Chapter XVI
Mixing and Matching Organizational Network Legitimacy Practices to China's Telecommunication Market

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ABSTRACT

Despite massive investment, few foreign firms doing business in China's telecommunication sector can claim success. Such failures can be explained by their inability to acquire organizational legitimacy. Legitimacy is garnered when firms successfully market their competencies to key stakeholders, by conforming to regulative processes, institutional norms and cognitive meanings within the environment. But which competencies should a firm push to develop its legitimacy and to whom should they be targeted? While firms can push its in a variety of different ways, there is no guarantee of success in a network of embedded, interdependent stakeholders. Drawing on institutional theory, this chapter presents a case research based framework to describe an iterative and incremental process to help firms manage their network legitimacy. Using this framework, the chapter examines the complementary assets and legitimacy orientations of these firms with network stakeholders, and the resulting inter-partner initiatives and alliances.

INTRODUCTION

Every month, senior strategist of foreign firms operating in China's telecommunication sector, analyze and develop scenarios to better understand and manage it. Armed with insight and knowledge from research and intelligence, consulting assignments and industry briefings, they plot the path to survivability and profitability. On the surface, there is a calm of normalcy and the noise of "business as usual." But as the complexity for developing business strategies increases, there is a sense of urgency and anxiety. This is not an unusual scene because in a telecommunication sector undergoing structural reforms, these enterprises are forced to operate in a range of settings, often subject to different "rules of the game" (North, 1990).

Despite having gone through an arduous process of soul searching in relation to the development of the telecommunication sector, policies remains underpinned by concern over maintaining control of a strategic interest and the protection of key stakeholders vested interests within the state–controlled economy. While the Government is committed to structural reforms, policies continue to be affected by powerful stakeholders with vested interests. Rather than stepping back and letting the market operate, "government and industry protectionism" have instead resulted in a raft of conflicting and ambiguous policies announcements.

To deal with the sector's uncertainty and complexity, strategists need to take a more expansive view of the environment. The competitive reality in a transitional market economy is that success depends upon whole constellations of stakeholders and foreign firm's ability to garner organizational legitimacy by meeting the norms and expectations of these stakeholders. The determination of legitimacy is made by the stakeholders to which the organization must be responsive, and on whom it is dependent for survival (Kumar and Das, 2007). Legitimacy is thus concerned with how firm and / or stakeholders perceived one another, and how they may co-operate in future inter-partner alliances and programs. Legitimacy in turn facilitates access to other firm's resources and activities needed in the production and transformation of industrial goods and services.

Our concern in this chapter is with network legitimacy. In industrial networks, firms are linked together by their performance of industrial activities (e.g. marketing, exporting, production, logistic), employing or consuming various types of resources (e.g. R&D, financial, brand equity, knowledge) to produce other resources. Over time and many interactions, firms develop tangible relationships that are connected together to form a "quasi-organization" (Hakansson and Ford, 2000). The system of these interconnected relations makes up the business network, in which the firm is embedded (Wilkinson and Young, 2000). Firms operate in the context of these business relations and networks, affecting the nature and outcomes of their actions. Hence, resources owned and activities performed by the firm are not as important as their relative attractiveness as perceived by others. This attractiveness, at a point in time, and over time, stipulates the firm's network legitimacy.

This chapter contributes to the existing knowledge on organizational legitimacy in three important ways. First, we extend our understanding of organizational legitimacy by introducing the concept of network legitimacy, i.e. legitimacy in industrial networks. Second, we examine the process of network legitimacy by proposing a theoretical model, based on the interaction among: (1) the firm's reputation and network characteristics; (2) legitimating initiatives, and (3) legitimacy outcome. This model is depicted in Figure 1. The reputation of the firm is crucial in any legitimacy seeking exercise, especially among foreign firms without any previous, local business dealings. This exercise will also be influenced by the characteristics of the network in which they are seeking legitimacy.