Environmental and Organizational Influences on Political Strategies of Chinese Private Ventures: 
A Conceptual Framework

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ABSTRACT

Given the increasingly important role of private businesses in Chinese national economy, and significant influences of government policies on the development of private firms in transitional economy, knowledge about political strategies of Chinese private firms becomes necessary and imperative. This paper is aiming to enrich the research stream of political strategy by building a theoretical framework for understanding Chinese private firms’ political strategies. Built upon the resource-dependence theory, institutional theory and social network perspective, our work explains how environmental and organizational factors influence the likelihood of Chinese private firms engaging in political strategies in China’s transitional economy.

INTRODUCTION

Scholars have long recognized the importance of political strategies in affecting firm behavior and performance (e.g., Hillman & Hitt, 1999; Hillman, Zardkoohi & Bierman, 1999; Keim & Zeithaml, 1986; Schuler, 1999). Because government policies have significant effects on competitive environment of firms, companies may employ various political strategies (such as lobbying, advocacy advertising, political campaign contribution, etc.) to create a favorable external environment and to gain competitive advantages over their rivals (Baron, 1999; Hillman & Hitt, 1999; Getz 1993). Current research on corporate political strategy, however, is largely conducted in western companies (especially multinational corporations) and has paid less attention to firms in a transitional economy such as China. Even less known are political strategies of private firms in Chinese economy. Given the increasingly important role of private businesses in Chinese national economy, and significant influences of government policies on the development of private firms in transitional economy, knowledge about political strategies of Chinese private firms becomes necessary and imperative.

This paper is aiming to enrich the research stream of political strategy by building a theoretical framework for understanding Chinese private firms’ political strategies. Built upon the resource-dependence theory, institutional theory and social network perspective, our work explains how environmental and organizational factors influence the likelihood of Chinese private firms engaging in political strategies in China’s transitional economy. Since China differs from Western countries in political, societal and cultural systems we also hope this paper provides a chance for us to test developed theories and/or to develop new paradigms for an interesting managerial phenomenon (Peng and Heath, 1996).
THEORY AND PROPOSITIONS

Government business policies affect firms’ competitive advantages significantly (Keim & Baysinger, 1988). Government has the ability to do so because it can influence the opportunity sets faced by the firms and affect their competitive environment through regulations and government policies (Hillman, Zardkoohi and Bierman, 1999, Hillman & Hitt, 1999). Acts of government create individual winners and losers in the marketplace (Leone, 1986). Because of the significance of government intervention, firms compete in their market environment and also in their non-market environment (Baron, 1999). By initiating and/or participating political actions, firms create favorable environment for their market competition, therefore gaining economics rents or sustain their competitive advantages which they cannot achieve elsewhere (Gale & Buchholz, 1987).

China’s private sector has proliferated in recent years, reaching to a momentum of 50% contribution of the whole nation’s economy by 2005. These private businesses, formerly declared illegal and banned in central planned economy, only obtained “legal status” in recent years when Chinese government set out constitutional guarantees and policy incentives to protect the property of private entrepreneurs (Zhao, 2006). Despite their rapid growth and its increasing importance to the national economy, due to traditional ideology and less-developed institutional environment, Chinese private enterprises still face lots of challenges and pressures from its environment, especially when they start to tap into industries once dominated by state-owned enterprises. For example, private firms often find them difficult to obtain financings from state-owned bankers, according to the China Daily report, only 10% of total bank lending goes to domestic private businesses.

Due to these contextual characteristics, Chinese private firms are severally constrained by its macro and micro-environment. Private entrepreneurs have long been struggling for the legitimacy for their firms and their own (Tsang, 1997). Related to this, Chinese private ventures often find it difficult to compete with state-owned counterparts in obtaining necessary resources for growth. Thirdly, independent private businesses typically do not have government sponsorships or endorsements like town-ship firms, state-owned enterprises, or even Sino-foreign joint ventures therefore they do not have informational or policy advantages over their competitors.

One way for private firms to cope with these difficulties is to deploy political strategies. For example, political strategies include but not limited to: getting acquainted and building relationships with government officials, inviting government officials to visit factories, contributing to local social welfare campaigns, or directly participating in associations/agencies affiliated with governments. While the focus of this paper is not investigating these detailed tactics, we are interested in how environmental and organizational factors may influence the likelihood of a Chinese private firm to engage political strategies.

We build our theory upon institutional theory, resource dependence theory and social network perspective. The model suggests that (1) the environmental and organizational elements important affect the firm’s willingness and ability to formulate and implement political strategies; (2) the relationships between environment and political strategies are moderated by political resources possessed by the firm.

Environmental Influence on Political Strategies

Strategy scholars has long emphasized that the “fit” between strategy and its external environment (e.g., Anderson and Zeithaml, 1984; Prescott, 1986; Sheng, Zhou and Li, 2011). The environment-strategy co-alignment means that the firm’s strategic resource needs to be deployed to the specific requirements of its environmental context (Venkatraman & Prescott, 1990). Although this argument
focus only on market strategy, applying it to the non-market arena is appropriate. The basic premise of
our study, from this perspective, is that environmental complexity, dynamism and hostility facing private
firms influence managers’ perceptions of competitive pressure, which in turn influence the firm’s
likelihood to adopt political strategies. In this study we adopt Aldrich (1979)’s conceptual dimensions of
organizational environment to develop our propositions. We analyzed three environmental dimensions (1)
hostility; (2) dynamism; and (3) complexity and link them to firm’s propensity to take political strategies.

Environmental Hostility. Due to its weak regulatory regime, underdeveloped factor market,
widespread dysfunctional competition, and poorly protected property rights, Chinese transitional
economy has been characterized as a hostile environment for entrepreneurial firms (Lukas, Tan & Hult
2001; Luo, Huang and Wang 2012). The environment is even more hostile to independent private firms.
As mentioned above, Chinese private firms suffer from low level of legitimacy, and are usually found
them in disadvantageous positions as competing against state-owned counterparties for important
resources such as financial capital and/or government preferred policies. Hence formulating and utilizing
certain types of political strategies may greatly help the firms cope with this hostile environment. We
expect that,

Proposition 1: Environmental hostility of Chinese transitional economy is positively related with political
strategies of private firms.

Environmental Dynamism. Another important characteristic of Chinese transitional economy is
dynamism. The market-oriented reform initiated in late 1970s has significantly changed both the
competitive and the institutional sectors of market (Nee, 1992). Entry of foreign investments has also
intensified competition and speeded up technological change. Market-oriented reforms constantly
modified the regulatory environment of private businesses and sometimes can be very unpredictable (Tan
1996). Facing such a dynamic environment, using political strategies will help private firms grasp the
opportunities as well as alleviate threats arising from this fast-changing environment. We expect that,

Proposition 2: Environmental dynamism of Chinese transitional economy is positively related with
political strategies of private firms.

Environmental Complexity. Environment complexity refers to the diversity of environmental
segments and the heterogeneity within each segment (Venkatraman and Prescott, 1990). China’s
heterogeneous markets structure, unequal developments of regional economies, practices of local
protectionism, has made a very complex environment for private firms to grow. To alleviate negative
impacts from this complexity and to strive for strategic competitiveness, firms have to have accurate
evaluation of the environment (including economic, institutional, as well as social-cultural segments).
Political strategies then help the firm gain more information from external constitutes and through these
practices the firm can build up tacit knowledge of its market as well as general competitive environment.
Hence we expect:

Proposition 3: Environmental complexity in Chinese transitional economy is positively related with
political strategies of private firms.

Organizational Influence on Political Strategies

Resource based view argues that a firm’s competitive position is defined by a bundle of unique
resources and relationships (Rumelt, 1984). What a firm possesses would determine what it accomplishes
(Das and Teng, 2000; Fowler and Reisenwitz, 2014). In order to implement political strategies, several
important resources for example, financial resources, social network resources are needed. Furthermore,
firms actively seek to get needed resources to keep their competitive advantages. Linking to the literature
of political strategies, Schuler & Rehbein (1995) suggest that organizational resources play as a “filter” of an enterprise, influencing its ability and the willing of participating political actions. In this article we consider political resources possessed by a firm importantly influence the likelihood of its political strategies.

Political resources are the portfolios of various resource elements that can be used in political activities to influence the government decision-making, and thus to realize firms’ special political objectives (Boddewyn and Brewer, 1994; Jun and Si, 2010). In the context of Chinese private business, personal (such as personal connection with government officials), organizational (such as financial resources, firm reputation etc.), and relational resources (such as membership of private business association) would enables a firm to formulate and implement their political strategies. Studies have shown that Chinese private firms vary significantly in their endowment of political resources (Wei, 2006). We expect that private firms with strong endowment of political resources will tend to take more political strategies. Also we expect political resources positively moderate the relationships between environmental factors and the likelihood of political strategies. This is because by having more political resources, private firms would have more chances to utilize their strategies and have more chance to seek its own competitive advantages through its relationships with governments, so that they would participate more in political strategies.

**Proposition 4:** Political resources of Chinese private firms are positively related with their political strategies.

**Proposition 5:** Political resources of Chinese private firms positively moderate the relationships between environmental hostility, dynamism, complexity and firms’ political strategies.

**SIGNIFICANCE OF THE STUDY**

In this research, we explore environmental and organizational factors that affect the likelihood of political strategies taken by Chinese private firms. This research enriches current literature of political strategies by extending attention to an important yet largely ignored research area – Chinese private firms. The study furthers our understanding of competitive environment of Chinese private firms and both business and non-business strategies taken by these firms. This paper has important implications for managers and policy makers as well.

**REFERENCES**


