

10. Development of post-transition country firms' legitimization strategies in advanced economies: A mixed-method study of Polish subsidiaries in Germany¹

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Abstract: This chapter investigates legitimacy building by firms from post-transition economies, focusing on Polish subsidiaries operating in Germany. It develops a conceptual framework from the institutional and international-business literature, then extends it with survey evidence from 151 Polish parent firms and qualitative interviews in three company cases. Subsidiary age, ownership structure, autonomy, adaptation, embeddedness and community engagement are examined as sources of market acceptance. Younger subsidiaries focus more on community-development efforts, while subsidiaries with shared ownership show greater local adaptation and stronger external embeddedness than wholly owned units. Case evidence highlights the importance of German market knowledge, local managerial expertise, partnerships and communication strategies. The chapter enriches legitimacy theory by showing that post-transition firms build acceptance through a dynamic mix of adaptation, networks and strategic signalling.

Keywords: legitimacy, international business, emerging markets, post-transition economies, foreign subsidiaries, Polish FDI.

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Introduction: The role of building legitimacy

The challenge of attaining legitimacy in foreign markets has long been explored by scholars, particularly those working with institutional theory as a theoretical foundation (e.g., Kostova & Zaheer, 1999; Xu & Shenkar, 2002; Xu et al., 2004). Factors increasing legitimacy in a foreign market, such as strategy adaptation (Petersen & Pedersen, 2002), have often been studied in the context of advanced economies, while the challenge increases notably for firms from emerging markets and (post-)transition economies (Bian & Emons, 2017; Burgoon & Raess, 2014; Schüller & Schüler-Zhou, 2016).

Polish companies only began to establish subsidiaries abroad after Poland's accession to the EU, with Europe remaining their primary foreign market (Wach, 2012). Nonetheless, the magnitude of Polish foreign direct investment remains modest in comparison to global flows. This can be attributed to the comparatively small population of Polish multinational enterprises. As of 2020, 1,880 Polish entities declared participation in 4,030 foreign entities through shares, branches, or other forms (Statistics Poland, 2022), the majority of which were located in Germany, the Czech Republic, Ukraine, and Russia. Regarding the locations of these foreign entities, substantial net revenues from product, goods, and materials sales in 2020 were attained by foreign units situated in Germany and the Czech Republic, amounting to PLN 36.7 billion and PLN 25.1 billion, respectively. Consequently, the German market is the primary target for Polish multinational enterprises venturing abroad. The authors use the empirical context of Polish subsidiaries in Germany to discuss the legitimization strategies adopted by post-transition country firms entering more advanced countries. The choice of this empirical context results from both the size of the two economies and their close economic linkages, whereby the expansion of Polish firms to Germany has received comparably less attention than the reverse side of the relationship, although Germany is a major location for Polish exports and FDI (Götz & Trąpczyński, 2016).

As the first step, the chapter will present a conceptual framework which integrates extant knowledge on legitimization strategies, particularly in the context of emerging market firms and (post-)transition economies, going beyond legitimacy literature *sensu stricto* and incorporating also other streams which may be important for legitimization in foreign markets. Secondly, insights from a mixed-method study (quantitative and qualitative) will be presented on the chapter to extend the literature-based framework and provide new insights which may inspire future research.

10.1. Conceptual overview

Legitimation refers to how organisations secure their position by adhering to the rules of the institutional environment (Dacin et al., 2007; Kwak et al., 2019; Steinhäuser & da Rocha, 2023). Following our literature review, we develop a conceptual framework which will be visualised on the chapter. Firstly, within the extant literature devoted to legitimacy *sensu stricto* (first-order legitimization strategies), one of the key strategies for emerging market firms to secure legitimacy is through acquisitions (Luo & Tung, 2007).

Another stream within the discussion of first-order legitimization strategies pertains to foreign staffing decisions (Ando, 2011; Belderbos & Heijltjes, 2005; Delios & Bjorkman, 2000), access to (local) networks of managers (Jean et al., 2011), or the cultural adaptiveness/willingness of managers (Davis et al., 2000; Pinkerton & John, 2008). Other scholars zoom into top management team (TMT) characteristics, drawing attention to an international mindset of managers (Beechler & Javidan, 2007) or the diversity of TMT (Singh & Point, 2009).

Moreover, literature on subsidiary autonomy also raises the issue of the governance of foreign subsidiaries, drawing attention to the role of advisory boards or local boards (Carpenter et al., 2001; Daily et al., 2000), as well as the adaptation to local business behaviour (Davis et al., 2000; Kostova & Zaheer, 1999; Yiu & Makino, 2002). Other evidence is provided from the area of marketing and communication, whereby particularly the aspects related to impression management/disclosure in annual report (Linsley & Kajuter, 2008; O'Donovan, 2002; L. Wang, 2014), signal restructuring (Wang et al., 2014), or recently also Corporate Social Responsibility communication (Bai et al., 2019; Seele & Gatti, 2015) have been thematised.

Not least, research on the localisation or adaptation of foreign market operations has often adopted an institutional perspective in order to justify strategic adjustments with the intention of enhancing legitimacy. This research raises the relevance of such aspects as local sourcing (Walker & McCarthy, 2010), or foreign marketing adaptation (e.g., Chen et al., 2016).

Finally, we argue that the concept of legitimization strategies in foreign markets needs to be extended as some activities may contribute to legitimacy-building, without being referenced as such. Such literature includes research on certifications in areas like CSR (Husted et al., 2016), or cultural sensitivity training (Kaihlainen et al., 2019). The significance of knowledge transfer becomes evident when addressing the challenges related to the liability of foreignness. This is particularly crucial when making staffing decisions and fostering transparency, knowledge sharing, and communication between the headquarters and its

subsidiaries. While these factors are interconnected, they are yet to develop a direct and discernible influence on specific legitimacy strategies (Calhoun & Dunn-Jensen, 2014).

A summary of the identified legitimacy strategies of the first and second orders can be found in Figure 10.1.

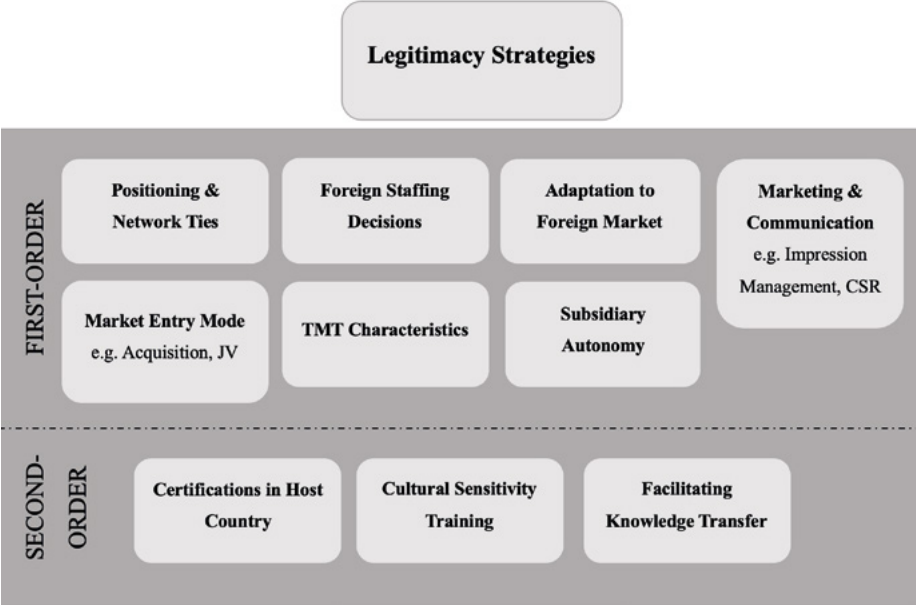


Figure 10.1. Identification of legitimacy strategies

Source: (Trąpczyński et al., 2023).

10.2. Research design

The authors conducted a large representative survey with $N = 151$ firms, selected with a random sampling procedure and the CATI method, focusing on the headquarters of Polish firms investing in Germany. The qualitative research was based on three Polish companies with subsidiaries in Germany, whereby individual in-depth interviews were used as the primary method of data collection.

10.3. Empirical findings

10.3.1. Quantitative research

Taking into account the current capital share of the Polish parent firm in the subsidiary in Germany, we can observe that 8% of the companies from the research sample ($N = 151$) have 10%–49% shares, 45% of the companies have 50–99% shares and 47% have 100% shares.

Taking into account the operation mode of the revenue-wise largest subsidiary in Germany, it is evident that greenfield investment was the most selected mode in our research sample – 79%, with 15% of companies pursuing acquisitions and 6% of companies using joint venture.

Younger subsidiaries (under five years) exhibit the lowest level of autonomy in strategic and operational decisions, likely attributable to the parent company's initial management and oversight (refer to Table 10.1). Conversely, subsidiaries aged 6–20 years exhibit the greatest autonomy, reflecting enhanced trust and comprehension of the local market as they develop. Subsidiaries older than 20 years typically exhibit diminished adaptability in pricing, product, advertising, and distribution relative to those aged 6 to 20 years. This suggests that over time, subsidiaries attain a steady market position that necessitates fewer aggressive adaption techniques.

The youngest subsidiary (under five years) have the greatest commitment to community development yet receive the least assistance from local government. This may indicate a proactive approach by new entrants in gaining legitimacy through community engagement, while lacking robust local institutional connections at this stage. The middle-aged subsidiaries (6–20 years) exhibit the greatest scores in external embeddedness dimensions, suggesting that these subsidiaries may have achieved an optimal equilibrium between external affiliations and internal knowledge assimilation for the purpose of legitimacy enhancement.

The data illustrates a complex portrayal of how Polish enterprises in Germany establish credibility. Autonomy, flexibility to local market conditions, and community development initiatives are identified as essential methods. The disparities related to the subsidiary's age underscore the dynamic nature of legitimacy-building methods, with newer subsidiaries prioritising local adaptation and community participation, whilst older subsidiaries capitalise on their established status and internal expertise.

Regarding patterns associated with the extent of parental control in subsidiaries, those with 100% Polish ownership (full control) demonstrate diminished autonomy in both strategic and operational decisions relative to subsidiaries with

less than 100% ownership (see Table 10.2). This may result from the increased control and monitoring implemented by the parent firm in wholly owned subsidiaries. Companies with shared control (less than 99% ownership) exhibit greater adaptability in pricing, product, promotion, and distribution than wholly owned companies. This may suggest that shared control enhances the focus on adjusting to local market conditions, potentially influenced by local partners or stakeholders.

Subsidiaries with less than full ownership exhibit elevated levels of support from local authorities and enhanced community development initiatives. This indicates that shared control may enhance integration into the local business community and increase engagement with local stakeholders. The disparities in adaption levels between the two groups indicate that ownership structure substantially affects subsidiaries' market adaptation strategies. Shared control seems to promote more assertive adaption tactics, which can prove essential for acquiring legitimacy in a mature and competitive market such as Germany.

The data suggests that the extent of Polish parent company ownership in German subsidiaries influences their legitimacy-building activities. Although autonomy is often elevated overall, subsidiaries with shared ownership are more inclined to participate in local market adaption and community development initiatives. These findings highlight the significance of accounting for ownership structure in the formulation of foreign market entry and legitimacy-enhancement initiatives.

Table 10.1. Legitimacy-building strategies grouped by subsidiary age

Subgroup	Autonomy – strategic decisions		Autonomy – operational decisions		Price adaptation level		Product adaptation level		Promotion adaptation level		Distribution and logistics adaptation level		Support from local authorities / business communities		Firm's community development efforts	
	mean	std	mean	std	mean	std	mean	std	mean	std	mean	std	mean	std	mean	std
<5	3.33	0.37	3.34	0.64	5.70	0.48	5.72	0.21	5.36	0.39	5.30	0.26	2.75	0.18	3.94	0.97
6–20	4.04	0.82	4.05	0.91	5.29	0.80	5.44	1.03	5.56	0.79	5.24	1.28	3.02	0.79	3.16	1.15
>20	3.94	0.87	3.86	0.86	5.25	0.85	5.24	0.99	5.40	0.83	5.21	0.92	3.05	0.87	3.64	1.10
Total	3.96	0.84	3.92	0.88	5.28	0.82	5.33	0.99	5.46	0.81	5.23	1.05	3.03	0.83	3.47	1.13

Subgroup	External embeddedness – number and diversity		External embeddedness – strength of links		External embeddedness – transfer of knowledge		External embeddedness – mutual adaptation		Internal embeddedness – the strength of links		Internal embeddedness – knowledge outflow from the subsidiary		Internal embeddedness – knowledge absorption		Internal embeddedness – mutual adaptation	
	mean	std	mean	std	mean	std	mean	std	mean	std	mean	std	mean	std	mean	std
<5	2.71	0.12	2.68	0.07	2.57	0.26	2.50	0.18	5.75	0.50	6.00	0.82	6.25	0.50	5.25	0.96
6–20	4.06	1.62	3.70	1.48	3.66	1.49	3.81	1.50	5.77	0.66	5.88	0.72	5.73	0.73	5.62	0.56
>20	3.36	1.22	3.28	1.22	3.16	1.18	3.21	1.16	5.99	0.64	5.82	0.95	5.88	0.74	5.64	0.93
Total	3.60	1.41	3.42	1.32	3.33	1.32	3.41	1.32	5.90	0.65	5.85	0.86	5.83	0.73	5.62	0.81

Source: own elaboration based on the study results.

Table 10.2. Legitimacy-building strategies grouped by ownership level

Subgroup	Autonomy – Strategic decisions		Autonomy – operational decisions		Price adaptation level		Product adaptation level		Promotion adaptation level		Distribution and logistics adaptation level		Support from local authorities / business communities		Firm's community development efforts	
	mean	std	mean	std	mean	std	mean	std	mean	std	mean	std	mean	std	mean	std
100%	3.64	0.79	3.57	0.78	5.07	0.87	5.03	1.10	5.21	0.87	4.86	1.03	2.87	0.85	3.03	0.95
<99%	4.24	0.80	4.22	0.85	5.47	0.73	5.59	0.81	5.67	0.68	5.55	0.97	3.17	0.79	3.86	1.14
Total	3.96	0.84	3.92	0.88	5.28	0.82	5.33	0.99	5.46	0.81	5.23	1.05	3.03	0.83	3.47	1.13

Subgroup	External embeddedness – number and diversity		External embeddedness – strength of links		External embeddedness – transfer of knowledge		External embeddedness – mutual adaptation		Internal embeddedness – the strength of links		Internal embeddedness – knowledge outflow from the subsidiary		Internal embeddedness – knowledge absorption		Internal embeddedness – mutual adaptation	
	mean	std	mean	std	mean	std	mean	std	mean	std	mean	std	mean	std	mean	std
100%	3.25	1.14	3.13	1.07	3.08	1.07	3.13	1.07	5.93	0.68	5.82	1.03	5.83	0.81	5.54	0.88
<99%	3.91	1.56	3.69	1.47	3.55	1.47	3.66	1.47	5.88	0.62	5.88	0.68	5.84	0.66	5.70	0.74
Total	3.60	1.41	3.42	1.32	3.33	1.32	3.41	1.32	5.90	0.65	5.85	0.86	5.83	0.73	5.62	0.81

Source: own elaboration based on the study results.

10.3.2. Qualitative research

Company A is a Polish manufacturer of kitchen appliances, with numerous foreign subsidiaries (both established and acquired) and exports to over 50 markets. While its first gas / coal cooker was produced in 1957, its appliances are very well known throughout European markets. Around half of the company's production is currently exported. In the basket of foreign markets, the most popular is the German market, followed by Great Britain and Scandinavia.

Company B is a service company from Poznań (Poland), which has developed a premium booking platform for hotels & resorts. Established in 2008, the company now has a team of over 200 across the world in 44 countries and has helped more than 3,500 hotels and resorts supercharge their direct bookings and stand out online with style. Company B's expansion into Germany began in 2012, and a German subsidiary was established in Munster. Initially, the company started with one German representative with Polish heritage, who had lived more than 30 years in Germany, and then focused on finding potential partners for business from hotels & resorts in Germany. The owners decided to present the company as "international" rather than "Polish".

Company C is a Polish manufacturer of public transport vehicles (buses, trolleybuses and streetcars). The company exports Company C's buses to 34 countries: Europe, Africa, Asia; and more than 700 cities. Its production facilities are located in the Wielkopolska Region, including the final assembly of buses and trolleybuses, a welding plant for bus and trolleybus skeletons and streetcars, and an additional distribution centre and warehouse, which serve to streamline the order fulfilment process while raising the level of pre-sales customer service. Company C was the world's first manufacturer to introduce a mass-produced hybrid bus to the European market.

To summarise the commonalities concerning market entry and expansion strategies, all three companies (A, B, and C) entered the German market as a part of their broader international expansion, emphasising Germany's significance as a key market. Companies A and C specifically utilised a combination of exporting and establishing subsidiaries, whereas Company B initially focused on partnership development. Each company demonstrated a high degree of adaptation to the German market: Company A integrated German components to align with local quality perceptions, Company B developed a unique marketing strategy tailored to the German market's peculiarities, and Company C customised its products to meet specific contractor requirements. Companies A and C both leveraged local elements (e.g., German components in products) to enhance their perceived quality and legitimacy in the German market. This approach reflects an understanding of the importance of local market characteristics and

customer expectations. Company A granted significant operational autonomy to its German subsidiary, and Company C's German operations also enjoyed a degree of managerial autonomy. Such autonomy appears to facilitate responsiveness and agility in the German market.

The key differences can be found in the market challenges and the related response. Company B faced unique challenges, such as language barriers and low technological advancement in the German hotel industry, leading to the development of a new marketing strategy and eventual market exit. In contrast, Companies A and C successfully adapted to and thrived in the German market, leveraging their experience and product quality.

These commonalities and differences highlight the varied approaches that firms from post-transition economies can take when entering and operating in advanced economies like Germany. The findings suggest the importance of local market adaptation, understanding and responding to unique market challenges, and the strategic use of local resources and management to build legitimacy. However, the varying degrees of success and challenges encountered by these companies indicate that there is no one-size-fits-all strategy and that firms must carefully consider their industry characteristics, resources, and market dynamics when expanding into foreign markets.

Conclusions

The study highlights the significance of legitimacy-building strategies for post-transition economy firms operating in advanced markets, particularly Polish subsidiaries in Germany. Our findings confirm that embedding in the host-market network is a key legitimization approach, with firms adapting their strategies based on ownership structure, subsidiary age, and market knowledge. The mixed-method approach illustrates how theoretical frameworks align with real-world practices, revealing both expected and novel legitimization mechanisms. Additionally, the role of local managerial expertise and strategic partnerships emerges as crucial for enhancing market acceptance. These insights contribute to institutional theory by integrating a temporal and strategic perspective on legitimacy adaptation. Future research should explore the long-term impact of these strategies and the role of digital transformation in shaping legitimacy-building efforts in foreign markets.

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