International Journal on Social Science, Economics and Art, 15 (2) (2025) 117-127

Published by: Institute of Computer Science (IOCS)

International Journal on Social Science, Economics and Art

Journal homepage: www. ijosea.isha.or.id

From Policy to Practice: How Institutions Shape McDonald's Behavior in Indonesia

Chairul Iqbal Aziz[1], Habibul Abrar[2], Ikhwan Rahmatika Latif[3], Aulia Risky[4], Reza Fahlevi[5]

[1,3,5] Department of Public Administration, Universitas Teuku Umar, Indonesia

[2]Department of Public Administration, Universitas Islam Negeri Ar-Raniry, Indonesia

[4]Department of Communication Studies, Universitas Teuku Umar, Indonesia

Article Info

Article history:

Received: Jul 22, 2025
Revised: Aug 23, 2025
Accepted: Aug 30, 2025

Keywords:

Institutional Theory;
Public Policy;
Multinational Corporations;
Governance;
Indonesia.

ABSTRACT

This paper examines how national institutional environments shape the behavior of multinational corporations, with a focus on McDonald's operations in Indonesia. Using Institutional Theory as the primary analytical framework, the study examines how international businesses react to various institutional pressures, including formal regulations, religious mandates, and informal cultural expectations. Through a qualitative case study approach, the research finds that McDonald's modified its operations to adhere to domestic sourcing regulations, fulfill halal certification standards, and accommodate regional dietary preferences and social norms. These adaptations reflect broader processes of institutional negotiation and legitimacy-building that go beyond market strategy. This research contributes to the literature on institutional theory and public governance by illustrating how deeply embedded regulatory and normative systems in emerging economies shape the strategic and operational choices of multinational firms. The findings offer actionable insight for policymakers aiming to guide foreign business conduct through institutional design, and for companies seeking legitimacy and stability in governance-intensive settings. By showing how public policy instruments and societal expectations interact to form a dynamic institutional environment, the study demonstrates how governments in emerging economies can steer globalization in ways that reinforce national values and development priorities

Corresponding Author:

Chairul Iqbal Aziz,
Department of Public Administration,
Universitas Teuku Umar,
Jalan Alue Peunyareng, Gunong Kleng, Kecamatan Meureubo, Kabupaten Aceh Barat, Aceh 23681
Email: chairulaziz@utu.ac.id

1. INTRODUCTION

In the context of global economic integration, the influence of national governments over multinational corporations has become increasingly significant. As these companies grow beyond their home countries, they must navigate not only diverse market conditions but also challengin policy frameworks and institutional settings. For countries aiming to attract foreign investment while preserving governance control and cultural identity, public policy functions as more than a regulatory tool. It also serves as a means of promoting societal priorities and advancing national development agendas. As a result, institutions in both their formal expressions such as laws and regulations, and informal forms such as norms, values, and cultural beliefs, play a central role in shaping how businesses operate, adapt, and gain legitimacy in a specific national context (Scott, 2013).

To understand how businesses respond to these institutional forces, it is important to examine the kinds of policy instruments that governments use to influence corporate behavior. Public policy research emphasizes that the selection of instruments, ranging from direct regulation to more flexible mechanisms such as certification schemes, cooperative agreements, or public-private partnerships, reflects the administrative capacities and strategic goals of a government (Howlett & Ramesh, 2003). These tools also communicate normative expectations, embedding social values into the regulatory process and shaping the incentives and constraints that firms must respond to (Peters, 2021). The institutional environment often includes both legal rules and social expectations. This means companies are expected to follow the law and also act in ways that reflect public values. A recent study in Indonesia shows that consumer decisions are strongly influenced by social norms, including religious and environmental concerns (Shalihin et al., 2025). This supports the idea that legitimacy comes not only from meeting formal regulations, but also from aligning with deeper cultural values that shape how society expects companies to behave.

In emerging economies, the interaction between public institutions and foreign firms is especially complex. Governments often pursue investment attraction alongside objectives such as cultural preservation, religious legitimacy, and economic sovereignty. As a result, policy instruments are frequently designed not only to regulate but also to signal national values and shape market behavior in ways that reinforce domestic priorities. For multinational corporations, operating in these environments requires more than compliance with statutory requirements. It involves navigating overlapping layers of expectation, including legal obligations, cultural preferences, religious norms, and public sentiment.

Indonesia offers a compelling context for examining these dynamics. As Southeast Asia's largest economy and a nation with deeply rooted religious and cultural traditions, it has developed a governance landscape that combines formal regulation with informal social expectations. National policies such as halal product assurance, domestic sourcing requirements, and consumer protection are not implemented in isolation. Instead, they are closely tied to broader institutional goals that promote moral accountability, local economic inclusion, and cultural sensitivity. These instruments and expectations create an environment where foreign firms are evaluated not only for what they sell or produce, but for how well they align with national identity, religious principles, and the interests of domestic stakeholders.

McDonald's, one of the most globally recognized fast-food chains, operates in over one hundred countries and is frequently studied as a model of corporate standardization and global integration. McDonald's entry into Indonesia began with the opening of its first outlet at Sarinah, Jakarta, in 1991—a launch that carried symbolic weight as part of Indonesia's early encounters with globalization (Dzulfaroh & Hardiyanto, 2020). Although McDonald's is widely known for promoting consistency across its international branches, its global operations reveal a high degree of sensitivity to local institutional environments. This approach reflects McDonald's glocalization strategy, which balances global brand identity with localized adaptations in menu, branding, and operations (Crawford et al., 2015). In markets across the APMEA region, including Indonesia, this strategy is deeply shaped by local governance expectations, institutional norms, and policy frameworks that require firms to align not just with market demand, but with public values and regulatory structures (Guerguis, 2019). The company's practices in different countries frequently reflect adjustments made in response to national policy frameworks, religious regulations, and socio-cultural expectations.

Rather than being a purely autonomous actor, McDonald's is deeply shaped by the settings in which it operates, making it a relevant case through which to understand how foreign firms respond to public governance systems. In the Indonesian context, McDonald's adaptations offer insight into how state policies, religious mandates, and cultural preferences influence business operations in ways that go beyond compliance, reflecting broader patterns of institutional negotiation and legitimacy-seeking behavior.

Despite the widespread use of Institutional Theory in management and organizational studies, much of this literature focuses on market-oriented adaptation or economic rationality, while offering limited insight into how firms respond to public policy instruments and governance frameworks. There remains a gap in understanding how institutional pressures operate as tools of governance, particularly in emerging economies where regulatory systems often reflect both formal authority and cultural legitimacy. To address this, the present study draws on Institutional Theory as its main analytical framework to examine how firms like McDonald's navigate complex national environments such as Indonesia. This approach allows for a deeper exploration of how organizational behavior is shaped by external structures, including state policy, societal expectations, and cultural beliefs. Rather than viewing corporations as autonomous market actors, Institutional Theory emphasizes that organizations are embedded within broader systems of rules, norms, and shared understandings that define what constitutes legitimate and acceptable behavior within a specific context.

The case of McDonald's in Indonesia offers a strategic lens to explore this intersection. As a prominent global brand operating in a country with strong religious mandates, nationalist economic goals, and deeply embedded food culture, McDonald's experience illustrates how public institutions and informal norms can jointly shape corporate conduct. This makes the case highly relevant to public policy debates on regulating foreign investment, as well as to global business strategy in governance-intensive environments.

Institutional Theory identifies three dimensions of institutional pressure that influence organizations: regulative, normative, and cultural-cognitive (Scott, 2013). The regulative pillar consists of laws, policies, and formal rules established by state agencies or legal institutions, which are typically enforced through sanctions or incentives. The normative pillar includes shared values, religious obligations, and social expectations that reflect what is considered appropriate within a given society. The cultural-cognitive pillar refers to the taken-for-granted beliefs and mental models that shape how individuals interpret meaning, legitimacy, and normalcy. These three elements interact to create an environment in which firms must not only comply with formal regulations but also demonstrate alignment with deeper social and cultural expectations in order to maintain legitimacy.

Together, these institutional pillars form a framework through which organizations interpret their external environment and respond to both formal and informal expectations. In highly institutionalized settings, organizations often adapt their structures and practices in ways that conform to the prevailing norms and rules around them. DiMaggio & Powell (1983) describe this process as institutional isomorphism, in which organizations begin to resemble one another as they respond to shared pressures for legitimacy and stability. This is not driven solely by efficiency or market advantage, but by the desire to appear appropriate and acceptable to regulators, consumers, and society at large. This perspective is also supported by recent study by Sminia (2024), which show that firms often shape their strategies to meet societal expectations and maintain legitimacy, especially in complex institutional settings.

For multinational corporations, the challenge is further complicated by the need to navigate multiple institutional environments simultaneously. Firms must balance their global brand identity with the need to gain local legitimacy, which may require significant adaptation. Kostova & Roth (2002) describe this condition as institutional duality, where foreign firms must conform to both home-country expectations and host-country demands. In some cases, these demands may conflict or require nuanced interpretation, particularly in emerging markets where institutional structures may be fragmented, evolving, or contested. As Peng et al. (2008) note, in such environments, institutional complexity often leads organizations to seek legitimacy through non-market mechanisms such as symbolic compliance, moral alignment, or partnerships with trusted local actors.

These ideas from Institutional Theory help explain how multinational companies respond to pressures in different national environments. This paper does not focus on business strategy alone, but instead sees corporate actions as part of a broader response to the rules, values, and expectations present in society. Foreign firms often adjust their behavior not just to follow legal requirements but also to meet cultural norms and gain public trust. These institutional pressures are often linked to deeper public concerns, such as national identity, fairness, or moral expectations. By using Institutional Theory, this study shows how companies adapt to both formal rules and informal expectations to maintain legitimacy in the eyes of the public.

By examining McDonald's in Indonesia, this paper contributes to research on how public institutions shape the behavior of foreign companies. It explores how policy tools and cultural expectations influence corporate decisions, especially in countries where public values play an important role in governance. This study helps us better understand how public administration works beyond legal systems, involving social norms, cultural beliefs, and shared understandings. It offers insight into how governments can shape globalization using policies that reflect their own goals and national values while still engaging with international business.

2. RESEARCH METHOD

This study uses a qualitative case study approach to examine how national institutional structures and public policy frameworks shape the behavior of foreign firms operating in emerging market contexts. A qualitative design is particularly appropriate given the complexity of institutional environments and the need to interpret the meaning and influence of regulatory, normative, and cultural factors on organizational decision-making. As (Creswell & Poth, 2017) explains, qualitative research is particularly useful for exploring how individuals or organizations make sense of complex social settings, especially when those settings are shaped by context-specific rules, beliefs, and values. In public administration research, case studies are often used to explore how policies operate in practice and how different actors respond to institutional conditions that are not easily captured through quantitative indicators alone (Yin, 2018).

The case selected for this study is McDonald's operations in Indonesia. It serves as an illustrative case to understand how foreign firms adapt to the governance environment of a host country. The case of McDonald's in Indonesia was selected using a purposive case selection strategy. McDonald's represents a highly standardized global brand that has undergone significant institutional adaptation in a complex emerging market. Indonesia, in particular, presents a unique convergence of religious regulation, nationalist economic policies, and cultural food norms, making it a rich site to explore the interaction of formal and informal institutional pressures on corporate behavior.

Data for this research were collected through the analysis of secondary sources, including government regulations, corporate disclosures, academic journal articles, news reports, and institutional policy documents. Special attention was given to documents issued by regulatory bodies such as the Indonesian Ministry of Religious Affairs and the Indonesian Ulama Council (*Majelis Ulama Indonesia* or MUI), as these are central to the governance of halal certification and religious compliance. In addition, trade and investment policies published by the Ministry of Trade and Ministry of Investment were examined to understand how sourcing regulations and local content requirements are enforced and interpreted. Corporate materials, such as sustainability reports and press releases from McDonald's Indonesia, were used to trace how the company responded to these institutional requirements.

This study relies exclusively on secondary data to examine how policy shifts and cultural pressures compelled the company to adapt its practices. Given the focus was on institutional pressures rather than internal decision-making, publicly available sources offered sufficient insight into the company's responses without the need for proprietary data or internal information.

To ensure both relevance and contextual depth, this study combines recent and historical sources. Particular emphasis was placed on documents and reports from the 2000 to 2023 period, which reflect key developments in halal certification, domestic sourcing mandates, and corporate restructuring in Indonesia. Earlier materials, including those related to the establishment of LPPOM MUI and early regulatory discussions from the 1990s, were included selectively to capture the evolution of institutional pressures over time. This approach ensures that the analysis reflects current policy dynamics as well as their historical foundations.

Thematic coding was conducted manually, focusing on references to formal regulations (e.g., halal laws, sourcing mandates), informal norms (e.g., religious and cultural expectations), and organizational responses. Coding consistency was maintained by iteratively reviewing and refining category definitions across data sources. A small, predefined set of codes was applied to reduce subjectivity and ensure that the patterns identified were clearly linked to institutional constructs derived from the theoretical framework.

The data were analyzed using thematic content analysis, guided by Institutional Theory. This framework was employed to identify patterns of regulative, normative, and cultural-cognitive pressures that influenced McDonald's adaptation to the Indonesian governance environment. By focusing on how public institutions, cultural norms, and religious authorities shape organizational behavior, the study highlights the embedded nature of policy-driven legitimacy and corporate compliance.

To ensure the reliability of interpretation, triangulation was applied across multiple types of documents, including legal regulations, halal certification criteria, corporate materials, and local news. Patterns of institutional response were verified by comparing multiple independent sources describing the same event or policy shift. This approach reduces the risk of bias associated with relying on a single narrative. While no direct interviews with McDonald's officials or policy experts were conducted, the analysis cross-referenced publicly available expert commentary and media interviews with industry stakeholders and certification authorities. These helped contextualize key adaptations and validate the interpretation of formal responses documented in secondary sources. This methodological approach allows for a deep understanding of how public institutions influence corporate conduct and how foreign firms seek legitimacy within a national policy framework. The findings of this case offer important implications for both public administration scholars and policymakers, as they reveal how institutional tools shape not only compliance but also deeper forms of corporate adaptation.

3. RESULTS AND DISCUSSIONS

3.1. Navigating Religious Regulation: Halal Certification as a Policy Instrument

In Indonesia, halal certification is one of the most influential institutional mechanisms shaping how foreign food-related firms operate. It functions not only as a religious requirement but also as a policy instrument that governs market access and social acceptance. Although halal product assurance was formally enacted through *Undang-Undang Republik Indonesia Nomor 33 Tahun 2014 Tentang Jaminan Produk Halal*, the system has long been embedded in the country's food governance landscape. The establishment of LPPOM MUI in 1989 marked a turning point, where halal certification began to serve as both a religious guideline and a de facto regulatory framework. Over time, LPPOM MUI has evolved into a formally recognized Halal Inspection Agency (*Lembaga Pemeriksa Halal*), authorized to carry out halal audits and assessments as part of Indonesia's national halal assurance system (LPPOM, 2023). This institutional role was further formalized through *Keputusan Menteri Agama Republik Indonesia Nomor 519 Tahun 2001 Tentang Lembaga Pelaksana*

Pemeriksaan Pangan Halal (2001), which provided the legal foundation for LPPOM MUI to operate as an official certification body.

For multinational firms such as McDonald's, adjusting to this regulatory environment required deep operational alignment. The company had to ensure that all ingredients were sourced from MUI-approved halal suppliers, and that food preparation processes followed religiously appropriate standards, down to storage and staff handling procedures. It also made visible efforts to communicate this compliance by displaying halal certification logos prominently in-store and on product packaging.

What is important here is that McDonald's adaptation was not merely a marketing choice, but a response to a religious governance framework that is formally enforced and socially expected. Halal certification in Indonesia is more than a technical formality. It is part of a broader institutional logic that combines formal law with moral obligations and cultural expectations. Halal certification in Indonesia is not only a religious obligation, but also a form of state regulation that involves multiple actors including the Ministry of Religious Affairs and the MUI. This type of regulation creates pressure on companies to internalize religious values as part of their operations, not because they are religious organizations themselves, but because compliance becomes essential for maintaining legitimacy in a value-based governance setting. Studies have shown that halal awareness and lifestyle orientation significantly influence consumer purchasing interest in local markets, reinforcing the institutional weight of halal norms even at the village level (Oktapiani et al., 2025). This dynamic highlights how deeply religious values are embedded in both regulatory instruments and consumer expectations.

This form of institutional adaptation also reflects a larger trend in how policy works in culturally rooted states like Indonesia. Government institutions do not act alone; they operate in coordination with religious authorities, in this case MUI, to shape and monitor private sector behavior. As a result, halal regulation becomes an example of how public policy extends beyond technical rule-setting and evolves into co-governance, where legitimacy is jointly produced by the state, civil society, and religious institutions.

From a public policy perspective, this reveals how normative policy instruments can be just as powerful as legal mandates. Halal certification regulates the economy by embedding religious and cultural values directly into market participation criteria. Foreign firms that do not comply may still be allowed to operate legally, but they risk reputational damage and consumer rejection. Empirical studies confirm that halal certification, religiosity, and even price sensitivity significantly shape halal product purchase decisions among Indonesian consumers, revealing a high level of public attentiveness to legitimacy signals in the marketplace (Djunaidi et al., 2021). In contrast, firms that fully integrate with the system, as McDonald's has done, are better positioned to gain lasting public trust and legitimacy.

Indonesian authorities regularly inspect local markets and supermarkets to ensure compliance with halal regulations. As Reuters reported in late 2024, the government inspecting grocery shelves to enforce halal labeling products, which have significant implications for importers and foreign restaurant chains encountering compliance challenges (Reuters, 2024).

This case shows how Indonesia's religious certification policies act as a filter for acceptable corporate behavior. McDonald's did not simply comply; it adapted structurally and symbolically to a governance model where religious legitimacy is tied to both policy enforcement and public expectation. This adaptation highlights the importance of understanding regulatory tools not just in terms of legal obligations, but as mechanisms through which governments and their institutional partners shape the moral and cultural boundaries of the market.

3.2. Adapting to Cultural Expectations in Food Consumption

In Indonesia, food consumption is not merely a matter of taste or nutrition. It is closely tied to cultural identity, social values, and long-standing traditions. Survey data highlights that more than

87% of Muslim food consumers rank halal certification and traditional food pairings, especially rice, as their top factors in meal selection (Magfiratun et al., 2025). A widely shared understanding exists across Indonesian society that a meal is not considered complete unless it includes rice. Foods such as bread, burgers, or fries are often regarded as complementary items or snacks rather than the core of a proper meal. These expectations form part of the country's cultural-cognitive institutional structure, influencing both consumer behavior and the operating environment for businesses.

This institutional feature does not function through law, but it nonetheless has a powerful effect on market actors. There is no regulation that obliges restaurants to serve rice. However, societal beliefs and consumption patterns exert a form of soft pressure, creating an informal system of expectations that foreign companies must recognize and respect. In this way, cultural norms operate as an informal governance mechanism, shaping the legitimacy of commercial practices in the eyes of the public. These expectations are not exclusive to Muslim consumers. Research has shown that even non-Muslim Indonesians express a high intention to purchase halal-certified products, indicating that halal labeling is increasingly perceived as a marker of quality, hygiene, and trustworthiness in the broader market (Asih et al., 2023). This further intensifies the informal pressure on foreign firms to align their offerings with halal standards and cultural preferences, regardless of the religious affiliation of their customer base.

McDonald’s adaptation to these expectations illustrates how multinational firms adjust their operations not solely for profit, but in order to comply with unwritten cultural obligations that have governance-like effects. The introduction of rice-based meals such as fried chicken with rice and *Nasi Uduk* McD can be understood as a response to this cultural environment. The adaptation was necessary not only to remain competitive, but also to be accepted as a socially legitimate presence in the Indonesian food landscape. As Yue (2023) notes, such localization is often driven by the need to align with deep-rooted societal norms, which are increasingly recognized as soft policy mechanisms in host-country governance environments

From the perspective of public administration, this reveals that institutional adaptation does not occur only in response to formal laws or regulatory agencies. In many societies, especially those with strong cultural cohesion, public values are enforced through norms and shared expectations, often supported by national narratives around food, identity, and tradition. Government development goals and educational campaigns also reinforce the importance of food security, domestic culinary heritage, and cultural preservation. These signals from the state strengthen the role of cultural institutions in governing business behavior, even without formal legal instruments.

This case shows that policy influence can occur indirectly through culturally embedded norms, especially when such norms align with broader governance goals. The presence of national food identity and consumption expectations becomes a form of institutional boundary-setting, which foreign companies must interpret and respect if they seek to establish long-term legitimacy.

Although companies may frame such responses as part of their localization or branding strategy, the underlying driver is a system of cultural governance that defines what is appropriate, respectable, and acceptable in the public domain. By aligning itself with these expectations, McDonald’s was not only competing in the marketplace but also adapting to a policy-structured institutional landscape where legitimacy is defined as much by cultural alignment as by legal compliance. This supports the broader understanding that, in emerging markets, foreign firms are often judged not only by their adherence to formal regulations, but by the extent to which they embed themselves within the social and cultural fabric of the host country (Meyer & Peng, 2016). This case reinforces the idea that governance is not limited to formal institutions, and that public administration research must account for the ways in which informal cultural norms function as powerful policy instruments in shaping economic behavior.

3.3. Responding to Domestic Sourcing Requirements and Supply Chain Policies

Foreign firms entering Indonesia are subject not only to cultural and religious expectations but also to formal policy tools designed to strengthen national economic development. One of the most prominent of these instruments in earlier years was the regulation requiring franchised businesses to use a high percentage of domestically sourced materials, products, and equipment.

Government Regulation No. 53/M-DAG/PER/8/2012 (2012), issued by the Indonesian Ministry of Trade, previously required that franchised businesses source at least 80 percent of their raw materials, equipment, and services from domestic suppliers. While this specific regulation is no longer actively enforced as the legal framework has since evolved, it remains a useful illustration of Indonesia's earlier efforts to align foreign franchise operations with national development goals. In recent years, this approach has shifted toward a more flexible model. Government Regulation No. 35 of 2024 on Franchising (2024), encourages franchisors and franchisees to prioritize the use of locally produced goods and services, provided they meet the franchisor's established quality standards. In addition, the regulation mandates cooperation with qualified local micro, small, and medium enterprises (MSMEs) as part of supply chain integration. Although no longer a strict quota, the institutional emphasis on domestic economic inclusion continues to shape the expectations and adaptations of foreign firms operating in Indonesia.

McDonald's response to this regulatory framework was shaped by the need to remain compliant while sustaining operational standards. To meet the domestic content requirements, the company established partnerships with Indonesian suppliers for key ingredients such as chicken, rice, vegetables, and packaging materials. In many cases, these local suppliers were given technical assistance and support to meet McDonald's quality, hygiene, and volume standards. This dynamic created a two-way relationship: McDonald's fulfilled its compliance obligations while local firms gained access to stable, high-value supply chains and capacity-building opportunities.

This outcome reflects how policy instruments can facilitate public-private complementarities. Through regulation, the government effectively positioned itself as a broker of domestic economic inclusion. Foreign firms were not simply expected to comply, but to participate actively in the development of national supply ecosystems. From a public administration perspective, this case shows that regulation does not only restrict behavior, but can also serve as a tool for structuring collaboration between public goals and private actors.

Moreover, McDonald's use of public-facing campaigns such as "100% Indonesian Chicken" or "Locally Sourced Rice" highlights how regulatory compliance can evolve into a reputational strategy aligned with national narratives. These messages do more than reassure consumers; they signal to policymakers and the wider public that the company is a willing participant in Indonesia's broader development agenda. In this sense, regulatory frameworks become part of the political legitimacy process, where firms seek approval not only from consumers, but from the state and society as institutional stakeholders.

This form of adaptation also suggests a more sophisticated regulatory environment, where the state is not just enforcing rules but guiding corporate behavior toward developmental outcomes. In emerging economies like Indonesia, policies such as domestic content rules operate as both economic and symbolic tools. They protect local industry, but they also express national sovereignty in the context of globalization. Firms that respond appropriately not only meet technical requirements but contribute to the state's broader public value mission.

In summary, McDonald's sourcing practices in Indonesia demonstrate how regulatory mechanisms can shape the structure of business operations in a way that aligns with public objectives. The effectiveness of this policy approach lies in its ability to transform a compliance requirement into a platform for economic inclusion, capacity building, and political legitimacy. This case highlights the role of domestic content policy as a development-oriented governance instrument, not simply a market restriction.

3.4. Institutional Pressures from Local Expectations and Competitive Norms

In addition to navigating formal regulations and cultural expectations, foreign firms operating in Indonesia must contend with a dense landscape of institutionalized norms shaped by long-standing local practices and public expectations. In the fast-food sector, this landscape has been shaped not only by consumers but also by the presence of domestically rooted food chains that have adapted closely to Indonesian cultural rhythms. These local competitors are not merely business rivals. They serve as institutional reference points that influence how fast food is defined and judged in the public eye.

Over time, domestic brands such as California Fried Chicken (CFC) and others have contributed to the establishment of informal standards regarding portion sizes, pricing structures, staple food combinations, and promotional practices. These standards have become part of the cognitive and normative environment that foreign firms must recognize and adapt to. For example, there is a widespread public expectation that fast-food offerings will be centered around rice, fried chicken, and iced tea, priced at a level accessible to working- and middle-class consumers. These expectations are not written into law, but they operate as soft governance mechanisms that influence the legitimacy of any market actor. Beyond domestic fast-food chains, Indonesia's vibrant street food ecosystem also shapes public expectations of what meals should look like; generous, affordable, and deeply rooted in local culinary heritage. These culturally embedded food behaviors form a significant part of the soft institutional landscape that foreign businesses must acknowledge and adapt to (Rosadi & Nursyamsiah, 2024).

Multinational firms such as McDonald's face pressure to conform to these informal rules not only to attract customers, but also to be perceived as culturally appropriate and socially aware. McDonald's localized offerings, such as rice meals and seasonal Ramadan adjustments, reflect an adaptive response to this embedded institutional environment, not merely a commercial choice. These adaptations are necessary for public acceptance in a context where food preferences, national identity, and religious traditions play a central role in shaping what is socially acceptable in the marketplace.

From a public administration perspective, this dynamic reflects the expansion of governance beyond formal institutions. Norms and expectations surrounding food are shaped by history, religion, class dynamics, and national development narratives. While regulatory agencies may not prescribe menu content or pricing, the broader institutional environment, through community expectations, religious rhythms, and media framing, exerts a powerful influence on how firms behave. These informal systems contribute to the collective governance of market behavior, even in the absence of statutory requirements.

Moreover, the presence of domestic firms that reflect and reinforce national values contributes to a kind of institutional benchmarking. The standard of what is "appropriate" in food offerings is not set by the law, but by the institutional legacy of locally grounded competitors who embody public expectations. In this environment, foreign firms are compelled to adapt their operations in ways that align with normative pressures, not just market logic.

This case suggests that in countries like Indonesia, informal governance mechanisms are deeply institutionalized in sectors closely tied to everyday life and public identity. Public administration research must account for these systems when analyzing how corporate actors are influenced by, and integrated into, national governance frameworks. These forces shape not only market outcomes but also the legitimacy of economic actors, making them a critical dimension of public sector concern.

These findings are consistent with institutional theory research, which argues that multinational firms pursue legitimacy by adapting their structures and practices to align with local institutional expectations (Kostova & Zaheer, 1999). Such alignment is especially important in environments where legitimacy cannot be secured through market performance alone but must be negotiated with regulatory authorities, religious institutions, and society at large. More recent studies emphasize that firms operating in emerging economies often face multiple and sometimes conflicting institutional logics, requiring them to navigate institutional complexity through differentiated or hybrid responses (Marano & Kostova, 2016). This case reinforces the argument that legitimacy-seeking behavior is not limited to symbolic gestures or surface-level compliance, but involves substantive organizational changes aimed at satisfying both formal rules and deeply embedded social norms.

4. CONCLUSION

This study set out to examine how national institutional environments shape the strategic behavior of multinational corporations, using McDonald's operations in Indonesia as the case. The findings show that McDonald's adjusted its practices in response to multiple institutional pressures, including sourcing regulations that promote domestic industry, public expectations around culturally appropriate food, and the need to align with religious governance such as halal certification. These adaptations reflect not just business strategy, but a deeper negotiation with the institutional structures of the Indonesian state and society. For policymakers, the study offers a practical illustration of how regulatory frameworks and cultural norms can be aligned to shape foreign business conduct in ways that reinforce national values and development goals. For multinational companies, it provides insight into the importance of engaging proactively with local institutions, not only to ensure compliance and formality, but also to build social legitimacy and sustain long-term operations. More broadly, this case reinforces the idea that institutional environments do not simply react to globalization, but actively participate in steering it. By showing how global firms adjust to domestic expectations, the study contributes to a more nuanced understanding of how governance and global business are co-produced in complex institutional settings.

REFERENCES

Asih, V. S., Yulandri, E., Gojali, D., Sobana, D. H., & Setiawan. (2023). Exploring the Intention Purchase of Halal Food Products: Evidence from Indonesian Non-Muslim Consumers. *Journal of Business Management and Islamic Banking*, *2*(3), 225–238. https://doi.org/10.14421/jbmib.v2i3.2088

Crawford, A., Humphries, S. A., & Geddy, M. M. (2015). McDonald's: A Case Study in Glocalization. *Journal of Global Business Issues*, *9*(1), 11.

Creswell, J. W., & Poth, C. N. (2017). *Qualitative Inquiry and Research Design Choosing Among Five Approaches*. SAGE Publications.

DiMaggio, P. J., & Powell, W. W. (1983). The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields. *American Sociological Review*, *48*(2), 147. https://doi.org/10.2307/2095101

Djunaidi, M., Oktavia, C. B. A., Fitriadi, R., & Setiawan, E. (2021). Perception and Consumer Behavior of Halal Product Toward Purchase Decision in Indonesia. *Jurnal Teknik Industri*, *22*(2), 171–184. https://doi.org/10.22219/JTIUMM.Vol22.No2.171-184

Dzulfaroh, A. N., & Hardiyanto, S. (2020, August 5). *Kisah di Balik Berdirinya McDonald's Pertama Indonesia di Sarinah*.

Guerguis, A. (2019). *McDonald's Internationalization Thinking with a Focus on The APMEA Market*. https://doi.org/10.13140/RG.2.2.32440.49929

Howlett, M., & Ramesh, M. (2003). *Studying Public Policy: Policy Cycles and Policy Subsystems* (2nd ed.). Oxford University Press.

Keputusan Menteri Agama Republik Indonesia Nomor 519 Tahun 2001 Tentang Lembaga Pelaksana Pemeriksaan Pangan Halal, Pub. L. No. 519 (2001).

Kostova, T., & Roth, K. (2002). Adoption of an Organizational Practice by Subsidiaries of Multinational Corporations: Institutional and Relational Effects. *Academy of Management Journal*, *45*(1), 215–233. https://doi.org/10.5465/3069293

Kostova, T., & Zaheer, S. (1999). Organizational Legitimacy under Conditions of Complexity: The Case of the Multinational Enterprise. *The Academy of Management Review*, *24*(1), 64. https://doi.org/10.2307/259037

LPPOM. (2023). *Sejarah LPH LPPOM*. Https://Halalmui.Org/Tentang-Kami/.

Magfiratun, S., Mujibatun, S., & Imron, A. (2025). Consumer Perception and Challenges of Halal Certification in the Food and Beverage Industry in Indonesia. *International Journal of Nusantara Islam*, *13*(1), 153–162. https://doi.org/10.15575/ijni.v13i1.46030

Marano, V., & Kostova, T. (2016). Unpacking the Institutional Complexity in Adoption of CSR Practices in Multinational Enterprises. *Journal of Management Studies*, *53*(1), 28–54. https://doi.org/10.1111/joms.12124

Meyer, K. E., & Peng, M. W. (2016). Theoretical foundations of emerging economy business research. *Journal of International Business Studies*, *47*(1), 3–22. https://doi.org/10.1057/jibs.2015.34
Oktapiani, N., Al Farisi, M. S., & Herawati, E. (2025). Halal Lifestyle, Awareness, and Consumer Behavior: Implications for the Halal Food Market in Dayeuh Village, Indonesia. *JEKSYAH: Islamic Economics Journal*, 5(1), 47–62. https://doi.org/10.54045/jeksyah.v5i01.2649
Peng, M. W., Wang, D. Y. L., & Jiang, Y. (2008). An institution-based view of international business strategy: A focus on emerging economies. *Journal of International Business Studies*, *39*(5), 920–936.
Peraturan Menteri Perdagangan Nomor 53/M-DAG/PER/8/2012 Tahun 2012 tentang Penyelenggaraan Waralaba, Pub. L. No. 53/M-DAG/PER/8/2012 (2012).
Peraturan Pemerintah Republik Indonesia Nomor 35 Tahun 2024, Pub. L. No. 35 (2024).
Peters, B. G. (2021). *Advanced Introduction to Public Policy*. Edward Elgar Publishing.
Reuters. (2024, October). *Indonesia to check grocery shelves as deadline for halal labels nears*.
Rosadi, C. P., & Nursyamsiah, T. (2024). Development Strategy for Small and Medium-Scale Halal Food and Beverage Sector in Indonesia. *Halal Studies and Society*, *1*(2). https://doi.org/https://doi.org/10.29244/hass.1.2.1-7
Scott, W. R. (2013). *Institutions and organizations: Ideas, interests, and identities* (4th ed.). Sage Publications.
Shalihin, A., Alda, T., Revadi, C. E., & Nasution, F. R. P. (2025). Consumer Intentions to Purchase Eco-Friendly Halal Food in Medan, Indonesia: An Approach Using the Theory of Planned Behavior. *The 8th Mechanical Engineering, Science and Technology International Conference*, 83. https://doi.org/10.3390/engproc2025084083
Sminia, H. (2024). *Strategizing With Institutional Theory*. Cambridge University Press. https://doi.org/10.1017/9781009357654
Undang-Undang Republik Indonesia Nomor 33 Tahun 2014 Tentang Jaminan Produk Halal, Pub. L. No. 33 (2014).
Yin, R. K. (2018). *Case Study Research and Applications Design and Methods* (6th ed.). SAGE Publications.
Yue, D. (2023). Analysis on McDonald's Localization Strategy. *Advances in Economics, Management and Political Sciences*, *10*(1), 46–50. https://doi.org/10.54254/2754-1169/10/20230426