restrictions). Both hinder and possibilities cause strategic shifts and commitment changes. Local manufacturing was in some cases scaled down and the strategy turned to more customer orientation. Based on this, we conclude that the institutional turbulence is of various extensions and predictability. The institutional turbulence can influence the whole market or parts of the market, that is, they can be industry-specific. Two of such institutional changes take place in the Elekta and DeLaval cases, where the changes started with scandals that resulted in completely new institutions, where Elekta and DeLaval were operating.

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*Strategy and commitment*

Commitment, being a consequence of strategic shift is analyzed in specific periods, which are characterized by low turbulence and lack of strategy shifts, but also in periods of high turbulence and strategy shifts. Strategy shifts, consequently, follow high institutional turbulence. During periods with low turbulence, firms stick to their strategy and try to fulfill it. Periods of low institutional turbulence lead to that firms make small additional commitments, which build on each other and follow a gradual step-by-step logic. They lead to paths of additional commitments, where each single commitment strengthens a specific path, which to a large extent correspond to the nature of strategy. Thus, institutional development is path-dependent. As the firm's strategy and commitment follow the institutional development, they are to a large extent path-dependent as well.

These periods vary in the cases, but in the DeLaval case we observe four periods of path-strengthening commitments. The firm entered China earlier than the other two firms and, as a consequence of the shopping basket program and a few new laws (1995-1999), experienced a sustained period of institutional turbulence. The strategic answer to this was to have complete control over the operations and so certain commitment shifts took place; the establishment of a wholly owned sales subsidiary in Shanghai, the buyout of the joint venture partner and subsequently increase staff and capacity in China, increase the presence in the market by investments to build up relationships with the end-users. In 2002, China joined WTO, signaling a shift in DeLaval's strategy leading to close interaction with both business and other partners. DeLaval began produce and source from China and it became an active partner in various industrial associations. China was also given a central role in the East Asian operations, controlled by a newly opened sales office in Shanghai. The melamine crisis in 2008 was a starting point of a large numbers of new rules and laws. After a while, DeLaval's new strategy was developed which turned China into one of the firms' key markets.

In the Elekta case they are evident in 1995-1999, where they gradually went from representation via sales office to establish a joint venture, which was a consequence of the complete stoppage to sell the Gamma knife in China in 1995. In 1999, the acquisition of Philips' RT Division led to decision to start production of Linac in China, but this "production"-strategy and path-strengthening commitments, which implied founding a producing joint venture, SEOS, was completely changed in 2002-2003 as a consequence of the high institutional turbulence. In the Elekta case, the third period of several path-strengthening commitments began in 2006 and started with the acquisition of BMEI, which made up the organizational platform for the increasing commitments, where BMEI after a few years was given a new R&D role. These paths of commitment were interrupted, when strategies shifted. The periods were characterized by commitments that can be labeled path-breaking, and there are two types of path-breaking commitments, where the first and most dramatic—though less common in the cases—implies breaking the paths of small and additional commitments in one direction, and instead beginning to de-internationalize, by transferring resources from China to other markets. For instance, in 1999, Höganäs decided to replace a joint venture partner and invest in its own subsidiary, to completely abandoned production in 2002-2003. The more common type of path-breaking commitment results in change of direction of the path. In the DeLaval case, such commitments were made in 2000-2001, when the firms began to start sourcing and establish production in order to export to other markets, instead of treating China as only an export market, while between 2002 and 2003 Elekta bought out the joint venture partner and began to source from China. SEOS also became integrated into Elekta's production, as the sole production unit of Linac worldwide. The Höganäs case gives similar evidence. Between 1999 and 2000, Elekta firm went from an export-oriented strategy to a production-oriented strategy, where the aim was to partly sell the products manufactured in China to other countries.

## DISCUSSION

This study addresses a gap in internationalization studies through an examination of the effect of institutional turbulence on foreign market entry. We wish to highlight several observations on the dynamic relation between institutional turbulence, strategic shift and commitment shift, which we contend are contributions to theories on firm internationalization.

*First,* on an overall level, the market entry of the firms follow a similar pattern, even though they are interrupted by institutional turbulence, strategy shifts, and commitment shifts. They all started with export-focused strategies involving minimum commitment, and soon after replaced these by production-oriented strategies together with local JV partners. Next, JV partners were bought out and the subsidiaries became wholly owned enterprises, as the firms began to view China as a potential market, rather than just a base for production. The last strategy saw these subsidiaries start to cooperate with local actors, including customers, governmental agencies, and research institutions. Having benefited from China's WTO entry and market deregulations, their expanding activities in China also became more integrated with their global operations. The similarities observed support the incremental view on internationalization (Johanson & Vahlne, 1997). It also shows that perhaps the prevalence of economic forces in the market guide the market development, through which the firms are gradually embedded (Cantwell et al., 2009; Child et al., 2012). Institutional turbulence does play an important role in shifting firms' strategy and commitments, but in contradiction to Santangelo and Meyer's (2011), the direction of the strategy and commitment shifts are not always consistent. Through our data, firms are seen to shift strategies over time in order to more closely align with institutions (Child & Tse, 2001; Rodrigues & Child, 2008). However, their commitment may increase, decrease, or diversify in order to respond to institutional turbulence. Frequent shifts occur over time as firms attempt to adapt to institutional changes, which sometimes can seem like shooting at moving targets.

*P1: When firms enter foreign markets, they pursue a constant and consistent strategy when the institutional turbulence is low, while high institutional turbulence tends to lead to firms re-currently shifting their entry strategy.*

*Second*, although institutional turbulence at country or industry levels may have forced the firms to re-evaluate their strategies at various points in time, their market entry still shows a path dependency. We argue that previous learning and commitment in the foreign market creates inertia that holds these subsidiaries on the same path (Johanson & Vahlne, 2009). Over time, the firm becomes locked-in and have less flexibility for future strategic shifts (Schreyögg et al., 2011; Sydow et al., 2009). They increasingly invest resources and make commitments in areas that are difficult to transfer, such when building relationships that contain mutual adaptations generating interdependencies. These commitments also encourage firms to hold their paths, as the financial consequences of switching partners can be significant.

However, there are also noticeable occasions where strategic shift seems to produce a break with the path, for example, Höganäs' decision to abandon its original plans to produce raw materials in China. At this point in time, Höganäs experienced institutional turbulence at both industry and country levels, and found its knowledge seemed to be inapplicable in this ever-changing market. Knowledge acquired from past experiences is an essential element for firms to continue moving on the path. However, when knowledge becomes obsolete and loses validity due to institutional turbulence, subsidiaries may be presented an opportunity to break from this path and regain flexibility. Path-breaking strategies signal a strong shift, and firms also begin to explore possibilities to utilize resources in a manner that fits better with local institutions. This shift in commitment may enable firms to identify new areas of growth, and to resume the internationalization.

*P2: When firms enter foreign markets, their constant and consistent strategy is followed by a chain of incremental commitments, while shifts in entry strategy tend to lead to breaking the chain of incremental commitment.*
*P3: In foreign markets with low institutional turbulence, market entry is characterized by path dependence, while high turbulence leads to market entry characterized by path disruption.*

*Third,* we propose a conceptual framework to understand the internationalization through the dynamic relation between institutional turbulence, strategic shifts and commitment shifts. Our findings not only lend support to our conceptual framework, but also provide subtle variations that deserve a closer look. Results of the study indicate that institutional turbulence can take place on a country level, and changes in regulative institutions target the whole market. An example can be seen in the effect of deregulation after China joined WTO. The country level institutional turbulence grew out of institutional voids, as the regulative institutions were basically developed from scratch (Khanna & Palepu, 2010). Yet, as we see it, institutional turbulences can also occur at the industry level, a phenomenon that has not been extensively examined in past studies. Industry level institutional turbulence is argued to have a much stronger effect on firms, as it tends to be specific but extensive. Industry level institutional turbulence appears to be associated with crisis, for instance, the melamine crisis in the dairy industry. The role institutional voids play in creating industry level institutional turbulence is somewhat subtle; institutional voids have often persisted in these industries for relatively long periods of time, and governments only take action when crises hit. Crises are triggered by the opportunistic behavior of local actors attempting to take advantage of institutional voids. Until there is a crisis, governments may not attend to them. These findings indicate a temporal difference in the connection between institutional voids and institutional turbulence depending on the level at which these voids exist. Institutional voids at a country level are more obvious and have a broader impact therefore government has more urgency to deal with them. These voids are also indicative of a fundamental change in the economic system and government must make sure they are dealt with properly. In contrast, industry level institutional voids may be seen as emerging issues only when they are exposed. They also vary on the extent of influence, depending on the importance of the specific industry, and how society as a whole is affected.

*P4: Institutional turbulence originating on a country level lead to more extensive changes, compared to those on industry level and thus have a stronger influence on the firm's strategy and commitment.*

*Lastly,* the dynamic relation between institutional turbulence, strategy development, and commitment may further advance the co-evolution view of institutions and firms (Child et al., 2012; Rodrigues & Child, 2008). In our findings, DeLaval was observed actively engaging with government through the China Dairy Forum, and Sino-Swedish Dairy Center Phase 2 in the wake of institutional turbulence following the melamine crisis. Through these interactions, DeLaval contributed to addressing institutional voids in China's dairy industry. As such, we propose that the commitments firms make in the host market may allow them to contribute to future institutional changes (Boddewyn & Doh, 2011). A few conditions need to be attached to this proposition. Firms may need to develop substantial trust with local actors, in particular with government and local customers, before they can be recognized as a trust-worthy partner. The trust placed in DeLaval was obtained through a long-term presence in the market, and constant engagement with industry-wide associations, before the melamine crisis broke. Firms also need to be willing to leverage international competence and invest resources, which may not generate short-term profits. DeLaval's commitment not only included advanced technology, but also a commitment to cooperation, and sharing knowledge of dairy farming practices in general. Finally, the institutional turbulence may need to be relatively severe, before the host government seeks outside help. The institutional turbulence resulting from the melamine crisis affected the industry, but more importantly society at large, thereby increasing the government's interest in cooperating to take control of the crisis.

*P5: When a firm enters foreign markets, high commitment tends to increase the likeliness that the firm is involved in the institutional development of the foreign market.*

The cases demonstrate that it is not only the extension of the institutional changes that matter. The extent to which the firm is aware of the changes, as well as to what extent they are predictable, is important when the firm formulate its strategy and make commitment. If the institutional changes are known in advance and transparent, the firm can adjust to them, which is likely to lead to a smooth re-formulation of the strategy and be of guidance for incremental commitments. This is evident when China joined WTO, which was an extensive institutional change on country level, but as this change was known in advance, firms could begin to plan for the future and thereby adapting strategies and commitment, before the change had actually taking place.

*P6: Institutional changes, which are known in advance, make it likely that the firm can adjust their entry strategy, leading to less shifts and path-breaking commitments.*

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Table 1. Summary of the firms' entry

| | DeLaval | Elekta | Höganäs |
|---|---|---|---|
| Institutional turbulence | Three periods of high institutional turbulence were:<br>Policies in order to stimulate milk consumption ("The shopping basket programme") and to move production to Northeastern China. (1998-1999)<br>China joins WTO but also several new regulations on standards for milk. (2001-2002)<br>Regulations and supervision (total reconstruction of the industry) due to the melamine milk crisis, but before this several policies on strengthening of dairy farming and production. (2005-2008) | Three periods of high institutional turbulence appeared:<br>After three promising years in the Chinese market new regulations resulted in a complete stoppage of sales of the Gamma knife to China. (1995)<br>Import/export procedures relaxed after China joined WTO. Relaxed restrictions on purchasing medical devices. (2002)<br>SFDA drug scandal. Government merged SFDA into Ministry of health. Tighter registration process for medical device and supervision plan consultation begins. (2005-2007) | High institutional turbulence occurred during four periods:<br>Auto industry opens for FDI. Big car manufacturers enter the market. The government stopped subsidizing local steel makers. (1995-1998)<br>Prices on energy and raw materials increased significantly. Government decides to close down small steel manufacturers. Import/export procedures relaxed after China joined WTO. (2000-2002)<br>Deregulation in auto industry Policy to increase car manufactures' control over market and encourage component companies to upgrade. (2006)<br>Government issued auto industry revitalization policy and five related regulations. (2007-2008) |
| Strategy | Three strategy shifts took place:<br>The first shift meant that instead of seeing China as a pure export market, sourcing and production became key activities. (2000-2002)<br>DeLaval began to interact more with the end-users and to reach the customers. (2002-2004)<br>A shift to a strategy, which meant more collaboration with the government, but also that the Chinese operations were give a more important role in the firm. (2006-2009) | Three strategy shifts happened:<br>To be able to convince the Ministry of Health a representative office was opened 1995, which held seminars and training programs. Eventually finding facilities by founding a J/V to start production of Linac in China. (1999)<br>The second shift leads to a strategy with increased sourcing from China and search for local partners. (2002-2003)<br>The third strategy resulted in a strategy where Elekta began R&D in China and developed a distribution network, both for Linac and Gamma knife. (2006-2007) | Four strategy shifts took place:<br>The first shift means that Höganäs begins to import from Europe and China and plan to start simple production. (1999)<br>The second shift means that production is abandoned and focus is on market development and increased import of iron powder. (2002-2003)<br>The third shift implies closer interaction with customers, R&D cooperation with car manufacturers and establishment of R&D center for Asian Pacific region. (2006)<br>The fourth shift gives a global role for the Chinese market, especially for R&D. (2008) |
| Commitment | Three paths of commitment:<br>DeLaval East Asia, factories and sourcing center established. (2001-2003)<br>Mobil bucket for small-scale customers. (2005)<br>Increased engagement with Sino-Swedish Dairy center phase 2, 1st and 2nd CDF and relocation of sales office to Beijing. (2007-2010) | Commitment in three paths:<br>The first starts with office in Shanghai and ends with Elekta buying out the J/V partner. (1999-2002)<br>The second starts with sourcing from China. (2003-2005)<br>The third path began with acquisition of BMEI. (2006-2010) | There were four commitment paths:<br>After the J/V was founded, several investments were made until wholly-owned subsidiary replaced J/V. (1995-1999)<br>Investments in the own subsidiary, with the aim to start production. (2000-2001)<br>Production was abandoned and instead import of iron powder. (2002-2003)<br>Development of R&D, cooperation with car manufacturers. (2006-2008) |