



Institutional duality and political strategies of foreign-invested firms in an emerging economy



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ABSTRACT

This study investigates how the complex institutional environment surrounding foreign-invested firms (FIEs) affects their corporate political strategies (CPS) in China. Analyses of data on 442 FIEs operating in China show that the relative potency of dual institutional pressure from FIEs' home and host countries shapes their strategic choices. Institutional factors at the country, region, and firm levels not only affect firms' adoption of multiple firm-based tactics but also shape their collective-oriented associational activities. Moreover, participation in both foreign and domestic business associations enhances an FIE's adoption of firm-based political tactics, but joining domestic business associations has a stronger effect.

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1. Introduction

Research on the corporate political strategies (CPS) of foreign-invested firms (FIEs) has experienced rapid growth in recent years (Blumentritt & Nigh, 2002; Hillman & Wan, 2005; Iankova & Katz, 2003; Luo, 2001; Mondejar & Zhao, 2013). As a key component of firms' nonmarket strategy, CPS helps a firm build better connections with the government and other political institutions, gain access to markets and resources, and cope with environmental pressure and instability (Ahlstrom, Young, Nair, & Law, 2003; Hillman & Wan, 2005; Zimmerman & Zeitz, 2002). While the strategic effects and outcomes of CPS have been widely acknowledged and investigated (Boddewyn, 2016), our knowledge on the antecedents and processes of FIEs' political strategies in emerging markets is still very limited. Therefore it is imperative to achieve a better understanding of why and how FIEs vary in their CPS choices in emerging economies.

The extant literature on factors driving FIEs' CPS have been largely developed from traditional strategy and management perspectives, which tend to treat firms as unitary, rational, and self-interested actors (Jackson & Deeg, 2008). However, systematic

reviews and meta-analyses show that “antecedent variables drawn from traditional theories explaining why firms engage in CPS have limited explanatory ability” (Lux, Crook, & Woehr, 2011, p. 238). Particularly missing is the examination of how institutional factors affect firms' strategic political activities (Lux et al., 2011; Mondejar & Zhao, 2013). While the distinct and complex institutional environment of FIEs can be particularly crucial in shaping their CPS (Rodriguez, Siegel, Hillman, & Eden, 2006), it has received little attention in extant studies (Blumentritt & Nigh, 2002). This neglect can be partly attributed to the overall underdeveloped institutional perspective on organizational strategies in the international business literature (Peng, Wang, & Jiang, 2008; Peng, Sun, Pinkham, & Chen, 2009). Moreover, because dominant theories of CPS have been developed in the context of advanced Western democracies (Hillman & Hitt, 1999; Hillman, Keim, & Schuler, 2004), the CPS of FIEs in emerging economies have received insufficient theoretical explanation (Deng & Kennedy, 2010; Mondejar & Zhao, 2013). Given the institutional differences between emerging and advanced economies (Anderson & Sutherland, 2015; Hoskisson, Eden, Lau, & Wright, 2000; Wright, Filatotchev, Hoskisson, & Peng, 2005), it is intriguing to investigate the institutional forces that drive FIEs' CPS in emerging economies.

In addition, much of the research on international business has focused on FIE-host government negotiations at the time of initial entry into a country, while little research has been directed toward the postentry political strategies of FIEs (Hillman & Wan, 2005; Rodriguez et al., 2006). The few studies examining this issue

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largely focus on one or two firm-based political tactics, which underrepresents the variety of political tactics in emerging economies (Schuler, Rehbein, & Cramer, 2002). Moreover, little attention has been paid to the collective form of CPS that firms can utilize to engage the government and shape the external environment (with the exceptions of Ahlstrom, Bruton, & Yeh, 2008; Jacomet, 2005). Even fewer studies have examined firm-based and collective CPS side by side (Hansen, Mitchell, & Drope, 2004; Hansen, Mitchell, & Drope, 2005). Consequently, there is an incomplete picture of FIEs' CPS and also a lack of deep understanding of the relationship between firm-based and collective CPS (Jacomet, 2005).

In order to fill these research gaps, we draw theoretical insights from two burgeoning institutional approaches—the institutional duality perspective in international business (Kostova & Roth, 2002; Kostova, Roth, & Dacin, 2008) and the institution-based view in strategic management (Peng et al., 2009)—to examine the role of multilevel institutional factors in shaping FIEs' CPS in China. We simultaneously examine four typical firm-based political tactics as well as two forms of associational activities that function as important collective venues for CPS (Hillman & Hitt, 1999; Jia, 2014). We further examine the intricate relationship between these two distinct types of CPS and highlight their interconnections. Considering the call for more attention to CPS in emerging economies (Deng & Kennedy, 2010; Luo & Zhao, 2013), we situated our study in China's complex institutional context. As the world's largest emerging economy, China offers an intriguing context to enrich the literature and test our theoretical arguments.

Our study contributes to the literature in three aspects. First, we integrate and extend the institutional duality perspective in international business and the institution-based view in strategic management to enrich the institutional analyses of FIEs' CPS (Hillman & Wan, 2005; Luo & Zhao, 2013). Our analyses scrutinize institutional factors at multiple levels and also cover both formal and informal institutions. While the institutional duality perspective (Kostova & Roth, 2002; Kostova et al., 2008) emphasizes the dual institutional pressures on FIEs at the country level and the firm level, we further capture the heterogeneous institutional environment across regions and incorporate subnational institutional factors in our analyses. Regarding specific institutional forces, we follow the institution-based view in strategic management to highlight the fact that FIEs' strategic choices of CPS are “a reflection of the formal and informal constraints of the particular institutional framework” that FIEs confront (Peng et al., 2008, p. 923). Integrating these two institutional approaches, we therefore investigate how formal institutions such as laws and government regulations and informal institutions such as culture and norms at multiple levels affect an FIE's CPS. Second, departing from much of the existing CPS literature that focuses on either individual or collective CPS (Ahlstrom et al., 2008; Jacomet, 2005; Schuler et al., 2002), we simultaneously examine FIEs' adoption of multiple firm-based political tactics, different types of collective-oriented associational activities, and the relation between these two forms of CPS. Our research reveals that in addition to firm-based political tactics, FIEs join trade associations as an important venue of CPS, which can also facilitate FIEs' adoption of firm-based political tactics. These findings extend the research scope of the literature and depict a more comprehensive and dynamic picture of FIEs' CPS. Finally, through originally collected survey data, our empirical work focusing on China has both theoretical significance and important practical implications. As the largest emerging economy China has experienced a dramatic market transition yet with different levels of economic reforms and market development across regions; its complex institutional environment thus offers an ideal research context to enrich institutional analyses at multiple levels to achieve a deeper understanding of CPS in a

non-Western context (cf. Peng et al., 2008). Moreover, China has become one of the largest markets attracting foreign investments. Therefore our study also has broad and important practical implications for prospective investors and FIEs in China in order to better prepare or adapt.

The remainder of this paper first discusses firm-based and collective political activities as the two general types of FIEs' CPS in China. We then develop an institutional argument and a set of hypotheses on the determinants of FIEs' strategic choices. We test these hypotheses based on an original dataset collected from 442 FIEs in China. Finally, we discuss our findings and draw conclusions.

2. Firm-based and collective cps in emerging economies

Emerging economies differ from developed market economies in that the former are not well developed institutionally, and alternative mechanisms are often necessary to govern economic activities (Boisot & Child, 1996; Peng, 2003; Peng & Luo, 2000). In these economies an opaque policy-making process, a norm of government–business cooperation, poorly defined or enforced contract laws, and wide discretion of government officials in state-policy implementation put a premium on good relationships with the government (Kennedy, 2007). Since FIEs are further prone to the “liability of foreignness,” it is generally important for FIEs to maintain a sound relationship with the host government in order to establish legitimacy in the new environment and facilitate business operations (Ahlstrom et al., 2008; Sanyal & Guvenli, 2000).

Being the major stakeholder and the center of political power, the Chinese government plays a role in nearly all aspects of economic life. To succeed in such an environment, firms use political strategies individually or collectively to manage environmental uncertainties and government interference (Ahlstrom & Bruton, 2001; Tsang, 1996). These strategies range from passive conformance to official requirements, to active manipulation of the institutional environment so as to shape firms' public image or obtain government support (Ahlstrom et al., 2008). Some popular tactics include actively participating in local government-sponsored events and activities, pursuing a good relationship with and acquiring recognition from government agencies, and hosting visits from government officials (Ahlstrom et al., 2008; Gold, Guthrie, & Wank, 2002; Kennedy, 2007; Mondejar & Zhao, 2013). All these tactics help an FIE to engage and build a better relationship with the host government.

Unlike the firm-based political strategies that have received the most attention in the extant literature, collective political strategies have largely been neglected (Kennedy, 2007). Studies show that trade associations play an important role in CPS in advanced democracies (Aldrich & Staber, 1988; Barley, 2010; Hillman & Hitt, 1999) and also in the international business context (Hansen & Mitchell, 2000; Jacomet, 2005). As firms pool economic and political resources, collective-oriented associational activities have advantages over firm-based political tactics due to gaining higher bargaining power, lobbying more effectively, having broader public influence, and generating a positive image of the entity (Barley, 2010; Drope & Hansen, 2009; Jacomet, 2005). Since formal, effective institutional rules are absent in China's emerging economy, network connections with other firms and with trade associations provide important “structural support” (Xin & Pearce, 1996). In this context, trade associations have important political functions and serve as key communication channels with the government (Ahlstrom et al., 2008; Deng & Kennedy, 2010).

While both domestic and foreign trade associations thrive in China's emerging economy, they have different implications.

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