



Reputation for toughness and anti-dumping rebuttals: Competitive rivalry, perceived benefits, and stage of the product life cycle[☆]



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ABSTRACT

Anti-dumping petitions are strong signaling devices for price competition to both domestic firms and foreign competitors. Previous research mainly examines the strategic considerations of domestic firms seeking anti-dumping protection. This study takes the perspective of the foreign competitor and investigates the conditions that influence the foreign competitor's decision of whether to conduct or abstain from an anti-dumping rebuttal. The results of a path analysis show that the potential value created from an anti-dumping rebuttal and the target product's stage within the product life cycle, through perceived benefits and competitive rivalry, respectively, jointly influence the foreign competitor's reputation for toughness, which determines whether or not the foreign competitor pursues an anti-dumping rebuttal. Fuzzy set/qualitative comparative analysis (fsQCA) offers additional evidence for the predicted relationships. These findings broaden the theoretical understanding of the regulative, normative, and cognitive elements of institutions in the context of anti-dumping rebuttals.

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1. Introduction

Understanding how firms use nonmarket strategies to shape the competitive environments in which they operate is a critical topic for international business and market strategy research. One type of non-market strategy available to domestic incumbents is to seek the implementation of legal or regulatory barriers, such as anti-dumping duties, that prevent or impede foreign competitors from market entry (Baron, 1997; Hadani & Schuler, 2013; Peng, Wang, & Jiang, 2008). For example, local incumbents with higher costs than their foreign competitors can petition domestic regulatory agencies for the imposition of anti-dumping duties that create trade barriers and offset competitive disadvantages in internationally competitive markets (Lee & Baik, 2010; Marsh, 1998; Peng et al., 2008; Schuler, 1996). Thus, anti-dumping petitions serve as a strong signaling device for price competition to both domestic firms and their foreign competitors. However, previous studies investigating whether anti-dumping petitions are active nonmarket practices in an institutional field mainly take the perspectives of domestic firms.

Studies of anti-dumping petitions emphasize two theoretical streams within institutional theory: work that uses the corporate

political activities, such as lobbying and making campaign contributions, to promote their corporate interests and agendas over broader public interests (Hadani & Schuler, 2013; Lee & Baik, 2010; Lenway, Jacobson, & Goldstein, 1990), and responsiveness to public policy issues (Holburn & Vanden Bergh, 2008; Lenway & Rehbein, 1991; Schuler, 1996). These actions of anti-dumping petitions are the regulative practices of institutionalization processes. Drawing on institutional theory setting exogenous conditions on action (Scott, 2001), the regulative pillar refers to the authority of certain actors to formally constrain actors' behavior (Maguire & Hardy, 2009). However, except the regulative pillar, institutionalization processes also involve the normative and cognitive perspectives. In line with institutional theory (Maguire & Hardy, 2009; Scott, 2001), the normative pillar influences the behavior by defining what is appropriate in an anti-dumping investigation, and the cognitive pillar provides the shared conceptions that constitute the nature of anti-dumping activities. Most of anti-dumping investigations in an institutional field focus on the regulative practice, so little pays attention to the normative and cognitive perspectives. Since the domestic firms' legal actions of anti-dumping petitions can lead to the foreign competitors' reactions in an anti-dumping investigation, scholars and business practitioners should learn more about anti-dumping processes where normative and cognitive perspectives, or endogenous forces, increasingly influence anti-dumping determinations.

Smith Corona's case against Brother is an example of the endogenous and exogenous forces at work during anti-dumping investigations and rebuttals. In 1974, Smith Corona, a U.S. company and formerly one of the world's leading manufacturers of typewriters, begins a 20-year legal fight against alleged dumping by its Japanese competitors, in particular Brother. During this period, the legal battle diverts some financial

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resources and managerial attention, but the decrease of organizational slack from this fight does not seem to have a large effect (Danneels, 2011). For example, Smith Corona continues to introduce new models in its main product category until the mid-1990s, but none of these new products finds much success in the marketplace (Danneels, 2011). Smith Corona loses its market share leadership when Brother, the counterparty of the anti-dumping disputes, actively engages in anti-dumping rebuttals. As Smith Corona's typewriters reach the end of product life cycle, so does the company. Eventually, due to the steady decline in annual revenues and profits, Smith Corona files for Chapter 11 bankruptcy protection in July of 1995. Smith Corona's demise sheds light on the joint role of endogenous forces, such as firm's resources, and exogenous changes, such as product life cycles, in the long-term survival and prosperity of firms (Danneels, 2011). While Smith Corona is unable to draw on its existing resources or build popular new products, and its core products becomes obsolete, Brother develops a reputation for toughness and its dynamic capabilities to actively engage in its anti-dumping dispute with Smith Corona.

Scholars in economics, sociology, and strategy find beneficial effects of building a positive reputation on performance (Roberts & Dowling, 2002; Shamsie, 2003; Shapiro, 1983). Similarly, with the strategic advantages of being "tough" in the context of entry deterrence (Kreps & Wilson, 1982; Milgrom & Roberts, 1982; Olsen, Prenkert, Hoholm, & Harrison, 2014), Agarwal, Ganco, and Ziedonis (2009) find that a firm's reputation for toughness in patent enforcement significantly reduces spillovers otherwise anticipated from employee departures to rivals. Drawing upon the above literature on corporate reputations for toughness, this study predicts that a foreign competitor's reputation for being tough is particularly powerful in anti-dumping rebuttals when facing with ambiguity and information asymmetry in anti-dumping petitions.

While reputations for toughness and the product life cycle provide theoretical rationales that influence foreign competitors' decisions to proceed with anti-dumping rebuttals, one would expect that the impact of negative rulings (i.e., the rejection of the domestic firm's petition) would be most significant for those firms that actively engage anti-dumping rebuttals. The rulings of the U.S. International Trade Commission's (ITC) anti-dumping investigations may directly benefit foreign competitors with an elimination of the anti-dumping duty and indirectly benefit them with an increase in market share. However, the review process of an anti-dumping petition can take as long as 10–14 months to complete and requires cash to pay for costly legal bills (Marsh, 1998). Therefore, this study expects that foreign competitors actively responding to anti-dumping investigations must incur extra costs. Thus, foreign firms are likely to proceed with a rebuttal only if they anticipate that the direct and indirect benefits resulting from a negative ruling outweigh the costs. Therefore, by considering the trade-offs between potential value creation and transaction costs (Foss & Foss, 2005), this study examines the conditions under which foreign competitors choose to actively engage in anti-dumping rebuttals.

This study contributes to three literature streams. The first is research on anti-dumping rebuttals that base on potential value creation and transaction costs as measurement criteria. Chen, Liu, Liu, and Huang (2015) call for the examination of the mechanism on intellectual property rights' value creation based on transaction costs in patent litigation. The current study theorizes and provides evidence for the positive impact of premium products' value creation, based on transaction costs, on anti-dumping rebuttals and activates through perceived benefits. Second, this study builds on and extends research on reputation effects in corporate strategy. Just as firms can enhance performance by developing reputations for being tough (Agarwal et al., 2009; Roberts & Dowling, 2002), so too can foreign competitors garner strategic advantages by developing reputations for being tough opponents in anti-dumping investigations. Finally, for the literature on anti-dumping (Marsh, 1998), this study suggests that the foreign competitor's response has reputation effects, and the stage of the target product in

the product life cycle shapes anti-dumping rebuttals, thus revealing a source of asymmetry in the anti-dumping review process that receive little prior research attention. This study also advances and enriches Chen, Ni, Liu, and Teng's (2015) consideration of exogenous and endogenous forces that can provide the normative and cognitive perspectives of institutions in the context of anti-dumping rebuttals to both domestic firms and foreign competitors.

The paper is organized as follows. In the next section, a brief literature review and a theoretical framework considers hypothetical conditions that lead foreign competitors to either actively take part in anti-dumping investigations or to take no official action. This study uses a between-subject experimental design method to examine the above hypotheses in the third section. The results section shows that a path analysis confirms the theoretical framework, and Fuzzy set/Qualitative Comparative Analysis (fsQCA) offers additional evidence for the predicted relationships. Finally, this study concludes with a discussion of the results and offers final remarks.

2. Conceptual development and research hypotheses

The past few decades witness an explosion of anti-dumping petitions and investigations in the United States (Marsh, 1998; Schuler, Rehbein, & Cramer, 2002). This study argues that the surge in filings and negative anti-dumping decisions by the ITC induces active anti-dumping rebuttals that strengthen the bargaining power of foreign competitors and intensify efforts to capture value from innovation-related investments. This result brings up the question, what are their potential reputational effects of anti-dumping rebuttals? Extant literature is silent on this issue, leaving a gap that this study attempts to fill.

This study draws on studies about corporate reputations for toughness from the strategy and economics literatures (Agarwal et al., 2009; Kreps & Wilson, 1982; Milgrom & Roberts, 1982; Shamsie, 2003). Viewing active anti-dumping rebuttals (i.e., proving that sales are not dumping at less than fair market value) as a general reputation-building strategy for foreign competitors, this study develops the following several hypotheses.

2.1. Reputation for toughness and anti-dumping rebuttals

In the context of anti-dumping investigations, a foreign competitor can build a corporate reputation for being tough during anti-dumping rebuttals by protecting its premium products. The protection of proprietary technology as a trade secret or by a patent can bring increasing returns to the possessing firm (Bagley, 2008). For example, Xerox successfully defends its refusal to sell replacement parts for its copiers to independent service organizations by patenting the parts and announcing its policy (Bagley & Clarkson, 2003). In a different line of business, Polaroid offensively uses its patents to shut down Kodak's instant camera and film business (Bagley, 2008).

The current study builds on and extends research on reputation effects in corporate strategy. Just as firms can garner strategic advantages by developing reputations for being tough in patent enforcement (Agarwal et al., 2009), so too can foreign competitors enhance performance by developing reputations for being "good" in anti-dumping investigations. While the older literature in industrial economics highlights the reputational benefits of being "tough," particularly in the context of entry deterrence and predatory pricing (Kreps & Wilson, 1982; Milgrom & Roberts, 1982), much recent work emphasizes the benefits of being "good"—either as a socially responsible corporate citizen or as a high-quality producer (Roberts & Dowling, 2002). In this sense, this study posits that reputation-building investments for foreign competitors can lead to actively engaging in anti-dumping rebuttals, and these can yield strategic benefits under two conditions. One condition is that the foreign competitor must have an advantage over its domestic rivals. The other is that the foreign competitor must demonstrate a credible commitment to following through with the reputational strategy

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