International Business-Government Relations: The Risk Management Strategies of MNEs in Emerging Economies

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Abstract:

In emerging economies where the institutional environment is weak, the level of risk faced by MNEs remains high. Extant literature recognizes the forms of risks faced by MNEs, but only a few studies have attempted to explain how firms identify and mitigate these risks. This study addressed the commercial risk management strategies of MNEs operating in Vietnam. We found that the government remained the key stakeholder and maintaining active relations with them aided MNEs' operational success. The risk mitigation strategies employed by MNEs included managing alertness, portraying good behavior, navigating through the state of comfort, and active mediation.

Keywords: risk mitigation, MNEs, emerging economies, IBGR

1. INTRODUCTION

In the growing competition for access to new markets and increased profits, multinational enterprises (MNEs) are actively seeking opportunities to enter markets that may have high levels of uncertainty in the business environment (Dai, Maksimov, Gilbery, & Fernhaber, 2014). This relationship between risk-taking and profitability has brought risk assessment and risk mitigation to the forefront of organizational strategy.

The topic of risk assessment has a long history of academic investigation (Brown, Cavusgil, & Lord, 2015). Yet, while there have been efforts made to identify the forms of risks faced by international firms (such as commercial, cross-cultural, currency and country risks) (Al Khattab, Anchor, & Davies, 2008; Bekaert, Harvey, Lundblad, & Siegel, 2016; Brown, et al., 2015; Simon, 1984), the strategies MNEs undertake to assess, manage and mitigate risks remain under-researched (Bromiley, McShane, Nair, & Rustambekov, 2015).

The opening of new markets over the last few decades has resulted in unprecedented investment in emerging economies. Brazil, Russia, India, China, South Africa, and Vietnam are just a few examples of countries that have been recipients of large-scale foreign direct investments (FDI) (Hawksworth, Audino, & Clarry, 2017; Ju, Murray, Gao, & Kotabe, 2019). The entry of these economies into the World Trade Organization (WTO) and membership of other plurilateral agreements have brought them into the global trade and investment fold as far as regulations are concerned. However, MNEs investing in these countries can face uncertainty and risks related to timing of entry, operational problems, competitive intensity, and weak partner selection (Cavusgil, Knight, Riesenberger, Rammal, & Rose, 2014), and the ability to assess and mitigate these risks are critical for the firms' sustained and profitable operations.

MNEs have the option to avail the services of global consulting firms that produce risk assessment reports and ranking that are used by many firms (Oetzel, Bettis, & Zenner, 2001). However, the complexity of MNEs' operations in emerging markets requires further investigation into what risk management strategies are adopted by the firms to succeed in international markets. The institutional environment in many of the emerging countries is in the transition phase as they attempt to adopt more free enterprise principles. Therefore, the drafting and implementation of the relevant rules and regulations relating to business activities in emerging countries is still in its infancy, which can result in a higher level of uncertainty for international firms operating in those markets. In this study, we explored how MNEs assessed and mitigated risks in emerging economies that became signatories to global trading agreements and opened up their markets to international competition in the last few decades. In doing so, we attempted to answer the following questions:

> *What risk identification processes did MNEs follow in emerging economies with weak institutional environments? What strategies did MNEs employ to mitigate risks in emerging economies?*

Extant literature on risk assessment in International Business (IB) tends to focus on political risks faced by MNEs (Darendeli & Hill, 2016; Gamso & Nelson, 2019; Iankova & Katz, 2003; John & Lawton, 2018). In this research, we focused on investigating risk management strategies related to the timing of market entry and competition, which are critical factors that define the success or failure of foreign market operations. Therefore, our emphasis was on commercial risk issues, which have received scarce attention from international business scholars (Oetzel & Miklian, 2017).

We selected Vietnam as the country setting to investigate the risk management activities of the MNEs. The choice of Vietnam for this study was influenced by the country's transition towards a market economy, firstly through the recognition of the role of the private sector in the constitution in 1992, and the subsequent rapid economic growth the country has experienced since joining the WTO in 2007 (Baccini, Impullitti, & Malesky, 2019; Srinivasan, et al., 1996). The country's experience of transitioning towards a market economy and the risk assessment and mitigation strategies employed by MNEs operating in the country can serve as an example for MNEs considering investment in other developing and transition economies. To provide a holistic view of the business environment, we interviewed key informants from MNEs operating in Vietnam, consulting firms, and government officials.

The findings of the study contribute to the literature on risk management strategies employed by MNEs, and further add to our understanding of International Business-Government Relations (IBGR), and the interaction between key stakeholders including host-governments, MNEs, and consulting firms.

The remainder of the paper is structured as follows: the next section reviews the literature on risks in international business, followed by an overview of the stakeholder theory. The key features of the Vietnamese economy are then detailed, followed by a description of the research methods applied in this study. The key findings from this study are then presented and discussed before the paper concludes by highlighting the managerial implications and identifying key directions for future research.

2. RISKS IN INTERNATIONAL BUSINESS

The literature on risk management is diverse, and ranges in focus from the forms of risk, to risk based on a country's level of economic development. One of the seminal studies to highlight and classify the uncertainties in the business environment was by Miller (1992), who identified political, government policy, macroeconomic, social, and natural uncertainties. Cavusgil, et al. (2014) classified risks into four categories: country risks, currency risks, cross-cultural risks, and commercial risks. As discussed earlier, the majority of the extant literature tends to focus on political risks and uncertainties (Henisz, Mansfield, & Von Glinow, 2010), with emphasis on the corruption of public officials in host countries (Cuervo-Cazurra, 2016). Currency risks (Müllner, 2016) and cross-cultural risks (Stahl & Tung, 2015) have also been the subject of much research on risk in business. Despite the relevance of risk management to IB, the literature on commercial risk mitigation by MNEs remains scarce (Oetzel & Miklian, 2017). This is particularly surprising when one considers that a major element of the internationalization process theories has been to explain how firms attempt to address the inherent risks in the market by taking control of the timing and mode of entry (Buckley, 2016).

Concerning commercial risks, previous studies suggested that risk management in MNEs was undertaken on an ad-hoc basis (de Mortanges & Allers, 1996). As identified by Brown, et al. (2015), consulting firms developed many measures to facilitate the risk assessment in a country. However, relying solely on these measures can have limitations for MNEs that do not undertake in-house risk assessments. Oetzel, et al. (2001) in their study found that the commercial risk measures produced by consulting firms were a poor predictor of actual risks.

In addition, the institutional environment in transitioning economies is underdeveloped, resulting in firms being exposed to a broad range of risks (Iankova & Katz, 2003). Moreover, in transitioning economies, the country-level risk perception tends to be much higher, and an active approach to risk management is required (John & Lawton, 2018). Iankova and Katz (2003) in their study on the transition economy of Bulgaria found that MNEs pursued two risk mitigation strategies: a low-involvement strategy where firms devoted limited resources to address few relevant concerns, and a high involvement strategy where firms developed relations with a range of various stakeholders, including government, business, and public partners. Some of the risk mitigation strategies found in the literature included cooperative strategies such as forming joint ventures with domestic firms (Beamish & Lupton, 2016; Reuer, Shenkar, & Ragozzino, 2004), and investing in relations with influential social groups and offering goods and services that are perceived to be socially valuable (Darendeli & Hill, 2016).

We extended our review of the literature to include risk assessment reports produced by consulting firms. These reports covered different risk assessment activities including operation risk, business risk consulting, and enterprise risk management, and commercial contracting (Deloitte, 2018). The Enterprise Risk Management report by Deloitte (2015) focused on how it could help clients find the right balance between risk-taking and reward or optimal risk-taking. This emphasis on finding the optimal mix was a response to changes in the UK regulator Financial Reporting Council's governance code, which emphasized long-term sustainable value creation (Deloitte, 2015). McKinsey & Company (2018) focused on wealth management and risk management in the digital era, whereas supply chain risk was another emerging area of risk assessment (Deloitte, 2018; Manuj & Mantzer, 2008).

Guided by the literature, we investigated the commercial risk management practices of MNEs and sought to find answers to whether MNEs undertook their risk assessment activities in-house, relied on reports and assessment undertaken by third parties such as consulting firms, or used a combination. Our choice of a transitioning economy for investigation, allowed us to explore how key events in the country's economy influenced the timing of the MNEs' entry and whether the timing of the entry was linked to the perceived uncertainty in the market. These issues remain unanswered in the IB literature and are deserving of exploratory investigation.

By addressing the aforementioned issues in IB, not only does this study add to the literature on commercial risk management but also addresses the concern raised by Delios (2017), who suggested that while IB practice is responding to contemporary issues, including risk-taking, the academic literature in the field has failed to remain relevant. We also answer the call by Liesch, Welch, and Buckley (2011), who highlighted that there were more risks and uncertainties that were yet to be uncovered, and further contributions to be made about the interactions firms have with other relevant individuals and groups (Liesch, Welch, & Buckley, 2014).

To address the issue of risk management in MNE operations, one needs to identify the key players and their influence on the activities of the firms in the host economy, as they vary from one market to another. Active engagement and managing the relations with these influencers allows MNEs to achieve their objectives and goals. This view is supported by the institutional and stakeholder theories, which, when combined with the IBGR perspective, facilitates the identification of formal and informal institutions that influence risk perception and management, the key stakeholders, and their level of activism. We applied these theoretical perspectives as the conceptual base in this study and provide an overview of the key features in the next section.

3. THEORETICAL LENSES

A sound understanding of the institutional environment is critical for MNEs to navigate through the rules and regulations in the host country (Holmes Jr., Miller, Hitt, & Salmador, 2013). ***Institutional theory*** facilitates the analysis of the business environment by classifying it into formal and informal institutions (Schwens, Eiche, & Kabst, 2011). Formal institutions refer to the laws and regulations in the country and written contracts, whereas informal institutions refer to networks and unwritten rules of behavior. In countries where the institutions are mature, formal institutions provided assurances about the implementation of agreements and contracts. However, in countries where the institutional development is still in its infancy, there was more reliance on informal institutions such as networks and relationships to address the ambiguity in the implementation of rules and enforcement of contracts.

The influence of the informal institutions has been observed to be stronger in transitioning and developing economies. Steer and Sen (2010), in their study of informal institutions in Vietnam, found that relational contacts and networks are important mechanisms of risk management in the country. The authors argued that despite rapid economic growth and the recognition of private enterprises by the Vietnamese government, the informal institutions continued to have a significant influence on business activities. However, the study used primary data collected in 2004, three years before Vietnam's entry into the WTO. The present study, therefore, provided the opportunity to verify whether the influence of the informal institutions has waned as the institutions matured over the last 15 years.

We applied the ***stakeholder theory*** to understand the role of the informal institutions and the influence of the various stakeholders on the risk perception and management of MNEs operating in Vietnam. One of the fundamental tasks of an organization's management is to formulate the company's mission and vision. These statements help the organization identify what the purpose of its existence is, and guides management to develop relevant strategic goals to achieve the stated objectives. However, the strategic decisions made by firms are a response to the uncertainty in the operating environment, which can be a source of risk.

Stakeholder theory helps identify the legitimate interests of individuals or groups, who, through their activities, can affect companies' goals and objectives (Freeman, Wicks, & Parmar, 2004). According to Freeman (1984), stakeholder theory encourages managers to answer two key questions: What is the purpose of the firm?; and keeping in mind this purpose, what responsibility does the organization have towards stakeholders to encourage collaboration and avoid any action that could negatively impact the organization's aims and objectives? While there have been some differences in the way stakeholder theory is perceived, there is a consensus that the theory established a framework that can help examine the connections between the various stakeholders and the organization (Miles, 2017). It, therefore, adds to the economic and social value of organizations if managers and stakeholders voluntarily come together to cooperate and ensure that their interests are met (Jensen, 2001). By doing so, managers attempt to reduce the uncertainty and associated risks that the organization may face.

Of the various stakeholder-related issues identified in the previous literature, the influence of non-governmental organizations (NGOs), and government regulations and policies on the stakeholder legitimacy of the firm were highlighted as areas that needed further investigation (Doh & Teegen, 2002; Olsen, 2017). These issues are particularly relevant to MNEs who face the challenge of operating across countries where government policies and regulations vary, adding to the uncertainty and risk faced by firms. Olsen (2017) refers to this issue under the *political stakeholder theory* and suggests that firms need to manage this relationship with the government proactively, and respond to any concerns raised about the operations of MNEs in the country. In emerging economies that are predominantly centrally planned, understanding the role of the government in setting regulations, and the influence of policies on MNE risk assessment is critical for organizational strategy. Therefore, the application of the stakeholder theory in this study provided opportunities for detailed exploration of the interaction between MNEs and government agencies in emerging economies, referred to more commonly as the International Business-Government Relations (IBGR) (Boddewyn, 2016; Brewer, 1992).

Another concern raised about the relationship with governments is that the state governance system, especially in emerging and transitioning economies, may seem incapable of addressing the issue of public good in the host country (Dahan, Doh, Oetzel, & Yaziji, 2010).

In such situations, NGOs took on the challenge and criticized MNEs and their supply chain if they believed the operations are contrary to the interests of the local host-country population (Doh & Teegen, 2002). Organizations can respond to the social and environmental demands placed on them by engaging in corporate social responsibility (CSR) activities to demonstrate their commitment to the various stakeholders in the host country. This development has seen organizations move away from having a separation between private and public activities and become actively involved in influencing policy and public opinion (Scherer, Palazzo, & Matten, 2014).

Using stakeholder theory, we identified the key stakeholders that influence the activities of the organizations operating in the transitioning economy and explain how MNEs managed their role as an active participant in the host country, and the approaches they took to assess and mitigate risks.

4. RESEARCH METHOD

4.1 Research context: Vietnam

We chose Vietnam for this study as the country's economy is transitioning, and there are potential risks for business as the institutions and market conditions continue to be in a state of flux (Steensma, Tihanyi, Lyles, & Dhanaraj, 2005). Vietnam has undertaken many reforms and made attempts to integrate with the global economy. Among the various steps taken by the government, the economic reform program called 'Doi Moi' in 1986 (Tsang, 2005) and the membership of the World Trade Organization (WTO) in 2007 were the most significant events for the country's economy.

In 2016, Vietnam led the Southeast Asian region in terms of the *Greenfield FDI Performance Index* (FDI Intelligence, 2016), and the region surpassed China in attracting FDI (UNCTAD, 2016). Today, Vietnam is ranked as one of the most popular destinations for FDI and is host to some of the largest global MNEs (Vanham, 2018), and the economic growth is expected to be sustained in the long-term (Hawksworth, et al., 2017). Indeed, the government has ongoing commitments to improve its institutional framework to create favorable conditions for foreign investors in Vietnam.

Despite being an important economy, research on Vietnam in IB literature has been limited (Baughn, Neupert, Anh, & Hang, 2011; Tsang, 2005). It is also necessary to acknowledge that the information about specific risks for MNEs in Vietnam is limited in both the media and academic literature. Therefore, as an emerging economy, Vietnam provides a good context to study MNEs' risk assessment, and the findings of this study are relevant to other emerging and transitioning economies.

We adopted Donaldson and Preston's (1995) model and identified the key stakeholders that directly influence MNEs' operations in Vietnam (see Figure 1). Previous studies concluded that government and societal risks (including industrial action from labor unions, and campaigns by NGOs) were prominent in transitioning economies (Iankova & Katz, 2003) and many firms relied on country risk reports produced by consulting firms for risk assessment (Oetzel, et al., 2001). However, the nature of commercial risks and the strategic response of MNEs to mitigate these risks in the emerging economies remain under-researched. This research addressed the issues, and we identified Vietnam's Central and Provincial governments, NGOs (advocates for the local community), supply chain partners, consulting firms, and trade associations and labor unions (the voice for employees) as the key stakeholders that influenced the risk management activities of MNEs in the country.

INSERT FIGURE 1 HERE

Generally speaking, the business environment in Vietnam has improved, and this is reflected in the country's improved Ease of Doing Business Index (82 in 2017 to 68 in 2018) and Competitiveness (60 in 2017 to 55 in 2018) rankings (Trading Economics, 2018). However, despite these positive signals, the risk ratings of Vietnam remain at a level that could raise concerns for current and potential MNE investors. For example, Vietnam's risk rating was in the low tier-three group according to Euromoney (2018b), and the country's risk rating and business climate rating were both at the B level, according to Coface (2018). The Organisation for Economic Co-operation and Development's (OECD) risk classification for export credits, which is undertaken annually, showed that historically, Vietnam had been rated as a risky country. Barring one year (2007-2008) when it was ranked 4 (the highest risk rating is 7), Vietnam risk score remained between 5 and 6 (OECD, 2018), suggesting a market with high commercial risks.

As a single-party rule government, Vietnam offered foreign investors consistency and continuity of policy. However, a lack of transparency could contribute to increasing commercial risks due to the limitations identified in the quality of regulatory and policies (Efic, 2018; Euromoney, 2018a). In addition, issues such as the enforcement of Intellectual

Property rights and labor market risks remain in Vietnam (Gov.uk, 2018; Hong Kong Trade Development Council, 2018).

4.2 Data collection and analysis

We used the qualitative case study method to investigate how MNEs identified and mitigated risks in their activities (Ghauri, 2004; Stake, 2013) and applied the contextual explanation technique (Fletcher & Plakoyiannaki, 2011; Welch, Piekkari, Plakoyiannaki, & Paavilainen-Mäntymäki, 2011). The rationale for the contextual explanation was that the case – identified here as risk management strategies of foreign firms operating in Vietnam – existed in an open system, that is, MNEs and their cross-border activities were embedded in their surrounding context. Arguably, by focusing on the in-depth description, the causal connections between constructs might be less obvious. However, by following the tenets of contextual explanation, not only did we investigate the phenomenon of risk management strategies and associated relationships, but we also studied the influence of the country-specific settings. Therefore, we aimed for in-depth interpretation instead of quantification of data to highlight what MNEs are capable of doing under certain context-specific conditions.

Data collection

Two forms of data were collected for this study: written documents that allowed us to study the formal institutions in Vietnam, and multiple in-depth semi-structured interviews with various key informants that provided insights about the informal institutions and the role and influence of the various stakeholders. The documents provided us with the background of the regulations and contextual factors in Vietnam and were necessary for our understanding of the case (see Table 1). In particular, the analysis of the documents served three principal aims: to capture any organizational level data, define the trends of risk in Vietnam and identify the regulations, policies, and the role of the government in opening up the economy to inward FDI. Analyzing multiple sources of data facilitated the triangulation of the subjective and often retrospective information reported by the participants with information about actions taken by firms revealed in the press and their publicly available document sources (Huber, 1985). The validation of the information from multiple sources provided a comprehensive understanding of the phenomenon under study (Ghauri & Gronhaug, 2005).

INSERT TABLE 1 HERE

The interviewees for this study were identified using purposive sampling and represented the four stakeholder groups in Vietnam that were highlighted earlier: MNEs, consulting firms, trade associations, and government (see Figure 1). This enabled us to understand in-depth the embeddedness in the context (Stake, 2013). Our choice of key informants allowed us to cover various perspectives of the studied phenomenon and to verify the integrity of interview responses (Lincoln & Guba, 1985).

The interviews focused on the background information about the organization (including the original form of entry into Vietnam); existing risks in Vietnam, including recent trends; and finally, the risk assessment and mitigation process. On average, each interview lasted around 60 minutes. The interviews were conducted in English and Vietnamese, audio-recorded, and then transcribed verbatim. Where necessary, one member of the author team, a native Vietnamese speaker, translated the data into Vietnamese before translating back into English.

The final interview transcripts were read and analyzed by each author, and the emerging themes cross-checked to uncover similarities and potential biases. The process allowed us to minimize the 'neutrality concerns' (Lincoln & Guba, 1985), which can occur when the researchers themselves are subject to various biases in their process of data interpretations. To protect the identity of the organizations and the key informants, we coded their names in the final report by using organizational level labels: MNE for a multinational enterprise; CF for a consulting firm; TA for a trade association and GB for a government body (see Table 2). The confidentiality treatment of the key informants' participation also contributed to the integrity of their responses as the interviewees' were more open in their answers (Lincoln & Guba, 1985).

INSERT TABLE 2 HERE

In total, interviews were conducted with seven key informants: two senior managers from the MNEs, three individuals from the consulting firms, and one individual each from the government body and the trade association. These individuals represented the key stakeholders in Vietnam that we identified earlier. Repeat interviews were conducted to clarify the responses and seek further answers to questions that emerged during the analysis phase. To cross-check and verify the interview data collected from key informants from the MNEs, we also interviewed individuals from consulting firms that were involved in providing risk-related consulting services in Vietnam. The insights of the individuals from the government agency and the trade association further strengthened our data.

While the number of companies studied and the number of individuals interviewed for this paper may seem limited, the information that we collected was rich, and that allowed us to answer the research questions. The inflows of FDI in Vietnam is still a relatively recent phenomenon, and the data collection was limited in terms of the number of companies that have been operating in the country for an extended period of time. Information was collected from MNEs that had been in the country long enough to make a judgment about the effectiveness of their risk mitigation practices, Collecting data from the two MNEs that entered at different time periods (one before the country's WTO membership and one after), allowed us to study the influence of the WTO membership on the company's risk assessment practices. The data from the two companies may raise some questions about generalizability. However, we followed best practices in qualitative research, including the use of software to analyze the data (Sinkovics, Penz, & Ghauri, 2008), and ensured depth and richness of data by undertaking repeat interviews with key informants in the companies, who were responsible for the strategies related to risk mitigation, and with individuals from the consulting firms, government, and trade associations. Hence, our data collection efforts were on the richness of the data that brought us closer to the point of saturation of information rather than interviewing a large number of participants with limited knowledge of the issue (Saunders & Townsend, 2016).

Data analysis

The data collection and interpretation process were undertaken simultaneously. This helped us to look for any theoretical saturation, at which point further data collection would not have added anything further to the study (Corbin & Strauss, 2008). The data was coded over several rounds using NVivo qualitative software, and the analysis involved the iterative process of going back and forth between the raw data, the existing literature, and the final framework. Although the stages of the data analysis were interlinked, for the sake of simplicity, we separate and present them in three phases (see Figure 2 for data structure). We began by assigning descriptive labels to the larger parts of the text. During this process, we ensured that conclusions were not drawn from the data too early (Corbin & Strauss, 2008). This led to the creation of 94 codes that covered the various types of risks, their sources, and the strategies firms employed to mitigate multiple threats.

The second phase involved the analytic process of building relationships between the codes (Corbin & Strauss, 2008), which helped with the further abstraction of the data. To illustrate, statements such as "having the Department of Government Affairs", "too big to fail", "one-party government gives you confidence” and “need to be in favor” highlighted that actively developing and managing relevant relationships with government departments was a critical risk management mechanism in Vietnam. Hence, the more generalized label of “navigating the state of comfort” was able to cover these aspects.

In the final phase of analysis, the abstract categories were gathered and incorporated into the emerging conceptual framework (Corbin & Strauss, 2008), which is presented in the discussion section. The constant engagement with the data and literature helped provide a clear understanding of the final constructs and the relationships between them (see Figure 2). Furthermore, by questioning the emerging elements of the model throughout the data analysis process, the integrity and consistency of the conclusions were ensured, and the issue of multiple interpretations and sensemaking of both the participants and researchers was addressed (Welch & Piekkari, 2017).

INSERT FIGURE 2 HERE
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5. PRESENTATION OF FINDINGS

Despite the maturing of institutions in Vietnam and the opening of the economy to private and foreign investors, the informal institutions continue to have a significant influence on business activities. This is partly due to the uncertainty surrounding the implementation of the new government policies, such as the removal of local ownership requirements from specific industries. To address concerns related to the market entry strategy and continuing operations in Vietnam, firms engaged in various forms of government relationships to achieve long-term competitive viability, that is, they prioritized the government as a critical stakeholder to favor their operations. By considering these market conditions and our initial motivation for this study, the analysis of the data led to the identification of relevant themes that are presented under the two findings: the forms of risk and risk assessment, and risk mitigation strategies implemented by MNEs.

5.1 Forms of risk and risk assessment

The one-party government rule, unique to communist countries like Vietnam, was assessed mainly as being favorable and comforting with regard to continuity in business-government relations. The interviewees from the companies reported an overall positive business environment for MNEs. For example, some risks directly influencing commercial transactions, such as corruption, have been gradually reducing. The Trade Association representative highlighted this trend and noted: *"[I]n our survey, in 2017, for the first time after many years, the perception of corruption changed positively"* (TA).

Furthermore, the interviewees from the two MNEs mentioned that they did not perceive any significant discrimination that would favor local firms. This could be linked to the fact that both companies entered the country after the major international trade reforms took place. MNE1 entered Vietnam several years after the 'Doi Moi' program was implemented, and MNE2 invested in Vietnam right after the country joined the WTO. The government body representative interviewed for this study supported the view of the MNEs: *"our underlying rule is to treat domestic and foreign investors equally"* (GB). The government officer elaborated that this focus on equal treatment had commenced after the implementation of the 'Doi Moi' economic program and prior to Vietnam's entry into the WTO in 2007.

For investors, the one-party government system in Vietnam provides continuity of policy and the opportunity to develop relations with individuals in power. However, there remain many commercial risks faced by international firms in Vietnam. Even though the Vietnamese government has been successful in attracting FDI, the development of the local infrastructure, increasing partnerships with local firms (suppliers and buyers), and growing competitive intensity remain as significant challenges for foreign firms.

The Vietnamese market consists of many small businesses that are mostly family-owned businesses with weak links to foreign companies and lower quality standards (World Bank, 2017). The few large domestic enterprises that do operate in Vietnam are State-Owned. In the current market conditions in the Vietnamese market, it would appear that domestic firms are not receiving sufficient support from the government, even though there are incentives for foreign firms operating in the country:

> *"Foreign firms in Vietnam are offered huge tax and other incentives such as exemptions or reductions in corporate income tax, import duties, and VAT [value added tax]. However, domestic firms that already lack the capital and technology of foreign firms are not provided any of those incentives, further hampering their growth." – (Vietnam Briefing, 2018)*

There is, however, growing anticipation that the Vietnamese government will provide further support to domestic firms to boost their competitiveness against foreign firms. Although this will help improve the quality standards of local partners and their export readiness, it will also increase the competitive intensity in the market. A key informant from the MNE1 explained:

> *"Foreign investors enjoy many beneficial policies, at least for now…I think that could change at some point in the future because the government needs to give opportunities to the domestic sector to develop as well." – (MNE1)*

The report from the consultancy firm PricewaterhouseCoopers (PwC) states that the main focus of the Vietnamese government in the period of 2016-2020 is to support domestic market competitiveness, and this covers three major goals: *"promotion of exports, domestic market growth and investment expansion"* (PwC, 2017, p.3). This means that the focus on *"invented in Vietnam"*, symbolizing the growth of local business actors, will dominate the future strategic agenda of the Vietnamese government (Hollweg, Smith, & Taglioni, 2017, p.2).

For foreign firms, this future reorientation towards the domestic sector might lead to unwanted competition. Therefore, while foreign companies are aware that they need to make the appropriate strategic choices; it is imperative for them to manage the fact that Vietnam is at a 'crossroads' (Hollweg, et al., 2017). One path heads towards a focus on Vietnam's current comparative advantage in the form of low-cost labor favoring inward FDIs, and the other leads towards higher value-added activities, including the relocation of government support towards the growth of local firms (Hollweg, et al., 2017). Indeed, one of the consulting firm's representative noted that *"for now, manufacturing is shifting to Vietnam, but we have to wait and see what happens next"* (CF1b). Importantly, this transformation of Vietnam's role in the global value chains is in the hands of policymakers and regulators, who therefore become a key stakeholder for the MNEs and their successful operations in Vietnam.

To *<u>assess the risks in Vietnam</u>*, foreign MNEs identified various sources of risk assessment information that could have potential implications for their operations. The two major sources highlighted were: activities of the local risk department in Vietnam and the involvement of consultancy services firms. The companies we studied preferred the use of in-house departments that specifically engaged in risk assessment strategies, but the nature of their assessment varied. MNE1 had a Department of Government Affairs, that was tasked with liaising with the Vietnam government departments and maintaining a positive relationship with the State. Furthermore, while the manager from MNE1 explained that *"the risks here [in Vietnam] are more related to operational or business risks"*, it was clear that mitigating these challenges, such as competitive intensity, was linked to how government relations were managed. The following quote demonstrated this approach:

> *"This department is in charge of all relations with the government, all ministries, and related parties. Through the department's activities, the company assesses the relations with the government and assesses the investment environment or studies the policies and support from the government in areas such as tax, labor laws, commercial laws, foreign investment laws, monetary market, and everything like that." – (MNE1)*

Having a specialized department meant that the company focused on risk assessments based on the local conditions, which in the case of Vietnam required strengthening the links with the government. The more general forms of risk assessment strategies that companies adopted were developed or focused at the regional or global level. The subsequent document search confirmed that risk assessments were mostly conducted at the regional or global levels and not locally in Vietnam. This was somewhat surprising considering that Vietnam manufactures a third of the total output of MNE1. A consulting firm representative (CF1) explained that in Vietnam, having a local risk department undertake risk assessment activities was common only for the financial services industry. Furthermore, the representative from CF2 commented that the strategy followed by MNE1 is a common practice in Vietnam:

> *"Most MNEs do not have a separate department for risk assessment or management in Vietnam…most of the MNEs in Vietnam that I have seen have risk assessment practices that flow from the headquarters." – (CF2)*

In contrast to MNE1, MNE2 explicitly stated that the nature of their risk assessment strategies was much broader, and their Project Development and External Relations Department assessed risks on a regular but also ad-hoc basis in several areas such as monitoring tax changes or investigating various operational incidences. For example, as reported by the manager from MNE2, the constant evaluation of the regulatory changes is important for smooth operations in the country:

> *"In relation to the laws, what we usually do is to check and do research about the new regulations and see if these new regulations could affect our operations." – (MNE2)*

A possible explanation for this disparity between MNE1 and MNE2 is in the timing of their market entry, detailed in Table 1. MNE2 entered Vietnam before the country's accession into the WTO, which meant that they had to establish more rigorous processes for risk assessment. The situation was different for MNE1, which entered Vietnam when the country was already a WTO member. MNE1 prioritized only those risk assessment practices that required a local representative to be present in the country to manage their links with the government, and the other types of risks were managed from the home country.

Our data highlights the importance of the timing of when the MNEs entered the Vietnamese market in the establishment of their risk assessment procedures in foreign markets. We argue that without the involvement of supranational institutions (WTO in this context) or opportunity for arbitration under related international trade and investment rules, companies would engage in much broader local risk assessment strategies (such as MNE2) because the level of risk and uncertainty is much higher. Under such conditions, we propose that in transition economies:

> ***Proposition 1:*** *Foreign MNEs are more likely to establish local risk departments with a broader scope of activities in host countries that are not fully integrated into the global economy.*

Having highlighted the nature of local risk assessment activities, the interviewees also explained the role of consultancy firms. The key informants from the MNEs mentioned that while they had used the services of professional consultancy firms in their previous role in other organizations, their current companies did not. According to the manager from MNE1, active *"communication with the government"* and their own research were the major sources for their ongoing risk assessment. Similarly, the manager from MNE2 explained that while their company undertook regular in-house reviews on a quarterly or monthly basis when necessary, they considered risk assessment rather as: *"an on-going process because…there could be changes happening anytime…They [consulting firms] provide just general reports"* (MNE2).

We also observed that this managerial perspective mirrors the responses from the consulting firms. The key informant from the consulting firm explained that their reports provided a broader perspective on the elements and level of risk in the country, which served as a good source of future predictions and helped organizations prepare for potential changes: *"they provide an overview of the risk landscape of the region...what is happening at the broad level, from a high-level perspective"* (CF1a).

To summarize, MNEs used reports produced by consulting firms to ascertain macro country and industry-level risks at the initial entry stage, and once their operations had been established, they relied on the internal risk department and general market research by supranational organizations such as the World Bank and the IMF. A possible reason for not using reports prepared by consulting firms at the operational stage might be that the reports offer general information, suitable for making market entry decisions, but not deemed to be as relevant for continuous operations. Since the MNEs were already, at the time of the interview, in the advanced stage of their operations in Vietnam, they predominantly focused on their in-house research about the risk for the region or sectoral risk reports produced for their global operations. Hence, to maintain their market position in Vietnam, in-house risk assessment activities such as those mentioned earlier were considered as critical and helped firms to review risk in Vietnam effectively. We, therefore, propose that:

> ***Proposition 2:*** *Risk assessment services provided by consulting firms are deemed to be essential during the initial entry in emerging and transition economies, whereas in-house risk assessment is the preferred method during the latter stages of MNEs' operations.*

5.2 Risk Mitigation Strategies

The foreign MNEs in Vietnam adopted a strategic approach to assessment and mitigation of the risks affecting their business. While being aligned to the government agenda was central to addressing the institutional challenge of succeeding in the Vietnamese market, we also found that foreign MNEs used relationship building with the local government and other key stakeholders as an active risk management strategy. Consequently, underlying the traditional processes of commercial risk management was, in this context, a constant effort towards building, maintaining, and strengthening the links with the government and other stakeholders as a way of circumventing the ambiguity surrounding the application of the formal institutions in Vietnam. We present the key findings of risk mitigation approaches used by MNEs in Vietnam under the four headings: managing alertness, portraying good behavior, navigating the state of comfort, and active mediation.

(1) Managing alertness

While Vietnam has transformed into one of the major manufacturing hubs in the world, offering many opportunities for foreign investors, MNEs have to be alert to the existing limitations of the current business environment, such as low-quality inputs of local value chain partners and potential growing competitive intensity.

The data collected in this study suggests that in light of these limitations, international companies in Vietnam devoted significant efforts to signal compliance with local regulations issued at the Central and Provincial levels. Complying with these standards and laws, which directly impact their operations, helped the MNEs to maintain favor with the current government. The strategy involved the constant review of the existing rules and their implementation across all subsidiaries in the country. Foreign firms also used their collaboration with local value-chain partners to gain necessary insights.

The primary step in risk mitigation was to be aware of the formal institutions and existing regulations in Vietnam. As reported by the key informant from MNE2, constant alertness towards changing regulations was a crucial element of their successful risk mitigation strategies. When potential changes were identified, the company enforced them across all subsidiaries, as shown by the following quote:

> *"if there are regulations related to the operation of our companies, we would need to inform them [Vietnamese subsidiary] and ask them to revise their activities to comply with new regulations" – (MNE2)*

Nevertheless, several operational problems arose in Vietnam that could not be easily managed. The implementation of laws in Vietnam followed a top-down approach, which meant that the Central government articulated the legal requirements which the provinces would adopt. However, the interpretation of the laws by market actors in individual provinces could vary, which was a major source of uncertainty for foreign firms. Thus, along with compliance with rules and standards, firms also established relationships and collaborated with domestic firms to access the local knowledge required to reduce some of these uncertainties and commercial risks. Additionally, the role of these relationships often went beyond operational advantages by forming the *"right relationships"* (CF1a) to gain access to government officials. The key respondent from the MNE explained:

> *"When a foreign firm enters Vietnam, the understanding of the market is not thorough. Therefore, by cooperating with a local firm, we can have a better understanding of the market, and we can avoid risks." – (MNE2)*

This strategy was not without limitations. Being aligned with a local partner increased reputational risk for the company, and any negative disclosures about the partners' operations, such as accusations of child labor, would harm the foreign MNE's operations worldwide. Working with local value chain partners also brought risks stemming from *"different mindsets, different ways of operating"* (MNE2) or the fact that the standards of local suppliers and producers of inputs did not meet the standards of foreign firms, as reported by MNE2. The manager from MNE2 noted that they engage in various forms of audits to investigate these cases.

The two risk mitigation tactics of reviewing standards and collaboration were instrumental in ensuring that the company complied with local regulations despite the uncertainty surrounding their interpretation and application. Importantly, they assisted in avoiding scrutiny from government bodies over the value and appropriate role of foreign MNEs for the Vietnamese economy, which resulted in favorable market policies. As found in our data, support from the Vietnamese government was inextricably connected to the fact that the *"company is operating well"* (MNE1), hence providing positive economic results for the host country. We suggest that:

> ***Proposition 3:*** *By constantly reviewing the existing market condition, MNEs use managing alertness as a strategy to avoid government questioning and maintain their competitive position.*

(2) Portraying good behavior

Another strategy related to operating in Vietnam involved undertaking activities that enhanced their image with the local population, and in turn, the government. We found that companies engaged in various activities supporting the growth of local value chains and communities, or they proved to make a significant contribution to the local economy. This helped address any negative perception or fear among labor unions, local firms, and the general population of foreign firms entering Vietnam to exploit resources and hurting local jobs and profits. For example, MNE1 implemented various social activities such as building smart schools and technical institutes or providing health care services to local communities. While MNE1 subsidiaries had the option to design their own local tactics, the overall strategic plan in this company was designed at the headquarter level. Such activities were then adding to the *"value of the company"* and were an *"effective way to market the company"* (MNE1). MNE1 did not directly link their community activities to government support, as the key informant only mentioned the role of *"increasing the significance, the value of the company"* (MNE1). However, further analysis of the data revealed that the

Vietnamese government had a favorable outlook towards companies that strongly drove the development of the country and local value chain actors, as reported by MNE1. So, while this activity may seem to be targeted explicitly towards the well-being of the general population, in reality, it had an element of appeasing the relevant government agencies.

Further to this, if the company was profitable, the Vietnamese government supported them. The manager from MNE1 highlighted that the government continuously monitored the performance of companies. In particular, the government observed their yearly profits, compared them to the existing predictions, and investigated the reasons if the results did not meet their expectations. Hence, the discrimination-free atmosphere, which the foreign firms perceived in Vietnam, was facilitated out of necessity by the government's desire for a win-win relationship between the foreign MNEs and the government. That is, the government expected the international investors to contribute to the country's economic development in areas that were identified to be important to Vietnam (World Bank, 2017).

While the social activities and positive economic contributions described above were significant, collaboration with local firms proved to be another valuable strategy. Although cooperation with local suppliers held possible risks (also highlighted in the previous section), interviewee MNE2 stated that it also brought potential benefits for the company, especially if the partnership was interpreted as assisting local small businesses or value chain actors (e.g., farmers). The following quote demonstrates this link between the operations of MNE and government endorsement:

> *"So, what we do, we bring some benefits to people, but on the other side, we also have benefited from those activities. For example, we buy products from farmers…The government has a positive outlook at us as a responsible firm, and the government is more willing to support us." – (MNE2)*

Notably, the portrayal of good behavior in the country formed a positive image endorsed not only by the general public but, more importantly, by the local government. Hence, government policies and strategies formed around the market structure continued to favor the MNEs. By being recognized as an active contributor to both the local community and economic development, the MNEs were able to enhance the positive relationship with the government. Our findings thus suggest:

> ***Proposition 4:*** *By supporting the local community, economy, and value chains, MNEs portray good behavior to gain government endorsement and maintain their competitive position.*

(3) Navigating the state of comfort

The current political system in Vietnam consisting of a one-party government was perceived by foreign firms to provide stability, and this meant that firms did not identify any political changes in the near future that may be a source of concern. We initially identified this approach towards political risk to be overly passive, but further analysis showed that firms actively managed such a perception of comfort. In particular, firms took specific steps to retain government support and also to anticipate any potential regulatory changes.

For example, MNE1 confirmed the assurance about the stable government with the key informant reporting that the local subsidiary did not engage in developing local risk assessment strategies, and relied on the general strategies proposed by the headquarters. Even though the interviewee agreed that the significant challenges in Vietnam were related to regulations and laws, these were not considered to be high or posed any immediate risks because of the existing political situation related to the one party-government:

> *"The company does not really care about [political] risks in Vietnam actually…[I]n our view, Vietnam is quite stable in its political status. It is a one-party country. And, currently, the government's policies quite favor foreign direct investment firms. So, in our company, I think, we feel quite secure and satisfied." – (MNE1)*

Additionally, the manager from MNE1 referred to the fact that the company was *"big"* when discussing their ability to manage any potential political risks in the country. According to the interviewee, the MNE made a significant contribution to the Vietnamese economy and therefore had a favorable relationship with the government. This view was confirmed by the Trade Association representative who mentioned that the risk mitigation strategies of the MNEs were shaped by their *"contribution to the local economy"* (TA) as well as the consulting firms' representatives who stated that:

> *"Some MNEs could rely on the fact that they greatly contribute to the Vietnamese economy, which acts as a source of risk mitigation." – (CF2)*

> *"I think that there are many companies which are happy that there is a one-party government in Vietnam and that government is not going to change. That would give a lot of comfort to corporations." – (CF1a)*

Although MNE1 claimed that they did not have a formal risk assessment department in Vietnam, they put considerable efforts into their Government Affairs Department as the associated *"department is in charge of all relations with the government, all ministries and related parties"* (MNE1). Thus, the department crucially served to alleviate the business risk in Vietnam, thereby maintaining its achieved state of comfort.

The presented findings led us to suggest that the established comfort, as reported by companies, was not passively received, as initially thought. It was an actively created condition achieved by the deliberate and constant assurance that the one-party government was in favor of the company's operations. In this way, the company could predict the government's future actions around the market structure, which would potentially influence their competitive position. We argue that these purposive strategies created positive business conditions in the market and propose:

> ***Proposition 5:*** *By actively managing government relationships, MNEs navigate the state of comfort to stay in favor with the government and maintain their competitive position.*

(4) Active mediation

The final risk mitigation strategy identified during the data analysis relates to deliberate tactics to nurture direct relationships with the government. With limited information about changes to regulations and policies, direct communication with key stakeholders helped address the uncertainty related to operating in Vietnam. The MNEs we studied reported proactive efforts to ensure personal meetings with the government officials were held to discuss various issues that impacted their business in the country. The key informant from the Government agency identified various channels through which the State communicated with foreign MNEs, such as meetings with government leaders, embassy visits, liaising with a government news agency, and attending investment promotion events. Apart from attendance at various seminars and conferences, the interviewed MNEs also reported that they were able to arrange individual meetings with government officials to discuss various operational issues and challenges they were experiencing.

The presence of an internal risk management strategy department was inevitable for firms wanting to work closely with the Vietnamese government. MNE2 mentioned that they primarily focused on in-house risk mitigation management and did not use any consulting services or reports produced by external parties. By managing the process internally, they directly engaged in *"communications with government"* (MNE2), which were considered to be *"critical"* (MNE2) to their operations. Such interactions were not possible if the firm used the services of third-party consulting firms. Nevertheless, the consulting firm representative (CF2) noted that while they also engaged in lobbying activities, these were *"not common in Vietnam yet, but MNEs are starting to use them"*.

The interaction process with government officials, as reported by the MNE2, involved either proactive negotiation about relevant regulations and laws or reactive mediation regarding newly implemented restrictions that were not favorable to the company:

> *"If there are changes in tax rates, the board could write a petition to the government if we have reasonable grounds." – (MNE2)*

MNE1 actively participated in various events organized by government bodies and ministries, where various concerns and potential problems the companies anticipated during their operations in Vietnam were communicated with government officials. Even though the manager from MNE1 mentioned that they did not have a traditional risk department, they considered concerns about existing commercial risks as opposed to political ones as being integral to their operations. Importantly, as MNE1 reported, the negotiated changes were often implemented by the government into the institutional framework leading to a more favorable business environment for foreign firms:

> *"Definitely, we could see the government's reactions and improvements in their regulations and policies following the needs of the business community. I think that's very positive from the government" – (MNE1)*

Further, as mentioned by the interviewee from the consulting firm (CF1a), some business risks related to operational problems in Vietnam were generally difficult to mitigate due to the transitioning stage of the country. Nevertheless, having the *"right"* and *"not wrong"* relationships with regulators were crucial for commercial success in Vietnam.

Compared to the other three strategies presented, in this case, companies directly participated in the formation of market conditions in the local market. Hence, they were able to ensure that their competitive position was not threatened. By actively managing the risk, the company could ensure success and secure its competitive survival in the country. As the data highlighted, the direct government links were the significant sources of risk mitigation strategies used by firms. Hence, our final proposition is:

> ***Proposition 6:*** *By directly communicating with the government, MNEs employ active mediation and participate in the formation of market conditions and maintaining their competitive position.*

6. DISCUSSION AND CONCLUSIONS

The findings of this study are discussed and presented as a process, followed by an overview of the theoretical and managerial implications of the study. The section concludes by highlighting the limitations of the study

6.1 Model of risk assessment and mitigation strategies of MNEs in emerging economies

To help discuss the various risk assessment approaches and mitigations strategies presented in the findings, we constructed Figure 3. The figure illustrates how the influence of the informal institutions is managed through relationships between the MNEs and the various stakeholders, the central/provincial governments, NGOs, consulting firms, and trade associations and labor unions. Furthermore, we organized the typology of risk mitigation strategies into a two-by-two matrix, based on their level of organizational proactivity and direct interaction with governments. The four risk mitigation strategies reinforce each other because they are interrelated through their link to the government. This was highlighted, for instance, by the key informant in our study who suggested that if the MNE invested in maintaining a favorable relationship with the government (navigating the state of comfort), it would receive the necessary support from the State. Therefore, any discussions with government agencies (active mediation) did not require the level of formal discussion that one would generally expect.

INSERT FIGURE 3 HERE

Although firms reported a lower level of perceived political risk in Vietnam, there were significant commercial risks due to insufficient infrastructure development and transitioning market structure. However, along with the use of traditional strategies associated with commercial risk management, namely providing unique products or competitive pricing, we found that MNEs operating in Vietnam additionally work towards building, maintaining, and strengthening their relationships with local government. That is, commercial risk, which in this context was mainly represented by competitive intensity, does not exist in isolation but is linked to government decisions and policies about the future orientation of the economy. Therefore, the combined application of the institutional theory to identify the limitations of the scope of the formal institutions in Vietnam, the use of the stakeholder theory to identify the key players (Freeman, et al., 2004) and the IBGR perspective to study how the relationship with the government agencies is developed and maintained (Boddewyn, 2016; Brewer, 1992) served as useful lenses to highlight how MNEs in transition economies attempted to balance their own interests and those of the host government in order to manage risk. Such a focus on stakeholders' interests allowed us to study the host market environment as fluid and complex web of stakeholders' relationships and motivations (Peng, 2003).

Regarding contextual embeddedness, our model forms two major insights. First, the model links to a broader and generalizable understanding of MNEs' risk management strategies in transition economies. This was achieved by navigating the institutional environment and identifying the interests of the various stakeholders in the host market. Although MNEs may complement their risk management strategies with other approaches by combining both market and non-market strategies (Doh, Lawton, & Rajwani, 2012), the underlying and unifying driver is compliance with the requirements of the institutional environment and stakeholder engagement. Hence, our findings are consistent with elements identified in institutional research, such as the role of formal and informal institutions shaping the strategies of foreign entrants (Peng, 2003). However, rather than managing the constraining role of foreign market conditions, MNEs actively monitor and manage the interests of relevant stakeholders.

Moreover, as highlighted in the analysis of the published documents, Vietnam's institutional environment is showing signs of maturing, and the country has undertaken vital structural and policy reforms since joining the WTO in 2007. This has created favorable market conditions for foreign MNEs, such as providing tax breaks and investment incentives, and similar trends have also been observed in other transition economies (Li, Liu, & Qian, 2019). However, the lack of clarity about the future orientation of transition economies and their participation in global value chains remains a risk faced by MNEs. This means that the responses of foreign MNEs to these reforms was yet to be observed, with MNEs adopting a wait-and-see strategy (Clarke & Liesch, 2017) to predict the further strategic orientation of the transitioning economy, their evolving market structure and competitiveness of local firms.

The nature of our findings can be relevant to other transitioning economies; however, some of our reported findings present Vietnam as a unique case. In particular, the one-party socialist government system, an economy with elements of both market and planned economic systems, the geopolitical position of the country, and the decreasing number of State-Owned Enterprises (SOEs), contribute to the specific risk mitigation strategies identified in the model (Figure 3). For example, our treatment of commercial risk in the form of competitive intensity in the local market is a response to the Vietnamese government's increasing support for domestic firms. These changes in government priorities highlight the need for MNEs to monitor such changing interests of the State, translate them into their risk mitigation strategies and embed them into local context (e.g., specific treatment of links between provincial and central governments).

Unlike other transitioning economies like China, where SOEs still dominate business activities (Zhu, Tse, & Li, 2019), Vietnam only has a few enterprises that are under the direct ownership of the government, and their number is in decline. The government does have a significant interest in ensuring that local Vietnamese private-sector firms and foreign-owned firms can generate profits and supports this through a process of audit and control that can facilitate supply-chain relations and growth of domestic business actors. For instance, in our case of MNE1, the Vietnamese government undertook regular reviews of their profit to ensure their economic viability and potential contribution to the economy.

In contrast to previous findings of risk mitigation strategies in transitioning economies that emphasized political risk issues and highlighted a low-involvement approach (Iankova & Katz, 2003), this study found that MNEs in Vietnam favored high-involvement strategies and engagement with various stakeholders. This suggests a perception of a low level of political risk, reported as a "state of comfort" in our study, is another unique feature of the Vietnamese economy.

This process model, although developed from the findings of the study in Vietnam, can be generalized and applied to other transitioning and emerging economies. As highlighted in the introduction to the study, countries like Vietnam, Russia, and China are transitioning to the market based economic system, whereas countries like Myanmar and Cuba are slowly attempting to move away from a centrally planned economy. Also, countries like India, that followed a social democratic system and had historically followed the path of self-sufficiency until the early 1990s, are also experiencing rapid growth, and other large economies like Indonesia are also following suit (Yuliansyah, Rammal, & Rose, 2016). These countries share many similarities, including the reliance on informal institutions (Estrin & Prevezer, 2011), and, therefore, the process model introduced in this study would be relevant for MNE risk assessment and mitigation strategies in other emerging and transition economies.

6.2 Theoretical implications

This study adds to the literature on risk management in international business (Al Khattab, et al., 2008; Bekaert, et al., 2016; Bromiley, et al., 2015). In particular, we have answered the call for more research in the area of risk management in international business (Griffith, Cavusgil, & Xu, 2008; Liesch, et al., 2014). Our core contribution to this stream of literature is a framework of risk assessment and mitigation strategies of MNEs operating in transitioning economies, summarized in Figure 3. The associated constructs and relationships in the model highlight the role of informal institutions, the key stakeholders, and the risk assessment and mitigation strategies of MNEs.

The framework explicates how MNEs manage the commercial risk of their foreign operations by coordinating their own interests with those of the institutional actors and other stakeholders residing in a local market. By applying institutional and stakeholder theories into our model, we bring the complexity and potential ambiguity of stakeholders' motivations and goals in foreign markets to the fore. MNEs, therefore, should not only align their operations with the formal local market conditions (Peng, Wang, & Jiang, 2008) but also consider their strategies within the complex web of ambiguous and unpredictable interests of stakeholders. While we consider the foreign country environment as an open system with various constituents, we add that reorienting the focus on their motivations, goals, and strategies rather than descriptive characteristics of industry and country provides better guidance to MNEs on how to manage risks in transitioning markets. Moreover, we provide insights into how such risk management approaches can be juxtaposed by MNEs' active involvement in shaping different market conditions, which we reported in our model as strategies of 'navigating the state of comfort' and 'active mediation'.

We identified the government as having an underlying and unifying role in crafting the strategies of risk mitigation and management. While commercial risks have not been given sufficient attention by IB scholars, government links have been assigned as a solution to various forms of political risks (Bucheli & Kim, 2012; Darendeli & Hill, 2016; Iankova & Katz, 2003). By studying stakeholders' interactions in detail, we observed the role links with governments play in mitigating increased commercial risks, which in the case of Vietnam was competitive intensity. In particular, we found that the government remains the key stakeholder in Vietnam, and collaborative relationships with relevant government agencies not only help the MNEs to keep abreast of the operational challenges and competitive intensity in the country, it also provides them the opportunity to act and demonstrate their contributions to the country's economy. By doing so, we add to this stream of research perspective of firms navigating competitive intensity not only by traditional, market-level mechanisms but also by engaging in IB-government relationships (IBGR) (Boddewyn, 2016; Brewer, 1992; Doh, et al., 2012).

By combining the elements of the informal institutions (networks and personal relations), stakeholder theory (identification of key individuals and groups that influence decision-making) and the IBGR perspective (central role of the government in business-related activities), we demonstrate that by developing strong relations with the most critical stakeholders in that country, including the government, organizations can facilitate business operations in countries with weak institutional environments. Therefore, by combining these theoretical perspectives, we extend their application to the study of risk assessment and mitigation, which would have a limited appeal if applied in isolation.

6.3 Managerial Relevance

The findings from this study have relevant implications for managers who decide to enter and operate in markets with inherent risks and uncertainty in the business environment, particularly in transition economies. Specifically, we suggest that to develop an efficient risk mitigation strategy, managers should first obtain a thorough understanding of the institutional environment in the host country. As highlighted in this study, the uniqueness and the level of development of each country's formal institutional environment could influence the types of risk and the overarching approach to risk management. Therefore, managers should tailor their risk mitigation strategies to suit each country. This study also highlights the importance of managers identifying the key stakeholders in the host country and the influence of each stakeholder on each particular risk. In countries like Vietnam, where institutional voids exist, and informal institutions play a significant role, managers can use IBGR and relations with other key stakeholders as approaches to risk mitigation.

The findings also highlight that even though some transitioning and emerging economies may be governed by a single political party or individuals for long periods of time, the changes in the economic conditions and competition means that the regulations and market conditions are continually in a state of flux. As such, managers cannot just rely on their connections with individuals in the government, and they need to actively engage with relevant public-sector departments to ascertain not only any changes to policy but also what the implications would be for their organization. As highlighted in the case of Vietnam, the recent laws regarding the removal of restrictions on local ownership were not availed by foreign firms due to a lack of clarity about how these are being implemented. Managers who actively engage with policymakers can understand these changes better and can be in a stronger position to take advantage and be the early adopters of the new initiatives.

Furthermore, the risk reports produced by consulting firms provide a holistic perspective on the formal institutions in an economy and prevailing risks. This information can be useful for managers to determine the appropriate entry mode in the country. However, in countries where the formal institutions are in infancy, customized, or in-house risk assessment mitigation strategies that consider institutional factors and the host country's key stakeholders are needed for continued operations.

6.4 Limitations and Future Research

The study has limitations that may guide future research. The findings of this study are based on data from MNEs operating in a transitioning economy. While Vietnam shared similarities with many other emerging economies, such as their ability to produce labor-intensive products at a lower cost, the one-party political system of the country make sthe country's institutional environment distinct from other countries at the same level of economic growth. Hence, even though some of the findings related to the informal institutional strategies of developing relationships and networks were observed in countries like China (Guo, Rammal, Benson, Zhu, & Dowling, 2018), Russia (Michailova & Worm, 2003) and regions like the Middle East (Hutchings & Weir, 2006), the influence of the stakeholders varied across the emerging and transitioning economies. Therefore, further studies may also investigate the risk management strategies of MNEs and the level of IBGR in other transitioning or emerging economies and compare them with strategies employed in developed economies.

Second, the study focused on the key stakeholders in Vietnam: the government, NGOs, consulting firms, and trade/business associations and labor unions. Future research could explore the market power and influence of buyers and suppliers on the overall risk assessment and management activities of MNEs. In pursuing such research, the country context should be included in theorizing. This study, for instance, presented the interaction between the MNEs and the institutional environment and stakeholders in a transitioning country that embodies a certain level of ambiguity for investors. The finding suggested that context partially navigated a choice of a specific risk management strategy, represented by stakeholder engagement in this study, and its prioritization to other approaches.

Finally, quantitative studies that test the propositions in this study are expected to extend the knowledge about the relationship between strategies and the consequences/outcomes for MNEs. For example, the present study looked at companies with continuing operations in Vietnam, but future research could include foreign firms that withdrew from Vietnam and examine the relationship between their risk management strategies and market withdrawal. Such studies could also shed light on how risk mitigation strategies influence firms' performance and business plans.

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