



Understanding Asian business strategy: Modeling institution-based legitimacy-embedded efficiency[☆]

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ABSTRACT

To understand the unique aspects of Asian business practice, we propose a conceptual framework of institution-based, legitimacy-embedded efficiency. We underscore the institutional foundations of Asian business practice and propose that gaining legitimacy takes priority in order to attain the efficiency that follows from legitimacy in Asian business practice. We then highlight several fundamental, philosophic principles that define the meaning of legitimacy and ways to achieve legitimacy in Asian societies. We also provide a brief summary of each paper in this special issue and then proceed to pinpoint desirable directions for further research in light of our conceptual framework.

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1. Introduction

With the rapid growth of Asian economies, interest is growing among executives seeking to acquire in-depth insight into cultural and institutional aspects of Asian business practices. In most Asian countries, institutions are often informal, weakly formalized, or even non-existent (e.g., in much of rural India) (Khanna & Palepu, 2000). Although many Asian countries are undergoing institutional transitions toward legalized societies and market-driven economies, which entail dramatic changes in people's values and lifestyles (Peng, Wang, & Jiang, 2008), informal institutions such as cultural norms and customs remain potent in affecting Asian business practice, and the ways in which they affect business remain essentially uncharted.

As such, scholars are calling for more novel theories that shed light on management and marketing strategy from an Asian perspective (Fam, Yang, & Hyman 2009; Yang & Wang, 2011). Asian institutional environments (e.g., regulatory, normative, and cognitive institutions), along with industrial organizational structures and firm factors are exerting substantial impacts on firm strategy and performance (Galbreath & Galvin, 2008; Zhou, Gao, Yang, & Zhou, 2005). Thus, this special issue devotes much of its attention to understanding Asian business practice and, in turn, contributing to Asian theories of strategic management and marketing. Our call for papers has generated much interest from all over the

world, as evidenced by 125 articles, representing overwhelming numbers of submissions for a single special issue.

In this introduction, we first propose a conceptual framework of institution-based, legitimacy-embedded efficiency to provide a concise, yet useful, scheme in understanding management and marketing strategy in Asia. We underscore the institutional underpinnings of business strategies which enhance legitimacy and efficiency. We then highlight several fundamental, philosophical principles related to business strategy, which provide profound understanding of how informal institutions shape the strategies that firms employ and the actions that managers take in most Asian countries. We give a brief summary of each paper in this special issue to guide readers in navigating the voluminous content. We finally point out what we have learned from these studies, thus enabling us to outline directions for further research.

2. A conceptual framework of institution-based, legitimacy-embedded efficiency

In the past decades, researchers have strived to understand Asian business strategies (e.g., Lau, 2002; Bruton & Lau, 2008). Yet, they have lacked an integrative scheme or framework that unifies fragmented observations and illuminates the related aspects of Asian business practice. Specifically, researchers lack a systematic understanding of Asian companies doing business in institutionally different markets, which encompass regulatory, normative, and culturally cognitive dimensions. We develop such a conceptual framework, shown in Fig. 1, that integrates institutional theory, transaction costs economics, and a resource-based view in order to achieve an overarching perspective on Asian marketing and strategic management.

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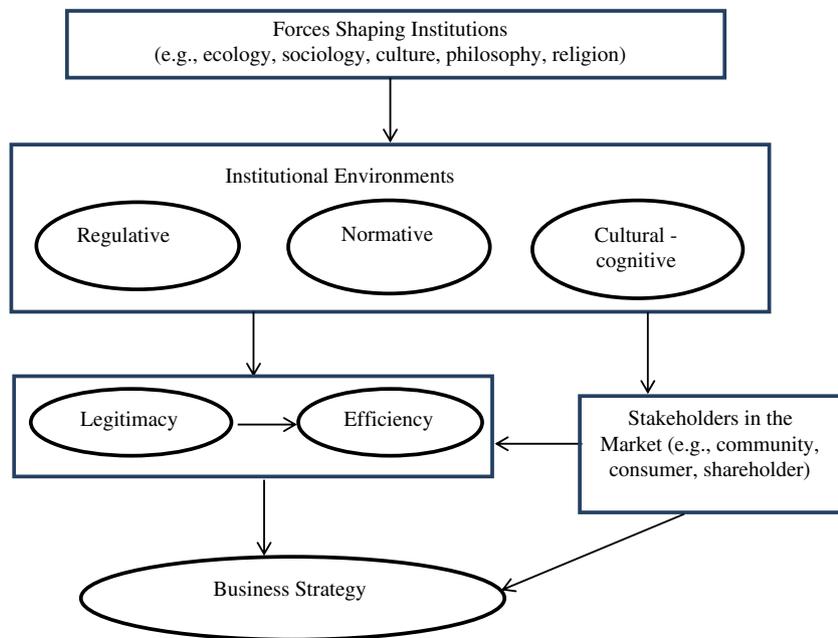


Fig. 1. A conceptual framework of intuition-based, legitimacy-embedded efficiency.

To understand Asian business, researchers should be aware of the unique social, economic, and cultural contexts of business which shapes Asian institutional environments. In particular, Asian philosophies and religions such as Confucianism, Buddhism, Taoism, and Islamism have strongly influenced the formation of all three institutional environments. Thus, managers need to gain greater insight into the forces that drive formation and evolution of Asian institutional environments. For example, the prevalence of state capitalism in such countries as China and Singapore has deep roots in their Confucian belief-system. Also, *guanxi* (interpersonal relationships) facilitates business cooperation and enhances firm performance (Luo, 1997). Doing business in Asian countries must conform to these social norms and institutions to ensure legitimacy and efficiency (Scott, 2008). On the other hand, institutional distances such as regulatory, normative, and cognitive differences in Asian markets entail legitimacy pressure and market ambiguity which add to transaction costs.

Yang, Su, and Fam (2012) posit that firms doing business in such an institutionally different market should not merely conform, but strategically respond, to foreign institutions. Their findings indicate that well-designed firm governance strategies function to both mitigate legitimacy pressure and enhance firm performance (Yang, Su, & Fam, 2012). We believe that in most Asian societies legitimacy often has a higher priority as economic efficiency typically follows from social acceptance (Luo, 1997; Peng, 2000). For example, the essence of building *guanxi* in China and in other Confucianism-based societies pertains to the identification of a set of norms and local business practice to become “insiders.” In other words, *guanxi* development is to build legitimacy among business stakeholders which leads to resource-sharing and performance (Su & Littlefield, 2001). Thus, firm efficiency in Asian markets is embedded within legitimacy.

Firm efficiency materializes through the accumulation of institutional capital and, along the way, legitimacy develops in Asian societies. As mentioned earlier, social acceptance in Asian societies emerges when the “outsider” becomes an “insider” through establishing relational closeness such as *guanxi* in China, *chaebol* in South Korea, and *kanji* in Japan. Thus, firm legitimacy develops as the firm builds a relationship network with various stakeholders in the society, which translates into institutional capital. Empirical studies indicate that institutional capital adds to firm

efficiency. For example, both political ties and business ties function to enhance firm performance in Chinese markets (Luo, 1997; Sheng, Zhou, & Li, 2011). More generally, firms build efficiency on their social legitimacy by means of accumulated institutional capital that functions to reduce transaction costs and facilitate resource-sharing among firm stakeholders (Oliver, 1997). Thus, to introduce this special issue, we propose an integrative framework that combines institutional theory, transaction economics, and resource-based view to shed light on future research in the realm of Asian business strategy.

3. Two principles of legitimacy in Asian business practice

Among many Asian values (Hofstede, 1991), two main philosophical principles underlie our conceptual framework: Confucianism and Taoism, both of which originate in China but significantly affect many Asian cultures, especially those of Eastern and South-Eastern Asia.

3.1. Confucianism

The essence of Confucianism builds on Confucius' five notions of *ren* (humanness), *yi* (righteousness), *li* (etiquette), *zhi* (knowledge), and *xin* (integrity), which define the core value of Chinese societies (Yao, 2000). *Ren* is a notion of obligation and humaneness for other members within a community and probably can be best expressed as the Confucian version of the ethic of reciprocity. *Yi* refers to the moral disposition to do good, and as a necessary condition of *ren*, the action of *yi* vests *ren* with meaning of righteousness. *Li* connotes propriety in human relationships that form social order. The first meaning of *li* pertains to Confucius' five relationships: father and son (loving/reverential), elder brother and younger brother (gentle/respectful), husband and wife (good/listening), older friend and younger friend (considerate/deferential), and ruler and subject (benevolent/loyal). The second meaning of *li* relates to social order which conforms to the norms of *ren*. The doctrine of the Mean underlies social order and rituals in China in which proper behavior should be in the center or path between extremes (Fan, 2010).

Confucianism defines the meaning of legitimacy and the way to achieve it in Chinese societies. For example, to gain social acceptance in business circles, businesspeople must follow the five foregoing

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