Corporate political action and international joint venture formation in overseas engineering construction

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Abstract: The purpose of this study is to identify different types of corporate political actions (CPAs) and investigate whether foreign firms are encouraged to form international joint ventures (IJVs) with local partners engaged in CPAs in overseas engineering construction. More specifically, this study examines the circumstances under which foreign firms are more likely to pursue partnership with local firms taking private CPAs than those with collective CPAs. Two sets of moderating conditions are tested. The first set of factors explores how institutional development affects strategic resources achievable through different types of political actions, and the second set of factors relates to industry policies issued by the government to regulate foreign investment, which may pose a challenge to foreign firms.

1. Introduction
As competition intensifies in maturing markets, multinational firms from developed economies are pursuing markets in transition economies and commonly use joint ventures (JVs) with local firms to remove uncertainty and continue growth [1]. A key decision for foreign firms in pursuing international joint ventures (IJVs) is the partner selection, which is associated with subsequent JV survival and collaborative success [2]. Due to weak institutional mechanisms in a transition economy, local firms are usually urging to pursue corporate political actions (CPAs) which can be defined as corporate attempts to substitute institutional voids and shape government policy [3]. However, firms’ dependence on CPAs may lead them to conform to government expectations which may conflict with foreign firms’ strategic intention [4]. Therefore, it’s still unclear whether foreign multinationals prefer JV partners engaged in CPAs.

The purpose of this study is to identify different types of corporate political actions (CPAs) and investigate whether foreign firms are encouraged to form international joint ventures (IJVs) with local partners engaged in CPAs.

2. Literature Review
Institutional theory originated in economics, politics, and sociology in the 19th century. It emphasizes the influence of institutions on organizational decision-making and organizational behavior. With the rise of emerging economies and scholars’ reflection on the frontiers of mainstream management theory in the West, institutional theory has developed rapidly. Institutional theory focuses on how the behaviors of firms is limited by the institutional environment. Institutional theory holds that companies need to be accepted and recognized by society so that they can develop in society. Therefore, companies often obtain legitimacy by observing rules and social norms. According to different perspectives of existing research, institutional theory can be divided into two perspectives which are economic perspective and
organizational sociology perspective. There is a big difference between them. From the perspective of economics, the goal of the enterprise is to seek the maximization of efficiency and utility. From the perspective of organizational sociology, the behavior of enterprises must be socially desirable.

From the perspective of economics, the core of institutional theory is that the institutional environment plays an important role in the market. North (1990) defines the institution as a game rule that constraints organizational behavior and their interrelationships. He pointed out that the institutional environment is a key factor which leading to differences in efficiency between organizations. Further, he also proposed that the institution consists of a formal system such as laws, regulations and regulations, informal institutions such as traditional customs, ethics and codes of conduct and institution implementation. Among them, the formal system can reduce transaction costs and uncertainty and complement the informal system. When formal institutions are difficult to achieve results, informal institutions can reduce uncertainty in the institutional environment. Then, Peng (2003 & 2006) integrated the previous research and proposed that the institution can be divided into formal institutions and informal institutions that can control individual and corporate behavior. It is an important supplement of the theoretical framework of the institution theory.

The organizational sociology perspective pays attention to the phenomenon of organizational convergence. It believes that organizations need to follow the mainstream belief system to obtain legitimacy. From this perspective, the institution refers to social rules and norms that meet the requirements of legality. As legality increases, companies are better able to access resources and get support from the external environment. DiMaggio and Powell (1983) argue that organizations acquire legitimacy primarily through three forms of isomorphism. They are mandatory isomorphism, normative isomorphism, and imitative isomorphism. Among them, mandatory isomorphism mainly refers to laws, regulations, regulations which enterprises must abide. Otherwise they will be punished. Normative isomorphism refers to the code of conduct. Imitative isomorphism means that enterprises imitate the behavior of successful companies in the same field to reduce the risks and uncertainties. Later, Scott (1995) proposed the three pillars of institutional theory. It is regulatory system, normative system and cognitive system. He believed that the “three pillars” of the institution determined its isomorphic power and further affected the behaviors of enterprise. Among them, the regulatory system is similar to the “formal system” in the perspective of economics, and the normative and cognitive system is equivalent to the “informal system” in the perspective of economics.

Compared with developed countries, formal institutions in emerging economies are in a slow but continuous development. Informal institutions such as norms and personal cognition are undergoing a more complex, time-consuming and incomprehensible evolution. Therefore, in emerging economies, companies need to consider how to improve the efficiency of their operations in a period of discontinuous and highly uncertain institutional transition. In addition, legitimacy is closely related to the institutional environment in which the company is located. In a defined external environment, the existing formal and informal institutions determine the organizational structure and behavior. This also means that in different institutional environments, the business model, practice behavior and organizational structure established by enterprises also differ.

In summary, institutional theory can well explain the overseas expansion of emerging economic enterprises. On the one hand, changes in formal and informal institutions in emerging economies and the interaction between the two provide opportunities for scholars to study the interaction between business and the environment. On the other hand, the differences in the legality requirements of different institutional environments provide a good theoretical basis.

Institutional theory provides a theoretical basis for exploring the role of CPAs in overseas mergers and acquisitions. In the process of internationalization, enterprises face the dual institutional situation of the home country and the host country. From the perspective of institutional theory, companies need to seek legitimacy by complying with local rules and social norms. Therefore, in different institutional situations, enterprises with CPAs are subject to different institutional pressures and will make different strategic decisions for social recognition. Further, the constraints of different institutional environments will also cause enterprises to show different resource acquisition and utilization in their home countries.
and host countries. Therefore, based on institutional theory, this paper explores the role of state-owned equity in the process of overseas mergers and acquisitions.

Extant studies demonstrate local firms’ resources as important drivers of IJVs’ formation and focus on valuable and complementary resources [5]. In line with this suggestion, CPAs emerge as an important mechanism for providing firms with crucial access to key strategic resources and influencing political actors in ways favorable to firms in transition economies [6]. Nevertheless, foreign firms may find it particularly difficult to build relationships with various government agencies for they appear as strangers in the social network. Precious studies paid less attention to foreign firms’ special position to connect with government agencies [7], thus few studies identify the role of CPAs when examining foreign firms’ selection preferences.

In addition, foreign firms exercise different local partner choices to respond to institutional development and industry policy [8,9,10]. In transition economies, institutional reform is dynamic and diverge across regions [11]. When institutions move toward market-orientation and economies become more liberalized, strategic resources are more widely available to all firms in the social network, which alters the value of developing political ties [11,12,13]. To regulate foreign investment, the government may publish related guidance to identify the industries where foreign direct investment (FDI) is encouraged or restricted. When foreign firms are involved in strictly regulated industries [14,15], they may seek local partners with strong ties for survival because the government has considerable power to allocate key resources and approve related projects [16].

3. The relationship of Corporate political action and international joint venture formation

Enterprises often face complex institutional situations when they expand overseas. The political environment, as an important part of the formal institutional situation, can influence the stability of the market and the possibility of realizing the value of the enterprise, which has attracted the attention of multinational enterprises. Most of the existing researches suggest that host countries with higher political risks are often difficult to attract overseas investment. When companies expand overseas, the uncertainty brought about by political risks will seriously affect the company’s strategic implementation results. Political instability often leads to opportunistic behavior in the public sector, which poses a serious threat to multinational companies. Before investing overseas, multinational companies often have a favorable position to negotiate with local governments on the relevant terms of market entry. But when the company officially invests, a large amount of silent costs will lead to a crucial turning point in the power position relationship between multinational companies and the host government. Multinational companies may be concerned about defaults or unilateral changes in contract terms by local governments and companies. Especially, when the political risk of the host country is high, multinational companies may even face the risk of deprivation and nationalization of existing property. According to statistics, multinational corporations lose billions of dollars in revenue from political risks each year.

To address these gaps, we investigate how local firms’ CPAs influence IJV formation in a transitional economy by distinguishing private and collective CPAs according to the strength of political ties and assessing how the effects of different types of CPAs diverge[17,18]. Researches on social network theory emphasize the importance of CPAs by positing that political actions serve as a tie between firms and the government for external resources [19,20,21]. Since local firms can pursue political actions collectively with other firms or individually, these ties developing in different ways tend to be quite different in strength [22]. Previous studies suggest private political actions are built through person-to-person relationship between top managers and government officials [23,24]. This kind of strong ties can better facilitate market exchange and overcome constraints caused by institutional voids, but may easily terminate as managers and officials rotate their positions regularly [24]. By contrast, collective CPAs are developed through joining in business associations where political experience and connections are accumulated and costs and benefits of political actions are pooled. Therefore, collective political actions may help individual firms make indirect connections to government agencies, bridging them together.
4. Conclusion
Due to weak institutional mechanisms in a transition economy, local firms are usually urging to pursue corporate political actions (CPAs) which can be defined as corporate attempts to substitute institutional voids and shape government policy. However, firms’ dependence on CPAs may lead them to conform to government expectations which may conflict with foreign firms’ strategic intention. Our study offers two contributions to the field of international business and strategy. It expands the literature on international joint venture formation by introducing social network theory to emphasize the importance of political actions as foreign firms engage inward foreign direct investment opportunities. Second, this paper takes a further step toward a better understanding of the different mechanisms of different types of corporate political actions by incorporating boundary conditions varying across regions and industries.

Further, we will examine how these relationships vary across two contingencies: (1) institutional development level (regional factor); and (2) industry policy to foreign investment (industrial factor).

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