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Addressing the cross-boundary missing link between corporate political activities and firm competencies: The mediating role of institutional capital

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ABSTRACT

This study examines the mediating effect of institutional capital on the relationship between corporate political activities (CPA) and firm competencies. By adopting an institutional perspective, we identify the influence of a firm's relational CPA and participation CPA, and its two types of institutional capitals, formal institutional capital (FIC) and informal institutional capital (IIC), on the firm's competencies. Based on survey data from multi-informants in 303 Chinese firms, our results suggest that firms' institutional capital (IIC/FIC) partially/fully mediates the relationship between CPA and firm competencies. The findings provide the evidence that how nonmarket strategy, such as corporate political activities, affects a firm's institutional capital and then its competencies.

1. Introduction

To survive and thrive amid intense global competition, the way a firm utilises its political resources to achieve economic outcomes (Lawton, McGuire, & Rajwani, 2013, Lawton, Rajwani, & Doh, 2013; Rajwani & Liedong, 2015), known as corporate political activity (hereafter CPA), is as important as its competencies in the market arena (Lux, Crook, & Woehr, 2011; Rajwani & Liedong, 2015). Previous research from multiple disciplines (e.g., political science and management) investigates the conceptions (e.g., Bonardi, Hillman, & Keim, 2005), the antecedents (e.g., Lawton, McGuire et al., 2013; Lawton, Rajwani et al., 2013), and the outcomes (e.g., Huber & Kirchler, 2013) of CPA. Notably, institutional contexts considerably influence firms' selection of their political strategies and functional mechanisms (Rajwani & Liedong, 2015), and such influences become more salient in developing countries. With the ongoing transitioning processes in the emerging economies (e.g., China), the traditional conceptualisation and function mechanism of CPA in the Western markets would be modified due to the deviated local institutional contexts (Hoskisson, Shi, Yi, & Jin, 2013), while to date there are few studies 'explain the changing nonmarket context within which companies operate (Sun, Mellahi, & Thun, 2010)'.

First, the validness, properness, and effectiveness of political activity would be shaped by local political systems (Sun et al., 2010). In the Western markets, among the broad range of political resources (i.e., legitimacy resources (rights of participating in political and social affairs, public image, and social reputation), relational resources (relationships with government officials), financial resources (Bonardi et al., 2005; Hillman & Hitt, 1999; Hillman, Keim, & Schuler, 2004; Luo & Junkunc, 2008; Keim & Zeithaml, 1986)), extant literature focuses exclusively on financial CPA (e.g., putting financial resources toward campaign contributions and/or lobbying activities (De Figueiredo & Silverman, 2006)) to answer the "what" questions regarding the outcomes of CPA, but rarely considers other types of CPA and their differentiated outcomes (Rajwani & Liedong, 2015). Despite the long-have-been recognised free-riding (Lenway & Rehbein, 1991) and ethicality (Rajwani & Liedong, 2015) issues of financial CPA, China's 'complex and fluid' institutional environment with unstable factor markets and an intricate legal framework (Peng, Sun, Pinkham, & Chen, 2009; Shu, Zhou, Xiao, & Gao, 2014) would greatly prohibit the usage of a certain type of CPA while escalate the importance of others. In particular, the national constitution prohibits the practice of financial CPA whereas underdeveloped regulatory institutions and persistent traditional social norms increase the prevalence of participation CPA (i.e., using legitimacy resources to participate in political and public affairs (hereafter PCPA) (Deng, Tian, & Abrar, 2010;

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Lawton, McGuire et al., 2013; Lawton, Rajwani et al., 2013; Luo & Junkunc, 2008; Oliver & Holzinger, 2008)) and relational CPA (i.e., using relational resources to cultivate and utilise political networks (hereafter RCPA) (Deng et al., 2010; Luo & Junkunc, 2008; Peng & Luo 2000; Rajwani & Liedong, 2015).

Second, transitioning institutions and underdeveloped factor markets also open the gate for addressing the missing link between a firm's CPA in the non-market domain and a firm's competency improvement in the market arena. Previously, the extant literature focuses primarily on how CPA directly affects firm performance (Lux et al., 2011; Rajwani & Liedong, 2015), treating the mechanisms involved in this relationship as a black box. Based on the institutional perspective, institutional environments place constraints upon and offer opportunities for firms (Oliver & Holzinger, 2008). Firms' behaviours and strategies are largely restricted and shaped by the formal and informal institutional rules in their embedded institutional environment (North, 1990), and firms who can conform to those institutional rules may be rewarded with benefits from the formal (e.g., government support) and the informal (e.g., relational network resources) actors in their embedded institutional environments (Gao, Gao, Zhou, & Huang, 2015; Shu et al., 2014). In China's mid-range economy, firms are normally lacking the necessary resources (Shu et al., 2014) and access to the proper channels to acquire them (Gao et al., 2015). In this essence, CPA, as a firm's activities to communicate with (Guo, Xu, & Jacobs, 2014) and bargain against (Oliver & Holzinger, 2008) regulators, and to participate in political (Luo & Junkunc, 2008) and social (Deng et al., 2010) affairs, are conceived to enable firms to cope with and draw benefits from their institutional environments to maintain and create values (Baron, 1995; Bonardi et al., 2005; Oliver & Holzinger, 2008). This implies a potential mediating role of firms' drawing benefits from their institutional surroundings (Gao et al., 2015; Shu et al., 2014) that bridges CPA (the conforming to and shaping of institutional rules (Lux et al., 2011)) with firm competencies in the market battlefield (Lu, Zhou, Bruton, & Li, 2010), which has yet been validated.

To address these research gaps, we apply institutional theory to interpret the mediating mechanism of institutional capital (Gao et al., 2015) in links between CPA (RCPA and PCPA) in the political domain and firm competencies in the market arena in China. We focus on two types of institutional capital, namely, informal institutional capital (hereafter IIC), defined as a firm's acquired resources, technical knowledge, market information, and managerial intelligence via relational network with other business members (Gao et al., 2015), and formal institutional capital (hereafter FIC), defined as a firm's obtained technical information, infrastructure and equipment, and tax concessions and subsidies from the government (Gao et al., 2015).

In today's globalized economy, firms are facing with ever intensified market competitions. Past research has argued that firms' skills and abilities to deploy and utilise various resources and know-how to develop innovative product (Afuah, 2002; Zhou & Wu, 2010), and firms' commercialization of proprietary innovations (Nevens, Summe, & Uttal, 1990; Li, Guo, Liu, & Li, 2008; Zahra & Nielsen, 2002) are the important competencies that enable firms to successfully develop and launch new products, and establishing a competitive advantage (Nevens et al., 1990; Zahra & Nielsen, 2002). These competencies would be particularly important in China's transitional economy where the ongoing institutional transition and fast economic developments have left firms with vast underexplored market regime to conquer (Gao et al., 2015; Yi, Liu, He, & Li, 2012). In this consideration, we examine two types of firm competencies in the market place: technology capability (hereafter TC) is a firm's ability to utilise various technologies (Afuah, 2002; Zhou & Wu, 2010), and technology commercialisation capability (hereafter TCC) is a firm's technology transfer and value creation capability in technological innovation (Li et al., 2008).

This research makes the following contributions. First, our discussions on RCPA and PCPA reveal the effective political activities in situations where the political system, the economic infrastructure and societal norms are drastically deviated from the traditional paradigm. The identification of the valid CPA types in China's political environment would add nuance to the CPA research about not only the typology of CPA per se, but also the co-evolution of the CPA typology and the political environments (Rajwani & Liedong, 2015), which in turn, complete the map of the International Business (IB) (e.g., Boubakri, Guehami, Mishra, & Saffar, 2012; De Villa, Rajwani, & Lawton, 2015; Hassan, Hassan, Mohamad, & Min, 2012; Puck, Rogers, & Mohr, 2013). More importantly, their differential effects on institutional capital (FIC and IIC) and firms' different capabilities (TC and TCC) identify the 'input of political resource—institutional/market outputs' process with the norms of 'reciprocity' and 'legitimacy' as the key drivers (Sun et al., 2010).

Second, we offer a possible interpretation (firms' interaction with and benefit drawn from their institutional surroundings) regarding the black box between firms' political strategy in the political arena and firms' competencies in the market battlefield. In this way, we join the discussions of institutional research and IB community in terms of interaction of the market and non-market power in a certain type of institutional context which involved in a certain stage of institutional transition (De Villa et al., 2015; Shirodkar & Mohr, 2015).

Third, though the cross-sectional data we used may only reveal the 'how firms acquire, integrate and sustain political and social resource (Frynas, Mellahi, & Pigman, 2006; Sun et al., 2010)' in a short time window, their comparisons with the traditional paradigms in the developed economies may also add to the exploration regard 'how nonmarket strategies evolve over the long term (Sun et al., 2010)' in the process of institutional transition and thus contribute to the historian research in nonmarket research (e.g. Evans, 1997; Weiss 2000).

In addition, using China as the empirical setting, our findings about the valid types of political activities, and the causal links between firms' CPA in the non-market area and firms' competencies in the market arena offer insights for the local firms to compete China's market and non-market arena, for the foreign firms that intend to enter Chinese market to learn China's political environment and formulate their political strategies, and for Chinese government to properly political system design in order to guide firms and foster economic growth.

Overall, our study contributes to the interpretation of firms' "'integrated' strategy [political and market] that can confer sustained competitive advantage" (Rajwani & Liedong, 2015; p. 273), and bridges the CPA research in the non-market (e.g., political science, political economies) and market (e.g., resource based view) fields. Fig. 1 shows our conceptual framework.

2. Theory and hypotheses development

2.1. Firm institutional capital and firm competencies

Given China's objective of becoming an "innovation-orientated society" by 2020, the central government has endeavored to prompt firms' innovative activities (Gao et al., 2015). Along with the fast economic development pace, firms in China are facing with increasingly intensified market competition (Zhou & Wu, 2010), because of which firms' capabilities to build and leverage different resources and technologies to develop innovative product and launch them in the market better and faster than their competitors, namely their TC and TCC, are vital for firms' survive and thrive in facing with intensified market competition (Li et al., 2008; Zhou & Wu, 2010), and have yield increasingly strategic importance (Afuah, 2002; Nevens et al., 1990; Zahra & Nielsen, 2002). Specifically, TCC enables firms to explore consumer needs (Kollmer & Dowling, 2004) and acquire ideas with complementary knowledge, and realise their value by developing and manufacturing saleable products and selling them in a market (Mitchell & Singh, 1996). It thus increases a firm's marketing competency by improving speed and cost-efficiency of new product introduction (Chen, 2009; Zahra & Nielsen, 2002). TC enables firms to