Institutional Differences and Opportunity Exploitation: A Comparison of Managerial Ties Utilization in Asia and Europe

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Abstract This chapter discusses how differences in distinct institutional environments affect the vital entrepreneurial activity of utilizing managerial ties for opportunity exploitation. Focusing on the comparison between Asia and Europe provides an opportunity for researchers to see entrepreneurs operating in the same global market with strong and consistent rules and, in this case, to examine how the differing institutional settings affect the behavior of entrepreneurs in different markets.

This chapter adopts an institutional theory perspective to investigate entrepreneurial behavior in two regions of the world with disparate institutional environments and enormous regional differences—Asia and Europe. Two typical countries are chosen, China, the largest emerging country in Asia, and Germany, the largest economy in Europe. A comparative study of the differences provides insight into the impact of cultural context and institutional environment on entrepreneurial behavior. The study finds that institutions in these two different environments lead to significant differences in entrepreneurial practices.

By exploring and comparing the relationship between managerial ties and opportunity exploitation in Asia and Europe, this chapter intends to provide a better theoretical understanding of the different behavior patterns of entrepreneurs in divergent institutional contexts.

Keywords Managerial ties · Opportunity exploitation · Institutional theory perspective

1 Introduction

The core of entrepreneurship is opportunity exploitation. To facilitate the opportunity exploitation, existing research has emphasized the importance of utilizing informal institutions such as managerial ties. Geletkanycz and Hambrick (1997)

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define managerial ties as "executives' cross-border activities and their related interactions with external entities." Based on relationships with different stakeholders, existing research generally distinguishes managerial ties as ties with other firms (including customers, suppliers, and peers), and ties with government (involving relationships with government officials at all levels) (Peng & Luo, 2000). The core logic behind the value of managerial ties is that firms with managerial ties can more easily access resources, such as information flows and political support, from external stakeholders, and therefore firms can improve opportunity identification and hence firm performance (Luk et al., 2008).

We further propose that the effort of managerial ties as informal institution in influencing opportunity exploitation is likely to be contingent on the formal institutions affecting firm's behavior in the process of resource development. The existing literature suggested that managerial ties become less efficient when market forces have a larger influence on business decisions and outcomes (Peng, 2003), following market efficiency logic that is operative in developed European countries such as German where formal market mechanisms (e.g., formal rules for engaging in competition, and free market forces governing the competitive rivalry, actions, and outcomes) are mature, and social norms (normative) place more emphasis on the roles of formal institutions.

However, in some Asian countries, such as China, where the process of economic transformation has provided more market opportunities, social norms place more emphasis on informal institutions, and managerial ties can complement, or even partially replace, formal institutions. In this context, Chinese firms may emphasize the leverage of managerial ties more than German firms. Thus, the mechanisms for using managerial ties to promote opportunity utilization may differ between Germany and China.

Why we choose China and Germany for this comparative study? Because China is the largest economy in Asia, and Germany is the largest economy in Europe, both of which are very representative. China's economic development since the "reform and opening up" has attracted world attention, and Chinese entrepreneurs have become a force to be reckoned with in the world market. Influenced by thousands of years of Confucian culture, Chinese entrepreneurs have a unique attitude toward managerial ties, and today, with the deep development of the market economy, it is worth paying attention to the use of managerial ties for opportunity exploitation by Chinese entrepreneurs. Germany, on the other hand, has a similarly tortuous history, having experienced political wars, regime changes, state transformations and map changes, and the entrepreneurs as an elite class has been deeply affected. The German entrepreneurs' sense of competition and crisis is deep in their bones, and the German entrepreneurs are also known for their craftsmanship, so we are also curious about the German entrepreneurs' focus on managerial ties and how to use them for opportunity exploitation.

What's more, since 2016, China has become Germany's largest global trading partner for 3 years, with bilateral trade accounting for nearly one-third of my trade with the European Union, and Germany has maintained its position as China's largest trading partner in Europe for 44 years. As of 2018, Germany has the highest amount of investments and projects in China among EU countries. Likewise, in terms of Chinese investments in EU countries, Germany is also at the top of the list. China and Germany are important economic and trade partners of each other.

In short, in order to effectively exploit market opportunities, firms need to use managerial ties for opportunity exploitation depending on the institutional environment (Lovett et al., 1999). However, existing research has largely ignored this issue, so two important questions remain: How do ties with other firms and ties with government affect opportunity exploitation? What are the differences between Germany and China in terms of the use of managerial ties for opportunity exploitation? To answer these questions, we integrate institutional theory into entrepreneurship research to enrich our understanding of the contingencies that influence the impact of managerial ties on opportunity exploitation.

2 The Comparison Between Germany and China in Institutional Perspective

From an institutional theory viewpoint, cultural, social norms, and regulation are three key institutional forces which can influence entrepreneurial activities. Both cultural values and social norms as informal institutions are likely to influence formal institutions such as regulations and/or interact with them to affect a firm's strategic choices (Holmes et al., 2012).

1. Cultural

Ancient China pioneered a great agrarian civilization, which is characterized by a self-sufficient agricultural environment, an emphasis on natural cycles, a strict hierarchical order and legal rituals, stability, static, worship of power, and exclusion of risk. The ancient agricultural countries advocated strongman politics and hierarchical order to ensure that orders would be followed thoroughly, that the population would continue to reproduce, and work more.

The ancient Europeans did not have a fertile two-river valley and were forced to wander around for business, one of the very important ways was by sea. The risks of shipping were much greater than farming, so they gradually developed an open, outward-looking, dynamic, and unstable maritime culture, which was the opposite of agrarian culture, and at the same time, they were more receptive to risks and uncertainties, and more daring to take risks and keep contracts (doing business with strangers by contract). Marine culture, with the uncertainty and openness of technology, is highly compatible. Forced to fight for their lives against the sea, Europeans are more interested in freedom, in exploring nature, and in interacting and cooperating with people.

2. Social norms

China has been deeply influenced by Confucianism for thousands of years. Confucianism advocates and upholds hierarchy from the ideological point of view. East Asian intellectuals are deeply influenced by Confucian ideology and culture, blindly pursuing "face (Mianzi)" and hierarchical status, unwilling to admit academic mistakes, and blind faith in authority. The establishment of anti-authority courage and ideology requires the maintenance and establishment of a democratic system, and the establishment of a democratic system is a mutually reinforcing relationship with the formation of democratic consciousness.

China has a special term to describe the relationship between people—Guanxi. Guanxi has existed in China for a long time and is woven like a fine fiber into every person's social life and every aspect of Chinese society. It is embedded in Chinese culture, which has a history of more than 5000 years. Ever since Confucius recorded the hierarchy of social rules, values, and authority in writing in the sixth century BC, Chinese society has functioned like a clan network. Guanxi functions in a series of concentric circles, with close family members at the center and relatives, classmates, friends, and acquaintances arranged at the periphery in order of Guanxi's proximity and level of trust. Guanxi is used to achieve the desired outcome when situations beyond one's capabilities arise (Redding & Ng, 1982).

The cultural basis of Guanxi is Chinese collectivism. Park and Luo (2001) argue that Guanxi is the concept of using connections to obtain help in personal contacts, and they identified "Mianzi" and "Renqing" as two Chinese philosophies related to Guanxi from a Chinese cultural perspective. In order to cultivate and expand a viable Guanxi, a certain level of face (Mianzi) must be maintained (Yeung & Tung, 1996). In essence, reciprocity—an idea inherent in Guanxi—comes from Renqing (human feeling) (TSui & Farh, 1997). When a person does not consider the responsibility of reciprocity, he loses face, hurts the feelings of the people involved (e.g., friends and family), and ultimately poses a danger to Guanxi. In short, Guanxi is a personal relationship, and is instrumental, reciprocal, transferable between subjects, and intangible (Park & Luo, 2001).

The managerial ties described in this paper are also based on the existence of Guanxi. The social networks formed by managers of enterprises, managers of other enterprises, and government officials exist as a channel mechanism for enterprises to compensate for institutional defects and obtain scarce resources. The norms of trust and reciprocity established between firm managers and managers of other firms and government officials, on the other hand, serve as an informal governance mechanism that plays a key role in coordinating and facilitating cooperative collective action among firms and government.

The reason why Europe was able to lead in science and technology in modern times lies firstly in the rise of the Renaissance movement and secondly in the establishment of democracy in various countries. The German sociologist Max Weber, in his famous work "The Protestant Ethic and the Spirit of Capitalism," pointed out the value of the Reformation to the rise of capitalism. The new doctrines and ideas that emerged from the Protestant ethic, such as the spirit of present-day asceticism and the pursuit of realistic living, were highly compatible with the accumulation of capital and pragmatic enterprise required by capitalism. The Protestant ethic gave birth to a by-product that gave people a legitimate secular purpose in the pursuit of self-interest, thus motivating them to gradually escape ignorance and work for personal gain. Protestants choose to "eat comfortably" and pursue the pleasures of this life, while Catholics prefer to "sleep soundly" and cultivate the blessings of the next. Weber finally summarized the ideological basis for the rise of the capitalist market as rationalism. Rationalism in the West was the driving force behind the rise of modern science, free markets, and democracy.

3. Regulation

The great polemic between Keynes and Hayek was the battle between government interventionism and free market thinking. This polemic continues to this day, and the battle between the visible hand and the invisible hand remains fierce. In the perception of many, China favors government interventionism, while Europe is more like the free market. By government intervention, we mean direct government intervention in the economy, such as running state-owned enterprises, raising tariffs, providing financial subsidies, monopolizing markets, etc. Government intervention, with a strong personal touch, will hinder the play of the free market and violate economic laws. However, it is incomplete to simply assume that China is purely government interventionist. China has been market-oriented for more than 40 years and has fully established a market economy. But the huge size of the country and the lack of balanced development between regions have led to different perceptions of the role of the formal and formal institutional complement—the managerial ties—among entrepreneurs in different regions.

3 Ties with Other Firms and Opportunity Exploitation

For Chinese firms, a weaker market system negatively affects their ability to take advantage of new market opportunities. Firms often need to use ties with other firms as an alternative to formal market mechanisms (Zhang & Li, 2010). For example, capital allocation in emerging market is less efficient, so firms can use ties with other firms to obtain needed capital. First, given the significant turbulence and primitive regulations in emerging economies like China, firms need more resources for many purposes, one of which is to exploit opportunities. Second, uncertainty and high business risks are ubiquitous in these economies, and competition is sometimes more unpredictable than in market economies such as Germany (Gu et al., 2010). Due to the imperfect legal system, unfair competition exists in China, and firms rely more on ties with other firms to overcome the weaker formal institution in order to identify and exploit opportunities. Third, because German economic policy tends to favor short-term consumption over long-term investment, opportunities are more concentrated and perhaps easier to identify and exploit. In general, German firms have access to more resources from the market (e.g., information resources from an efficient stock market) for exploiting market opportunities. Therefore, we argue that the positive impact of ties with other firms on opportunity exploitation is greater in China than in Germany.

Ostrom (2005) introduces the concept of institutional polycentrism, arguing that there are multiple institutional centers of power. Therefore, institutional systems are complex and multi-layered (Batjargal et al., 2013; Dau, 2013). For example, the formal systems associated with markets may differ in different regions of the same country. Therefore, it is useful to examine whether ties with other firms have the same impact in regions within a country with more developed market systems as in regions with less developed market systems, which share similar cultural values and social norms. Existing research based on the logic of market efficiency suggests that in highly efficient markets, management ties may have less impact on information flows and transactions. However, due to the prevalence of relational social norms, the effect of ties to other firms remains strong in cultures with efficiently functioning regulations and other mechanisms. However, even in a country like China, firms operating under the same traditional culture and social norms must contend with different levels of market efficiency. The unique institutional attributes of each market system cause them to use these relationships in different ways to take advantage of market opportunities.

As China has increasingly implemented policies to reform and open its markets, the market economy system and market regulations have become more sophisticated, but these changes have been greater in the coastal regions than inland areas. This is partly because China began implementing these reforms first in the coastal regions, where cross-border transactions are easier to conduct. As a result, there are more market opportunities in the coastal regions. To take advantage of these market opportunities, firms use contacts with other firms to obtain resources and timely information, such as new customer preferences, and to identify market trends, including market changes. Moreover, these resources can be used more effectively in markets where there are more opportunities. Thus, in coastal China, cultural values, social norms, and market rules combine to produce a positive impact on opportunity development from ties with other firms.

In contrast, in regions with less developed market systems, such as inland China, market opportunities are much more limited and, therefore, ties with other firms play a weaker role in exploiting market opportunities. Thus, while Chinese culture and social norms emphasize the positive role of ties with other firms, greater influence from the government and weaker market forces make ties with other firms less efficient in these regions. In other words, the positive effects of ties with other firms on opportunity exploitation are stronger in China's coastal regions than in China's inland regions.

4 Ties with Government and Opportunity Exploitation

In a market economy like Germany, ties with the government may have a positive effect on opportunity exploitation, but to a lesser extent. First, existing research provides competing arguments for the relationship between firms and government in a market economy. For example, Hillman and Hitt (1999) examine the process of political strategy formulation and suggest that firms with higher perceived or actual dependence on government policies are more likely to use their ties with government to promote their business operations. Moreover, other studies have shown that market economies usually have a strong legal framework to constrain government power. Thus, compared to emerging economies such as China, governments in market economies generally do not have as much power to allocate resources or enact policies that interfere with the functioning of the market.

Second, German firms try to establish linkages with the government, but more often than not, they lobby the government to enact laws and regulations that are favorable to their industry and even, where possible, to specific firms. Of course, the level of these linkages and lobbying efforts vary from industry to industry. For example, there are some industries that are more dependent on government procurement (e.g., national defense), while others are less dependent on government. Companies that rely on government contracts emphasize their ties with the government to help secure new contracts, while often investing little time and effort in exploiting other new market opportunities. Other firms invest heavily in lobbying efforts to protect their current market leadership and/or market share (e.g., through favorable laws or regulations, such as import restrictions), focus on their current markets, and rarely invest much time and effort in exploiting new market opportunities. Thus, the role of government contacts in leveraging opportunities can be helpful, but generally in a more limited way. Third, because Germany is a political democracy, top government officials change frequently (e.g., every 4 or 8 years). The turnover of officials makes it more difficult for firms to establish long-term relationships with government agencies. Political action in Germany is expensive, and therefore, establishing ties with the government is expensive for firms. Therefore, we propose that relationships with the government have a positive but limited impact on the development of opportunities in Germany.

Chinese firms can benefit by leveraging their ties with the government (Zhou et al., 2008). These ties can help firms gain access to scarce resources that can be used to identify and exploit lucrative opportunities. From the perspective of traditional Chinese culture, firms' ties with the government are key resources, and the prospect of economic growth based on government orientation is a remnant of the planned economy, which in turn influences Chinese firms' strategic decisions. For this reason, Chinese firms tend to use their ties with the government to help them exploit opportunities. However, progressive economic reforms have deeply altered China's market system, and greater market efficiency has affected the value of ties with the government.

In regions with less developed market economy systems, such as inland China, the imprint of norms and value systems inherited from the centrally planned economy remains strong. The market systems in these regions contain more remnants of planned economies, and most firms in these regions still value and emphasize their interface with the government. Businesses in these regions attempt to build personal relationships with local government officials based on a traditional relationship culture. Although local government is encouraged to deregulate business and to reduce its direct involvement in business activities, it still controls a significant portion of strategic resources and has considerable power to approve projects and allocate resources. As a result, managers tend to maintain a disproportionate relationship with government officials because market mechanisms play a weaker role in these areas. In such cases, it is more difficult for firms to obtain resources from the market and thus pursue and exploit new market opportunities without government help. Close ties with the local government can help firms obtain scarce resources such as land, capital, and advance information about industrial planning or relevant policies and regulations, all of which facilitate the exploitation of potential economic opportunities. In general, relationships with the government have had a positive effect on exploiting opportunities in China's interior.

During the economic reforms of the 1980s, the Chinese government established special economic zones in coastal areas to attract foreign direct investment, and these areas gradually developed more Western-style market characteristics and sophisticated infrastructure support, resulting in a more stable competitive environment. As a result, the market economy system in these regions is more mature than inland China, increasing the impact of market efficiency. In these regions, the value of ties with the government becomes more complex.

When the ties with the government rise from low to moderate levels, firms can obtain favorable government support, such as facilitating linkages between the firm and other entities, supporting the development of efficient logistics, and ensuring smooth collection of payments from other firms. In such cases, firms need to spend only a modest amount of resources to maintain linkages with government officials and entities, and can therefore devote more resources to identifying and exploiting opportunities in the marketplace. Thus, establishing and maintaining modest ties with the government can help a business gain government legitimacy without raising suspicions of corruption or nepotism.

Beyond a certain point, however, the strength of the relationship with government will reduce a firm's ability to take advantage of opportunities. First, establishing and maintaining too close ties with government incurs substantial costs, and the resources generated by government ties often require political reciprocity. The requirement for reciprocity may cause firms to limit their opportunity-seeking activities primarily to government-designated activities. Second, firms with overly intensive relationships with government officials tend to experience inertia due to their over-reliance on government help, even when there are significant changes in the environment. Inertia not only reduces the probability of independent problem identification and resolution, but also hinders the introduction and utilization of new ideas. As a result, the efficiency of opportunity development is reduced. Third, companies must invest significant resources to maintain these relationships, and are therefore likely to be locked into less efficient relationships and their outcomes. The value of ties with government depends heavily on the power and success of the government officials involved, and these relationships may lose their value or become a liability if officials are ousted or leave to work elsewhere. Especially as the market system becomes more developed (more open and less dependent on government direction and control), market transaction costs are lower and market self-regulation has a greater impact on business decisions. As a result, firms can find and exploit more opportunities in the market than they can from government guidance. Thus, we conclude that the ties with government have an inverted U-shaped effect on the utilization of opportunities in coastal China.

5 Conclusion

This chapter presents a comparative study of Chinese and German entrepreneurs' use of managerial ties for opportunity exploitation from an institutional theory perspective. We find that the positive effect of ties with other firms to opportunity exploitation is stronger for Chinese entrepreneurs than for German entrepreneurs, and that this positive effect is stronger in the more economically developed coastal areas of China than in the inland China. In the case of ties with government, German entrepreneurs also use this relationship appropriately for opportunity exploitation, while Chinese entrepreneurs choose to maintain moderate ties with government, where either too distant or too close ties with government are detrimental to opportunity exploitation.

Of course, many of these issues have not been fully discussed in this chapter—as they are rarely addressed in the existing literature—but nonetheless they remain critical. Some literature suggests that the role of guanxi is diminishing as China's market-oriented reforms progress (Tan et al., 2009), but the profound impact of cultural will not disappear in just a few decades, and indeed such Guanxi-oriented managerial ties continue to act as a lubricant or even a catalyst in business activities. And as Chinese entrepreneurs expand their territory, the impact of Guanxi culture may spread around the world in the footsteps of Chinese entrepreneurs. In future studies, more convincing evidence to show the changes of managerial ties in Chinese business activities may lead to new theoretical breakthroughs. One of the most pressing issues is that there should be more empirical studies in the future to further prove the speculations derived from theoretical derivations, and a major limitation of the current empirical literature is the U.S.-centric bias. More empirical research on Asian-European comparisons is to be expected and is a severe challenge for empirical research in the coming years.

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