

Dissertation

Chinese Firms' Corporate Political Capabilities in Overseas Markets

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Multinational enterprise managers increasingly face the challenge of maintaining their firms' international operations under geopolitical uncertainty. In response, MNEs need to build firm-specific organisational capabilities to address geopolitical challenges and manage the conflicting interests between the host and home countries. While corporate political capabilities can vary at the country level, firms differ in their relationships with the home-country government. In my dissertation research, I investigated the role of the home-country government in shaping firms' corporate political capabilities in overseas markets. This research provides new frameworks and tools for international business practitioners to manage business-government relations at home and abroad.

BIG QUESTION

How do firms build political capabilities in overseas markets?

INTRODUCTION

Managers of multinational enterprises (MNEs) increasingly encounter the challenge of maintaining their firms' international operations in a world of rising geopolitical uncertainty. Moreover, MNEs face an institutional duality – conflicting economic and political interests between the host and home country governments. Particularly, managers find themselves in the crosshairs of geopolitical conflicts as their firms' closeness with the home-country government can be perceived as a threat of causing national security concerns in the eyes of the host-country government.

In recent years, Western governments have been concerned that letting Chinese firms operate in their countries may jeopardise national security. These political concerns have severely affected Chinese firms' overseas operations and interrupted global supply chains. For example, Huawei and ZTE's 5G products and services are banned in major Western countries, including the US and UK. Furthermore, during the US-China trade and technology war, hundreds of Chinese firms have been added to the US entity list with restricted access to US technology and markets.

To address these political challenges, MNEs need to build firm-specific organisational capabilities to manage political risks and navigate the policy-making process (Fry-

nas, Mellahi, & Pigman, 2006; Holburn & Zelner, 2010). These political capabilities can help managers formulate corporate political strategies (e.g., actively engaging and passively reacting) and conduct corporate political activities (e.g., lobbying, community building, and public engagement). Compared to the extensive literature on the drivers of corporate political activities (Hillman, Keim, & Schuler, 2004; Lux, Crook, & Woehr, 2011), less is known about what triggers firms to develop different organisational capabilities to manage business-government relations, particularly in overseas markets.

Holburn and Zelner (2010) conducted a pioneering study examining country-level variations in corporate political capabilities. They argue that the heterogeneity of firms' political capabilities is shaped by the home country's political environment. However, this country-level argument of corporate political capabilities may overlook the variations within a single home country. Firms can develop different relationships with their home government and, subsequently, handle government relations in different ways.

Another stream of research argues that firms can learn from their prior internationalisation experience and accumulate knowledge and skills to overcome political challenges in different institutional environments (Delios & Henisz, 2003; Zhou & Guillén, 2015). Yet, in-depth research needs to explore and explain the varied experiences that firms have accumulated from similar internationalisation paths. In particular, the home-country government may play a different role in firms' internationalisation paths. For instance, prior research suggests that the Chinese government provides overseas support for selective Chinese

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MNEs, especially if they are state-owned and/or operate in strategic factors (Duanmu, 2014; Li, Newenham-Kahindi, Shapiro, & Chen, 2013).

These theoretical puzzles motivate me to extend the existing literature and investigate the core research question of my dissertation: Why do firms, originating from the same country and following similar internationalisation paths, develop different political capabilities in overseas markets? To answer this question, I investigated how Chinese firms handled the political challenge of national security concerns in overseas markets, particularly in the UK and the US. This is a qualitative thesis, and the data came from over 100 interviews, mainly with managers from 16 Chinese firms at the headquarters and overseas subsidiaries, and a wide range of secondary and archival data. Drawing on interview and archival data, my dissertation provides detailed case studies on six prominent Chinese firms, including Huawei and ZTE.

My dissertation advances prior research by investigating the role of business-government relations in shaping firms' corporate political capabilities in overseas markets. The Chinese political economy provides a rich empirical setting to examine the variety of business-government relations. In the past four decades, China's political and economic reforms have nurtured various types of Chinese firms. My research shows that the variety of China's business-government relations contributes to the heterogeneity of Chinese firms' political capabilities in overseas markets.

CORPORATE POLITICAL ACTIVITIES: A CAPABILITY-BUILDING APPROACH

Firms operate in complex and competitive environments that are shaped by market forces and a variety of nonmarket stakeholders, including governments, interest groups, activists, media, and the public (Baron, 1995). For multinational enterprises, the most crucial nonmarket stakeholder is the host country's national government. Thus, international business (IB) scholars primarily focus on firms' political activities to influence the policy-making process of host-country governments. Early IB research was often based on empirical studies of the nonmarket environment in Western countries, examining the roles of campaign donations, political lobbying, and constituency building in corporate political activities (Hillman et al., 2004).

Later scholars found that the nonmarket environment in emerging markets could be different from Western democracies. For example, political lobbying is conducted differently in China through political connections at the individual level and political embeddedness at the institutional level (Mellahi, Frynas, Sun, & Siegel, 2016). This institutional difference in the nonmarket environment could increase the liability of foreignness for Chinese firms to navigate the political landscape in Western countries.

While extant research informs us about what firms can do to manage business-government relations, fewer studies have explored the capability-building process behind corporate political activities. For example, how do firms build political capabilities in overseas markets? Which factors

can trigger firms to develop political capabilities? What kind of political capabilities can be transferred across countries? In my dissertation, I examine firms' capability-building processes to acquire, maintain, and leverage firm-specific political resources. Political resources help firms access political information, influence decision makers, and enhance bargaining power. Firms can leverage these political resources to create favourable political environments and navigate hostile political environments.

Furthermore, transferring political capabilities from one country to another is more complex than transferring market capabilities. Particularly, transferring political capabilities without experimentation and adaptation can be problematic if the host country has a different institutional environment from the home country.

BUSINESS-GOVERNMENT RELATIONS IN CHINA

Business-government relations are at the centre of China's political economy. In the past four decades, China has launched several rounds of economic reforms that have profoundly impacted the relationships between Chinese firms and the Chinese government. The Chinese economic reforms have two pillars: the restructuring of state-owned enterprises (SOEs) and the active role of industrial policy in strategic sectors. Over the past decade, the rise of privately-owned enterprises (POEs) has become an additional pillar of Chinese economic reforms.

China's economic reforms have generated a variety of business-government relations. First, SOEs and POEs have different relationships with the Chinese government. Due to the ownership advantage, SOEs have direct access to the Chinese government's political and financial support. Chinese SOEs' ownership advantages are different from those discussed in the OLI paradigm which argues that firms possess advantages in the international market due to their ownership of particular assets. The ownership advantages of Chinese SOEs are rooted in their close relationships with the Chinese government, embedded in China's economic and political system. As owners, the Chinese government has the incentives to support SOEs' operations at home and abroad. By contrast, POEs have to compete for political attention and government support.

Second, the Chinese government treats firms differently based on the strategic value of their industrial sectors. Historically, China has supported selective SOEs in strategic sectors to nurture "national champions" in the global market. In recent years, state ownership has become less relevant in emerging strategic sectors, such as the high-tech sector. While the Chinese government permits POEs to participate in strategic sectors, it also enhances the level of oversight for these strategic POEs' business operations, domestically and internationally.

Therefore, my dissertation examines the impact of these two factors – ownership and strategic importance – on Chinese firms' corporate political activities abroad. Ownership refers to the degree to which the firm is owned by the home-country government. Strategic importance refers to the degree to which the firm's industrial sector is strate-

gically important for the home-country government. These two factors categorise Chinese firms into different types. Each type has developed a unique relationship with the Chinese government.

CHINESE FIRMS' CORPORATE POLITICAL CAPABILITIES

Conventionally, research on corporate political capabilities takes a quantitative approach to test the hypothesis against a large dataset of political lobbying expenditure. Based on in-depth interview and archival data, my dissertation adopted the case study method to investigate how Chinese firms build internal political capabilities and rely on external stakeholders to address the host-country government's security concerns. These nuances and details have not been fully discovered in prior research. From January 2019 to December 2021, I undertook multiple field trips in China and the UK to visit the headquarters and subsidiaries of eight Chinese firms. The interview data shows that Chinese firms varied in their corporate political capabilities and reacted differently from one another to host governments' security concerns.

OWNERSHIP AND CORPORATE POLITICAL CAPABILITIES

In China's state capitalism model, SOEs and POEs differ in their ways of interacting with the Chinese government at home and abroad. China's decades-long SOE reforms have further complicated the picture by generating a variety of SOEs, particularly a rising number of SOEs with mixed ownership. It is widely established that state ownership can affect firms' political risks in overseas markets. On the one hand, SOEs' closeness with the home-country government can reduce their legitimacy in the host country, as their business operations are not perceived as purely pursuing economic interests. On the other hand, SOEs sometimes can leverage their close ties with the home-country government to influence the host-country government and reduce their political risks, especially when the home and host country governments maintain a good relationship (Duanmu, 2014).

However, knowledge of how ownership shapes firms' political capabilities remains scant. Notably, studies on mixed-owned enterprises with both state and private owners have the potential to advance IB research on Chinese MNEs' political behaviours. Therefore, my first empirical chapter addresses the research question: "In what ways does ownership shape the formation of firms' political capabilities to handle overseas political challenges?"

To unravel the puzzle, I conducted an in-depth comparative case study of Huawei and ZTE. These two leading Chinese telecommunications firms were in the crosshairs during the US-China trade and technology war from 2018 to 2022. Huawei and ZTE have significant similarities in their initial conditions: originating from the same city, operating in the same sector, being founded around the same time, and following similar internationalisation paths. However, they vary in one crucial factor – ownership type. While

Huawei is privately owned by its employees, ZTE is mixed-owned, with the state owners having the majority share.

During the US-China trade and technology war, the US government banned Huawei and ZTE from accessing the US market and technology due to national security concerns. The US tech ban severely damaged these two Chinese firms' international operations. ZTE was on the edge of collapse after US firms stopped providing key components for its mobile handsets and telecommunications equipment. Huawei sold one of its lucrative mobile brands after its chip manufacturers were banned from working for it. Furthermore, Huawei's 5G products have been entirely or partially banned by other Western countries, including the UK, Australia, Japan, and Canada.

My research findings show that Huawei and ZTE have reacted differently to host-country governments' national security concerns. While Huawei launched high-profile public campaigns and conducted active political lobbying, ZTE kept a low profile and avoided media and public exposure. I found that the heterogeneity of these two firms' political capabilities was shaped by their varied relationships with the Chinese government. Particularly, it was easier for ZTE, in comparison to Huawei, to access government support in the early years due to its state ownership. My comparative case study explores how ownership affects firms' incentives to build political capabilities, emphasising the distinctive ways in which SOEs and POEs interact with their home-country government in foreign markets. It also contributes to the IB and state ownership literature by explaining how mixed ownership influences firms' corporate political activities in the international context.

STRATEGIC IMPORTANCE AND CORPORATE POLITICAL CAPABILITIES

Given its decades of industrial policy practices, the strategic value of firms' industrial sectors can influence China's business-government relations. In my dissertation, these strategic sectors are defined by the Chinese government and may not match up with those defined by host governments. In so doing, this dissertation departs from the prior research that predominantly examines the host country's industrial factors and shifts the focus to the home country's industrial-level factors. This strategic importance factor adds another dimension to the understanding of Chinese firms' political capabilities in overseas markets. Therefore, my second empirical chapter addresses the research question: "In what ways does the home country's strategic value of industrial sectors shape the formation of firms' political capabilities in overseas markets?"

To answer the question, I conducted multiple case studies and categorised firms into different categories. As shown in [Table 1](#), the two SOEs, China General Nuclear Power Group (CGN) and Beijing Construction Engineering Group (BCEG), operating in the infrastructure industry, entered the UK market around the same period. CGN's civilian nuclear power industry is of more strategic value for the Chinese government than BCEG's commercial construction sector. The two POEs, Tencent and DJI, operating in the high-tech industry, faced similar political challenges in the

Table 1. Case study selection

	SOEs	POEs
Strategic sectors	CGN	Tencent
Non-strategic sectors	BCEG	DJI

US. Despite their private ownership, Tencent's social media sector is of more strategic value for the Chinese government than DJI's commercial drone sector.

Based on the case studies presented in this chapter, I argue that the level of strategic importance of the industry determines the degree to which the home-country government intervenes in firms' overseas corporate political activities. On the one side, firms operating in strategic sectors can receive more political support from the Chinese government. For example, the Chinese government helped CGN negotiate the nuclear power plants project in the UK, whereas BCEG managed residential and commercial construction projects with the UK partners on its own.

On the other side, strategic firms' overseas behaviours are likely to be closely monitored by the home-country government. For example, Tencent was cautious about how the Chinese government perceived its overseas behaviours and aligned its internationalisation strategy with the Chinese foreign policy. By contrast, DJI gradually built its overseas political capabilities and actively engaged with local political stakeholders to buffer political shocks during the US-China trade and tech war.

My research explains how the strategic value of firms' industrial sectors influences the corporate political capabilities of different types of firms in overseas markets. I argue that a high level of strategic importance can restrict firms' ability to formulate and implement their political strategies in the host country, whereas a low level of strategic importance can encourage firms to build internal organisational capabilities to address overseas political challenges.

CONTRIBUTIONS AND IMPLICATIONS FOR PRACTITIONERS

My dissertation contributes to the business-government relations and nonmarket strategy literatures by proposing a predictive theoretical framework to analyse firm-level variations in corporate political capabilities. Firms from the same home-country environment can develop different political capabilities in their internationalisation processes. My findings show that this heterogeneity is shaped by firms' relationships with the home-country government in the form of ownership type and the strategic value of their industrial sectors.

Firms are increasingly confronted with unprecedented, sometimes existential, political challenges in a time of geopolitical uncertainty. My findings and implications are expected to be generalisable to non-Chinese MNEs, particularly those originating from other emerging markets or populist democracies. In these countries, the home govern-

ment may play a dominant role in the domestic economy and international business. For example, these countries may follow the state capitalism model and use active industrial policies to drive economic growth and accelerate industrial development. Furthermore, this dissertation's insights can contribute to the understanding of historical international business practices. For instance, Japan pursued vigorous industrial policies from the 1960s to the 1980s. During this period, Japanese MNEs relied heavily on the Japanese government and state-led industrial consortiums to manage their relationships with the US and European governments.

My dissertation offers timely and relevant implications for MNE managers to navigate the political landscape, especially in the face of escalating geopolitical conflicts. With the increasing likelihood of firms becoming targets in the name of national security concerns, it is recommended that business organisations allocate resources to develop internal political capabilities. This dissertation is one of the first empirical studies that provides practice-driven guidance for MNEs in managing overseas political challenges through capability building.

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