Businesses seeking international legitimacy should look to china's model

March 6 2017

Companies looking to invest in business enterprises in other countries should be aware of the influence of word-of-mouth associations, traditional and social media and historical legacy when they make their commitments - particularly looking at China as a model - Lehigh University researcher Charles Stevens says in a study published in the February 2017 *Global Strategy Journal*.

Researchers interviewed employees, government officials, expatriates and other people in five East African countries—Tanzania, Kenya, Burundi, Rwanda and Uganda - to collect information about how foreign companies investing in the regions were viewed and the impacts of those views.

As reported in "Legitimacy Spillovers and Political Risk: The Case of FDI (Foreign Direct Investment) in the East African Community," they found evidence of "legitimacy spillovers" in the context of political risk. This is the idea that a firm could face increased challenges—or increased opportunities—within a host country government or society through no fault or virtue of its own, but simply due to the larger grouping of firms (by country of origin) to which they were perceived to belong.

"Legitimacy is about whether your activities or presence are viewed as acceptable and appropriate in that particular context," says Stevens, assistant professor of management in Lehigh University's College of Business and Economics, who holds the Thomas J. Campbell '80

Professorship. Legitimacy may be granted, officially or unofficially, by governments, general society, media or other stakeholders.

"Political risk is unforeseen challenges, costs and difficulties due to a political environment," he says. This could come from a government interfering in activities, changing policies or reneging on promises, or from society in the form of rioting, protests, boycotts and terrorism.

Legitimacy smooths the process of starting and running enterprises and helps decrease impact from unforeseen or negative circumstances.

Stevens and co-author Aloysius Newenham-Kahindi, associate professor of international business at University of Saskatchewan Edwards School of Business, found Chinese firms had more success than U.S., European or Indian firms, as they engaged in coordinated efforts—such as the translation of television programs and other cultural initiatives, management of political relationships, and economic investments with greater scale and scope - that build their legitimacy in the eyes of host governments and societies.

Other new findings included:

1.) Social media and Language: People in the developing countries studied were very active on social media and mobile phones. "There were lots of conversations about what Chinese, U.S., European and Indian firms were doing (both good and bad) and those conversations quickly spread within the countries and across them."

And, those conversations were not happening in English. International companies should "get your social media and language game in order because if you really want to communicate, this is an area where English is not widely spread," Stevens says. "You really do need to adapt what you're doing to the local environment."

2.) Entertainment and News Media: "In East Africa we found Chinese firms coordinated with the Chinese government to have Chinese soap operas, dramas and news translated into Swahili (as well as Chinese, as there are a lot of efforts to increase Chinese language proficiency in the region). These efforts helped to gain acceptance for Chinese firms in the region."

3.) Long-term commitments: "In the West, we tend to think of foreign investment in terms of (short-term) profit and loss, cost and benefit, so if conditions worsen in a country, investments might be reduced to prevent losses; yet, our results suggest this can be counter-productive. If the investors are seen as fickle and not caring about the local community, firms' legitimacy can decrease and they'll actually face even more problems."

4.) History: "People often brought up issues relating to colonialism (or a colonial mindset) when discussing foreign firms' activities. It's important for firms to be mindful of the history of the places they're investing in, or else they'll step on 'landmines' they're not aware of."

5.) Cross-country spillovers: "People in Country A really are aware of and talking about what your firm is doing in Country B. This can either make people more positively or negatively disposed toward your firm." For instance, many firms used Tanzania as a stepping stone into other countries in the region. Citizens in these countries would look closely at the experiences that people in Tanzania had with firms from different home countries.

6.) "Lumped together": "People aren't necessarily aware of what each individual firm is doing in their country, but they have strong feelings about 'Chinese firms,' 'American firms,' etc. This can be an opportunity or a threat for firms investing in a country."

The study appears in a special issue of *Global Strategy Journal* focusing on Strategic Management in Africa.

More information: Charles E. Stevens et al, Legitimacy Spillovers and Political Risk: The Case of FDI in the East African Community, *Global Strategy Journal* (2017). DOI: 10.1002/gsj.1151

Provided by Lehigh University