The determinants of corporate political strategy in Chinese transition

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Corporate political strategy (CPS) formulation in Chinese transition is an area with little empirical work. We fill this gap validly and the primary focus of this study is to examine the firm- and industry-level factors influencing Chinese firms' political strategy choice. Empirical support is found for the taxonomy of corporate political strategies in Chinese transition—that is direct participation strategy, financial incentive strategy, procurator strategy, institution innovation strategy, government association strategy and government involvement strategy. The results indicate that there is no consistently significant firm- and industry-level predictor of all six political strategies and we explore what determinants are related to each specific decision independently. We also verify the random effects of industry-level variables and our hypothesis are tested through using general evaluation equations (GEEs). Our study aims to be helpful to point managers toward both industrial environments and internal resources to consider when making appropriate political strategy choices and thus improve Chinese firms' strategy management level. Some implications of findings are also discussed finally.

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Introduction

In developed western economies, the issues of public rules and policies and their influence on business are a common concern of business firms (Shaffer et al., 2000; Mahon and Macgrwan, 1998). Enterprises not only comply with government rules, but do actively attempt to influence the decision-making process that sets or changes them, in order to form a favourable business environment for the enterprises (Schuler, 1996; Hillman et al., 1999). We define corporate political strategy (CPS) as the strategy that the enterprises employ to influence the formulation and implementation process of government policy and regulation in order to create a favourable external environment for their business activities (Getz, 1993; Mahon, 1993; Tian et al., 2003). In essence, success in political area is equal to it in the market, and political strategies have been the foundation for enterprises' success, which is just like that enterprises have to formulate competitive strategies to gain success (Baron, 1955; 1995).

China is a country in transition. Institutional theory suggests that, to a much degree, the limitation of external market should be boiled...
down to governments' intervening or controlling the allocation of resources. Therefore, in transition, although market mechanism has many functions, the development of enterprises, to a much extent, reckon on non-market system, such as government intervention or social network etc., to obtain resources (Peng and Health 1996). 'CPS' is not the specific product for the developed countries and Chinese scholars have made some related researches as well. A great deal of literatures have paid attention to business-government relationship (e.g. Tian et al., 2003). Additionally, some scholars have made a systematic research on political actions and strategies reacting to institutional environment change (e.g. Zhang and Zhang, 2005). However, all of above studies focused on CPS itself and paid a little attention to the determinants of political strategy choice. So far, a few scholars have attached importance to the determinants of political strategies used by multinationals (e.g. Hillman, 2003; Hillman and Wan, 2005). However, few studies take Chinese firms as its study objects in this area. Most of scholars discussed the determinants of political strategy choice from normative perspective and suggest that non-market environment is a key factor affecting political strategy choice, or based on the resource-based theory, they argue that political resources are the important factors (Tian et al., 2003). Other scholars identify some related factors through an in-depth interview and they are local culture atmosphere, firm size and entrepreneur characteristics, etc. (Zhang and Zhang, 2005). In actuality, empirical studies on the determinants of CPS in China have received scant attention.

This paper explores the determinants of corporate political activities of Chinese firms in transition. In the following section, we develop hypotheses that examine firm- and industry-level factors that might influence Chinese firms' political activities. It is complemented in the third section by a description of the research itself, as well as of the data and statistical models used. The fourth section offers the result of our taxonomy of the political strategies used by Chinese firms and tests the hypotheses. Finally, we provide practicing managers with a useful framework for political strategy decision-making and some meaningful implications.

**Determinants of CPS and hypotheses**

We mainly explore the determinants of political strategy activities from firms' internal resource and external environment characteristics. A fundamental tenet of RBV is that firms are bundles of heterogeneous resources and that these unique bundles of resources provide the foundation for competition (Penrose, 1959; Wernerfeldt, 1984). Heterogeneous and unique resources result in heterogeneous strategies (Hillman, 2003). Thus, the RBV emphasizes the fit between a firm's strategies and its resources bases and strategy formulation will be affected by firm-level variables/resources. Additionally, external environment will influence firms' strategic choice (Porter, 1980, 1981, 1985) and industries have long been a defining boundary of firm behaviour both in the economic and political marketplace (e.g. Porter, 1980; Zardkoohi, 1985; Grier et al., 1994; Hillman and Wan, 2005). Thus, we focus on industry-level factors to examine firms' external influences on political strategy choice.

**Firm-level variables**

**Firm size**

Many western literatures argue that firm size is related to political strategy usage (e.g. Schuler et al., 2002). Vernon (1971) suggests that large firms have strong incentive to engage in political strategy because they will be affected by changes in government policy to a greater degree than small subsidiaries because of their significant investment. Deeplhouse (1996) posits that, despite their size benefits, large firms may be held to higher standards owing to their greater influence and visibility in the external environment. It is also possible that
because larger firms receive increased media coverage they are likely to have more legitimacy-challenging stories. Furthermore, large foreign operations, as a result of their visibility, may easily be targeted by organizations (Kostova and Zaheer, 1999). Schuler et al. (2002) suggest that size is often a proxy for resources, political clout and visibility, and that size will determine its share of the benefits and/or losses associated with political decisions. Thus, comparing to small firms, large firms are more likely to implement active political strategy (Schuler, 1996).

**Hypothesis 1.** *The larger the assets per capital, the more likely it is to take political strategy.*

**Firms' dependency upon government**

Resources dependency theorists have stated that if the government occupies an important position in a firm's task environment (as is often the case with firms that receive defence-related revenues), the firms will become proactive in attempting to shape this environment (Schuler and Rehben, 1997). More and more firms realize that a key measure to obtain competitive advantage is to influence the formulation and implementation process of government policy and regulation in order to create a favourable external environment for their business activities (Baysinger, 1984). Many western literatures suggest that the more the firm depend upon government, the more likely it is to manage the dependency relationship through political strategy. Firms' dependency upon government is mainly indicative of the dependency of firms' sales upon government contracts (e.g. Schuler, 1999; Schuler et al., 2002) and trade policy owning to large export scale relatively (Martin, 1995; Schuler, 1999):

**Hypothesis 2.** *The higher the proportion of government procurement of its total revenues, the more likely it is to take political strategy.*

**Hypothesis 3.** *The higher the export share, the more likely it is to take political strategy.*

**Slack assets**

Financial resources are discussed as influential in political strategy choice (Getz, 1993; Schuler, 1996). Because it determines firm's potential to employ its resources to implement political strategy (Hillman, 2003). Meznar and Nigh (1995) argue that the more slack assets firms possess, the more likely it is to participate in political activities. However, some scholars have the opposite view (Schuler, 1996; Schuler et al., 2002). Thus the following hypothesis is derived:

**Hypothesis 4.** *Debt-to-asset ratio is strongly related to the choice of political strategies.*

**Level of diversification**

The higher the level of firm's diversification, the more uncertainty of business environment firm will face. Government represents major sources of uncertainty for firms because they often control critical resources and opportunities that shape firms' industry and competitive environments (Baron, 1955). Some western scholars therefore argue that the higher level of firm's diversification, the more likely it is to take long-term and relation-oriented political activities (Schuler, 1996; Hillman and Hitt, 1999).

**Hypothesis 5.** *The higher the level of firm's diversification, the more likely it is to take political strategy.*

**Formal organizational structures**

The theory of firm behaviour suggests that organizational structure and daily business
activity would affect the formulation of firm’s goals and decision-making process. For example, firms with formal public relation department have accumulated much experience of implementing political strategy, thus they institutionalize these activities or relations within firms. Western scholars argue that whether firms set up the formal public issue department or not is related to their enthusiasm for taking political activities (Baysinger et al., 1985). Brenner (1980) found that firms with formal department would take political strategy more positively than those without it.

**Hypothesis 6.** Whether setting up the formal public issue department or not is related to their political strategy choice.

**Public relation fee**

Resources firms put to organization/department determine their enthusiasm for participating in political activities (e.g. Masters and Keim, 1985; Zardkoohi, 1985). We argue that public relation fee is an important factor influencing the choice of political strategy.

**Hypothesis 7.** The more the public relation fee firm inputs, the more likely it is to take political strategy.

**Industry-level variables**

Schuler et al. (2002) suggests that enterprises should have more of an incentive to implement political strategies, since the political payoffs are higher for firms in a more concentrated industry. Olson’s (1965) collective action theory states that under many circumstances, such as when an industry has many firms and lacks a dominant player, a firm has little economic incentive to incur any of the costs of political action. A politically active firm can expect to share the collective benefits of favourable public policy with other industry firms that incurred no costs as well as with those that did incur costs (Pittman, 1988; Zardkoohi, 1988; Grier, Munger and Roberts, 1991; Schuler et al., 2002). Under these conditions, a firm is likely to adopt the free-riding position of not engaging in political activities. Conversely, when an industry has fewer total firms or only a few dominant ones, as in a highly concentrated industry, the potential for economic gain for the dominant firms through political actions counteracts the tendency to free ride (Schuler et al., 2002). Hansen (1991) argued that policy makers are more responsive to lobbying groups that are organized, specialized and representative of more numerous constituents. Pittman (1977) suggested that political contributions are much more in a more concentrated industry. Just as mentioned above, a concentrated industry’s ability to reduce the costs of collective action enables it to be more efficient in the political arena (Schuler et al., 2002). Therefore, firms in a more concentrated industry should be more motivated to use political strategies.

Grier et al. (1994) argue that there are two methods to measure the collective action problem that are measures of the extent to which the industry has common interests and of the industry’s ability to overcome the free-rider problem. Four variables we propose to use to explain industry political activity, which are the level of industry’s regulation, relative market share, level of cooperation among firms and industry’s firm quantities, will be defined to capture the determinants of variations in political activity across industries. In order to expand our research conclusions to apply to all industries, we take industry-level factors as random variables, which let us make it clear which factors influence the mean and variance of political strategy choice across industries.

**Hypothesis 8.** There are significant differences in political strategy choice across industries.

**Hypothesis 9A.** The more the level of government regulation a firm faces in its industry, the more likely it is to take political strategy.
Hypothesis 9B. The level of regulation will influence the variance of political strategy choice significantly across industries.

Hypothesis 10A. The more the relative market share a firm occupies, the more likely it is to take political strategy.

Hypothesis 10B. The relative market share in a firm's industry will influence variance of political strategy choice significantly across industries.

Hypothesis 11A. The higher the level of cooperation firm faces in its industry, the more likely it is to take political strategy.

Hypothesis 11B. The level of cooperation in a firm's industry will influence variance of political strategy choice significantly across industries.

Hypothesis 12A. The more total firms in a certain industry, the more likely a firm is to take political strategy.

Hypothesis 12B. Firms' numbers in an industry will influence variance of political strategy choice significantly across industries.

Methodology

Variables design and instructions

We conducted a pilot study to collect managers' description of political strategy. From April to June in 2004, we chose 20 EMBA students with working experience of 10 years and above, and made a number of in-depth interviews with them in groups. We then chose four top managers (from a private enterprise in Shenzhen, a SOE in Nanning, a private enterprise in Wuhan and a SOE in Wuhan respectively) and made individual in-depth interviews with them. During the interviewing, we designed an outline to guide the discussion based on the taxonomy of political strategy in western literature (Getz, 1993, 1997; Rehbein and Schuler, 1995; Hillman and Hitt, 1999; etc.). Thus, we got 39 variables (marked as Q1-Q39) describing corporate political strategies and classify them into direct participation strategies (Q1-Q9), procurator strategies (Q10-Q12), information consultation strategies (Q13-Q16), societal force mobilization strategies (Q17-Q18), institutional innovation strategies (Q19-Q23), government involvement strategies (Q24-Q34) and financial incentive strategies (Q35-Q39). This taxonomy will be as a basis for comparing to following factor analysis in this empirical study.

Sample and data gathering

Based on above 39 variables, we designed a questionnaire with the name 'the status quo of Chinese CPS'. We adopted the five-point Likert scale to measure the extent of strategy usage. From January to May of 2005, we chose the EMBA students of Huazhong University of Science and Technology, who hold top managerial positions at subsidiary level or above from firms of Hubei, Henan, Guangdong and Fujian provinces, and asked them to fill out the questionnaires in class. We distributed 350 questionnaires in total and got back 233 of them. Eliminating the invalid questionnaires, we obtained 201 valid questionnaires and the valid rate of response was about 57.43%.

Initial processing of data

We analysed the reliability and validity of the questionnaire. According to the viewpoint of Churchill (1979), corrected item total correlation (CITC) cannot be smaller than 0.5. Based on Peterson (1994), Cronbach's alpha coefficient cannot be smaller than 0.7. Therefore, we delete following four variables: Q7, Q17, Q18 and Q32.

These four items are 'participating in formulating industrial rules/laws directly (Q7)', 'arousing attention of the media, consumers' colony, stockholder or others, to form certain orientation of public opinion and to influence government decision-making indirectly through firm's individual efforts (Q17)', 'eliminating the influence of bad news about firms through government or laws (Q18)', and 'donating for programs in education, sports, health care and relieve people from disasters (Q32)'.
Then we test the construct validity by means of principal components. Before factor analysis, we use KMO to examine whether the datum of factor analysis is suitable. If the value of KMO is smaller than 0.5, the factor analysis is not suitable. On the whole, the results of factor analysis can meet our demand. According to Kaiser's (1960) rule, we retain those variables whose eigenvalues are more than 1. In the mean time, combining to Cattell's (1966) screen test criterion, we choose six factors whose cumulative % of variance is 64.582 and they are direct participation strategy, financial incentive strategy, prolocutor strategy, institutional innovation strategy, government association strategy and government involvement strategy (see Table 1).

Statistical model

We use general evaluation equations (GEEs) to test our hypotheses, which not only control the contextual effects but also allow the inclusion of substantive factors at these contextual levels to explain the differences. We can assume that, in a certain industry, the influence of firm's government procurement on political strategy choice is less than in other industry. To test the effect of this hypothesis and evaluate it, the simplest method is to build up a fixed effects hierarchical model. Suppose that $F_y$ is political strategy factor scores of firm $i$ in industry $j$, $x_{ij}$ is government procurement of firm $i$ in industry $j$, industry $j$ indicate industry $j$, there are $s$ industries totally. Thus the fixed effects hierarchical model is as follows:

$$F_y = \alpha + \beta_i x_{ij} + \sum \gamma_j \text{industry}_j + \epsilon_y$$

(1)

$\epsilon_y \sim N(0, \sigma^2)$ and each industry $j$ have a different regression coefficient $\gamma_j$. This model can be evaluated through OLS. In essence, model (1) has ignored many deep problems. The data we use are typical two-level nested structure (firm- and industry level) and we totally investigate eight industries. We can use one industry as an example:

$$F_i = \alpha + \beta_i x_i + \epsilon_i$$

(2)

When we only consider one industry, model (2) is the best one. However, if we take into consideration several industries, then in this model there exist obvious defects because environmental differences across industries lead to different level of firm's dependence upon government. And meanwhile, what we should consider is not only several industries, but broader industry sphere, so we need to evaluate the variance of intercept for total

### Table 1. Taxonomy of CPS and its usage in Chinese environment

<table>
<thead>
<tr>
<th>Political strategy factors</th>
<th>Eigenvalues</th>
<th>$\alpha$</th>
<th>% of Variance</th>
<th>Items</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Less</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Mean-std deviation $&lt; 1$</td>
</tr>
<tr>
<td>Government involvement (F1)</td>
<td>14.153</td>
<td>0.906</td>
<td>40.437</td>
<td>Q21, Q25, Q26, Q39, Q30</td>
</tr>
<tr>
<td>Direct participation (F2)</td>
<td>2.250</td>
<td>0.894</td>
<td>6.428</td>
<td>Q2, Q8</td>
</tr>
<tr>
<td>Institutional innovation (F3)</td>
<td>2.080</td>
<td>0.743</td>
<td>5.969</td>
<td>Q34</td>
</tr>
<tr>
<td>Prolocutor (F4)</td>
<td>1.651</td>
<td>0.819</td>
<td>4.718</td>
<td>Q3, Q4</td>
</tr>
<tr>
<td>Government association (F5)</td>
<td>1.293</td>
<td>0.794</td>
<td>3.699</td>
<td>Q3, Q4</td>
</tr>
<tr>
<td>Financial incentive (F6)</td>
<td>1.167</td>
<td>0.772</td>
<td>3.335</td>
<td>Q37</td>
</tr>
</tbody>
</table>

Note: Item 'supporting and participating in activities organized by government (Q31)' did not load highly on any factor (less than 0.5) and was dropped. Loading value of scale item is available from authors.
industries. We expand model (2) to following style:

\[ F_Y = (a_0 + \mu Y) + \beta_1 x_{1Y} + \varepsilon_Y \quad (3) \]

We find that slopes of regression line are different through analysing more industries' data and observing scatter diagram and corresponding regression line. That is to say the aggregation of political strategy across industries indicates not only different mean value but also different political strategy dispersion across industries. We therefore expand our model further (Boyd and Iversen, 1979)

\[ F_Y = (a_0 + \mu Y) + (\beta_1 + \mu_1)x_{1Y} + \varepsilon_Y \]
\[ = (a_0 + \beta_1 x_{1Y}) + (\mu_0 + \mu_1 x_{1Y} + \varepsilon_Y) \quad (4) \]

We expand further our model to apply to circumstances with several independent variables:

\[ F_Y = (a_0 + \sum_{i=1}^{k} \beta_k x_{kY}) + (\mu_0 + \sum_{l=1}^{l} \mu_l x_{lY} + \varepsilon_Y) \quad (5) \]

\( k, l \) indicate the numbers of fixed and random factors respectively and data we used in this study are two-level nested structure (firm- and industry level). We totally investigate 201 firms from eight industries and in order to avoid defects from traditional methods dealing with nested data structure, what we used is not analysis of covariance (ANCOVA) models or least-square dummy variable (LSDV) models but GEEs.

**Results**

**Taxonomy of Chinese firms' political strategy and usage degree**

Factor analysis result is in accordance with the descriptive analysis basically, but Q13, Q14, Q19 and Q20 categorized into original direct participation strategy, Q15 and Q16 sorted out into original prolocutor strategy. Additionally, Q3, Q4, Q22 and Q23 become a new factor called government association strategy. Thus, political strategies in Chinese transition are classified into six types finally (See Table 1).

We categorize the usage of political strategy into three styles, which are 'less (mean-std deviation < 1)', 'middle (1 \leq \text{mean-std deviation} < 2)' and 'more (mean-std deviation \geq 2)'.

1. Government involvement strategy includes nine political tactics. Doing things suitable for political environment (Q24), inviting government officials attending firm's important occasions (Q27), participating in government or industry work meeting frequently (Q28), reporting firm's work to officials (Q29) are regarded more often used, while being a firm that the government has a pride in and relies on (Q21), making the investments which helps to improve government performance (Q25), asking instructions from officials about important issues facing the firm (Q26), visiting the officials regularly (Q30), inviting the government officials to visit the firm regularly (Q39) are regarded moderately used.

2. Direct participation strategy consists of 10 political tactics, in which firms actively seek chances to take part in the process of government policy decision-making. The most used tactics is being the officials of trade associations (Q6). Moderately used tactics include being elected as the committeeman of Communist Party at various levels (Q1), being members of the CPPCC to participate in the political affairs (Q5), assisting government to formulate and implement policies/laws (Q9), putting forward research reports from firm's own angle, to government and industry organization (Q13), putting forward research reports from industry angle, to government and industry organization (Q14), promoting institutional change by finding the shortcoming of existing institutions, and practicing new institution rules representing the direction of government policy and rule change (Q19) and entering into the blank field of institution, causing debate and dis-
cussion about new institution and establishing it finally (Q20). However, being consultants for all levels of governments (Q2) and participating in the formulation of government policies and laws (Q8) are much less used since such chances are very rare.

3. Institutional innovation strategy includes three tactics. Two tactics—disclose rival's unfair competition behaviours to government or public people (Q35) and knowing about the formulation and implementation process of government policy (Q36), are moderately used. However, boycotting unreasonable government policy and laws (Q34) is much less used.

4. Prolocutor strategy includes five political tactics. The most used tactic are finding familiar government officials directly and expecting them to speak for enterprises (Q10), inquiring policies information related to their industry positively from government officials (Q15) and inquiring policies information related to the firm itself positively from government officials (Q16). While finding government officials through the official's family, classmate, friend, and expecting them to speak for enterprises (Q11) and finding the non-government officials who participate in policy making-decision, and expecting them speak for enterprises (Q12) are moderately used.

5. Government association strategy consists of four political tactics. Doing things that the government encourages (Q22) is mostly used. Doing things that the government recommends (Q23) is moderately used. However, being directly the government officials (Q3) and being members of the CPPCC to discuss the political affairs (Q4) are much less used.

6. Financial incentive strategy includes three political tactics. Paying government officials for the business related travelling (Q33) and providing private services to government officials (Q38) are moderately used. However, influencing government officials to obtain favourable policy, loan and contracts through unfair means (Q37) is rarely used.

Regression results of GEEs

Descriptive statistics and correlations

Some descriptive interesting relationships are revealed in Table 2 that warrants discussion. The dependent variables of six types of political strategy are significantly correlated with one another. This should not be surprising because some western literatures (Hillman and Hitt, 1999) posit that firms go through sequential decisions when formulating political strategy. Similarly, the correlation matrix indicates that some independent variables are also significantly correlated with each other. However, Variance inflation factors (VIF) indicate no multi-collinearity problem in our data in that no VIF is greater than 2.5 (Neter et al., 1985). Additionally, all the condition indexes of independent variables are less than 20 which is the critical value leading to multi-collinearity problem (Belsey et al., 1980).

Hypotheses testing and explanations

Table 3 presents the results of regressions used to test hypotheses and is structured with the six dependent variables as columns.

1. Hypothesis 1 supposes that the larger the assets per capital, the more likely it is to take political strategy. In essence, only Hypothesis 1f is supported significantly, which means that the larger per capital assets, the more likely it is to take financial incentive strategy. However, an interesting result that warrants discussion is that the larger the assets per capital, the less likely it is to take government involvement strategy, which is just opposite to Hypothesis 1a. The findings indicate that large firms are more inclined to take financial incentive strategy than government involvement strategy. A valid explanation is that financial incentive strategy will bring firms more obvious and direct payoffs, which lead to firms' preferring financial incentive strategy more strongly. However, government involv-
Table 2. Descriptive statistics and Pearson correlation matrix

| Variables                              | Mean | SD  | 1   | 2   | 3   | 4   | 5   | 6   | 7   | 8   | 9   | 10  | 11  | 12  | 13  | 14  | 15  | 16  |
|----------------------------------------|------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| 1 Government involvement strategy     | 3.18 | 0.86|     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| 2 Direct participation strategy       | 2.57 | 0.83| 0.68|     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| 3 Institutional innovation strategy   | 2.21 | 0.83| 0.51| 0.63|     |     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| 4 Prolocutor strategy                 | 3.90 | 0.75| 0.58| 0.59| 0.48|     |     |     |     |     |     |     |     |     |     |     |     |     |     |
| 5 Government association strategy     | 2.29 | 0.95| 0.67| 0.66| 0.49| 0.46|     |     |     |     |     |     |     |     |     |     |     |     |     |
| 6 Financial incentive strategy        | 2.21 | 0.86| 0.51| 0.47| 0.45| 0.42| 0.43|     |     |     |     |     |     |     |     |     |     |     |     |
| 7 Assets per capita                   | 171  | 0.46| 0.41| 0.31| 0.13| 0.26| 0.18| 0.11|     |     |     |     |     |     |     |     |     |     |     |
| 8 Government procurement              | 1.38 | 0.97| 0.22| 0.15| 0.65| 0.15| 0.17| 0.08| -0.12|     |     |     |     |     |     |     |     |     |     |
| 9 Export share                        | 2.74 | 1.29| 0.11| 0.11| 0.03| -0.02| -0.05| 0.08| 0.06|      |     |     |     |     |     |     |     |     |     |
| 10 Debt-to-assets ratio               | 0.62 | 0.31| 0.03| -0.01| -0.04| -0.06| -0.15| 0.18| 0.21| -0.21| -0.06|     |     |     |     |     |     |     |     |
| 11 Level of diversification           | 3.08 | 2.09| 0.18| 0.07| -0.03| 0.13| 0.11| 0.11| 0.08| 0.12| -0.02| -0.08|     |     |     |     |     |     |     |
| 12 Public department                  | 0.25 | 0.43| 0.17| 0.22| 0.19| 0.09| 0.14| 0.07| 0.15| 0.07| 0.28| 0.04| 0.11|     |     |     |     |     |     |
| 13 Public relations fees              | 2.44 | 1.32| 0.37| 0.38| 0.33| 0.28| 0.24| 0.27| 0.38| 0.1| 0.14| 0.13| 0.11| 0.20|     |     |     |     |     |
| 14 Level of government regulation     | 3.26 | 1.36| 0.28| 0.12| 0.11| 0.07| 0.07| -0.01| 0.24| 0.13| -0.02| -0.09| -0.03| 0.1| 0.17|     |     |     |     |
| 15 Relative market share              | 3.36 | 1.15| 0.01| 0.13| 0.13| 0.12| 0.02| 0.01| 0.02| 0.17| 0.13| 0.22| 0.04| 0.08| 0.11| 0.02|     |     |
| 16 Level of cooperation in industry   | 3.2  | 1.12| 0.14| 0.22| 0.16| 0.12| 0.19| -0.05| 0.34| 0.08| 0.01| 0.03| -0.07| 0.08| 0.13| 0.22| -0.02|     |
| 17 Firm numbers in industry           | 3.46 | 1.01| 0.07| 0.14| 0.14| 0.06| 0.16| 0.21| 0.02| 0.14| -0.02| 0.28| 0.01| 0.02| 0.08| 0.07| -0.03| 0.09|

Note: N = 201 at individual level; N = 8 at the industry level.
*p < 0.1; **p < 0.05; ***p < 0.01.
<table>
<thead>
<tr>
<th>Variables</th>
<th>F1</th>
<th>F2</th>
<th>F3</th>
<th>F4</th>
<th>F5</th>
<th>F6</th>
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<tr>
<td></td>
<td>Model 1</td>
<td>Model 2</td>
<td>Model 3</td>
<td>Model 4</td>
<td>Model 5</td>
<td>Model 6</td>
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<tr>
<td><strong>Estimate of fixed effects</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Firm-level variables</strong></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Intercept</strong></td>
<td>-0.341</td>
<td>-1.539</td>
<td>0.165</td>
<td>-0.924</td>
<td>-0.845</td>
<td>-2.189*</td>
</tr>
<tr>
<td><strong>Per capital assets</strong></td>
<td>0.764</td>
<td>1.104</td>
<td>1.105</td>
<td>0.94</td>
<td>1.559</td>
<td>1.354</td>
</tr>
<tr>
<td><strong>Government procurement</strong></td>
<td>-0.29***</td>
<td>0.048</td>
<td>0.033</td>
<td>0.042</td>
<td>0.015</td>
<td>0.195*</td>
</tr>
<tr>
<td><strong>Export share</strong></td>
<td>0.006</td>
<td>0.008</td>
<td>0.009</td>
<td>0.083</td>
<td>0.013</td>
<td>0.11</td>
</tr>
<tr>
<td><strong>Debt-to-assets ratio</strong></td>
<td>0.157</td>
<td>-0.166</td>
<td>0.091</td>
<td>0.565*</td>
<td>-0.499</td>
<td>0.495</td>
</tr>
<tr>
<td><strong>Level of diversification</strong></td>
<td>0.301</td>
<td>0.427</td>
<td>0.423</td>
<td>0.401</td>
<td>0.685</td>
<td>0.549</td>
</tr>
<tr>
<td><strong>Public department</strong></td>
<td>-0.206**</td>
<td>-0.026</td>
<td>-0.014</td>
<td>-0.039</td>
<td>-0.159</td>
<td>0.302*</td>
</tr>
<tr>
<td><strong>Public relation fee</strong></td>
<td>0.09</td>
<td>0.146</td>
<td>0.145</td>
<td>0.112</td>
<td>0.195</td>
<td>0.167</td>
</tr>
<tr>
<td><strong>Industry-level variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Level of government regulation</strong></td>
<td>0.415***</td>
<td>-0.097</td>
<td>-0.110</td>
<td>-0.089</td>
<td>-0.011</td>
<td>-0.109</td>
</tr>
<tr>
<td><strong>Relative market share</strong></td>
<td>0.067</td>
<td>0.103</td>
<td>0.104</td>
<td>0.085</td>
<td>0.159</td>
<td>0.15</td>
</tr>
<tr>
<td><strong>Level of cooperation in industry</strong></td>
<td>0.08</td>
<td>0.108</td>
<td>0.349*</td>
<td>-0.043</td>
<td>0.304</td>
<td>0.017</td>
</tr>
<tr>
<td><strong>Level of cooperation in industry</strong></td>
<td>0.11</td>
<td>0.172</td>
<td>0.169</td>
<td>0.139</td>
<td>0.235</td>
<td>0.203</td>
</tr>
<tr>
<td><strong>Firm quantities in industry</strong></td>
<td>-0.113</td>
<td>0.162</td>
<td>-0.176</td>
<td>0.052</td>
<td>0.321*</td>
<td>-0.0004</td>
</tr>
<tr>
<td><strong>Firm quantities in industry</strong></td>
<td>0.102</td>
<td>0.147</td>
<td>0.151</td>
<td>0.138</td>
<td>0.22</td>
<td>0.19</td>
</tr>
<tr>
<td><strong>Firm quantities in industry</strong></td>
<td>0.338***</td>
<td>0.396**</td>
<td>0.06</td>
<td>-0.072</td>
<td>-0.108</td>
<td>0.214</td>
</tr>
<tr>
<td><strong>Firm quantities in industry</strong></td>
<td>0.1</td>
<td>0.168</td>
<td>0.17</td>
<td>0.13</td>
<td>0.24</td>
<td>0.201</td>
</tr>
<tr>
<td><strong>Estimate of random effects</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Residual</strong></td>
<td>0.225***</td>
<td>0.661***</td>
<td>0.62***</td>
<td>0.356***</td>
<td>1.083***</td>
<td>0.828**</td>
</tr>
<tr>
<td><strong>Intercept (subject = industry)</strong></td>
<td>0.085</td>
<td>0.204</td>
<td>0.213</td>
<td>0.122</td>
<td>0.342</td>
<td>0.337</td>
</tr>
<tr>
<td><strong>Relative market share (subject = industry)</strong></td>
<td>0.359*</td>
<td>0.774</td>
<td>0.258</td>
<td>0.274**</td>
<td>0.921</td>
<td>0.043*</td>
</tr>
<tr>
<td><strong>Level of cooperation in industry (subject = industry)</strong></td>
<td>0.314</td>
<td>0.210</td>
<td>0.147</td>
<td>1.695</td>
<td>0.093</td>
<td>0.387</td>
</tr>
<tr>
<td><strong>Level of cooperation in industry (subject = industry)</strong></td>
<td>0.009</td>
<td>0.562</td>
<td>0.921</td>
<td>0.008</td>
<td>0.006*</td>
<td>0.057</td>
</tr>
<tr>
<td><strong>Firm quantities in industry (subject = industry)</strong></td>
<td>0.078</td>
<td>0.317</td>
<td>0.196</td>
<td>0.019</td>
<td>0.117</td>
<td>0.107</td>
</tr>
<tr>
<td><strong>Level of cooperation in industry (subject = industry)</strong></td>
<td>0.147</td>
<td>0.151</td>
<td>0.334</td>
<td>0.019*</td>
<td>0.054</td>
<td>0.189</td>
</tr>
<tr>
<td><strong>Firm quantities in industry (subject = industry)</strong></td>
<td>0.190</td>
<td>0.209</td>
<td>0.227</td>
<td>0.025</td>
<td>0.107</td>
<td>0.074</td>
</tr>
<tr>
<td><strong>The level of government regulation (subject = industry)</strong></td>
<td>0.028***</td>
<td>0.023</td>
<td>0.007</td>
<td>0.037</td>
<td>0.031</td>
<td>0.008</td>
</tr>
<tr>
<td><strong>The level of government regulation (subject = industry)</strong></td>
<td>0.016</td>
<td>0.094</td>
<td>0.064</td>
<td>0.289</td>
<td>0.364</td>
<td>0.063</td>
</tr>
<tr>
<td><strong>The level of government regulation (subject = industry)</strong></td>
<td>0.037</td>
<td>0.357</td>
<td>0.279</td>
<td>0.247</td>
<td>0.009</td>
<td>0.031*</td>
</tr>
<tr>
<td><strong>–2 restricted log likelihood</strong></td>
<td>90.19</td>
<td>103.804</td>
<td>104.306</td>
<td>100.685</td>
<td>119.563</td>
<td>113.651</td>
</tr>
<tr>
<td><strong>Akaike’s information criterion (AIC)</strong></td>
<td>102.19</td>
<td>115.804</td>
<td>116.306</td>
<td>112.685</td>
<td>131.563</td>
<td>125.651</td>
</tr>
</tbody>
</table>

**Note**: Values are regression coefficients and standard errors are in parentheses. \( N = 201 \) at individual level; \( N = 8 \) at the industry level.

\(^*\) We multiplied this variable by 10^3 in order to show its numerical value.

\(^p < 0.1; **p < 0.05; ***p < 0.01.\)
Political strategy in Chinese transition

A movement strategy would not influence government decision-making process and improve firm's performance further, which causes negative correlation between them. However, from a more far-sighted perspective, firms should also attach more importance to use political strategies to gain sustainable competitive advantages through influencing government's long decision-making process when they pay much attention to the short-term performance.

2. Hypothesis 2 assumes that the higher the proportion of government procurement of its total revenues, the more likely it is to take political strategy. The findings only support Hypothesis 2d that is the higher the government procurement, the more likely it is to take prolocutor strategy. As to prolocutor strategy, the consisting political tactics are almost the same between firms in China and in the West. The difference only lies in that political agencies are well developed in the west, and enterprises can hire professional lobbyists to act as procurators and lobby for them. While in China, the political agencies are under-developed. There are even no political agencies openly run in China, but there are still phenomena that some firms use other organization's help to apply for governmental projects or build relations with government officials. The response from managers in our interviews indicates that some offices of enterprises stationed in Beijing and capitals of provinces may evolve into quasi-political agencies. Therefore, to some extent, some of Chinese firms do their best to gain government contracts not only for the purpose of improving the performance, but also in order to gain access to policy makers, which is in accordance to Schuler et al.'s (2002) view basically. Thus, those firms having higher proportion of government procurement of its total revenues are more likely to take prolocutor strategy.

3. Hypothesis 3 implies that the higher firm's export shares, the more likely it is to take political strategy. Just as Hypothesis 1, only Hypothesis 3f is supported significantly, which means that the higher firm's export shares, the more likely it is to take financial incentive strategy to influence government's trade policy and obtain direct payoffs.

4. Hypothesis 4 assumes that debt-to-asset ratio is strongly related to political strategy choices. The findings suggest that negative correlation exists significantly between the debt-to-asset ratio and government association strategy (Hypothesis 4e), which is in line with some western scholar's views (Schuler, 1996; Schuler and Rehbein, 1997; Schuler et al., 2002). They posit that the less slack assets the firms possess, the more likely it is to participate in political activities, because political activities is a valid way to gain resources. Results indicate that the less the debt-to-asset ratio, the more likely it is to take government association strategy to obtain resources.

5. Hypothesis 5 suggests that the higher the level of firm's diversification, the more likely it is to take political strategy. As a matter of fact, only Hypothesis 5f is supported significantly, which mean that the higher the level of firm's diversification, the more likely it is to take financial incentive strategy. However, results imply that Hypothesis 5a is just the opposite of our expectation. That is to say that the higher the level of firm's diversification, the less likely it is to take government involvement strategy. The findings indicates that in China, the phenomenon of firms' integrating non-market strategy and market strategy, which was expected by Baron (1955, 1995), rarely takes place or the level of their integration is low.

6. Hypothesis 6 argues that whether setting up the formal public issue department or not is related to their political strategy choice. Results indicate that firms with formal public issue department are more likely to take government involvement strategy (Hypothesis 6a) and institutional innovation strategy (Hypothesis 6c), which is in line with some scholars' views (Brennan, 1980; Baysinger et al., 1985) and Chinese environmental actuality. In order to accomplish such
political goals as the revision of government policy and industry standard, expansion of industry market capacity, change of the price and quality standard, barriers to limit or decrease the rivals, and admission required to certain markets, Chinese firms always take government involvement strategy and institutional innovation strategy to influence government decision-making process, which can promote political competitive advantage and capability. In the process of our investigation, top managers often mentioned that the key of corporate political activity is to have a creditable relationship with government department or official, which is the source to gain a sustainable competitive advantage.

7. Hypothesis 7 supposes that the more public relation fees firm invests, the more likely it is to take political strategy. Result suggests that firm's public relation fee has significant positive effects on government association strategy (Hypothesis 7c) and negative effects on financial incentive strategy (Hypothesis 7f), which we think, is in close accordance with the resources based views (Barney, 1991; Boddevyn and Brewer, 1994). Because financial incentive strategy can be imitated easily and thus, it is very difficult to obtain a sustaining competitive advantage and economic benefits in political area. However, government association strategy cannot be imitated with so ease and firms therefore have more opportunities influencing government's decision-making process to obtain a sustaining competitive advantage.

8. According to estimate of fixed effects and hypotheses test results of industry-level variables, Hypothesis 9Aa is supported significantly and it indicates that the higher the level of government regulation, the more likely it is to take government involvement strategy. Hypothesis 10A assumes that the more relative market share a firm occupies in its industry, the more likely it is to take political strategy. However, results indicate that only Hypothesis 10Ac is supported significantly and it means that the more relative market share a firm occupies, the more likely it is to take institutional innovation strategy. Hypothesis 11A assumes that the higher level of cooperation firm faces in its industry, the more likely it is to take political strategy. Results suggest that only Hypothesis 11Ab and Hypothesis 11Ad are supported significantly and indicate that the higher the levels of cooperation firm faces in its industry, the more likely it is to take direct participation strategy and procurator strategy.

The structural conditions of an industry may influence a firm's choice of political strategies for two reasons (Schuler, 2002). Firstly, firms must gain access in order to begin pursuing the benefits associated with favourable political decisions. Since the political payoffs are higher for firms in a more concentrated industry, these firms should have more of an incentive to initiate the process and try to gain access to policy makers. Secondly, firms in more concentrated industries are more likely to succeed in gaining access to legislators. Concentration allows an industry to present a more unified political voice. Hypothesis 10A and Hypothesis 11A support above views significantly in part and only Hypothesis 12A is just opposite to our expectation, which indicate that the more firms in an industry, the more likely a firm is to take government involvement strategy (Hypothesis 12Aa) and direct participation strategy (Hypothesis 12Ab). A valid explanation is that despite of there are many firms in an industry, the level of cooperation among firms is high. We can take enterprises' clustering phenomenon occurring in Chinese Jianshu and Zhejiang province as a good example, though firms compete fiercely with each other in the product markets, they still try to present a unified political voice, such as to set up industry associations, to influence the issue of government laws, as well as trade polity, and thus to obtain political competitive advantage.

9. Hypothesis 8 (Hypothesis 8) supposes that there are significant differences of political strategy choice across industries. Research
result indicates that government involvement strategy (Hypothesis 8a), prolocutor strategy (Hypothesis 8d) and financial incentive strategy (Hypothesis 8f) have significant differences across industries. According to estimate of random effects and hypotheses test results, we can conclude that level of regulation has strong effects on the variance of financial incentive strategy choice across industries (Hypothesis 9Bd), relative market share (Hypothesis 10Bd) and levels of cooperation in a firm’s industry (Hypothesis 11Bd) have significant effects on the variance of prolocutor strategy choice across industries, firm’s quantities in its industry have strong influences on the variance of government involvement strategy choice across industries (Hypothesis 12Ba).

Conclusions and implications

Conclusion and discussion

In our study, we examine the taxonomy of firms’ political strategy in Chinese transition, and then analyse empirically the determinants of firms’ political strategies through GEEs. We figured out some main conclusions warranting attention as follows: (1) The taxonomy of CPS in China are direct participation strategy, financial incentive strategy, prolocutor strategy, institution innovation strategy, government association strategy and government involvement strategy; (2) at the firm level, firm size, slack assets and diversification level, etc., are significantly associated to political strategy choice; (3) at the industry level, industry regulated level, relative market share and cooperation level, etc., are significantly linked to political strategy usage; (4) government involvement strategy, prolocutor strategy and financial incentive strategy have significant difference across industries; (5) level of regulation has strong effects on the variance of financial incentive strategy choice, relative market share and levels of cooperation have significant effects on the variance of prolocutor strategy and firm’s quantity has strong influences on the variance of government involvement strategy across industries.

To sum up, our study makes three main theory contributions. First, we have identified the taxonomy of firms’ political strategy in Chinese transition; secondly, we have figured out the specific firm- and industry-level factors influencing firms’ political strategy choice; thirdly, our study, basically, tests resource-based views and indicates that firms’ political strategy choice should keep fit with their resources bases.

Implications and limitations

China is in transition. Though governments’ intervention role into firms’ business affairs has already been weakened, there are still certain gaps in such respects as the market development, regulations and rules in contrast to the ripe market economic environment in the West. Government still intervenes into enterprises in many aspects, which indicates the importance of the influence of CPS on political benefits, when enterprises maintain the relationship with the government and influence government policy-making process further. Our research has certain implications for practicing managers:

1. A firm should combine the political strategies to influence government policy-making process. To shape a favourable external environment, firms should implement political strategies jointly, and only one single strategy may not usually work. From a far-sighted perspective, firms should not only attach importance to use financial incentive strategies to gain direct benefits, but also implement such political strategies as government involvement to gain sustainable competitive advantages through influencing government’s long policy-making process.

2. A firm should enhance the level of integrating political strategy and market strategy. Though many researches have indicated political strategy could lead to firms’ good performance, firms finally have to come back to market and face the market competition. Actually, the purpose of firms' implementing political strategy is to shape
a good environment for their market strategy and enhance firms' competitive position in an industry. Therefore, how to integrate political strategy and market strategy and set up a strategic integration plan has become an urgent thing for Chinese firms to improve the level of their strategy management.

3. Firms, especially the medium and small-sized ones, should reckon on such political agencies as industry associations to implement political strategy. Through such political agencies as industry associations, firms can present a unified political voice to influence the issue of government policies and laws, and thus to obtain political competitive advantage. And what’s more, industry association can weaken the medium and small-sized firms' motivation to adopt the free-riding position, which will urge big firms engaging in political activities actively, and then shape a good industrial environment as well as promote the development of the whole industry.

4. Firms should invest political resources actively. RBV implies political resource is a key factor influencing political strategic choice. For example setting up the public relation department can enhance the more structure and more formalized relationships with government, or institutionalize political strategies and actions within a firm. In fact, public relation department can be viewed as a political resource and firms can have more talented persons and skills to tackle key business-government problems through setting up the public relation department.

To sum up, our study provides practicing managers with a useful framework for political strategy decision-making, which is external opportunity-resource-strategy-action-performance model. Firstly, firms should analyse their external environment. Industry-level variables' mattering to political strategy choice implies that managers should make corresponding strategic decisions based on different industrial environment. Because the benefits from political strategy have the characteristic of public goods, firms, especially the small and medium-sized firms, are likely to adopt the free-riding position of not engaging in political activities. Our study indicates that based on such variables as the level of industry’s regulation, relative market share, level of cooperation and industry's firm quantities, a firm can evaluate other firms' collective action problem and their political activeness.

Secondly, firms should analyse their competitors' resource characteristics. A firm can anticipate its competitors' political strategic choice as well as its next actions through analysing their resource characteristics, and then adjust its own political strategy choice dynamically. Therefore, to a certain level, analysing firms' political strategies and actions can be a very valid competitive tool.

Thirdly, a firm should analyse its own resource characteristics. A firm should analyse its own resource feature firstly, and then decide to take such strategies as financial incentive etc. which can bring firm's direct benefits, but can be imitated with ease by competitors; or choose those strategies such as government involvement strategies etc. which cannot be imitated easily by competitors, can lead to firm's sustainable advantages, but cannot bring firm's obvious benefits in a short term; or take some political strategies jointly, which not only bring firm's short-term benefits, also the sustainable advantages.

Finally, according to political strategy that has been chosen, firms decide specific strategic tactics and obtain political benefits.

Though, our study provides management theory and practice with many important conclusions and implications, the study has some limitations undoubtedly. First, future study should be extended to a larger geographic area, because we only chose firms from Hubei, Henan, Guangdong province, etc., as our sample, which may be biased by regional limitation. Besides, we only use five-point scale to identify what determines firm's political strategy choice, which may also have weakened the power of our statistical tests. Secondly, although we use RBV as the theoretical foundation for our firm-level predictions, our
firm-level measures do not necessarily reflect more intangible firm resources that may affect the choice of political strategies. And what's more, they come from those most prominently suggested by previous literature and entail proxies representing more tangible resources. Further research should focus on identifying and measuring more intangible firm resources linked to CPS choices.

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References


