Exploring Corporate Political Activity (CPA) in China

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Abstract. This paper focuses on the utilization of corporate political activity (CPA), which is an important cultural and social element in China, and the impact of CPA on firm performance. This research proposes that corporate political activity (CPA), in the forms of lobbying, co-optation and China-specific political connections, increases a firm’s political influence, and hence secures firms’ legitimacy in regulatory aspects. CPA is positively related to firm performance, including reduced uncertainty, reduced transaction costs and increased long-term sustainability.

Introduction

Corporate political action (CPA) is always an interesting topic for management scholars since 1980s. CPA has been recognized as a source of sustainable competitive advantage. The underlying rationale for CPA is to improve the fortunes of the firm (North, 1990; Hillman and Hitt, 1999; Schuler et al., 2002b). In other words, it is intended to provide firms with access to the corridors of political power, reduce uncertainty (Hillman and Hitt, 1999), and subsequently empower firms with the ability to influence their competitive space (McWilliams et al., 2002; Capron and Chatain, 2008). Based on the previous studies, this paper proposes how CPA affects corporate performance.

Firms’ Legitimacy and Corporate Political Activity

Corporate political activity (CPA) is broadly defined as firms’ efforts to influence or manage political entities (Hillman, Keim, & Schuler, 2004). CPA is a form of nonmarket strategies, which are typically considered the firm’s efforts to manage the institutional or societal context of economic competition (Boddewyn, 2003). Like investments in certain market strategies (e.g., branding or positioning), nonmarket strategy, CPA, is considered attractive when the benefits from obtaining beneficial policy outweigh the costs (Mitchell, Agle, & Wood, 1997).

There are different forms of CPA across countries, e.g., lobbying, co-optation, campaign contributions, executive testimony before legislators and regulators, operating a government relations office, and contributing to industry and trade political action committees (PACs) are all considered forms of CPA in the United States (Lux, Crook, & Woehr, 2011). Lobbying describes organizations' attempts to mobilize external institutional actors as advocates of their own interests (Reihlen, Smets, & Veit, 2010). Corporate lobbying is defined as “the informal exchange of information with public authorities” and “trying informally to influence public authorities” (Harris & Lock, 1996). It can be used to reduce constraints on the lobbying organization or to increase institutional pressure on its competitors (Oliver, 1991). Co-optation indicates a strategy of winning over powerful institutional constituents by incorporating them into the organization. For example, an organization may attempt to persuade an institutional constituent, i.e., politicians, trade union representatives, or investors, to join the organization or its board of directors (Oliver, 1991). First, co-optation can actively reduce external institutional constraints and enhance a firm’s legitimacy (Reihlen et al., 2010). Second, co-opting politicians can improve conditions for lobbying legislative bodies, and enable firm to have better access to information about profitable government contracts (Bresser & Millonig, 2003).

When it comes to corporate political activities (CPA), it is inseparable from guanxi. Chinese
culture is also called Confucianism, under the influence of Confucianism culture, the legal system of China is relative weak while guanxi between individuals is very strong. Politics is thought of the business of politicians and has nothing to do with the people. Guanxi, which is an important cultural and social element in China, and the impact of guanxi on firm performance. Guanxi has been the lifeblood of personal relationships and business conduct in Chinese society (Xin and Pearce, 1996). Chinese firms develop guanxi as a strategic mechanism to overcome competitive and resource disadvantages by cooperating and exchanging favors with competitive forces and government authorities. Previous studies show that guanxi affects financial outcomes (Luo and Chen, 1996), market benefits (Davies et al., 1995), and competitive advantages (Tsang, 1998).

In China, the most common corporate political activities (CPA) involve building, maintaining and enhancing political connections between firms and the government, also called political ties. Such political connections are not limited to government-owned firms; some private firms may also have CEOs and/or directors with strong political backgrounds (Wang & Qian, 2011). For Chinese firms, a good relationship with the government is often instrumental for gaining institutional support (Peng & Luo, 2000; Xin & Pearce, 1996), crucial access to policy and aggregate industrial information (Hillman & Zardkoohi, 1999), as well as critical resources such as bank loans, land, subsidies, and tax breaks (Bai, Lu, & Tao, 2006; Faccio, 2006). Political connections can also improve a firm’s political legitimacy, which is the extent to which government officials or agencies assume that the focal firm’s actions are desirable and proper (Suchman 1995). Thus, companies without political connections have a strong incentive to cultivate them, in order to gain access to factors and capital resources critical to firm growth (Nee, 1992).

Based on reviewing the benefits of CPA in the form of lobbying, co-optation and China-specific political connections, we may conclude that CPA is an important antecedent of firm’s political influence, and hence secures firms’ legitimacy and performance. This is consistent with previous findings in different research contexts. It is found that, in emerging markets that are dominated by nonmarket forces, there is a positive relationship between the level of an MNE’s embeddedness in domestic political institution networks and its host-country market performance (Sun, Mellahi, & Thun, 2010). The results of a meta-analysis by Lux et al. (2011) also confirm that CPA is an important determinant of firm performance. Therefore, this research proposes that

Proposition 1: Corporate political activity (CPA), in the forms of lobbying, co-optation and China-specific political connections, increases a firm’s political influence, and hence secures firms’ legitimacy in regulatory aspects.

Uncertainty and Corporate Political Activity

We focus on two sources of regulatory uncertainty: governmental intervention and undeveloped legal system. Governmental intervention in business activities is not uncommon in China. Central and local governments often exert direct and indirect influence by implementing policies related to economic activities. For example, local bureaucrats may impose taxes, force firms to discontinue selling certain products or even require companies to exit lines of business altogether (Child & Tse, 2001). Thus, regulatory institution creates great uncertainties for firms and forces firms to create deep reservoirs of external support for their practices and institutional presence, supports that often rely on government guanxi, or positive personal relationships between top managers and local government leaders (Farh, Zhong, & Organ, 2004). When the regulatory context is mainly uncertain in nature, it follows that actors who are targets of regulation may also try to influence regulatory agents directly by entering into exchange relationships with the regulators. Hence, if the uncertainty in the regulatory sector of the task environment cannot be absorbed by coalition behavior, marketing channel dyads tend to establish closer linkages with the regulatory agents (Achrol, Reve, & Stern, 1983). Institutional stakeholders, especially the government, may provide important “political resources” (Boddewyn & Brewer, 1994) and “institutional capital” (Oliver, 1997) for firms in such an unstable environment. Corporate political activity (CPA), as a key antecedent of institutional capital, enables firms to gain political legitimacy (Peng, Wang, & Jiang, 2008). In
China, Peng and Luo (2000) find that regulatory capital appears to be more important than ties with other managers in terms of their impact on firm performance.

Meanwhile, the less developed legal systems do not provide consistent and sufficient support for channel members in many markets in China and hence create uncertainty for firms. It is found in China that less-developed areas generally have weaker legal systems, poorer legal services, and lower enforceability, in which the local governments are more likely to interfere with companies’ operations (Luo and Tung 2007). In such situations, political influence, in the form of corporate political activity and organizational ownership, plays a vital role. In Chinese legal institutions which lack predictability and can be influenced by managerial interference, firms with weak political influence are likely to be at a disadvantage. As a result, firms with fewer corporate political activities and inferior organizational ownership are subjected to a lower level of legal enforceability. Therefore, this research proposes that

Proposition 2: Corporate political activity (CPA) can reduce environmental uncertainty, the lower the degree of marketization, the more the corporate political activities can reduce uncertainty.

Conclusion

It’s confirmed that corporate political activity (CPA) is positively related to firm performance and is an important determinant of firm performance (Lux et al., 2011). It can say that organizations engage in CPA primarily to create corporate profits. A variety of political behavior can be used to accomplish the firm’s overall objective of dealing with political issues. These include business–government relations, corruption, political inducements and contributions and overt lobbying (De Figueiredo and Tiller 2001). That is to say CPA has a positive impact on firm performance, mainly through the influence of institutional capital. CPA strengthen political connections, increases a firm’s political influence, and hence secures firms’ legitimacy in regulatory aspects. Outcomes vary from context to context, including reducing environmental uncertainty, reducing transaction costs and increasing long-term sustainability and meanwhile institutional differences impact the CPA-firm performance relationship, the lower the degree of marketization, the greater the impact of corporate political activities on firm performance.

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References


