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Exploring the performance of government affairs subsidiaries: A study of organisation design and the social capital of European government affairs managers at Toyota Motor Europe and Hyundai Motor Company in Brussels

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ABSTRACT

This paper aims to extend understandings of the corporate political activity (CPA) of multinational enterprises (MNEs). It explores how the social capital of government affairs managers (GAMs), and in turn the political performance of the government affairs (GA) subsidiaries in which they work, is affected by their MNE's organisational design. Our empirical focus is the GA subsidiaries of Toyota Motor Corporation (TMC) and Hyundai Motor Company (HMC) in Brussels. Our comparative case-study research suggests that GAMs working in relatively decentralised and coordinated GA subsidiaries have higher levels of internal and external social capital, and consequently can be more influential compared to GAMs working for relatively centralised and loosely-coordinated GA subsidiaries. Our findings respond to calls for more research providing managers with practical guidance on how to organise their international GA functions more effectively. They also contribute to CPA scholarship by specifying and explicating individual- and organisational-level antecedents of CPA that remain understudied in the current literature.

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1. Introduction

“Hyundai's lobbying activities in Brussels are not as active or developed as, say, Toyota's, even though their lobbyists have access to the same networks” (Author interview with Industry Expert, January 2015).

Corporate political activity (CPA) relates to deliberate attempts to shape government policy and process in ways favourable to firms (Hillman, Keim, & Schuler, 2004). Firms pursue political actions to improve their performance (Schuler, Rehbein, & Cramer, 2002). CPA can open doors to political decision-makers (Keim & Zeithaml, 1986) and enable firms to influence their political environments (Capron & Chatain, 2008; McWilliams, van Fleet, & Cory, 2002). MNEs engage in CPA to reduce exposure to risk (Frynas & Mellahi, 2003; Keillor, Wilkinson, & Owens, 2005), especially in countries with weak regulatory regimes (Henisz & Zelner, 2010;

Khanna & Palepu, 2000). CPA can be a source of value creation for firms operating both nationally and internationally (Bonardi, Hoburn, & Van den Bergh, 2006; Getz, 1997; Hillman & Hitt, 1999; Keillor & Hult, 2004).

Scholars have mobilised different theoretical mechanisms to explain CPA performance. One mechanism is social capital (Rajwani & Liedong, 2015). This relates to the resources that individuals or collectives accrue through social structures or networks of relationships (Lin, 2001). Oliver and Holzinger (2008: 505) view ‘political social capital’ as a resource mobilised by firms to exert influence over external policy actors and defend market positions. Inspired by Granovetter (1985), some scholars examine how political embeddedness (i.e. the bureaucratic, instrumental, or affective ties of MNEs to state actors) impacts on organisational performance (Sun, Mellahi, & Thun, 2010). Others mobilise networking, reciprocity and social exchange theories to discuss relations with government regulators and the development of trust between firms and policy makers (Gillespie, Dietz, & Lockey, 2014; Lester, Hillman, Zardkoobi, & Cannella, 2008). Extant research assumes that firms' linkages with external policy makers lead to political leverage if they are relational in character (Hillman

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& Hitt, 1999), that is characterised by trust and openness (Adler & Kwon, 2002; Inkpen & Tsang, 2005).

Although prior research recognises the role played by social capital in CPA, some intriguing questions remain. Existing scholarship pays little attention to mechanisms that condition the social capital of individual Government Affairs Managers (GAMs) in MNEs. These are important boundary spanners, charged with linking internal MNE networks with external political networks (Post, Murray, & Dickie, 1982). To our knowledge, no CPA scholars have examined the antecedents of GAMs' social capital in the political arena. Adopting an outcomes-focused perspective to examine the causal link between a firm's social capital and its overall political performance is clearly important. However, we consider it equally important to identify determinants of individual GAMs' social capital, explore how these may change over time, and consider how such changes may temporally affect the performance of MNEs' politically active subsidiaries. After all, managers cannot effectively utilise the information that social capital is conducive to increasing political influence unless they have clear indications of how social capital can actually be promoted.

We provide such indications through comparative case-study research focused on the GAMs involved in developing the government affairs (GA) subsidiaries of Toyota Motor Corporation (TMC) and Hyundai Motor Company (HMC) in Europe. These organisations provide interesting comparative cases because, despite both MNEs being non-European and having similar manufacturing volumes and market shares in Europe (OICA, 2015a, 2015b), their GA subsidiaries have achieved different levels of political performance in Brussels. Through these case studies, our research aims to explore how the social capital of locally-recruited GAMs, and in turn the political performance of the subsidiaries in which they work, is affected by their MNE's organisational design.

To manage their relationships with geographically dispersed subsidiaries (including their GA subsidiaries) multinationals like TMC and HMC can use decentralisation and coordination mechanisms (Ghoshal & Bartlett, 1990; Ghoshal & Nohria, 1993). We adopted a multi-level theoretical perspective to explore the impact of these two MNE-level mechanisms on GAMs' social capital and, in turn, re-examined the impact of GAMs' social capital on the performance of their Brussels-based GA subsidiaries. We undertook our research from the perspective of European GAMs. In line with Luo (2003), we consider it important for headquarter managers to understand the views of local managers on organisation design and structure and how they affect relationship building.

Our findings confirm existing research suggesting that social capital has a positive impact on the political performance of firms. However, these findings are secondary to our analysis of the role played by the organisational design of MNEs in the creation of GAMs' social capital. GAMs' attempts at building and maintaining external relationships with policy actors are affected by their relationships with internal colleagues. This 'internal' social capital of GAMs is in itself influenced by the organisational design of their respective MNEs.

These key findings provide practitioners with guidance on how to organise their corporate political actions more effectively. Our research responds to calls for more knowledge on how firms can potentially improve their political actions through managerial interventions (Hillman, Keim, & Schuler, 2004). We also contribute to emerging CPA scholarship, which attempts to capture the organisational complexities facing the GA employees of MNEs (Boddewyn, 2007; Dieleman & Boddewyn, 2012; Sun, Mellahi, & Wright, 2012). Importantly, we also shift attention away from aggregated proxies of firm-level activities to the individuals or groups who are the likely origin of political advantage (Lawton,

Rajwani, & Doh, 2013). Differentiating ourselves from extant CPA research which tends to neglect the individual-level antecedents of CPA (Mellahi, Frynas, Sun, & Siegel, 2016), we essentially unpack and explain the political actions of MNEs at a more complex and individual level (e.g. Baer, Dirks, & Nickerson, 2013; Foss & Pedersen, 2014). We decompose the political actions of firms into the actions and interactions of GAMs with their internal colleagues and external policy actors.

In making these contributions, we structure our paper as follows. We begin by establishing the theoretical foundations that underpinned our study. Next we describe our research context and methods for collecting and analysing data. Then, we present our findings and discuss how they contribute to existing research. Finally, we conclude by establishing the limitations of our study and highlighting fruitful avenues for future research.

2. Theoretical and contextual background

2.1. Social capital

Social capital relates to the goodwill available to individuals or groups whose source lies in the structure and content of actors' social relations (Adler & Kwon, 2002). It is a construct that can be reflected by three specific dimensions: structural, relational, and cognitive (Nahapiet & Ghoshal, 1997). The structural dimension encompasses actors in a network and the constellation of links amongst them. It captures the density and connectivity of the network, and the frequency of interactions of actors within it. Ties between actors in the network can be classified as either strong (i.e. close and frequent) or weak (i.e. distant and infrequent) (Granovetter, 1985).

The relational dimension of social capital complements the structural dimension by emphasising the qualitative dimensions of interactions. It is concerned with trust, which can impact on the outcomes of interpersonal, intra-organisational and inter-organisational cooperation (Schoorman, Mayer, & Davis, 2007). The cognitive dimension of social capital has attracted less research interest (Nahapiet & Ghoshal, 1997). This relates to shared mental modes that facilitate effective collaboration (Cohen & Prusak, 2001). It is concerned with understanding how, for example, a shared context or common language eases interactions. The cognitive dimensions emphasises the extent to which values and norms are shared across members of an organisation, or collaborating organisations.

Social capital and its effects can be studied at different levels of analysis. Some scholars focus primarily on the organisation-level of analysis, and investigate how the configuration, management and evolution of social capital can affect organisational performance (Pennings, Lee, & VanWitteloostuijn, 1998). Others engage specifically with social capital at the individual level, and emphasise individuals' accrued social assets such as prestige, educational credentials and social clubs (e.g., Belliveau, O'Reilly, & Wade, 1996, Burt, 1992, 1997). Still others view the social capital of firms as the compound of the social capital of individual organisational members (Tsai & Ghoshal, 1998). There remains, however, a lack of micro-level research that investigates how individual-level social capital is linked with organisation-level social capital and organisation-level outcomes (Ibarra, Kilduff, & Tsai, 2005).

2.2. Organisation design

Firms are usually organised by function, products and customers resulting in complex multidimensional organisational structures. As firms expand geographically, the complexity of their environments increase, leading to further complexity in how they

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