PREFACE

The research presented is original, unpublished work in progress. The field research in China was conducted in March 2016 and has generated 212 quantitative cases\(^1\) and 37 qualitative fuzzy sets\(^2\). The data is currently processed and analyzed.

1. ABSTRACT

MNCs pursuing market-seeking mandates have been driving forces behind the economic development and institutional reform in Asia and around the world. WTO-based, open, fair and undistorted competition has generally been welcomed by host nations. Firm-institutional interaction has arguably never been more important, nor more contested. Although economically viable, there have been high-profile conflicts. For instance, in September 2015, a global emissions scandal broke as the US Environmental Protection Agency (EPA) issued a notice of intentional violation of the Clean Air Act to German automaker Volkswagen Group. There have been other cases of MNCs trying to push institutional perimeters. However, instead of singling out certain firms, the fundamental question is what strategic choices MNCs have available and how do MNCs chose to respond to institutions, e.g. contesting, conforming, collaborating, or co-creating? What do MNCs say that they do, how do they actually interact and how do they succeed by doing so? This research examines the convergence of strategic choice, institutionalism and firm-institutional interaction in emerging markets. It focusses on the relationship between strategic orientation, industry-based competitive environment, firm resources configurations, institutional context, and differential performance outcomes. While it agrees with the general notion that the appropriate strategy will be a function of industry-factors and firm-specific factors, there may be varying performance implications depending on key elements of the institutional context as well as the firm-institution interaction. The research utilizes typology-driven theorizing based on Miles and Snow’s (1978) enduring strategic typology that addresses how alternative forms of adaptive behavior to the entrepreneurial, technical and administrative problem manifest themselves in organizational forms. Snow and Ketchen (2014) recently suggested in an AMR call for action to empirically evaluate typologies for their current relevance explicitly pointing to Miles and Snow (1978). Referring to Miles and Snow (1978), Luo and Park (2001) suggest to further explore how MNCs comply with China’s institutional ambiguities and how these affect performance. In order to add the institutional perspective, the research uses Oliver’s (1991) strategic responses to institutional processes supplemented by a novel response based on Child et al.’s (2012) notion on co-evolution. It is
assumed that distinctive clusters of strategic types exist among MNCs in China resulting into differentiated performance outcomes in conjunction with the strategic responses to institutions they adopt. China has been chosen as the setting because of her high-level dynamism, particular institutional features (e.g. state control) and high importance within MNCs' market portfolios. A comparative sector approach (Automotive vs. wider industry) answers the question, how the research findings vary across industries. The research intends to add to the empirical base for research on strategic choice and the institutional theory in international business strategy as well as provide implications for future research. Keywords: [IB strategy, strategic choice, institutional theory, MNC, China]

2. REVIEW OF RELEVANT RESEARCH AND THEORY

International business (IB) strategy research utilizes emerging markets as empirical context and contributes to the wider theory building (Meyer and Peng, 2005, Meyer, 2006, 2007). This corresponds with the author’s research goal to explain the strategies MNCs choose and then explore which strategies perform best, competitive advantage being associated with above average performance. While there are various explanations for the success of firm strategy, there are three dominant strands of argumentation that Peng (2006) has coined the strategy tripod. (1) The industrial organization perspective follows the strategy-structure-performance view that provided an understanding of how firms adjust to environmental challenges (Chandler 1962; Ansoff, 1965; Sloan, 1963; Hofer and Schendel, 1978; Porter, 1979, 1980). It has been criticized, amongst other aspects, that it is often force fitted to local realities (Tsui et al., 2006) and largely ignores the social interaction as well as institutional underpinnings (Kogut, 2003). (2) In contrast, the resource-based view of the firm (Wernerfelt, 1984; Barney, 1986, 1991) suggests that sustained competitive advantage is derived from the resources and capabilities a firm controls. It has been criticized for lack of attention to contexts. (3) A third strand, institutional theory, addresses such context based on the central premise that firms adopt structures and practices that are isomorphic and socially conform to attain legitimacy (Meyer and Rowan, 1977; Dacin, 1997; Deephouse, 1996; Suchman, 1995, Yiu and Makino, 2002). It has been studied by various disciplines such as economists (North, 1990), economic sociologists (Durkheim, [1893] 1984; Schumpeter, 1949; Fligstein, 1997), organization theorists (Stinchcombe, 1965, Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Scott, 1987, 1995). Scott’s (1995) three pillars are widely used to cluster institutions according to regulatory, normative and cognitive. While MNCs have the capacity for regime arbitrage (Streeck, 1997), they also need to overcome their inherent ‘liability of foreignness’ (Hymer, [1960] 1976; Zaheer, 1995, Zhou and Guillén, 2015). Oliver (1991) argues that firms can exercise strategic choice and active agency within an institutional context, thus go beyond isomorphism and structural conformity to external constraints. As such, MNCs are both an institutional ‘rule takers’ and ‘rule makers’ (Streeck and Thelen, 2005). Schoolars have concluded that the institutional
perspective may have superior explanatory power in emerging markets (Hoskisson et al., 2000; Peng, 2001, 2002; McMillan, 2007; Meyer & Peng, 2005; Peng, 2003; Wright et al., 2005). However, each leg of the strategy tripod (Peng, 2006) claims to be a source of competitive advantage and has been criticized for failing to integrate the other strands. Moreover, while the strategic importance of institutions have been widely acknowledged, comparatively little research has been conducted on the precise nature of their importance (Li and Peng, 2008). Relatively unexplored is the question of how foreign actors strategically respond to host institutional frameworks (Peng, 2001, 2003; Child and Tsai, 2005; Chung and Beamish, 2005, Zhou and Li, 2007). Literature also presents mixed findings about the best-performing strategy. While some scholars suggest that Defenders outperform other strategies with respect to profitability (e.g. Hambrick, 1983; Dvir et al., 1993; Tan and Litschert, 1994), others (e.g. Zajac and Shortell, 1989) suggest that they are not viable in changing contexts. Forte et al. (2000), although not conclusively, gives support to the idea that Reactors are better able to respond to environmental change. Luo and Park (2001) indicate that Analysers are best suited to the complex Chinese market. In view of those unresolved arguments, a further research is required.

3. RESEARCH CONSTRUCT

The research utilizes Miles and Snow’s (1978) strategic typology (i.e. Prospector, Defender, Analyzer, and Reactor) informed by Oliver’s (1991) strategic response to institutional processes supplemented by Child et al.’s (2012) notion of co-evolution. While Miles and Snow’s (1978) theoretical foundation (adaptive cycle) focuses on industry conditions and firm-specific resources, it does not reflect formal or informal institutional constraints nor forms of firm-institutional interaction. Miles and Snow (1978) has been considered the most enduring strategy classification available (Hambrick, 2003) and appears to be a highly suitable for this research as it emphasizes the ways firms interact with their environment.

Table 1: Miles and Snow’s (1978) strategic typology operationalized by Conant et al. (1990)
Oliver (1991) informs the research as she emphasized the deliberate firm-institutional interaction by suggesting five responses to institutional processes (i.e. Acquiesce, Compromise, Avoid, Defy, and Manipulate). Based on the notion of co-evolution by Child et al. (2012), the author added Assert as a sixth novel response. This was deemed necessary to reflect how firms collaborate and develop through dialog with their institutional contexts. Co-evolution argues that possibilities are created through actors’ willingness to pool resources and mobilize efforts collectively. The emphasis is on ‘power with’ rather than ‘power over’ or ‘power to’ (Göhler, 2009).

Table 2: Oliver’s (1991) strategic responses to institutional processes and Child et al.’s (2012) notion on co-evolution

4. RESEARCH HYPOTHESES

Based on the research foci and their underlying rationales, the empirically testable hypotheses state:

Among multinational corporations (MNCs) in China, ...

H1 distinctive clusters of strategic orientations exist along the lines of Miles and Snow (1978)

H2 distinctive strategic responses to institutional process exist along the lines of Oliver (1991) and Child et al. (2012)

H3 these distinctive clusters of strategic orientations experience differentiated performance outcomes in conjunction with the strategic responses to institutional processes they adopt

H3.1 Analyzer will experience higher performance levels than the sample mean if they practice assertiveness

H3.2 Prospector will experience higher performance levels than the sample mean if they practice manipulation

H3.3 Defender will experience lower performance levels than the sample mean if they practice acquiescence

H3.4 Reactor will experience lower performance levels than the sample mean if they practice avoidance

In order to explore the causal chain among the hypotheses, the research will consist of three independent variables (IDV), one dependent variable (DV), intermediate variable (IMV), mediator variable (MV) und six control variables (CV).
5. FIELD RESEARCH AND INITIAL FINDINGS

The research was completed in the first quarter of 2016, a time when China posted its weakest growth since the financial crisis in early 2009. The survey comprised 62 items in English and Chinese language and generated 212 responses. According to Snow and Hrebiniak’s (1980) 4-paragraph scale, MNCs considered themselves to be Prospectors (48%), Analyzers (27%), Reactors (13%) and Defenders (12%). When assessing institutional interaction, MNCs reported that they pursue Compromise (47%), Assertion (27%), Manipulation (13%), Acquiescence (6%), Avoidance (6%) and Defiance (1%). 40% confirmed that their corporate goals are aligned to institutional demands, 49% consider institutions to be unpredictable and 44% insufficiently developed. Performance-wise, a significant proportion of MNCs reported stagnating or declining sales (39%), profits (55%) and market shares (57%). In a next step, a cluster analysis on strategic types and institutional responses will be conducted. Subsequently, a linear discriminant analysis (LDA) will focus on the interlinkage of strategic types and differentiated performance outcomes in conjunction with the firm-institutional interaction adopted. Comparative sector analysis and fuzzy set/QCA will provide insights on MNCs’ frame of reference.

6. POTENTIAL OUTCOMES AND LIMITATIONS

Upon finalization, this research will contribute to the body of academic knowledge regarding the convergence of strategic choice and institutional theory in IB research. It aims at linking an enduring strategic typology to the institutional perspective and advance the notion of deliberate firm-institutional interaction and institution-oriented strategic choice by adding a further strategic response. Furthermore, it will shed light onto the strategy-performance link and will help to address the ongoing lack of empirical research on typology-driven theorizing for emerging markets. The research will generate findings of practical relevance as it allows MNCs to classify their strategic orientation and develop highest yielding strategic configurations. Potential research limitations may include the sample size and a size variance of participating firms. Moreover, the research addresses a comprehensive spectrum of issues that should not be taken to be exhaustive as there are inevitably aspects that are underplayed.
7. REFERENCES

1. Firms (212) surveyed by the author include Abbott, Adidas, Aston Martin, Audi, BASF, Bayer, Blount, BMW, BorgWarner, Bosch, Brose, CAPSA, Chery, Coca-Cola, Continental, Daimler, Dekra, Disney, Dongfeng Infiniti, Dow, DuPont, Eaton, Edwards, ExxonMobil, FAW-VW, Festo, FEV, Feyco Treffert, FCA, Ford, Fujitsu, GM, Gerber, Grace, Henkel, Hershey, Honeywell, Huawei, IBM, Infiniti, Jaguar Land Rover, JCI, Kaneka, Kiekert, Lear, Lenovo, Leoni, Lexus, Magna, Mahle, MAN, Mars, Mercedes Benz, Mindray, Pentair, Philips, Porsche, PSA Peugeot Citroën, Quoros, Renault, Renault-Nissan, Rogers, SAIC-GM, Schaeffler, Siemens, Sime Darby, Škoda, Starkey, Tata Motors, ThysenKrupp, Toyota, Visteon, Volvo, VW, WD-40, West Pharma, Wuerth, Yanfeng and ZF.

2. Firms (37) interviewed by the author include Audi, BMW, Bosch, Daimler, Delphi, FCA, Ford, GM, Jaguar Land Rover, JCI, Lear, Maserati, Mercedes-Benz, Porsche, Siemens Automotive, Tencneco, TRW, Visteon, Volvo and VW.


