



A Study on MNE's Local Standardization Participation: The Mechanism of Institutional Logic

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Abstract. This study investigates how the institutional logic that multi-national enterprises (MNE) bare influences its institutional entrepreneurship behavior. By studying large MNEs' participation in the Chinese national standard setting process, this study finds that MNE's preference of taking part in Chinese national standard setting is influenced by the coordination logic inherited from its home country, subnational location, and industry. To be more pacific, this study finds that MNEs come from countries that dominant by coordination logic are more likely to influence the standard by joining the national standard setting committee. Because they are more used to the coordination from higher authority. Besides, if MNEs are located in provinces or belong to industries that are greatly influenced by the national government's support, they are more likely to count on the national standard setting process.

Keywords: multi-national enterprises · national standard setting · institutional entrepreneurship · institutional logics

1 Introduction

In China, the government advocates equal rights between domestic firms and MNEs in the economy. Especially in recent years, the Standardization Administration of China encourages MNEs to take part in the national standard setting process to improve the national standards' compatibility with international standards. In April 2022, China unveiled guidelines for accelerating the building of a unified national market. The guideline emphasizes the promotion of fair participation of domestic and foreign firms in standardization work in China, and the internationalization of Chinese standards. Despite the efforts of the government, only a limited number of MNEs have taken part in the national standard setting process. Among these firms, only part of them are mainly controlled by the foreign parent firms according to whether the parent firm possesses the majority share. As the business environment for MNEs is improving, the "liability of foreignness" that impedes MNE's involvement in shaping local institution is weakening. However, there is an unsolved puzzle on why MNEs, even endow the legitimacy and the awareness of the importance of standardization in the host country, are still not active in contributing to Chinese national standard setting.

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The purpose of this paper is aimed at solving the above puzzle by investigating MNE's orientation of coordination. Borrowing the theatrical lens of institutional logic, which claims that individual's behavior is guided by the logic of the field it is embedded in, this article claims that MNE's preference of taking part in Chinese national standard setting is influenced by the coordination logic inherited from its home country, subnational location, and industry.

2 Theory and Hypotheses

2.1 MNEs as Institutional Entrepreneurs in Host Country

In international business literature, a stream of research demonstrate that MNCs can co-evolve with the host country's institution (Cantwell, Dunning, & Lundan, 2010) or even shape it (D. Chen, Newburry, & Park, 2009; M. Zhao, Tan, & Park, 2014). MNCs act as a broker that transfers the practices among different institutions. Prior research enumerate a lot of cases that MNCs introduce new institutions to the local context, including promoting the adoption of standards (Garud, Jain, & Kumaraswamy, 2002; Guler, Guillén, & Macpherson, 2002). In these studies, the institution in the host country is not fully exogeneous so that MNEs' legitimacy strategies are dominant by achieving legitimacy through acting in accord with the host country's regulative, normative and cognitive expectation, but partially endogenous that MNEs can strive for legitimizing practices that are new to the host country.

Home Country Institutional Logic and MNE's IE Strategies

According to Hemenway (1975), standards are set through two paths: market competition and coordination through standard setting organizations (SSOs). The market-based standard setting process is a typical bottom-up institutional entrepreneurship pattern in which dominant designs are established through competing with alternative choices (Van Wegberg, 2004). Regulating institutions or regulating arrangements are not involved in this process. While committee-based standard setting process, on the other hand, shows a strong coordination orientation as multiple parties are involved to reach an agreement and create a new regulation. During this process, the government is often involved to gather the relevant parties, initiate the process, and formally issue and legitimize the new standard. Chinese national standard setting process is a typical committee-based standard setting process. National government plays an important role in initiating the standard setting plan, organizing standard setting committees, and issuing standard documents.

When concerning firm's incentive to engage in competitive strategy or coordinated strategy, the field that the firm embedded in should be taken into account (Barnett, 2006). Prior studies have summarized two opposite institutional logics at the national level: market logic and coordination logic. Market logic can be understood as 'an institution comprising a core set of ideas, practices, and policy prescriptions that protect the liberty of individuals to pursue their economic interests and embrace free-market solutions to economic and social problems' (Campbell & Pedersen, 2001; E. Y. Zhao & Lounsbury, 2016). Coordination logic goes the contradictory way that industrial arrangement is settled through sector-wide or even national agreements, which hugely relies on business associations or government agencies to initiate and organize. In countries that

are dominated by market logic, firms are expected to obtain recourses and market status through market competition. Minimal government coercion and constraint are involved to influence economic and social development (Campbell & Pedersen, 2001; Przeworski et al., 1995). MNEs that come from such countries inherit the market logic and thus tend to influence the institutional arrangement through competition.

On the contrary, MNEs from countries that are dominant by coordination logic are more likely to set the standard collaboratively. In such countries, non-market relationships and collaborative actions play an essential role in shaping the institutional environment (Becker-Ritterspach, Lange, & Becker-Ritterspach, 2017). To achieve and sustain such relationships, firms are expected to engage in collective activities that combine diverse actors. What is more, in such countries, non-market actors, such as government and industry associations, usually take the mission of initiating and facilitating collective actions. On the one hand, such arrangements make MNEs rely more on the government's coordination power and take it for granted. On the other hand, MNEs also accumulate capabilities related to coordination with stakeholders and dealing with the government in home countries.

The cognition and capabilities facilitated under the home country's market logic or coordination logic influence MNE's institutional entrepreneurship strategies in the host country (Becker-Ritterspach et al., 2017). In the context of the standard setting process in China, MNEs from countries that are dominant by market logic may prefer to establish *de facto* standards through market competition. The bottom-up approach of standardization gives full autonomy to firms to leverage their resources and capabilities to promote the adoption of their own practices. However, MNEs from countries that are dominant by coordination logic tend to influence the standardization process through a committee-based standard setting approach. They trust the coronation mechanism of committees and count on the government's influence over the market. Hence, the first hypothesis proposes that MNEs from countries that are dominant by market logic are more likely to participate in the Chinese national standard setting process.

Hypothesis 1: Home country's coordination logic has a positive effect on MNE's participation in Chinese national standard setting process.

Subnational Independence and MNC's Orientation Toward National Government Coordination

IB literature has long investigated the influence of MNC's location. While most literature focus on the variance among the host countries (Beugelsdijk, McCann, & Mudambi, 2010; Dai, Eden, & Beamish, 2013), there are increasing studies that undertake a more fine-grained analysis at the subnational level (Chidlow, Holmström-Lind, Holm, & Tallman, 2015; Hutzschenreuter, Matt, & Kleindienst, 2020) and community level (C. Marquis, Glynn, & Davis, 2007). This stream of literature argue that the host country is not always homogeneous inside, but shows great variance in regional characteristics. Especially for countries that endow vast territory and encompass diverse cultures, the heterogeneity across subnational regions is especially in need of more sophisticated investigation. China is a typical large country where culture and institution show great differences across provinces, which offers an ideal context to study the subnational variance (Chan, Makino, & Isobe, 2010; Ma, Tong, & Fitza, 2013).

Existing studies have fully argued the influential effect of subnational institutional conditions on MNE's behavior. Subnational institutional logic is built upon the historic patterns of the regulatory structure, social norms, and prevalence culture in a bounded geographic area (Christopher Marquis & Battilana, 2009; York, Vedula, & Lenox, 2018). Different regions have formed heterogeneous institutional landscapes during their history, leading to the MNEs' divergent practices. Prior studies find that the uneven institutional conditions at the subnational level not only directly lead to MNE's divergent practices (Hutzschenreuter et al., 2020; Zhang, Zhao, & Ge, 2016) by suggesting what kind of actions are appropriate, but also interact with institutional logics at other levels by influencing the interpretation of the corresponding institutional pressure (Lee & Lounsbury, 2015). This study particularly investigates the interaction between subnational institutional logic and MNE's home country institutional logic.

Whereas MNEs from countries that are dominant by coordination logic show a greater tendency toward committee-based standard setting, the likelihood of joining the national standard setting process still varies according to which province the MNEs are located. In China, provinces show different levels of reliance on the national government's support. In some less developed provinces where local government is constrained by limited resources, like Tibet, Qinghai, and Gansu, their development is greatly dependent on the national government's support through funding, duty drawback, and organizing cross-province assistance programs. In these provinces, economic activities are greatly affected by national policies and show more obedience to the national government's orders (Eckersley, 2017; Maria, Halim, & Suwardi, 2021). MNEs that are embedded in such locations are exposed to the logic that national authority has the essential power, and firms shall strictly follow its instructions. Thus, they will value more of the coordination activities initiated by the national government in terms of its influential power over the whole market, and show a greater tendency to devote to the national standard setting.

On the contrary, when provinces are relatively independent of the national government's support, the subnational actors play a more significant role in influencing the economy. This research expects that MNCs in such regions will show less tendency to the national coordination activities. First of all, part of their needs for national-level coordination can be satisfied by the subnational government. One of the biggest reasons for MNCs to take part in coordination activities is their constrained resources and legitimacy which limits their competitive capacity. However, as subnational policy-making is relatively free from vertical support, subnational governments rely more on local stakeholders to make policies and achieve political objectives (Eckersley, 2017). Actors from private sectors, including MNEs, thus enjoy more bargaining power and favorable policies. As independent subnational regions offer a favorable and appealing business environment to MNEs (Hu, Natarajan, & Delios, 2021; Ma & Delios, 2007), MNEs' urgency to obtain legitimacy and competitive advantage through coordination with peers scattered across the country will be reduced. Secondly, MNEs located in relatively autonomous provinces are less likely to worship national-level authority and its coordination power. This is because the subnational government is more capable of buffering the influence of the national government's regulation. MNEs embedded in such provinces thus are impressed less by the national level authority's influences and depend

less on national government and their coordination for key resources and administrative permission. They are perhaps more interested in contributing to local institutional innovation (Almond, 2011).

Hence, the second hypothesis proposes that MNEs located in provinces that are less dependent on the national government will count less on national standard setting activities.

***Hypothesis 2:** Subnational independence will weaken the positive effect of MNC's home country's coordination logic on its participation in Chinese national standard setting process.*

National Industrial Policy and MNC's Orientation Toward National Government Coordination

Apart from the influential effect of home country and subnational level characters, existing studies also point out that industry-level factors also guide firm behavior. Prior studies claim that industries vary in terms of national-level government interventions, leading to the divergent choices of MNEs' strategy (Castellani & Lavoratori, 2020; Hong, Wang, & Kafouros, 2015; Ma, Delios, & Lau, 2013). Industrial policy is a typical governmental intervention that attempts to promote productive investments by promoting market coordination (Murphy, Shleifer, & Vishny, 1989; Pack & Saggi, 2006), and plays an important role in resource accumulation and resource allocation through deliberate targeting (Lazzarini, 2015). This study then proposes that MNEs in industries that are on the list of national industrial policy will place more weight on the coordination activities initiated by the national government. MNEs in industries encouraged by national policies are exposed to external resource influx from the national government, which increases their impression of the national government's influential power, and incentive to take political strategies that related to national government agencies (Holmes Jr, Zahra, Hoskisson, DeGhetto, & Sutton, 2016). On the other hand, government support reduces MNE's market orientation that emphasizes on competition based their own internal capabilities (Jourdan & Kivleniece, 2017). However, when firms perceive that the industry effect is not so strong, they have more incentives to take competitive strategy rather than collective strategy (Barnett, 2006).

***Hypothesis 3:** National industrial policy will strengthen the positive effect of MNC's home country's coordination logic on its participation in Chinese national standard setting process.*

3 Research Design

In this study, the sample focus on MNEs in the manufacturing industry that has the awareness and capability to promote the standard setting. Foreign firms are defined as firms with at least 50 percent of foreign ownership (Yang, Ma, & Cui, 2021). To ensure MNE's awareness of promoting standard setting, this research selects MNEs from countries with higher standardization level than China. As countries differ in standard systems and mechanisms of forming standards, there is no well-established method to compare the degree of standardization among countries. To proxy the gap of standardization between foreign countries and China, this research compares their contribution to ISO

(international standardization organization), the world's largest and most authoritative international standardization organization. ISO is responsible for standardization activities in the vast majority of fields in the world today (including monopolistic industries such as military, oil, and shipping). Currently, there are 167 countries and regions registered in the ISO. ISO issues annual reports to summarize its year activities and members' contributions. According to the annual report, the member country's contribution to the standard process is composed of: (1) their number of secretaries in the technology committee (TC) and subcommittee (SC); (2) their number of convenorships in the working groups. Countries with higher level of standardization and consciousness of standardization will devote more to the international standard setting activities. The above two indicators are summed up to calculate each country's total contribution to the ISO in a given year. If a country's contribution is higher than China's, it is supposed that MNEs from this country endow higher standardization awareness.

To ensure the sample MNEs are equipped with capabilities to influence the standard setting process in China, this study further narrows down the sample according to the size of MNEs. Not all firms are qualified to participate in the Chinese national standard setting process. To ensure that the standard fits the reality of the market and production, as well as the interest of the public, the members of the drafting committee are required to be elite firms that "possess rich theoretical knowledge and practical experience". I restrict the sample to large MNEs that are equipped with more resources and capabilities. According to the classification made by the China National Bureau of Statistics in 2011, in manufacturing industries, the large firms shall simultaneously meet the acquirement of hiring above 1000 employees and achieving above 400 million RMB operating revenue. As most of the MNCs are not listed firms, the firm-level data is obtained from the China Industrial Enterprise Database, which records the information of firms above designated size from 2007 to 2014. To ensure that MNEs are running stably in the time window, I only conclude MNEs that are qualified as large firms for at least 4 times during this 8-year period. After removing MNEs whose parent firm is registered in tax heaven, in the end, there are 443 MNEs concluded in the sample.

Dependent variable. The dependent variable is participation in Chinese national standard setting process. *Participation* is measured by the total number of times that focal MNE is listed in the drafting committee in issued national standards in a year. The Chinese national standard data is obtained from RESSET database. I match the issued national standards with its corresponding participating MNEs. Especially, the dependent variable is lagged for two years, since in China the development cycle of national standards is about 2 years. The national standards that issued in the focal year may trace back to 2 years ago, when MNEs start to take the action of participating in the standard setting process.

Independent variables. The first independent variable *home country's coordination logic* is drawn from the Heritage Foundation's annual *Index of Economic Freedom*. The index consists of ten indicators scaled from 1 to 100, and the greater economic freedom score indicates the greater country's market liberty and market-supporting institution (Duanmu, 2012; Lehrer & Delaunay, 2009). To better present the effect of coordination logic, this study measures the *home country's coordination logic* (HCL) by subtracting the economic freedom score from 100.

Following prior studies, this study measures the first moderator *subnational independence* by the degree of fiscal decentralization (S. Chen, 2010; Hu et al., 2021; Qian & Weingast, 1997). A higher fiscal decentralization suggests the lower dependence of subnational regions on national government, or greater national government's control. The information about provincial government finance is obtained from EPS Database. To be more specific, the following calculation is applied:

$$\text{Subnational independence} = \frac{\text{Province fiscal revenue}}{\text{Province fiscal revenue} + \text{National government transfer payments}} \quad (1)$$

The information on Chinese national policy is obtained from the CSMAR database. There are two national industrial policies, the Eleventh Five-year Plan (from 2006 to 2010) and the Twelfth Five-year Plan (from 2011 to 2015), in the time window. The second moderator *national industrial policy* is coded as a dummy variable. It is coded as "1" if MNC belongs to an industry that is listed as an encouraged industry in the corresponding period's Five-year Plan, and otherwise "0".

Control variables. This research firstly controls the features at the firm level. Variables like *firm size*, which is measured by the logarithm of the firm's total asset, and *firm age* are included. Besides, *ROA* measured by the return of assets and *LEV* measured by the proportion of leverage in the total asset are also controlled, since they influence MNE's resources that can be devoted to standardization activities. The information on MNE's financial condition is collected from China Industrial Enterprise Database.

Several regional-level control variables are also constructed. The study controls for province *GDP growth rate*, and *GDP* by its logarithm. The information on provinces is collected from EPS Database.

Two variables at the industry level are also controlled. Along with prior studies, *industry concentration* is measured by the Herfindahl index based on firms' sales (Haans, 2019; Lin, Shi, Prescott, & Yang, 2019). The *industry standard* is measured by the total number of national standards issued in the industry in the focal year.

As the dependent variable is count variable, this study adopts the Poisson regression model to test the hypotheses, and particularly control for the year effect and industry effect.

4 Results

Table 1 shows the Poisson regression results on MNE's participation in the standard setting process. Model 1 is the base model that only contains control variables. The result shows that MNE's size and age can significantly promote their joining the national standard setting process. Model 2 tests the main effect of MNE's home country's coordination logic, which is positive and significant (0.52, $p = 0.017$), suggesting that MNEs from countries that are dominant by coordination logic are more likely to participate in the Chinese national standard setting. Hypothesis 1 is thus supported. Model 3 tests the moderating effect of subnational independence. The interaction between the home country's coordination logic and subnational independence is negative and marginally significant (-0.58, $p = 0.053$), suggesting that the positive effect of the home country's

coordination logic is diminishing as MNEs are located in more autonomous provinces that are independent of the national government's support. The result supports Hypothesis 2. Hypothesis 3 argues that the main effect in Hypothesis 1 will be strengthened if MNE belongs to industries supported by the national government policy. In Model 4 the interaction between the home country's coordination logic and national industry policy is added to the regression. The coefficient estimate of the interaction is positive and significant (0.37, $p = 0.01$), supporting Hypothesis 3.

Table 1. Poisson regression models

	Model 1	Model 2	Model 3	Model 4
Firm size	1.006*** (0.105)	0.990*** (0.103)	0.998*** (0.117)	1.038*** (0.111)
Firm age	0.089*** (0.022)	0.075*** (0.020)	0.074*** (0.023)	0.069*** (0.021)
ROA	0.911*** (0.307)	1.044*** (0.274)	1.055*** (0.288)	1.071*** (0.299)
LEV	0.688 (0.884)	0.566 (0.776)	0.692 (0.814)	0.374 (0.768)
GDP growth rate	-2.250 (6.966)	-4.903 (6.516)	-0.156 (6.823)	-6.006 (6.681)
GDP	-0.013 (0.273)	0.118 (0.269)	0.001 (0.261)	0.128 (0.261)
Industry standard	0.004* (0.002)	0.004* (0.002)	0.006** (0.002)	0.004* (0.002)
Industry concentration	1.479 (1.359)	0.346 (1.903)	0.514 (1.875)	-1.043 (2.158)
HCL		0.099*** (0.037)	0.524** (0.220)	-0.238* (0.137)
Subnational independence			19.769** (10.066)	
HCL*Subnational independence			-0.578* (0.298)	
National industrial policy				-10.271*** (3.721)
HCL*National industrial policy				0.366*** (0.142)
Cons	-18.768*** (3.964)	-21.752*** (3.945)	-36.545*** (9.197)	-12.659** (5.204)

(continued)

Table 1. (continued)

	Model 1	Model 2	Model 3	Model 4
Year effect	Yes	Yes	Yes	Yes
Log likelihood	-285.38	-280.28	-274.38	-276.36
N	2582	2582	2582	2582

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

5 Discussions

This study investigates how the institutional logic that MNEs are influenced by its institutional entrepreneurship behavior. By studying large MNEs' participation in the Chinese national standard setting process, this study finds that MNEs' preference of taking part in Chinese national standard setting is influenced by the coordination logic inherited from its home country, subnational location, and industry. To be more specific, this study finds that MNEs come from countries that dominant by coordination logic are more likely to influence the standard by joining the national standard setting committee. Because they are more used to the coordination from higher authority. Besides, if MNEs are located in provinces or belong to industries that are greatly influenced by the national government's support, they are more likely to count on the national standard setting process.

This study tries to make the following supplement on current literature. Institutional logic in institutional entrepreneurship literature is usually applied to explain the antecedence of the actor's changing institution. However, relatively less attention is paid to how institutional logic guides institutional entrepreneurs' behavior in promoting institutional change. While prior studies focus on actors' features that influence their awareness and capability of shaping institutions, this research takes a step further to point out that MNEs' institutional logic influences its tendency to take a particular path of institutional entrepreneurship.

Similarly, current standard setting research concludes that firms can influence standard setting either through the market-based process or committee-based process. But little attention is paid to the firm's preference of taking either path. In this study, it is demonstrated that apart MNEs' tendency to take part in Chinese national standard setting is influenced by its home country's coordination logic, as well as the features of its location and industry.

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