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Does an institutional factor influence corporate environmental strategy?

Looking through the Guanxi lens

Xuanwei Cao
International Business School at Suzhou, Xi’an Jiaotong-Liverpool University, Suzhou, China, and
Ali Quazi
Faculty of Business, Government and Law, School of Management, University of Canberra, Canberra, Australia

Abstract

Purpose – This paper aims to illustrate how institutional factors, such as Guanxi (connectedness) mechanism in a transition economy, could impact managerial cognition and their temporal orientation at individual level as well as induced change on corporate environmental strategy (CES). More specifically, this paper explores the micro foundation of corporate strategy change in an attempt to examine how corporate strategic choice and actions evolve with managerial cognition of “Guanxi” with various temporal orientations.

Design/methodology/approach – The paper reviews the extant literature focusing on Guanxi and CES with special attention to the temporal orientation in strategy formulation. A conceptual framework is proposed to analyze the underlying mechanism of Guanxi in mediating and shaping CES. A multi-case study with four companies operating in two industry sectors were investigated considering their relative long foothold as well as their different postures and dynamic change of corporate environment strategy in the past decades.

Findings – The findings support recent critiques on the likely shift in strategic choice of firms from the traditional Guanxi-based to a rule-based format. The interactions between entrepreneurial cognition and strategic activities toward environmental issues were still influenced by deep relational embeddedness. The findings proved that managerial Guanxi cognition impacts managers’ temporal orientation and their strategic choice on CES. Foreign-invested enterprises in the process of localization face the potential risk of emerging backdrop of their CES, i.e. from more active strategy to more reactive strategic posture, whereas local private-owned enterprises show a transformation from reactor to follower and even pioneer in the wave of those entrepreneurs’ changing cognition on the role of Guanxi in their businesses.

Research limitations/implications – One main limitation of the study is the lacking of quantitative measurement of corporate environment performance. Although the paper used multiple cases to explore the dynamics of Guanxi on impacting CES, only with further development of effective scale measurement to test corporate environment performance can increase the explaining power of the proposed theoretical model in this study. It is important to note that with data of longitudinal measurement of corporate environment performance, it would be more convincing to show the outcome of the temporal lens of Guanxi on CES. However, the lacking availability of qualified disclosed data on indicating corporate environment performance constrains another limitation for the study. Considering the complexity of corporate environment strategy, the focus cases in the paper might still lack powerful and convincing illustration to prove the impact of Guanxi on CES despite the enriched contextual data and description. It is necessary to conduct deeper analysis to exclude the impact of other possible factors on CES to highlight the direct impact of Guanxi on CES.

Practical implications – The results of the in-depth analysis and interpretation of the exploration of the cases suggest that Guanxi still seems to dominate managerial thinking process as the norm is deeply rooted in their mind sets. However, Guanxi is no longer considered as a mere reactive cultural norm rather a positive mechanism through which Chinese firms can achieve their sustainable environmental strategic goals as well as economies prosperity in the rapidly competitive business landscape in modern China.
Originality/value – Previous research on CES largely neglected the context factors. This paper presents a conceptual model to deepen our understanding of the contextual factor of Guanxi with a temporal perspective and its consequent influence on CES. This helps policymakers as well as strategic management researchers and academics to reconsider the mechanism of adaptation and selection in shaping CES in the event of large scale institutional change.

Keywords Guanxi, Cognition, Transitional economy, Corporate environmental strategy, Temporal orientation

Paper type Case study

Introduction

Corporate environmental strategy (CES) has been gaining increasing prominence in management literature resulting in the generation of a great deal of attention of researchers, practitioners and regulators in recent times. The prominence of the issue is principally driven by the increasing need for corporate sustainability and sustained competitive advantage as a basis of survival in the increasingly competitive market. This has posed a challenge to the senior managers operating within the domain of temporary advantage (D'Aveni et al., 2010) as to how to achieve sustained increase of economic performance without sacrificing corporate environmental performance. Prior research examining the factors impacting environmental strategy (Sharma, 2000; González and González, 2006), proactive environment strategy and competitive advantage (Sharma and Vredenburg, 1998) were mainly directed to the West. A recent study on the dominant rationale of corporate sustainability management practices concluded that sustainability management practices of large companies are neither (strongly) profit-oriented nor a means of opportunistic economic thinking but are primarily characterized by legitimacy-seeking (Schaltegger and Hörisch, 2015). However, their study was based on the countries from the three globally most important economically developed regions (East Asia, Europe and North America) in which their investigated companies operate in institutional matured contexts with the characteristics of regulatory capitalism and long developed corporate sustainability management practices. Those studies have not examined whether and how enterprises in emerging economies (e.g. China), which is currently experiencing “a large scale institutional transition”, would cope with the challenges with positive or even proactive environmental responses while keeping competitive advantage ambidextrously.

In the process of institutional transition, the values of political connections have been broadly discussed by scholars yet with quite different conclusions. Some argued that as China advances toward more rule-based, impersonal, market-based competition, the importance of political connections will decline (Peng, 2003), whereas others adopting a more fact-based, inductive approach suggest that political ties are playing an increasing role in China (Kennedy, 2005). A recent study has confirmed the continuing importance of political ties of four corporate sectors in China (Shi et al., 2014); however, it ignored the dynamic interactions of political ties and firms’ management practices in front of rapidly changing institutional environment.

This paper addresses this knowledge gap by reporting a multi-case study investigating into the cognitive factor of Guanxi that has underpinned companies’ environment strategy to examine how managerial cognition on Guanxi could shape and reshape CES. This paper focuses not only on “how” enterprises responded to environment issues and re-adapted their CES, but also on “why” enterprises adjusted their response to environmental issues. In response to recent initiatives from scholars in the field of strategy research and entrepreneurship as well as other domains, an exploration of micro psychological foundation of strategy and linking between individual’s cognition and strategic actions at organization level would be a valuable effort to bridge the micro and macro levels in organization and strategy research. Our research aims to
explore how managerial cognition on Guanxi with various temporal orientation impacts firms’ postures on environment strategy in a transitional economy.

In the following section, the literatures research will comprise relevant areas concerning the cognitive perspective on understanding Guanxi and its temporal orientation as well as the managerial cognition and strategic action of CES. Literature review will also involve finding information as to how the introduction of temporal perspective on Guanxi can help understand the micro-macro link between managerial cognition and corporate strategic choice on CES. In the methodology section, the research design, case selection and data collection were rationally introduced. In the fourth section, a multi-case study of four enterprises in two industry sectors in China is introduced to disclose the dynamic impact of Guanxi on CES. The final section presents conclusion, implications, limitations and recommendations for future research. Our findings support Zhou and Li’s (2007) argument that the transitional nature of the Chinese market may make top managers the most influential actors in terms of strategy choice. The result of two firms’ contrasting change of CES disclosed sharply the dynamic impact of managerial cognition of Guanxi on companies’ strategic choice. A cognitive perspective of Guanxi provides an excellent opportunity to bridge the micro-macro link of strategizing between individual manager’s temporal orientation at micro level and CES at macro level, contributing to a contingent understanding of different strategic postures of companies in coping with environmental pollution prevention in the context of transition economy.

**Literature review**

*A cognitive perspective on Guanxi*

As research on transitional economy has shown that to achieve a successful foothold companies should turn to network-oriented strategies based on managerial ties (Zhou and Li, 2007). Guanxi has been widely recognized as a key success factor in that it could help companies gain scarce resources, foster firm growth and achieve superior performance (Peng and Luo, 2000; Xin and Pearce, 1996). On the other hand, other studies concluded contrarily to the above in that Guanxi is less effective in enhancing performance under the conditions of intensified competition (Li et al., 2007).

Although discourse on Guanxi is still on, some scholars believe that the role of Guanxi would diminish as Chinese economy becomes increasingly market oriented (Peng, 2003). However, it is difficult to change the mind sets of local managers believing that Guanxi is central to business in China, as it could help businesses gain scarce resources, foster economic growth and achieve superior organizational performance. Because it is commonly believed in China that “who you know is more important than what you know”, implying that personal acquaintance with the other party in business dealing is critical rather that what the other party offers. Thus, the local managers’ intrinsic traditional cultural embeddedness in their values and behavioral patterns lead them to believe in establishing strong social bonding via Guanxi oriented practices. This cultural imperative is evident in North’s (1990, p. 36) observation, “informal constraints embodied in customs, traditions, and codes of conduct are much more impervious to deliberate policies”. Research shows that “informal constraints’ tend to regulate economic exchanges during the transitional process. This constraint exerts significant impact on managers’ as well as firms’ behavior (Peng and Heath, 1996, p. 504). These discussions suggest that Guanxi is a cultural reality in Chinese society which is very difficult to ignore in a practical sense. Given the above state of affairs, Carney (2004) noted that it is necessary to find out whether a shift of corporate strategic choice from Guanxi-oriented behavior to market-oriented impersonal exchange is realistic. Carney (2004) further observed that in many predominantly Chinese Asian countries, Guanxi is practiced to avoid and reduce uncertainty particularly in dealing with complex and ambiguous issues.
In its semantic meaning, Guanxi embodies a special Chinese cultural cognition. The other side of the coin is that Guanxi represents social networking action by actors who are embedded in that special culture with strong cognitions and beliefs on Guanxi. Epistemologically, Guanxi could only be cultivated and developed when managers believing that strong and well-developed Guanxi with governmental officials, suppliers externally and subordinates internally is critical and beneficial to organizational performance. In a context with institutional holes, local managers would have higher degree of beliefs on the power of Guanxi in coping with uncertainty and complexity. However, the immature institutional environment gestates also possible rapid large-scale institutional change. In this case, business managers’ cognition toward Guanxi would be flexible in varied institutional arrangements and as such their decision-making and strategic choice would be determined by their cognitions regarding various temporal orientation of Guanxi.

Guanxi and its temporal orientation
In spite of the dynamic evolving institutional transition in emerging economy, Guanxi still maintains as an important element anchored in people’s cognition. It presents strong stickiness and embeddedness and penetrates in and link with other external factors influencing the different behaviors of corporate strategic choice and action. Following the cognitive perspective on Guanxi, which we regard as a cognitive framework imprinted in the minds of indigenous managers, our research is a first effort to explore how Guanxi, managerial cognition and strategic action could be integrated to analyze the dynamics of CES among different firms in China.

In China, it is commonly held that Chinese environmental protection regulation is like “one eye open, one eye shut” in terms of implementation of environmental regulation. It is a popular believing in China that “the rules are fixed but the people are flexible”. Given such cultural bedrock of making things ambiguity, it can be legitimately argued that people would tend to have stronger beliefs in the power and influence of Guanxi. Therefore, in practice, the omnipotent and omnipresent Guanxi-based behaviors could be accepted, tolerated and integrated into decision-making mechanisms. In terms of environment protection, the intervention of Guanxi imperatives would make people and institutions comfortable and happy to accept that the cost of obeying environment regulation is higher than the cost of trampling environment regulations and laws.

Research by Engau and Hoffmann (2011) on corporate strategies toward coping with regulatory uncertainty revealed varied strategic postures that organizations could apply in facing uncertainty, such as the uncertain resulting from regulatory pressures on the climate change issue. Among the nine types of strategic postures, gambling posture deserves attention. The gambler strategic posture is based on manager’s cognition of the power of government ties in dealing with those uncertainties. For example, corporation could adopt a gambler strategic posture, i.e. without taking any action to cope with environmental issues provided corporate managers perceive that they could benefit from Guanxi in terms of avoiding and bypassing possible penalties for violation of environmental regulation. In the context of organizational transition, institutions need “to refer to commonly held beliefs and understandings about ‘proper’ organizational structures and practices” (Tolbert et al., 2011). For example, social norms and relational tends are to be considered as static and immobile. Thus, the persistence of commonly held perceptions on environmental issues suggests that environmental strategic issues are “not so critical and important” in business. In essence, this suggests the strong belief of the potential role of “Guanxi” in smoothing external turbulence and uncertainties consist of the cognitive and psychological foundation for the “backward looking” pattern of reactive CES in China.
Corporate environment strategy

Sharma (2000) found that the selection of corporate environment strategy is affected by the impact of managerial cognition in general. Managers’ interpretation of the state of environmental issues in terms of threat or opportunity also has impact on the selection of corporate environment strategy. Research also emphasized the influence of leadership styles on the environmental management choice (Bansal and Roth, 2000; Cordano and Frieze, 2000; Egri and Herman, 2000; Flannery and May, 2000; Sharma, 2000; Banerjee, 2001). CES could be regarded as an ambiguous issue because there are still many enterprises that have not incorporated environment strategy as a foundation for their organizations’ competitive advantage. Research on CEO’s capability found that the ambidexterity capability of decision-makers relating to ambiguous issues with both positive and negative meanings would decide the scope of action, risks and innovativeness (Plambeck and Weber, 2009). Organizational actions are also partly impacted by the purposive behaviors of individuals, especially the higher-level decision-makers at the organization level (Dutton and Jackson, 1987). It follows from the above findings that firms’ behavior is impacted and shaped by the attitudes and actions of managers (Banerjee, 2002). Rodrigo and Arenas (2008) also suggested that the attitudes of managers could influence a firm’s strategic decision-making.

With the shift of research on strategic issues from “strategic contents” to “strategic process”, the practices of strategic management focus have been on answering the “how” question, i.e. how does the formation, implementation and renewal (innovation) of strategic plans are managed? In turbulent times, the uncertainty of managers and their actions to ambiguous issues significantly influence organizational strategy and performance. Based on the study of Gavetti and Rivkin (2007), strategy is viewed as a means of unifying managerial cognition and action. On the one hand, strategy exists in the minds of managers and is embodied into their perception toward the world and the locus of their companies; on the other hand, strategy represents company actions, refined through specific activities, rules and routines. Because both cognition and action evolve over time, the strategic task for management is to maintain an alignment between managerial cognition and action in a dynamic environment. In this process, a combination of the managerial cognition framework and managerial interpretations concerning the state of the environment lays the foundation for managerial action. A number of prior studies have proven that there is a relationship between managerial cognition and firms’ strategic action (Kaplan, 2008). Miller and Chen (1994) provided an analysis based on the findings of the above studies that managers often tend to maintain status quo in terms of doing what they did in the past believing those to be the best course of actions.

Recent call for additional research on the micro foundation for the formulation of strategy opens a new avenue for better understanding of the strategy in practice (Gavetti, 2012; Powell et al., 2011; Jarzabkowski et al., 2007). As a micro fundamental variable in organizational and managerial research, the time factor, however, is neglected particularly in respect to influence of managers’ subjective and temporal perceptions of strategic decision-making (Mosakowski and Earley, 2000; Ancona et al., 2001; Orlikowski, and Yates, 2002). In their seminal research, Mosakowski and Earley (2000, p. 796) commented “Although strategy researchers incorporate time in many ways, they generally ignore a subjective view of time and the temporal perceptions of actors in their models” implying that time as a factor is taken into account in understanding the role of organizational actors in the strategic planning process. Particularly in dealing with ambiguous issues with special requirement for manager’s “ambidextrous capabilities”, such as achieving good performances on both economic and environmental aspects, it is valuable to explore and investigate how managers’ temporal perspective impacts organizational strategic choices. In practice, however, it is always argued that business managers are obliged to focus on
short-term strategies that generate quick profits rather than long-term strategies designed to value creation and sustained competitive businesses. In view of the above, a series of research questions have been developed for this study:

**RQ1.** Do we have good sound understanding of the role of contextual factors on impacting organizational strategic choice?

**RQ2.** What is the impact of Guanxi on managerial cognition and their temporal orientation?

**RQ3.** What are the relationship between Guanxi, temporal orientation and manager’s strategic actions?

The preceding discussions are concerned with an examination of the above research questions. Figure 1 illustrates a dynamic perspective in terms of formation, implementation and renewal of CES through the lens of Guanxi.

Based mainly on stakeholder theory, many prior studies have analyzed the external antecedents of corporate environment strategy from a “looking outside-in” perspective. These studies hold a relatively static viewpoint, lacking enough attention to micro mechanisms in the “black box” of strategy. Considering the evolving dynamic institutional transition in emerging economy, we noticed the stickiness and embeddedness of Guanxi as well as its broad penetration in and linkage with external factors. More importantly, managerial cognition of Guanxi has influences on managers’ subjective and temporal perceptions. The recent emerging initiatives concerning practice of strategy as well as the exploration on the origin of strategy contributes significantly to individual managers’ cognition and action. In the context of institutional transition, a cognitive perspective on Guanxi could help us understand many issues related to the formation, implementation of corporate strategy.

*A typology of environmental strategy of foreign-invested enterprises in China*

Because of different managerial perceptions toward internal resources and capabilities and external competition and institution, corporate environment strategy in practice is
embedded in a specific time frame and varies in terms of urgency vs indifference, long-termism vs short-termism in cognitive terms and proactivity vs reactivity, path creation vs path dependence in action terms.

Considering the ambiguity and complexity of corporate environment strategy in the minds of managers in practice, we suppose this issue has different time frame in managers’ minds. According to the behavior theory of the firm, organization is a problem-solving entity with limited attentional capability (Cyert and March, 1963). Managers pay lesser attention to environmental issues as compared to other issues having direct influences on economic performance of organizations. However, because of increasing pressures from other external factors, including regulators, stakeholders and competitors, managers’ response to environment issues varies because of their different managerial cognitions in which time is one key factor differentiating managerial cognition and consequent actions.

The examination of managers’ different cognition of temporal orientation offers a good point to disentangle the interactions between managerial cognition and strategic actions as well as their influence on organizational strategy and organizational performance. This is consistent with the recent research initiative of Powell et al. (2011) which explored the psychological foundation of strategy management.

This paper integrates the above discussion into an updated typology of environmental strategies of enterprises in China. This typology is based on an earlier typology on three types of environment strategy suggested by Buysse and Verbeke (2003). The typology presented in Figure 2 is a framework of environmental strategy according to managers’ cognitive temporal orientation and actions they adopted.

Four different types of corporate environment strategy in the context of a transitional economy are introduced in this dyad framework. The strategy types are listed under four quadrants and the characteristics of the strategists falling under each quadrant. With different configuration on cognition and action, enterprises are classified into four distinctive groups. For the first group (Quadrant 1), pioneers are identified as those enterprises with positive attitude

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**Figure 2.**
A typology of environment strategy based on cognition and action

<table>
<thead>
<tr>
<th>Quadrant 1: Strategic Pioneers</th>
<th>Quadrant 2: Strategic analyzer (Speculator)</th>
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<tbody>
<tr>
<td>Leaders in environmental strategy adoption</td>
<td></td>
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<tr>
<td>Believers in turning green into gold strategy</td>
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<td>Calculative environmental strategy adopters</td>
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<td>Believers in the relative cost of adoption of strategies</td>
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<th>Quadrant 3: Strategic reactors</th>
<th>Quadrant 4: Strategic followers</th>
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<tr>
<td>Wait and see adopters of environmental strategy</td>
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<tr>
<td>Believers in smoothing challenges using Guanxi</td>
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<tr>
<td>Followers in environmental strategy adoption</td>
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<tr>
<td>Follow pioneers’ pace and rush in green wave</td>
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<td>Believers in following the crowd strategy</td>
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toward environmental issues while taking positive actions. The pioneers are committed to play
the role as green leaders in the industries adopting positive environment strategy. In the second
group (Quadrant 2), speculators are those enterprises with environment awareness but still
pondering on whether to take more positive and proactive actions in coping with environmental
challenges. Considering the rational calculation of managers, we could assume that most
enterprises, irrespective of the sectors, would consider such a calculation and take opportunistic
actions in their corporate environment strategies. As long as there is a possible opportunity to
reduce their inputs into environment protection in business operation, they would utilize the
opportunities to lower their environment standards. This is how many foreign-invested
enterprises (FIEs) in transitional economies and other host countries cause environment damage.
The third group, reactor, are those enterprises that are still indulging in industrial civilization,
ignoring yet the competitive edge of positive environmentalism leading to corporate sustainable
competitive advantage. Among those companies with reactive strategy, the gamblers, those
business managers who take a gambling posture without taking any action seriously to cope
with environmental issues, still have the managerial cognition of developing government ties in
dealing with avoiding and bypassing possible penalties for violation of environmental regulation.
Interestingly, the mindsets of managers of these enterprises are still so reactive that they nurture
an imagination of smoothing everything by the magic power of Guanxi mechanism. It is to be
noted, however, that the emerging situation surrounding FIEs’ is rendering them turning on
environment strategy in their localization process. Indigenous manager in localized FIEs would
believe in and adopt Guanxi-oriented behavior and action in addressing environmental issues in
their business operations. The forth group (Quadrant 4) are simply followers of the leaders. There
could also be some enterprises within this group taking relative positive actions in solving
environmental issues though their attitudes on environment is not so positive compared to those
green leaders. In the context of quickening environment monitoring and stricter environment
standard requirement, some enterprises, although they have not actually incorporated ecologic
consideration into their economic performance development plan, are rushing in riding the
bandwagon of emerging new industries such as wind energy, solar energy and so on.

Methodology

Research design

It is widely believed that cross-sectional data cannot provide “temporal benchmarks for
organizational transformation” (Newman, 2000). However, case study has been found to have the
key advantage of “getting closer to constructs and being able to illustrate causal relationship
more directly” (Siggelkow, 2007). Furthermore, qualitative approach to data gathering and
analysis can ensure uncovering information that is hidden in the deep of respondents’ minds. In
view of the research questions in this study, aiming to disclose the social construction of Guanxi
and its impact on CES in Chinese context, this study applies qualitative research method which is
believed to be effective in uncovering the underlying strengths of socially constructed phenomenon such as Guanxi focusing on revealing how extant theory operates in particular
context (Eisenhardt, 1989; Eisenhardt and Graeber, 2007).

Case selection

Toward facilitating a comprehensive comparative study, four companies from the southeastern
region in China were selected as cases for analyzing the practices of the companies concerning
their corporate environmental strategies. The selection of the four case companies was made
based on the suggestion from Pettigrew (1990). Two of the four case companies are local
enterprises controlled and managed by local managers, whereas the other two companies are
FIEs. Of these two FIEs, one is managed by a foreign manager and the other is by a local Chinese
manager. Although all the four case companies have a roughly similar operational history of
around 20 years in the region, the width and depth of the four case companies’ Guanxi in local region varies. To avoid possible bias from different external factors, the cases were selected from two industrial branches. Two companies were from paper manufacturing industry and the other two were from the electronic manufacturing industry.

Data analysis
The data for this study comprise information collected from the four case companies. As the four companies present four different extreme cases, it is considered relevant to compare the contrasting information with a common basis. Based on the aforementioned typology of CES, this study undertook comparative multi-case analysis through in-depth interviews and observation. To ensure comprehensive and deeper understanding of the strategic choice postures of the selected cases, additional information was also gathered from other channels including public issued reports, available archive materials and inquiries to related governmental departments to verify the interviewed information and data. Towards reaching a valid concluding juncture of this research the data analysis and interpretation were made with reference to relevant theories. All these helped reduce potential bias in interpreting collected data from multiple sources.

A multi-case comparative analysis
Case F
Before beginning its business operation in 1998, F Company was first invested and controlled by Indonesian Chinese entrepreneurs. Between 1998 and 2000, F Company was a joint-venture between an Indonesian and a Finland company and was managed by Finnish company. In 2000, after acquired all the shares from Indonesian side, F Company became a wholly foreign-owned enterprise (WFOE) controlled and managed by Finnish management team. Currently, F Company is being operated as the largest single investment project owned by Finnish entrepreneurs in China. Currently, F Company is being strategically operated as a vital paper manufacturing base of its parent company in Finland.

The advanced technological orientation coupled with its international dominance in pulp and paper manufacturing, F Company, as a WFOE, strictly followed its home count standard in environmental protection in its manufacturing base in Suzhou since its very inception. Despite the changes in the managerial positions over the past 14 years, the company consistently maintained its management values and commitment to local community. This consistency in management values and corporate citizenship is reflected in F Company’s continuous attainment of recognition in terms of certifications from ISO 9001, ISO 14001, OHSAS 18001 to FSC & PEFC, etc. Since 2011, F Company has been pursuing to obtain certification of EU Eco-Management and Audit System. In 2012, F Company’s parent organization was awarded the Super Sector Leader in Dow Jones Sustainability Index followed by another award of one of China’s Top Employers. In 2006, F Company was the winner of the National Environment Friendly Enterprise, the highest honorary award for corporate environmental performance. Furthermore, since 2001, F Company has been continuously recognized as Green Enterprise by local government.

The successful operation of F Company with good balance of economic performance and environmental protection is driven mainly by the management team holding the value and commitment of the parent company in Finland. With the firm commitment to protect environment and follow its parent company’s standard in home country, F Company could achieve excellent performance by leveraging its advanced production technology and equipment and implementing good internal institutions. By applying its best available technology, the internal emission standard of waste water in F Company has been set up at a stricter standard on a voluntary basis for many years.
To maintain its national image as an eco-civilization city, local government maintains good Guanxi with F Company to incentive F Company to reach and maintain its best environmental performance to align the long-term economic success of F Company with the conservation of good ecology of local community. In the mind of the general manager of F Company, to develop good Guanxi means good stakeholder management for his business. With this idea, F Company follows consistently a proactive posture in terms of its environmental strategy. Stakeholders of F Company, from local government to suppliers, from employees to local citizens, all were motivated from F Company’s very positive and proactive actions on environmental protection. Thus, social capital of F Company is accumulated continuously with a self-reinforcing effect on its CES. That is to say, the closer Guanxi with local government and other stakeholders, the more active actions would be pursued by F Company, and, in turn, more active actions conducted by F Company could bring more social capital for the company. At F Company, Guanxi plays as a positive catalyst to promote the development of mutual trust and cooperation between F Company and local government as well as other stakeholders. In the pursuit of more proactive CES, F Company could also get positive support and cooperation from local government and local community.

In conclusion, an analysis of the case of F Company revealed the importance of soft power of value and commitment in managers’ cognition. It is the power of ethical and moral leadership and long-term commitment that drive F Company’s adoption of a proactive strategy consistently. In this process, long-term oriented healthy Guanxi with local government smoothed the operation of F Company and returns to local community.

Case Z

Z Company was established in 1996 and was the most advanced paper manufacturer in mainland China. In its first two years of operation, Z Company recruited a Taiwanese general manager in charge of its local business operation. In terms of corporate environment strategy and environment performance, the Taiwanese general manager’s action was not different from those of local entrepreneurs as he ignored the importance of environmental performance. During that period, Z Company faced penalties imposed by the local Environment Administration Bureau on several occasions. In 1998, the general management in Z Company was replaced by a Swedish manager nominated from the Headquarters of Z Company. During his tenure from 1998 to 2004, Z Company experienced significant improvement in terms of development of corporate environment management strategy and adopted a clear roadmap on implementing proactive environmental strategy. In 2000, ISO 9001 was introduced and then implemented which was the avant-courier in domestic paper manufacturing industry in 2001. ISO 14001 was also implanted according to the deploy and requirement from the headquarters in Finland. In 2003, OHASAS 18001 was introduced into the production and environment management procedures in the Company. Between 2003 and 2004, Z Company conducted clean production audit, energy audit and other voluntary environment management system toward more ambitious environment performance objectives. In the following period from 2004-2008, however, no more environment management measures were introduced because of frequent change of managers. New foreign managers followed the established environment management system.

With the intensified competition in Chinese market, Z Company quickened its localization process to explore more spaces for performance growth. In this context, a local Chinese manager was selected and promoted internally as the general manager of Z Company in 2008. The following episode of Z Company’s management and performance has witnessed radical change in the wave of comprehensive localization under the leadership of this local manager. It is noticeable that the economic performance of Z Company has been keeping increasingly significant growth...
in recent years compared with previous performance. But, at the same time, corporate environment performance in Z Company experienced palpable decline resulting from shift from proactive environment strategy to reactive strategy in dealing with environmental issues.

The company experienced shift in its managerial leadership in terms of transformation from foreign manager dominated era to Chinese manager dominated era. Thus, Z Company witnessed tremendous transition in terms of its management methods, corporate culture, environment strategy and strategic orientation. In the localized Z Company, the application of Guanxi-oriented management behavior significantly changed the company’s strategic choice. Internally, the relationships among employees as well as between leaders–subordinates are influenced by Guanxi-based behavior. People who come from a common place (hometown or graduated university or previous working company) tended to form and share a common “Quanzi” (Guanxi networking in Chinese, a circle of people with common interests). In this way, the general manager could monitor the internal situation and achieve an absolute control of the company. The high power distance thus influenced employees’ behavior. Employees are to do the “right” things that the leader prefer most instead of doing the right thing for the interest of company’s long-term development which caused destruction of corporation culture, changed motivation principles and other organizational principles, damaging the foundation for company’s long-term development. Externally, the general manager would conduct widely Guanxi-oriented behavior to reduce uncertainty and complexity. Specifically, in business operation, external suppliers would only be considered to be qualified to offer raw materials and components to the company when the dyadic relationship of Guanxi between external supplier and the company had been well established and developed. In this aspect, Guanxi is the commonly perceived meaning for conducting business in China. For managers, another aspect for eliminating possible uncertainty in business operation they have to consider is the relationship with the local government (departments and officials). Local managers have common beliefs and practice that nurturing and cultivating good Guanxi with government officials and departments is critical to their business success. After a local Chinese general manager took charge, a change in the behavior of the manager was apparent in terms of his initiative to develop a good relationship with the government department through regular visit, thus exercising Guanxi-based communicational strategy to avoid the incidence of further fines that might be imposed on the company gain greater recognition for his firm from the government. Furthermore, this renewed relationship building was intended to get more recognition and legitimacy of his company on environmental issues. In this case, the nurturing and cultivating of Guanxi with governmental officials was placed as a kind of transaction cost to get more support and a stronger foundation for its legitimacy in doing business. For example, through gift and gift-giving, thus, the dyadic relationship between business and government is created and reinforced. In this way, the pursuit of managers is guaranteed.

The localization of Z Company is accompanied with short-term-oriented performance evaluation. When managers are evaluated on the basis of profitability and sales growth, their behavior tend to focus on short-term criteria and neglected factors that contribute to the long-term health of the organization (Jaworski and Kohli, 1993). During the tenure of previous foreign managers, they regarded corporate environment issues first as legal issues, which involves with the legitimacy and survival of enterprise. This could be specially reflected in the tenure of Swedish manager. At that time, environment management was introduced and established through institutionalized efforts continuous innovation, without any intervention from inter-personal relationships. In his reign, environment management system was well established and operated effectively, including environment management, system department, control department, and waste water operation, involving some specific proactive and preventive tasks.
on environment management such as conducting chemical reagent evaluation, experimentation, research on environment control (i.e. solutions to control sludge bulgy), submitting suggestions to general managers, composing practical report. In the whole environment, management system was incorporated into corporate business strategy integrative. In daily operation, there were standard working flow and clear accountability for each working unit and staff. For example, there were clear indexes to measure environment performance, such as the index of COD, the volume of emission of waste water. Apart from the internal construction on environment management system, Z Company tried efforts also to keep connections with government departments. Their practices on communicating with related government agencies were aimed to strengthen information exchange, to get government policies in time to take preventive methods to solve possible environment damages. A good example of this practice is the proactive action on introducing online monitoring desulfurizing devices which was noticed through positive communication with environment bureau in 2005. Considering the trend for requiring installation of online monitoring devices in near future, Z Company installed the devices in 2005. In this case, Z Company has won good corporate reputation through positive and continuous efforts on environment management. Generally speaking, the implementation of environment system was voluntary actions taking proactive strategy before the reign of local Chinese manager.

In 2008, after the Chinese manager took over the power of general manager; the increasing of economic performance was regarded as the most critical issue for his business operation. In this case, Guanxi would be considered as a direct and effective way in management in dealing with those issues which have no direct contributions to corporate economic performance, such as corporate environment management systems. In 2008, shortly after his induction, he cut the original established environment management system and laid off professionals in environment management. While environment management and system department were cut after the Chinese manager took over the position, the whole environment operation was controlled by the general manager. To maintain an acceptable environment standard and to avoid possible damages on corporate reputations due to lower environment performance, the manager took localization strategy in dealing with local government officials. His practice on environment management takes the pattern of frequent visiting to environment bureau officials and government institutions, implementing a Guanxi-based environment management. The manager attached great importance to local environment evaluation which set up three levels with red, yellow and green labels as varied environment performance in business operation. In this evaluation process, although there is a broad participation from multi-government departments with interactive monitoring to each other, making it harder to apply personal Guanxi to influence the result of environment monitoring, Guanxi can still have some influence. Generally speaking, because of reduced professionals in environment management section and destroyed organizational culture on organizational learning and organizational identity, employees in the Z Company lost their zealous efforts on environment management “good practice”, lacking positive and proactive working attitude, focusing while only on the achievement of narrow performance on economic aspect.

In short, the case of Z Company disclosed vividly how Guanxi-oriented business management in FIEs after localization destruct managers’ temporal orientation and corporate environment strategy. It should be noticed that this declined corporate performance could be hidden behind increasing economic performance in a context of distempered institution arrangement.

Case S
S Company is a subsidiary manufacturing base of S Group. The history of S Group could be dated back to 1985. Based in Guangdong, S Group has adjacent geographic advantages with
Hong Kong. After a decade of rapid development, S Group became the largest copper-clad plate producer in mainland China in 1998. Because of the development of electronic industry in Suzhou in 1990s, there are huge demands for copper-clad plate as raw material in local electronic manufacturing companies in Suzhou. It was in an official trade exhibition in 2000 that Suzhou government officials showed interest to invite S Group to open a subsidiary manufacturing base in Suzhou Industrial Park. In 2002, S Company was established and put into operation as an important supportive enterprise for electronic industry in Suzhou.

Considering this background, S Company enjoys relative strong degree of Guanxi with local government from its first beginning operation in Suzhou. In terms of its CES, S Company did not show a very positive posture. Because of its matured and relative advanced production process, S Company does not take any innovative strategic actions in improving its environment protection and pollution prevention. After talking with the environment manager of S Company, it is clear that this company keeps to the bottom line of pollution control with minimized cost. The managerial cognition and implementation of CES in S Company also suffered impact from internal change of general managers. Internally, the general manager is dispatched from S Group located in Guangdong. In the past 10 years, 4 general managers have been replaced. Such unstable and discontinuous management make it hard to implement a consistently positive CES. The performance of CES in S Company under the pollution control strategy shows minimum commitment to environment protection at best and could present more opportunistic behavior in some situations at worst. For example, some minor environmental issue such as noise pollution to local community was not solved because the general manager regarded that as unavoidable in production. Local government did not take strict actions to regulate and punish S Company considering the large demand for its raw materials by many industries in local region.

In this case, the strong degree of Guanxi with the local government does not contribute positive adoption of more proactive strategic actions on environment protection. Instead, favorite support and kindness of local government to the case company cause a mindset of “nothing is wrong with legitimacy of minimized input on pollution control” in managers of S Company. Therefore, by relying on its large size and self-perceived favorable status in local industrial park, S Company manager’s mindset on leveraging Guanxi to bypass any potential extra environmental requirements by local government disabled itself from taking more positive change on its environmental strategy. This case discloses an important issue that government should learn how to deal with relationship with some important enterprises.

Case G

The case G Company was established in November 1990, listed as one of the top ten best-known semiconductor enterprises in China’s electronics industry. It is a discrete semiconductor manufacturer with the most comprehensive industrial chain and most complete design, manufacturing, packaging and sales functions. Thanks to the policy of reform and opening up, this private-owned company could, currently, achieve such a great achievement. However, when looking back at G Company’s corporate environmental performance in its early stage, people would not be surprised to its direct discharge of seriously polluted water to rivers in the local community. In the era of 1990s, many private-owned enterprise and township-owned enterprises emerged everywhere in China, achieving rapid economic development by sacrificing and damaging the environment performance. In this background, as similar as many other private-owned enterprise and township-owned enterprises in adjacent regions, G Company took also an irresponsible attitude toward environment protection, lacking actually a clear CES. As most private-owned companies at that time, G Company also took a strong Guanxi-oriented
thinking, i.e. tried to solve everything by means of Guanxi in an immature institutional context. From this perspective, people could argue that every private company has its original sin. But, every company would experience several different stages.

With the development of G Company, it suffered pressures from public and local government and realized its social responsibility. In 1997, G Company built its first sewage treatment plant to process the polluted water in its production process with a processing capacity of 300 tons per day. With the successful introduction of the ISO 9002 system in 1996, G Company realized the importance of following industrial standards and regulations in market competition. Under the great support and leadership of the CEO of G Company, a series of industrial standards and professional certifications have been introduced successfully. These continuous efforts made G Company the most complete certifications in discrete semiconductor industry of China. Table I below indicates the professional certifications of G Company from 2000.

In terms of its CES, G Company has experienced a significant turning from reactive to more positive posture. This could be attributed partly to the change of external factors, such as strengthened monitoring from environment protection bureau, and partly to the change of mind of the CEO. Mr Wu, an indigenous entrepreneur in Suzhou, has actually a good education with deep understanding of traditional Confucian culture. As a local citizen of Suzhou city, he knows exactly the value of water to Suzhou. With the expansion of G Company’s production, he realized that his company must take more positive CES to prevent pollution from the front-end process of production instead of taking end-of-pipe pollution control. With the change of his mind, the sewage treatment plant was reformed with expanded processing capacity and application of more advanced technologies. Also, another two plants were newly built. Apart from this, the emission standard was improved to a higher level voluntarily. In 2010 and 2011, G Company took more active steps toward positive corporate environment strategy by inviting government officials and related experts to implement two rounds of clean production audit. This initiative was aimed to achieve greener production by following the 4G environmental principles, i.e. green design, green procurement, green production and green sale.

It must be pointed out that the transition of G Company’s CES from very reactive strategy to more positive strategy could be attributed to a great extent to the change of the social status of the CEO, Mr Wu, and the deepening of his personal accumulation of Guanxi with local government, after his successful pursuit of “red hat” strategy as deputy director of People’s Congress of Suzhou City. Smart utilization of Guanxi in a long-term orientation brought both incentives and resources for G Company to take stricter and higher standard of environmental protection, with more consideration of other stakeholders’ interest such as the increased environment awareness from citizens in local community, increased requirements for environment friendly working place from employees and green products from customers as well as more highly expected performance from local government.

<table>
<thead>
<tr>
<th>Year</th>
<th>Certification</th>
<th>Description</th>
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<tbody>
<tr>
<td>2000</td>
<td>ISO 14001</td>
<td>Environmental Management System Certification</td>
</tr>
<tr>
<td>2001</td>
<td>QS 9000</td>
<td>The Automobile Industry Certification System</td>
</tr>
<tr>
<td>2001</td>
<td>ISO 9001</td>
<td>Quality System Certification</td>
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<tr>
<td>2003</td>
<td>OHSAS 18001</td>
<td>Occupational Health and Safety Certification</td>
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<tr>
<td>2005</td>
<td>TS 16949</td>
<td>Global Automotive Industry Certification</td>
</tr>
<tr>
<td>2007</td>
<td>QC 080000</td>
<td>Electrical and Electronic Components and Products</td>
</tr>
<tr>
<td>2008</td>
<td>ISO 27001</td>
<td>Hazardous Substance Process Management System</td>
</tr>
<tr>
<td>2012</td>
<td>SA 8000</td>
<td>Information Security Management Systems</td>
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Table I. Professional certifications of G company
The case of G Company disclosed clearly the dynamic impact of Guanxi on the change of CES in local enterprise.

Conclusion

The narrative analysis presented above supports our observations and findings that the cognitive power of Guanxi still has significant impact to a large degree on managerial cognition and strategic actions. The findings revealed a strong linkage between individual’s micro psychological foundation and organization’s strategic action and path with special emphasis on the dynamic context of transition economy. Manager’s cognitive temporal orientation matters. In the case of Z Company, the sudden and radical shift of its CES, from a more positive, proactive environment leadership to be a more reactive “wait-to-see”, suffered setbacks because of the short-term cognition on Guanxi which impacted manager’s adoption of strategic actions. However, in the case of G Company, the transformation of CES reflected a dynamic changing cognition on Guanxi by local manager, from a purely tool for economic returns in short-term to a strategic resource for both business economic and public social objectives in long-term. This study makes contribution to knowledge by looking temporal orientation of Guanxi on CES. Our study pointed out the potential risks of FIEs’ weakening of CES with short-termism because of an inappropriate utilization of Guanxi by local manager. While in other cases, Guanxi could be well leveraged by some local firms to promote a positive change of CES. Our study, thus, questioned the theoretical assumption that corporate strategic choice in transition economy would experience a shift from Guanxi oriented to market-oriented practice. However, our study clearly showed that “local contexts are likely to become more rather than less important” (Meyer et al., 2011, p. 248) because those contextual norms are so deeply embedded in the value systems of local people. McKinsey & Company (2011) found that two thirds of top managers investigated agree that corporations should keep contact with government and regulatory departments positively and frequently. Most top managers in developing countries believe in governmental influence on society and businesses and as such assert that involvement with government and regulatory bodies could benefit operational performance of corporations. The report also indicated that top managers in China, India and other emerging economies are more likely to be opportunists in terms of their belief that the corporations should grab the opportunities arising from governmental policies, procedure as well as from the regulations. Thus, the findings of this study prompt us to suggest to strategic pundits to note the dilemma confronting managers in transitional economies in terms of the fact that while context matters, contextual factors such as Guanxi also matter because they could cause opportunistic behavior with short-termism in some cases, whereas Guanxi could also help bring real positive change in company’s strategic choice with a long-term orientation. Therefore, future research on strategic issues should take into account both context and contextual imperatives in a practical setting, especially in the emerging economies of the Asian rims where collective cultural norms are deeply rooted in their attitudes that are significantly reflected in their managerial behavior and action.

Discussion and implications

From the perspective of attention-based view of the firm (Ocasio, 1997, 2011), it can be argued that managers would focus more on economic performance when shareholders put more attention on the pressure of performance evaluations in organization. In this context, more attention on economic performance could create short-termism in managers instead of trying to maintain an ambidextrous trade-off between economic and environmental performance. Therefore, under the current governance system, managers in localized FIEs tend to put more attention on improving economic performance while reducing input on corporate
environment issues. In this process, managers’ cognition on the power of Guanxi could impact the temporal orientation of their behavior toward corporate environment issue. We would suggest FIEs to have a more dynamic understanding of Guanxi, to open their eyes to look at the transformation of local enterprises from spectulars to reactors, from followers to leaders on adopting CES, to learn from local firms to turn Guanxi into a strategic valuable resource for long-term economic and social objectives.

It is also worth noting that noted “dynamic capabilities reside in large measure with the enterprise’s top management” as well as in managers’ cognition (Teece, 2007). Organization’s (strategic) dynamic capability is composed of both pillars of cognition and action. In the case of G Company, it is the top manager’s long-term cognition on Guanxi that caused the incremental positive change of its input on environment management to improve its strategic proactivity. In front of the serious challenges of environmental problems in China, entrepreneurs are suffering more and more pressures to treat environmental issues and are expected to actively participate in environmental governance. Those who show positive postures and take proactive actions on environment management could recognize, create and develop opportunities from solving certain environmental issues. It could also be observed that recently some private-firm entrepreneurs who have achieved business success in traditional economic-focused way seek and create further greater opportunities through engaging in political activities for the sake of public welfares and interests in larger community. Those entrepreneurs are doing business in new ways to transcend beyond selfhood and achieve the greatness of life. Their engagement in political activities and development of Guanxi with different stakeholders are serving them to reach higher objectives for the benefits of public.

**Limits and implications for future research**

One main limitation of the study is the lacking of quantitative measurement of corporate environment performance. Although the paper used multiple cases to explore the dynamics of Guanxi on impacting CES, only with further development of effective scale measurement to test corporate environment performance can increase the explaining power of the proposed theoretical model in this study. It is important to note that with data of longitudinal measurement of corporate environment performance, it would be more convincing to show the outcome of the temporal lens of Guanxi on CES. However, the lacking availability of qualified disclosed data on indicating corporate environment performance constrains another limitation for the study.

Considering the complexity of corporate environment strategy, the focus cases in the paper might still lack powerful and convincing illustration to prove the impact of Guanxi on CES despite the enriched contextual data and description. It is necessary to conduct deeper analysis to exclude the impact of other possible factors on CES to highlight the direct impact of Guanxi on CES.

A longitudinal study involving a number of case studies could capture the dynamism of the issues examined as well as provide a picture of the changes in the managers’ level and nature of cognition and action in response to environmental strategy over a period of time. Furthermore, the conceptual model proposed and tested with case study has the potential for an empirical testing in future. Future studies can also utilize the mixed method toward further validation of this model. As an extension and supplementation to Peng (2003)'s mixed analysis of three different kinds of companies’ strategic choice in transition economies, we suggest that future research can observe and make a sharp comparison of environment strategic choice of the different types of firms such as FIEs, SOEs and POEs. Companies’ strategic choice would be influenced from different Arm’s Length to government officials. Future research should explore
the differences existing among firms with different ownership patterns in applying Guanxi to position their corporate environment strategy.

To our mind, a reasonable and effective measurement of managers’ cognition on Guanxi is an interesting but arduous challenge for future research. We urge pundits from varied fields including psychology, sociology, politics and behavioral science to further investigate the issues raised and addressed in this study toward broadening and deepening our understanding of the micro psychological foundation of strategy formation through the perspective of Guanxi with a temporal lens.

Finally, it would be relevant to point out that as an important aspect of informal institution, Guanxi could be either a hard obstacle to institutional change or an effective springboard for those opportunists. We acknowledge that, currently, Guanxi is still being commonly held and widely practiced by people in Chinese society. However, some people have diverse perceptions and cognitions on Guanxi as well. For some people who have the capabilities of exploring potential opportunities in existing institutional framework, Guanxi could also be a direct and effective way to fossick business values for potential opportunities. In this case, for those opportunists, Guanxi would not restrain innovative initiatives rather would promote the positive entrepreneurial activities in long-term. Recent discussion and study of entrepreneurs in transition economy with political appointment and connections reflects entrepreneurs’ cognition on dynamic changing institutional factors. In some strategic new emerging industries, one would find the active participation of those entrepreneurs who have accumulated valuable social capital and Guanxi with different stakeholders rushed in with clear signs of future-oriented, strategic actions based on long-term strategic plans and policies.

References


Further reading


Corresponding author

Xuanwei Cao can be contacted at: xuanwei.cao@xjtlu.edu.cn

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