

## ABSTRACT

Title of Dissertation: EFFECTIVE GOVERNMENT AFFAIRS IN AN ERA OF  
MARKETIZATION: STRATEGIC ISSUES  
MANAGEMENT, BUSINESS LOBBYING, AND  
RELATIONSHIP MANAGEMENT BY  
MULTINATIONAL CORPORATIONS IN CHINA

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Little public relations research on government affairs has been conducted. Even less research of this kind has yet been conducted in a non-western context. The purposes of this study were to explore how public relations professionals in multinational corporations (MNCs) in China practice government affairs activities at different levels of Chinese government and to develop a normative theory of strategic government affairs. Government affairs in this dissertation refers to the organizational function that encompasses issues management, policy formation, and relationship management. I applied the perspectives of public relations and political economy to examine the MNCs' management of government affairs.

I conducted 27 long interviews with executives or managers responsible for government affairs from the China offices of 25 MNCs. The MNCs cover several

industries and three business entry modes. I also conducted a two-phase document review and informal interviews with Chinese journalists and public relations scholars and practitioners.

My data suggested that with China's socialist market economy and authoritarian political system, MNCs must interact with the government to strategically manage opportunities and threats in their environments. I found that government affairs performs six functions. Government affairs contributes to organizational effectiveness by participating in the MNCs' strategic management processes through four roles, managing issues, and cultivating the MNCs' relationships with key stakeholders through communication and corporate behaviors.

My data showed common political strategies and consistent patterns of political involvement of the MNCs. MNCs selected their political strategies based on factors such as economic conditions and organizational characteristics. Only a few MNCs evaluated their government affairs practices based on goal achievement.

Drawing on the results, I developed three models that construct my theory of strategic government affairs. These models apply general public relations theories to the context of government affairs. The model of strategic management of government affairs identifies government affairs' participation in an organization's strategic management and the strategic nature of government affairs programs. The situational theory for government affairs allows professionals to separate active publics from stakeholders. The model of effective government affairs provides a framework for the development of government affairs programs that reflect long-term strategic management.

EFFECTIVE GOVERNMENT AFFAIRS IN AN ERA OF MARKETIZATION:  
STRATEGIC ISSUES MANAGEMENT, BUSINESS LOBBYING, AND  
RELATIONSHIP MANAGEMENT BY MULTINATIONAL CORPORATIONS  
IN CHINA

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DEDICATION

To beloved Dr. Jacob M. Kleiman who devoted himself to many international students

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## LIST OF ABBREVIATIONS

- AIC: Administration of Industry and Commerce
- AmCham: American Chamber of Commerce
- AAP: Amway Asia Pacific
- AQISQ: Administration of Quality Supervision, Inspection and Quarantine
- CAAC: Civil Aviation Agency of China
- CPC: Communist Party of China
- CECF: Chinese Export Commodities Fair
- FDI: Foreign direct investment
- FIDMCC: Foreign Investment Department of the Ministry of Commerce of China
- FIE: Foreign-invested enterprise
- GA: Government affairs
- GDP: Gross domestic product
- MFA: Ministry of Foreign Affairs
- MGR: Multinational corporation-government relationships
- MNC: Multinational corporation
- MNE: Multinational enterprise
- MOFCOM: Ministry of Commerce
- MOST: Ministry of Science and Technology
- NDRC: National Development and Reform Commission
- PA: Public affairs
- PAC: Political action committees
- SBU: Special business unit

SEPA: State Environmental Protection Administration

USCBC: United States-China Business Council

WTO: World Trade Organization

## CHAPTER I

### INTRODUCTION

“Without a proper business response, the societal expectations of today become the political issues of tomorrow, legislated requirements of the next day and the litigated penalties the day after.”

Ian Wilson (1982, p. 5)

“When the government can tell you how much cream to put in ice cream, you have no choice but to influence government.”

Tom Korologos (1978, p. 50)

This dissertation purports to answer the following question: How do public relations professionals in multinational corporations (MNCs) practice public affairs with different levels of the Chinese government? The purpose of this study is to contribute a strategic management theory of public affairs to the public relations body of knowledge. This study applies qualitative methods of investigation and analysis.

#### The Salience of Public Affairs

On April 21, 1998, China's State Council banned direct sales activities throughout the entire country in an effort to quash a growing number of pyramid schemes and inventory-loading scams. This new governmental directive severely affected Amway Asia Pacific, Ltd. (AAP). AAP's operation was completely halted, ending fiscal 1998 sales at only \$78 million (compared to net sales of \$178 million in fiscal 1997) (“Amway new releases,” July 21, 1998). In addition, there was a loss of \$2 million per month for

keeping distribution centers open to continuously provide customer service. Tens of thousands of Amway representatives were struck with merchandise they could not resell. This led to a riot in Zhangjiajie and Hengyang in Hunan province, resulting in 10 dead and 100 injured (“Rioting after,” 1998). Since the China market was the third largest market for Amway at that time, this ban posed a great challenge from several different aspects.

In response to China’s ban on direct selling, AAP devised a set of strategies to get the ban lifted. The strategies included: 1) working closely with the Chinese government; 2) showing commitment to the Chinese government, its employees, and the profession of direct selling; and 3) lobbying U.S. politicians and U.S. trade representatives to put pressure on China. As a result, on July 21, 1998, the Chinese government announced new regulations governing direct selling that permitted Amway to resume operations in a modified manner.

This governmental ban on direct selling seemed like a crisis that hit AAP all of a sudden; however, it was not. The ban was an extreme measure taken by the Chinese government in response to several cases where thousands of Chinese people were cheated out of their savings by joining pyramid selling schemes in bogus companies. If AAP had paid attention to the public issues that concerned the Chinese government and communicated with the government to clarify the difference between fraudulent pyramid selling and Amway’s direct selling, it would not have had to suffer a three-month business suspension, \$18 million loss in the first nine months of fiscal 1998, \$18 million investment into its China operations, a decline of sales representatives from 80,000 in the

beginning of fiscal 1998 to 50,000 at the end of the same fiscal year, a cut of administrative staff and retail stores, and damage to its reputation (Amway, n.d.).

This case serves as an exemplar of a relationship between MNCs (MNCs) and the Chinese government. It also illustrates the emerging need of practicing public affairs for MNCs to interact with the Chinese government, respond to its policies, and further influence business policy formation. In a developing country with an authoritarian political system, such as China, business is tremendously influenced and regulated by the government. Since China started its economic reform in late 1970s, numerous corporations have been drawn into the Chinese market. Consequently, the reform produces a movement toward a market-oriented economic system and a democratic political system<sup>1</sup> in China. This has made public affairs an issue of the day and an important subject of research.

### Public Relations, Public Affairs, and Lobbying

The terms “public relations,” “public affairs,” and “lobbying” are frequently used interchangeably (Johnson, 1992). To better serve the purpose of this research, I would like to define these terms and explain the connection among them.

#### *Public Relations*

Public relations or PR is frequently mentioned in today’s society. This term is often confused with “marketing” or “advertising” by the general population (J. Grunig &

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<sup>1</sup> After China opened its market to foreign businesses and investments, Deng Xiaoping changed its economic system from a communist economy to a socialist market economy. Socialist market economy combines some characteristics of the general market economy and the Chinese socialist system (Chen, Wu, & Xie, 2000). The economic reform also led to necessary political reform in China. Zheng (1999) argued that the Chinese leaders, such as Deng Xiaoping and Zhu Rongji, carried out a political reform in a unique way via implementing continuous institutional adjustments (through a trial-and-error process) that enable the ruling party to maintain sociopolitical stability and strengthen its political legitimacy while pursuing further economic development. Even though China is in an authoritarian system, the Chinese government is now more flexible and open to suggestions from publics.

Hunt, 1984). Although no singular definition of public relations has been agreed to, this research proposes a definition derived from two widely accepted definitions of the field provided by J. Grunig and Hunt (1984) and Cutlip, Center, and Broom (2000). Namely, public relations is the management of an organization's communication and behaviors for the purpose of establishing and cultivating mutually beneficial relationships with its publics. Communication, behaviors, and relationships are the three underpinnings of public relations described by this definition. L. Grunig, J. Grunig, and Dozier (2002) argued public relations "contributes to organizational effectiveness when it helps reconcile the organization's goals with the expectations of its strategic constituencies" (p. 97). This assertion suggests public relations managing organizational behaviors by matching an organization's pursuits of interests with its publics' demands and requests. The contribution is made by practicing effective communication programs and building quality, long-term relationships with strategic constituencies that can affect the behaviors of an organization.

#### *Public Affairs*

J. Grunig and Hunt (1984) defined public affairs as "activities of an organization to manage its response to political issues and its relationships with governments" (p. 284). Since public relations is the management of communication between an organization and its publics, which usually include governments, clearly, public affairs is a specialization within the function of public relations in an organization (Cutlip, Center, & Broom, 2000; J. Grunig & Hunt, 1984; J. Grunig & L. Grunig, 1989; Hannaford, 1988; Haug & Koppang, 1997; Heath, 1996) as public relations deals with the

interdependencies that organizations have with their strategic publics in their external and internal environments (L. Grunig et al., 2002).

Public affairs has subsets such as government relations and community relations (Cutlip et al., 2000). Among these subsets, government relations tends to be the top mission for most public affairs departments. Governments have long been identified as the most influential public for their power of establishing regulations and representation of the legitimate authority in a society (J. Grunig & Hunt, 1984; Mintzberg, 1983). In fact, the movement toward big federal government and increasing federal regulations in the United States resulted in the dramatic growth of corporate public affairs during the 1970s (Johnson, 1992). In contemporary China, the Communist Party circumscribes the economic reform and makes all the decisions; therefore, the government exerts extraordinary influence on the operations of MNCs. In addition, China is in the process of forming and revising its business foreign policy. As a result, most MNCs identify public affairs, especially government relations, as the most salient public relations function in China (Chen, 1996; Chen & Culbertson, 2003; Hung, 2002; Luo, 2000; Post Preston, & Sachs, 2002). Therefore, this study is concerned with government relations activities of MNCs. Keim and Zeithaml (1986) identified lobbying as one of the five strategies most commonly used by politically active firms.

### *Lobbying*

Lobbying is one activity of corporate public affairs and often structured in the government relations unit of a public affairs department (Johnson, 1992). Lobbying has its origins in British government and politics. The centuries-old term “lobbying” refers to the process and activities of influencing public and government policy (Dominguez, 1982;

Mack, 1989). Jaatinen (1999) proposed a new definition of lobbying as follows:

“Lobbying is influencing political decision-making in the interests of a group by communicating with publics relevant to the political process of a certain issue” (p. 22).

Today, a policy-maker may be lobbied about any issue at any time and in any place.

Johnson (1992) maintained that contemporary lobbying can be “formal or informal, direct or indirect, interpersonal or mediated, sophisticated or unsophisticated, domestic or international” (p.1).

In summary, public affairs is a specialization of public relations. Lobbying is a specific strategy of public affairs in response to a political issue. In this study, I use the term “public affairs” to refer to public relations activities designed to manage an organization’s political issues, including government relations, lobbying, and so forth. The term “lobbying” will be used in this study to refer to activities whose purpose is to influence policy-making.

#### Theoretical and Practical Gaps in Public Affairs Research

Extensive research on public affairs and lobbying has been conducted to date from the perspectives of sociology and political science. However, little research on these topics has been conducted from a communication or public relations point of view. Furthermore, no research of these kinds has yet been done to answer the following questions:

- 1) *What are contemporary public affairs practices employed by MNCs in China?*

- 2) *How can public affairs activities be effectively managed in a country with an authoritarian political system and a socialist market economy?*<sup>2</sup>
- 3) *Theoretically and methodologically, how can overall public affairs efforts with different levels of governments be evaluated from a business organization's perspective?*

The first question explores the description of public affairs practices in China. To date, there are few empirical studies that examine public affairs practices in China. However, research on this subject is needed because public affairs practices in China are distinct from the ones in other countries based on the following. Academically, research on this subject will provide answers to the question addressed by corporate political activity scholars—that is, do theories and corporate political strategies developed in the field have applicability in an international context, specifically in a non-Western context (Meznar, 2002; Windsor, 2002)? Practically, there has been an influx of MNCs into the Chinese market since late 1970s. China's transition from a communist economy to a socialist market economy promotes private businesses. Flourishing private businesses result in the demand for public affairs. With only two decades of operations in China, MNCs' knowledge of the Chinese business environment is limited. In addition, to successfully carry out their economic reform, the Chinese governments—central, regional, and local governments—are continuously launching institutional adjustments in a trial-and-error process to foster a suitable environment for a socialist market economy. This phenomenon further requires MNCs to constantly update their knowledge of doing business in China and modify their public affairs practices with the Chinese government.

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<sup>2</sup> A socialist market economy system combines “some characteristics of the general market economy and the Chinese socialist system” (Hung, 2002, p. 67).

Thus, public affairs practices in China are not only constantly changing in response to the dynamic situations but also crucial to the success of MNCs.

Another characteristic of public affairs in China lies in the complexity of the governance and management system in foreign operations in China (Post et al., 2002). Chinese laws, which govern foreign business activities, are usually brief and underdeveloped and the implementation of laws tends to be subject to widely varying interpretations and enforcement in different regions and industries. The complex systems and ambiguity of laws result in dominant and sometimes unpredictable roles played by different authorities in government decisions of foreign operations based on their power and political considerations. Thus, public affairs specialists in China must be alert to the power struggle among different authorities and their respective stakes in a given situation.

The third aspect of Chinese public affairs is in the context of globalization. After China started its economic reform, it has actively participated in various international business organizations, such as the World Trade Organization (WTO), to voice its needs in international business issues. This increases the level of globalization in China. Globalization intensifies not only the degree of interdependence between China and other countries but also the level of outside influences on China's domestic business foreign policy, such as the agreements required by WTO and China's bi-lateral agreements with other countries. Thus, globalization imposes the need for consideration of the multiple parties involved and flexibility when practicing public affairs in China.

The second question calls for a normative theory of strategic management of public affairs in China. Existing lobbying models and public affairs models are not necessarily applicable to China's situation because they are developed by Western

scholars based on studies in developed, democratic, and capitalistic nations, such as the United States and European countries (Dennis, 1996; Haug & Koppang, 1997; Jaatinen, 1999; Johnson, 1992). For instance, publics that are influential in the policy formation process in China are different from the ones in Western democratic countries. The participants in political decision-making in Western countries usually consist of policy-makers, executive officers, interest groups, the mass media, and general citizenry (Jaatinen, 1999; Miller, 1987; Taylor, 1992). However, the central positions of policy formation in China are usually held by the Communist Party secretaries, governmental officials (e.g., manager/director, governor, and mayor at the central, regional, and local governments), and interest groups (Huang, Leonard, & Tong, 1997). Furthermore, who, between Party secretaries and governmental officials, is the one to make the final decision in the Chinese governments is subject to the circumstances of each case, not to a written law or regulation (Huang, Leonard, & Tong, 1997). It is essential to identify the key players in the political process to develop effective public affairs activities and lobbying strategies.

The other drawback of most public affairs and lobbying theories is their limited perspectives of economics and political science. The economic perspective of lobbying focuses on exchange of self-interest and information, as well as allocation of resources (Jaatinen, 1999). A political science approach of lobbying examines the dynamics and distribution of power among all political actors in the political processes (Jaatinen, 1999). Public affairs is often linked with public relations. As mentioned earlier in this chapter, public affairs is a specialization in the field of public relations. Thus, exploring public affairs behaviors from public relations perspectives provides a holistic and more

complete description of the phenomenon than do limited perspectives of economics and political science. A public relations perspective on public affairs emphasizes two factors (i.e., the communication strategies and quality of prioritized relationships between involved parties) that constitute the essence of public affairs activities. To effectively manage public affairs activities in China, it is important to develop a strategic management model of public affairs that incorporates the aspects of issues management (communication perspective), policy formation (political science and communication perspectives), and relationship management (public relations perspective) in the context of the current infrastructure of the Chinese society.

The third unanswered question concerns evaluation of public affairs activities in China. Evaluation is an essential part of strategic management (Alkhafaji, 2003; Hitt, 2003; Hunger & Wheelen, 2003). In addition, White and Blamphin's (1994) research found that U.K. practitioners and academicians ranked evaluation as the number-one priority in the development of the field of public relations, in which public affairs is a sub-function. But what is evaluation of public affairs? Much of the inappropriate evaluation research in public affairs is either historical in nature or has limited measures to financial terms that emphasize the "products" (e.g., media placement) over "processes" (e.g., agreement building in conflict) (J. Grunig & L. Grunig, 2001, p. 3). J. Grunig and L. Grunig (2001), in a study of evaluating public affairs from a government's perspective, suggested that the U.S. Department of Energy employ a triangulation methodology to assess its effectiveness based on financial and nonfinancial measures derived from four different levels (i.e., the program, the functional, the organizational, and the societal levels). Applying baseline measures (i.e., a combination of financial and nonfinancial

measures) and triangulation to evaluate effectiveness should produce better evidence of how public affairs activities contribute to organizational success from a business perspective than merely from a perspective of quantified profitability or goal achievement (J. Grunig & L. Grunig, 2001; Johnsson & Kihlstedt, 2002).

#### Purpose of Study

This study is an exploration into a relatively new and unknown domain—public affairs in China in the era of marketization. It has two purposes. First, it is intended to fill the theoretical voids discussed above by exploring how public relations professionals in MNCs in China practice public affairs activities at different levels of Chinese government. By public affairs, I refer to the organizational function that encompasses issues management, policy formation (i.e., policy development and lobbying), and relationship management. The second purpose of this study is to develop a normative theory of strategic public affairs.

#### Interests of Study

My interest in this topic was first aroused when I was interning in a nonprofit Taiwanese organization that actively lobbies for Taiwan-related issues in Washington, DC. In that organization, I learned how effective the use of a combination of lobbying strategies (i.e., publicity, direct contact, grassroots lobbying, letter campaign, and coalition building) was in influencing legislative policy-makers to favor Taiwan issues. I also conducted research in the strategic management of effective lobbying of the organization. Later, being involved in a research project that studied how multinational companies practice public relations in China, I was overwhelmed by the importance of public affairs in the public relations function in China. Every participant in the project

mentioned dealing with the government as one of his or her regular activities; however, none of them explicitly described how they interacted with the government. The topic sounded like a taboo subject for discussion. As a result, I found a motivation that committed me to the dissertation: developing a normative theory of strategic management of effective and ethically responsible public affairs activities in contemporary China.

As a Chinese from Taiwan, I am in a unique position to apply Western theories in China. My background as an ethnic Chinese gives me the advantage of being able to make connections with important people in China and being astute to Chinese culture and unspoken laws in a context to interpret data from Chinese participants. Thus, I can better apply and translate Western theories into Chinese settings than researchers who are not familiar with the Chinese culture and context and considered as an “outsider” of the Chinese society. However, my Taiwanese upbringing also generates my prejudices of the Chinese government, such as corruption and bureaucracy, which might have some influence on my judgment. Therefore, I will rely on rigorous research methods and triangulation of evidence to draw my conclusions.

#### Significance of the Study

This research is important because it contributes to both theoretical foundations and practical applications of public affairs relative to advancing public relations professionalism, organizational effectiveness, and inclusion in the dominant coalition.

#### *Theoretical Significance*

##### *Investigate Public Affairs From a Public Relations Perspective*

Few full-length studies on public relations relative to corporate public affairs have been conducted. J. H. Johnson’s (1992) study examined the connection between

lobbying and public relations by looking at which public relations models (i.e., press agency, public information, two-way asymmetrical and two-way symmetrical models) lobbyists in Washington, DC, applied. Jaatinen (1999) developed an effective model of lobbying by incorporating the situational theory and two-way symmetrical model of public relations. This dissertation integrates public relations and public affairs by inspecting public affairs activities from a strategic management model that incorporates issues management, communication management, and relationship building and cultivation of public relations.

#### *Focus on Government Relations*

Public relations scholars and practitioners agree that public relations should be the province of professionals who deal with strategic publics of an organization, including owners/stockholders, employees, consumers, governments, communities, and members (Bruning & Ledingham, 2000; Cutlip et al., 2000; L. Grunig et al., 2002; Drobis, 1997-1998). Thus, public relations scholars develop general theories (e.g., public relations models, issues management, the strategic management of public relations, the situational theory, and generic principles of public relations) applicable to all publics (e.g., shareholders, employees, customers, communities, competitors, and government). However, as the field of public relations evolves and the body of knowledge of public relations expands, theories tailored to the needs and issues important to each public should be developed. This study first introduces the practice of public affairs in China and then adds to the public relations body of knowledge by proposing three models that apply general public relations theory to the context of government affairs: the model of

strategic government affairs, the situational theory for governments, and the model of effective government affairs.

Further, L. Grunig et al. (2002) advocated a need for constructing more normative theories in the field of public relations. A normative theory defines how public relations should be practiced. They defined a good normative theory as one based on sound theory and the most effective existing practice of public relations as identified by research. My dissertation develops a normative theory for strategic public affairs that encompasses the three models.

#### *Contribute to Global Public Relations Theory*

Never has cross-cultural communication been so important to different types of organizations as it is today with the high level of globalization (Matsuura, 2003). Even the most experienced MNCs face challenges when they need to engage in cross-cultural communication because some cultural differences are too subtle to recognize and the relationship between an organization and its environment is always dynamic and dialectical (Baxter & Montgomery, 1996). Consequently, public relations—the profession of communication management—becomes a global enterprise. As L. Grunig et al. (2002) stated, all public relations is global or international because most organizations exert consequences on or are affected by publics throughout the world or by competition or collaboration with organizations in other countries. However, the focus of public relations theory-building has been confined predominantly to the United States and a few Western European countries, such as the generic principles and specific applications of the global public relations developed by Vercic, L. Grunig, and J. Grunig (1996). There is a paucity of empirical evidence about public relations practices in other

areas of the world (Sriramesh, 2003). Therefore, this research expands global public relations theory by conceptualizing public affairs practices through the social-cultural variables—an authoritarian political system, a socialist market economy, the authoritarian media system, rising level of development and activism, and culture.

### *Practical Significance*

#### *Effective Public Affairs*

The practical significance of this research lies in its positive descriptions of effective corporate public affairs practices in China at different levels of government. The description illustrates the Chinese decision-making process (who is the one having the final say?) and the economic and political factors affecting the decision-making process. It lays a foundation for determining the effectiveness of public affairs which, in turn, contributes to overall organizational effectiveness and adds the knowledge of global public relations practices. Also, the practices are examined from a managerial standpoint. That is, this research sheds light on how public affairs practice is shaped based on the needs identified by issues management, communication management, and relationship management. By developing public affairs activities from a management angle, public relations practitioners could make themselves a decision-making counsel who provides crucial information and expertise to the dominant coalition.

#### *Useful Knowledge to Political Actors, Public Affairs Professionals, Researchers, and Students*

This study should benefit several groups. For example, researchers and students in the field of public relations, political science, public affairs, and business should find this information useful in their own research. Students will greatly benefit by increasing

their knowledge of public affairs practices, the operations of the Chinese government at different levels, and the factors that affect the dynamics of business-government interactions in the changing Chinese society. By 2000, 400 of the 500 most famous MNCs had either invested or launched their businesses in China (Luo, 2000 a); students are very likely to interact with Chinese publics when they become future public relations or public affairs practitioners in corporations. The research community could take the strategic management theory of public affairs developed in this research to see if it is applicable to other countries or other types of companies in China, such as companies from a single country or state-owned companies.

Public affairs professionals are important beneficiaries of this research project. This research not only introduces the practical strategies that are effectively used by public relations professionals who are actively engaged in public affairs activities in China but also provides theoretical models that enable public affairs professionals to function in their managerial roles. In addition, this research discovers other significant aspects of the Chinese decision-making process in public policy and consonant with Chinese culture.

MNCs should make use of this research to maintain their long-term development in China. Most MNCs, that might have successfully influenced Chinese policy based on their resources or technology, may not clearly understand the system of Chinese central, regional, and local governments; Chinese political culture; and the mechanism of Chinese decision-making process (Blackman, 2000; Luo, 2000; Rosen, 1999). Because of this, the previous success of the companies does not ensure their continuing advantageous position in public affairs with the Chinese governments in the future. The information

obtained in this research provides a guideline for MNCs to better understand the Chinese environment and further assures their long-term development in China.

Another potential constituency that could be aided by this research is the Chinese government that strives for a successful economic reform and a stable business environment for permanent foreign investment. Similarly, the Chinese government also strives to understand MNCs and the mechanism of a free market economy. To successfully carry forward its economic reform, the Chinese government has launched a series of political reforms, such as institutional adjustment, in a process by trial-and-error. Even though the Chinese government frequently interacts with public affairs specialists, this research may give governmental decision-makers a holistic look at how MNCs, mostly from Western countries, practice public affairs or lobbying.

#### Theoretical Framework of the Study

The main concepts that constitute the theoretical framework of this study include: 1) strategic management, 2) corporation political involvement, and 3) relationship management. The main theories used in this study include a revised model of the strategic management of public relations (J. Grunig & Repper, 1992; L. Grunig et al., 2002); a model of effective lobbying designed by Jaatinen (1999); Getz's (1993) model of effective political strategies; and relationship management theories (J. Grunig & Huang, 2000; Hung, 2002).

#### *Strategic Management and Public Relations*

Strategic management matches an organization's internal strengths, weaknesses, basic values, and activities with the opportunities and threats in its external environment in the pursuit of sustainable competitive advantage (Marx, 1990, p. 9). The strategic

management process of an organization is mostly practiced by its dominant coalition to improve organizational effectiveness. The dominant coalition is a group of individuals who have power and authority to determine organizational missions and goals (L. Grunig et al., 2002). J. Grunig and Repper (1992) argued that to empower public relations in an organization, it has to be included in the process of strategic management. To be a part of the strategic management team for an organization as a whole, public relations has to be strategic at its functional level first; that is, public relations must carry out communication programs that are planned, managed by objectives, and evaluated by research.

Based on the classic purpose of strategic management mentioned earlier, public relations contributes to the strategic management in two ways. First, public relations functioning as a boundary spanner between an organization and its publics alerts public relations professionals to opportunities, threats, and changes in an organization's external environment gathered through environmental scanning. Thus, public relations professionals serve as a source of information that is crucial for top management to make wise decisions (J. Grunig & Repper, 1992; L. Grunig et al., 2002). Second, public relations helps to identify strategic publics for an organization. After identifying strategic publics, public relations professionals strategically communicate with them from an issues management perspective. Chase and Crane (1996) defined issues management as the process used to reconcile organizational behaviors with public expectations. All issues have a life-cycle that consists of four phases—social expectation, political debate, legislative, and social control—as best articulated by Wilson (1982). As a result, public relations professionals develop communication programs with different objectives for

each stage. Effective communication programs build and maintain quality, long-term relationships with strategic publics of an organization that, in turn, contribute to organizational effectiveness. Therefore, a model of strategic management adapted from L. Grunig et al. (2002) is used to conceptualize the role of public relations in the overall strategic management process of a multinational corporation and the nature of strategic management of corporate public affairs programs.

*The Anticipatory Management Decision Model and the New Model of Effective  
Corporate Political Strategies*

Ashley's (1995) anticipatory management decision process model and the new model of effective corporate political strategies are incorporated to lay a foundation of effective and strategic public affairs. The anticipatory management decision model suggests a process to link information about strategic constituencies with strategic trend intelligence (external trends, events, and driving forces) on a regular basis. Therefore, this model could be used to "anticipate issues early in their life cycle and to bring them to the attention of senior planners in a way that assures only emerging issues of strategic significance are considered, if not acted upon" (Ashley, 1995, p. 249).

A conceptual model of effective corporate political strategies, built on Getz's (1993) model of corporate political activities, is developed for this research. The model suggests that the selection of effective political strategies and three groups of variables: independent variables (i.e., the characteristics of issues, targets, and MNC-government bargaining relationship), intermediate variables (i.e., agency problems), and monitoring variables (i.e., organization and industry factors).

*The Stakeholder Approach of Organizational Effectiveness*

To be strategic, public relations should frequently and systematically evaluate the effectiveness of its programs and practices (J. Grunig & Repper, 1992). Consequently, a model of strategic management should include the evaluation component. Post, Preston, and Sachs (2002) used the stakeholder approach to redefine a corporation by outlining the relationships among the stakeholders who make up a corporation and how the relationships affect it:

A corporation is a network of interdependent interests and constituents, each contributing (voluntarily or involuntarily) to its performance, and each anticipating benefits (or at least no uncompensated harms) as a result of the activities. (p. 8)

This definition demonstrates that constituencies are the key component of a corporation. Constituencies not only contribute to organizational wealth but also directly affect organizational behaviors. To continue surviving and succeeding, organizations are expected to 1) achieve their goals in a responsible manner and 2) meet the expectations of their constituencies. Stakeholder theorists believe that, in addition to organizational resources and knowledge, the long-term value of an organization primarily rests on its loyal stakeholder relationships (J. Grunig & Hung, 2002; Post et al., 2002; Svendsen, 1998; Wheeler & Silanpää, 1997). As a result, the effectiveness of public affairs should be evaluated through both financial indicators (goal achievement in terms of money value) and nonfinancial indicators (organizational performance important to each strategic constituency and the quality of organization-public relationship with strategic constituencies).

### *Relationship Management*

Organization-public relationships arise when organizations and their strategic constituencies form interdependence in an open system, which results in consequences on each other that organizations need to manage (L. Grunig et al., 2002). J. Grunig (1992) argued that managing relationships means managing interdependence. Organization-public relationships are a result of organizational behaviors and organizational communication efforts. They are also a determining factor of organizational reputation (Fombrum, 1996; Knox, Maklan, & Thompson, 2000; J. Grunig & Hung, 2002). Relationship management consists of three parts: relationship antecedents, relationship cultivation, and relationship outcomes (Broom, Casey, & Ritchey, 2000; J. Grunig & Huang, 2000).

The models of relationship building and cultivation focus on relationship antecedents, cultivation strategies, relationships outcomes, and types of relationships. Relationship antecedents are “the sources of change, pressure, or tension on the system derived from the environment” (Broom, Casey, & Ritchey, 2000, p. 17). Therefore, at this stage, environment scanning is practiced to identify an organization’s strategic publics and the sources of change, pressure, or tension in the environment. Relationship cultivation involves communication strategies used to handle continuing changes in relationships to develop and improve relationships. Relationship outcomes include quality of relationships and types of relationships. J. Grunig and Huang (2000) identified four indicators to examine quality of relationships: trust, control mutuality, commitment, and satisfaction. Types of relationships include communal and exchange relationships (Hon & J. Grunig, 1999; Hung, 2002). Relationship outcomes could be used to not only

assess quality of organization-public relationships and but also determine the strategies for cultivating the relationships. In fact, organization-public relationships are dynamic and subject to changes at all times because of dialectical and opposing tension in relationships, such as openness and closeness, autonomy and connection, and love and hate (Baxter & Montgomery, 1996; Canary & Zelley, 2000; Hung, 2002). Thus, a dialectical approach is incorporated into relationship management to explain how external factors, other than relationship antecedents and cultivation, influence the nature of relationships between an organization and its publics (L. Grunig et al., 2002; Hung, 2002).

#### Theoretical Delimitations of the Study

This study has several delimitations. First, many perspectives contribute to the understanding of public affairs activities, such as those of sociology, political science, and economics. This research is delimited to the public relations perspective that focuses on communication and relationships between MNCs and the Chinese governments. Second, this dissertation studies corporate public affairs exclusively. In other words, the study will not include public affairs activities by interest groups (e.g., activist groups) or individual citizens. Third, public affairs, as discussed above, has its own subsets (e.g., government relations and community relations). This research is only concerned with activities aimed at the Chinese government MNCs have in response to their political issues. The programs MNCs developed for community relations and activist groups are beyond the scope of this study. Finally, culture is a very broad concept and the Chinese culture has many unique facets. Thus, when linking public affairs practice with the factor

of culture, only the Chinese cultural characteristics that play a role in the political process will be explained.

### Research Methods

To adequately examine the proposed research questions and the conceptual models, I chose a qualitative methodology that combined methods of interviewing and document review. Qualitative research is based on the constructivist tradition, which emphasizes that reality is holistic (Wimmer & Dominick, 1997) and socially constructed (Guba & Lincoln, 1994). It is best used for exploratory or descriptive research that tries to uncover what lies deeply in the complexity and process of any little-known phenomenon by conveying the interaction of context, setting, and the participants' frames of reference (Marshall, 1985, 1987; Marshall & Rossman, 1999; Strauss & Corbin, 1990).

The appropriateness of qualitative methodology for this research rests on three aspects. First, the focus of my research is to explore the conditions, strategies, implementation, and evaluation of public affairs activities of MNCs with central, regional, and local Chinese governments. Qualitative research allows a researcher to fully assess the meaning of these interactions through multi-dimensions (Denzin & Lincoln, 1994; Whitehead, 1985) and capture the essence of a participant's attitudes, beliefs, feelings, and existential experience of complex and emotional issues embedded in the interactions (Bowen, 2000). Second, qualitative research allows a researcher to examine a phenomenon holistically and discover relevant variables that have yet to be identified. The resources of multinationals, the quality of multinational-government relationships, the political and economic systems in China, and the Chinese decision-making process woven together produce the complex nature of public affairs management. This results in

the need to apply a holistic approach in this research. Finally, qualitative methodology is suitable to investigate complex and ongoing phenomena because it allows researchers to shift their emphases as data emerge in the field (Wimmer & Dominick, 1997).

Conducting foreign business in China is changing rapidly because of China's accession to the WTO, the evolving nature of its economic system, and an influx of MNCs entering the Chinese market. The dynamic characteristic of my research suggests qualitative rather than quantitative methods.

#### *Interviews and the Review of Documents*

Within a qualitative framework, I conducted interviews and document reviews to answer my research questions. This combination of methods provides data from both primary and secondary sources. This triangulation may produce a valid, more comprehensive understanding of complex phenomena (L. Grunig, 1995).

Interviews are ideally suited to this study, in which I seek to explore the multidimensional interactions between a multinational corporation and the Chinese government. Lengthy personal interviews are deliberate conversations that elicit people's definitions and experiences of an idea and discover how personal definitions and experiences shape people's world views in social situations (Kahn & Cannel, 1957; McCracken, 1988). In addition, interviews are especially appropriate to study political and administrative elites (Hertz & Imber, 1995; J. B. Johnson & Joslyn, 1991). When examining the sensitive nature of corporate political activities, interviews are more feasible than participant observations insofar as they provide empirical data without the researcher's presence in the process of a firm's political involvement. They are more feasible than case studies since they do not require corporations to be inconvenienced by

very lengthy stays by the researcher. They are more feasible than focus groups because activities with the Chinese government are viewed as a taboo topic that people do not discuss openly.

Interviews of this research are long, qualitative in nature, and conducted cross-culturally. They are long interviews because they are designed to obtain in-depth information from participants in an intensive process that is likely to take one to one and half hours. They are qualitative interviews because they will use an open-ended interview protocol of predetermined questions. They are cross-cultural interviews because the data collection is across cultural and national borders between the researcher (a Taiwanese) and the participant (either a local Chinese or a Westerner).

Twenty-five *Fortune* 500 companies were interviewed for this study. As guided by theory, the make up of this sample covers several industries and three entry modes of operations in China: wholly foreign owned, joint venture with majority foreign ownership, and a combination of the two. Except for two MNCs where I talked with two representatives each, I interviewed one person in each of the 25 MNCs. The interview participants were selected by the participating MNCs. Because of the sensitive nature of business-government activities, interview participants were top-level managers responsible for these activities. Interviews took place in offices of the participating corporations in one of the following cities: Beijing, Shanghai, Tianjin, and Hong Kong. Additional interviews with local journalists, public relations practitioners and scholars, and relevant association managers were conducted. Data analysis was conducted at the level of organizations (i.e., MNCs); that is, this study analyzed the similarities and

differences of government affairs practices among the 25 MNCs with different levels of Chinese government.

Interview data were supplemented with information from document reviews. I conducted a two-phase document review on materials related to each participating MNCs' public affairs activities: before and after the interviews. Document review before interviews focused on documents and publications from external sources, whereas after-interview document review analyzed internal materials provided by participants. I reviewed the identified documents in the following regards: 1) the reported public affairs activity; 2) the presumed reason for the activity; 3) the context of the activity; 4) the target of the activity; 5) the outcome of the activity; and 6) and the patterns, strategies, and organizational culture embedded in the activity. Table 1 provides the summary of these two methods.

#### *Ethical Considerations of the Research Design*

Because of the interactive dynamics of qualitative research, qualitative researchers should evaluate the quality of knowledge they produce based on not only its authenticity but also the propriety or impropriety of their actions in relation to the people whose lives they are studying (Miles & Huberman, 1994, p. 288). In order to safeguard the ethical considerations in the study, this dissertation research was reviewed by the Communication Department Human Subjects Committee (HSRC) and the University of Maryland Institutional Review Board (IRB) for clearance to conduct this project with human subjects. Participants were asked to read and sign an informed consent form approved by the IRB, which states the nature of the research specifically (i.e., its title,

purposes, and procedures), the participant's freedom to participate or withdraw at any time, the potential risks, and the confidentiality clause.

Table 1

*Summary of Research Methods*

Research Method	Sample	Sampling Frame	Sampling Pool/Sources
Interviewing	25 MNCs (top-level executive or managers responsible for the public affairs function)	<ul style="list-style-type: none"> <li>▪ Industrial Types</li> <li>▪ Entry Modes of Operations in China</li> </ul>	<i>Fortune</i> 500 Listing
Two-phase Document Review	Materials related to a corporation's public affairs activities	<ul style="list-style-type: none"> <li>▪ Published Sources</li> <li>▪ Internal Materials (provided by the participating MNCs)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Search Engines</li> <li>▪ Online News Databases</li> <li>▪ Trend Magazines</li> <li>▪ Organizational Materials</li> </ul>

Specifically, I paid close attention to the following ethical issues before, during, and after the project: confidentiality, potential harm, and comfort with disclosure.

Confidentiality is ensured in this study by several means. First, each participant's name

and identify will not be revealed at any time without his or her permission. This clause is legally enforceable by the participant signing an informed consent form. Second, each participant is referred to by his or her position (e.g., a government affairs manager) and his or her company by its industry (e.g., a telecommunications company) in the dissertation report. Third, research data and consent forms signed by participants are safely stored at the rent apartment of the researcher and will be destroyed after five years from the completion of this project. My advisor and I are the only ones who have access to interview data (i.e., audio tapes, transcripts, and notes). Organizational documents were reviewed by myself.

This study attempts to understand public affairs practices of MNCs; therefore, potential harm to participants in this study might seem to be imminent to outsiders or threats to one's interests, position, or advancement in the corporation. I prevented participants from potential harm by ensuring confidentiality of participants and reporting fair conclusions based on data collected.

Comfort of disclosure of participants mainly comes from their level of trust towards and confidence in the researcher. I tried to gain the participants' trust by being "candid but discreet" to the participants, securing confidentiality and anonymity of the participants, and establishing good rapport with them as Wolcott (2001) and Spradley (1979) advised. By being candid and discreet, I reassured the participants that the purpose of my research is to contribute to the void of public relations theory and practice, namely effective public affairs in China, and not to serve the interest of any individual corporation or the Chinese government. Rapport refers to respect and trust between the researcher and the researched and good rapport, in turn, leads to the flow of information

(Spradley, 1979). Confidence of participants was established by my knowledge of the subject and advance preparation by studying all available documentation and materials on events relevant to each participant's company before the interviews (J. B. Johnson & Joslyn, 1991). In addition to trust and confidence, I believe that my sensitivity of the subject, which I learned from informal interviews with senior managers in public relations agencies in China enhances the participants' comforting level of disclosure.

## CHAPTER II

### CONCEPTUALIZATION

This study explores how public affairs professionals in MNCs in China practice and evaluate public affairs activities at different levels of the Chinese government. It also develops a normative strategic management theory of public affairs. Three broad subject areas comprise the theoretical framework of this research: corporate public affairs, strategic management, and effective corporate political strategies. The objective of this chapter is to elucidate the basic concepts for framing a sound foundation for the research, rather than to provide an exhaustive literature review (Locke, Spirduso, & Silverman, 1993).

This chapter begins with an introduction to public affairs that provides a definition and elements of public affairs. The chapter, then, proceeds to a review of strategic management, which is a focal concept resulting in excellence in public relations and organizational effectiveness. The review focuses on key concepts and elements of strategic management related to public affairs function and leads to a model that describes the role and value of public affairs in an organization's overall strategic management process and the strategic nature of public affairs programs. Key concepts and elements of strategic management discussed here include strategic thinking, planning and strategy, corporate role in society, organizational environment, and levels and phases of strategic management. The role of public affairs in the strategic management at the organizational level primarily involves issues management and relationship management. Issues management is the essential component of public affairs that directs every public or political activity. Relationship management focuses on the quality of relationships

between MNCs and the host government. In China, long-term, quality relationships with different levels of the Chinese authority are prerequisite to excellent public affairs because business-government relations is critical to gain access to decision makers in government and increase corporate influence in politics under the Chinese culture.

The third section of this chapter examines the literature on corporate political strategies, beginning with an overview of theories and models of corporate political actions. It then proposes a new model of effective corporate political strategies by examining the relationship between the selection of effective political strategies and three groups of variables: independent variables (i.e., the characteristics of issues, targets, and MNC-government bargaining relationship), intermediate variables (i.e., agency problems), and monitoring variables (i.e., organization and industry factors).

#### Public Affairs of a Corporation

Several terms are associated with the business-government interaction, including corporate public affairs, corporate political involvement, corporate government relations, and lobbying. To better serve the purpose of this research, this section defines these terms and discusses the connection among them.

#### *Corporate Public Affairs*

Public affairs is a function of a corporation for dealing with its external environment. Hoewing (1998) maintained that, in its broadest sense, public affairs could be defined as “the management function that interprets the corporation’s noncommercial conditions and directs the company’s response to those conditions” (p. 61). In a more specific and restricted meaning, public affairs refers to a company’s involvement in political actions, management of responses to public issues, and establishment of

government relations (Hoewing, 1998; J. Grunig & Hunt, 1984). *In this research, public affairs is defined as an organization's activities that aim at exercising political influence, responding to political change, and establishing relations with government entities.*

Getz (2002) examined corporate public affairs research in the past two decades and identified three questions that are commonly asked in trying to understand the nature of corporate public affairs. Mitnick (2001)<sup>3</sup> labeled these questions as “threads” that constitute the body of knowledge of corporate political affairs. The first question, the most basic one, has to do with motivation; that is, why do corporations get involved in political processes? What are the positive or negative incentives for corporations to participate in politics? The second question aims to answer what the available options are for a corporation to enter the political arena (e.g., should a corporation participate independently or collectively, temporarily or permanently through an ongoing relationship with government officials, directly or indirectly?), what corporate political strategies are in practice, and how these options and strategies are chosen in given situations. The last question centers on an evaluation, which deals with limitations on the corporate capacity for rational actions of attaining desired outcomes. These threads indeed reflect various aspects that affect corporate public affairs management and selection and implementation of corporate political strategies. Based on the purposes of this study, it focuses on the second question of Getz's (2002) typology. That is, this study examines how MNCs manage their public affairs function, select political strategies, and evaluate the effectiveness of those strategies that are chosen.

Although public affairs has been widely recognized and used as an essential function of a corporation, what constitutes public affairs varies from company to

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<sup>3</sup> As Getz (2001) cited, the idea of threads was coined by Mitnick during his communication with Getz.

company. In general, public affairs is a specialty of public relations and typically has four major functions: government relations, political action, community involvement and corporate responsibility, and international political development (Public Affairs Council, as cited in J. Grunig & Hunt, 1984). This study focuses on only two components of public affairs: corporate political involvement and government relations because the study aims to understand the interaction between MNCs and the Chinese government.

#### *Corporate Political Involvement*

Corporate political involvement can be broadly defined as “[corporate] participation in the formulation and execution of public policy at various levels of government” (Sethi, 1982, p. 32). Corporations are involved in political processes by implementing corporate political action programs, initiating corporate political activities, employing corporate political strategies, and the like.

Keim and Baysinger (1993) studied the U.S. Congress in the 1970s to examine the relationship between the structure of federal political decision-making and the level of corporate political involvement. They argued that the reform of Congress to democratization resulted in a dispersion of power in Congress, which, in turn, led to an increasing importance of bargaining and coalition building (Oleszek, 1984) and enhanced the effectiveness of interest group politics. Similarly, corporate political involvement in China has risen along with decentralization in the era of political reform.

In a similar vein, China’s decentralization of power to its local governments increases the level of corporate political involvement. After Deng Xiaoping came into power in the late 1970s, the government identified the decentralization of economic decision-making power as an effective strategy for reforming the economic system and

achieving economic growth (Zheng, 1999). Corresponding to the strategy, reformist leaders delegated essential decision-making power, together with property rights and fiscal power, to local governments at different levels. Rapid decentralization motivated local development; however, it produced by-products that affected central-local relations such as economic localism and greater regional income disparities (Zheng, 1999). Post et al. (2002) noted that Special Economic Zone (SEZ) authorities in several provinces assisted their client foreign enterprises in challenging the central government in Beijing to improve local economic development and secure revenue flow, which, in turn, increased the political power of localities. This suggested that firms could effectively exert their political influence by strategically choosing their governmental partners from specific localities. The problem of central-local political relations caused by local development soon were brought to the Chinese leaders' attention and resulted in recentralization of economic power in the 1990s, especially since Zhu Rongji became the new premier in March 1998 (Zheng, 1999).

#### *Government Relations*

Government relations is an essential subset of public affairs (Wilcox et al., 2003). A 1992 survey conducted by the Foundation for Public Affairs concluded that government relations, including both federal and state governments, was the prototypical function in the 163 corporations that participated in the study. Dominguez (1982) defined government relations as "a function through which the company can actively participate in all phases of government with optimum resource utilization and maximum effectiveness" (p. 48). This function is maximized by communication techniques and establishment of corporation-government and corporation-employee relationships (J.

Grunig & Hunt, 1984; Mack & Edwards, 1989; Wilcox et al., 2003). Government relations bestows the following advantages on an organization (Dominguez, 1982; J. Grunig & Hunt, 1984; Mack & Edwards, 1989):

Monitor government to establish and implement an early warning system relevant to government policies, regulations, activities, and legislation.

Maximize effective participation in legislative and regulatory processes by assisting company policy determination and government programs development, such as grassroots campaigns, constituency building, and the like.

Facilitate corporate international awareness of government activities.

Respond properly to governmental inquiries, requests, and regulations by assisting setting priorities for issues and developing company compliance and cost determination systems.

Maximize effective interaction with elements of government important to an organization by establishing well-designed government relations programs, facilitating company-government contacts, developing a mechanism of effective communication, and cultivating long-term quality company-government relationships.

Work closely and participate directly in government activities to ensure that reasonable, realistic, and cost-effective policies, laws, rules, and regulations are enacted and promulgated.

Provide central responsibility for integrating and coordinating the organization's government relations effort.

There are several options available to a company for exercising its government relations function (Dominguez, 1982). These options include: 1) establishing ad hoc

representation of individuals or teams to respond on an issue-by-issue basis; 2) assigning government relations responsibilities to others in the company (e.g., issues management or public affairs department); 3) strengthening existing assignments to others (e.g., add personnel or increase budgets); 4) participating through trade, technical, or professional associations; and 5) establishing a full-time government relations department.

### *Lobbying*

Lobbying is one specific and commonly practiced corporate political strategy. Milbrath (1963) defined lobbying as “the simulation and transmission of a communication by someone other than a citizen acting on his [sic] own behalf, directed at a governmental decision-maker with the hope of influencing his [sic] decision” (p. 8). This definition fails to recognize other actors than decision-makers who impact the policy-making process. To reflect lobbying as efforts to influence political decision-making, Jaatinen (1999) defined lobbying as a process to influence political decision-making on a certain issue in the interest of a group by communicating with publics relevant to the political process, including decision-makers and officials, competitors, the mass media, citizens, and the constituents of the lobbyists (p. 22).

There are several perspectives contributing to the definitions of lobbying. The economic theorists see lobbying as a process of resource exchange between decision makers and interest groups, decision makers and their constituencies, and interest groups and their members (Jaatinen, 1999). The political theorists view lobbying as a competition wherein the results of lobbying depend on the power distribution of all actors involved in the policy-making process and the pressure each policy places on the actors (e.g., Jaatinen, 1999; Jordan, 1991; Miller, 1987; Taylor, 1992). There is another body of

research that combines these economic and political perspectives to examine lobbying; that is, how economic-political integration affects lobbying activities (e.g., Jaatinen, 1999; Loewendahl, 2001). The communication theories regard lobbying as two-way, planned, external communication of an organization for the purpose of negotiation, which takes place among lobbyists, decision makers, general citizens, and the media (e.g., Mibrath, 1963; Jaatinen, 1999). Research along this line concentrates on the interpersonal communication issues (e.g., negotiation and conflict resolution), mass communication studies (e.g., political power and the role of mass media in political processes), interaction among communication strategies and tactics, the dynamics of communication, and the effectiveness of lobbying (Jaatinen, 1999). Public relations theorists define lobbying as all activities influencing policy formulation in a favorable direction for the organization by building and cultivating relationships with government. The management theorists explore the issues of lobbying such as the effectiveness of corporate political strategies in various situations of the political processes (Keim & Zeithaml, 1986; Keim & Baysinger, 1993), the effects of corporate political environment on organizational strategic planning and operations (Marx, 1990), and the functions and management of organizational departments relevant to lobbying (Mack, 1989).

In conclusion, public affairs, a specialty of public relations, is a function that oversees an organization's activities with its external environment. Corporate political involvement and government relations are two components of public affairs. Government relations is a mediating function that fosters corporate political involvement in the government.

This review suggests the following research questions:

RQ1: How do multinational corporations in China define corporate public affairs, corporate political involvement, government relations, and lobbying?

RQ2: How do multinational corporations in China structure the management function of MNC-government interaction?

### *Theoretical Bases of Corporate Public Affairs*

Even though little public relations research focuses on public affairs, this organizational function has been extensively examined by other disciplines. This section reviews work in corporate public affairs by their theory bases: atheorey, political science, economics, sociology, management and public relations. The first four theory bases were identified by Getz (2002). Public relations is the theoretical perspective increasingly used by scholars and thus, is introduced to build on Getz's list. Each theory base has applied different premises and taken different approaches when examining the three threads mentioned above.

#### *Atheoretical Work*

There is a substantial amount of atheoretical research in corporate public affairs (Getz, 2002). Much of atheoretical work was published at the early stage of political action research by management scholars. Work of this kind provides descriptions of political activities of firms as their political environments evolve (e.g., the research focus shifts from political actions of U.S. corporations in U.S. democracy to those of the corporations in the European Union and a global context). Getz (2002) claimed that Epstein's (1969) *The Corporation in American Politics* is the classical and most influential work of this sort that reports corporate political activities in U.S. society. Even though atheoretical work has contributed to the understanding of political actions

by describing the actions, the results of this type of work has not been systematically explained or interpreted based on theories.

### *Political Science*

Political science examines the process of governing and efforts to influence governmental activities from the interest group approach (Getz, 2002). Interest group theory posits that “the democratic public policy process is an attempt to reach compromise between the competing goals of a multitude of interest groups” (Getz, 2002, p. 308). Individual interests are political because they are a person’s values, attitudes, objectives, or preferences, represented by interest groups in the political process and carried out through governmental actions (Salisbury, 1983). Getz (2002) argued that corporate public affairs research based on interest group theory has two promises. First, corporate interests are profit-making or maintaining dominant ideology that fosters profits. Second, corporations need to participate in the political process to assure that public policies or governmental actions do not hurt corporate interests and maintain the status quo business ideology in society because other interest groups are (or could be) out there representing their interests and ideology to gain momentum in the political arena (Clawson, Karson, & Kaufmann, 1986; Eismeier & Pollock, 1987; Plotke, 1992). Therefore, corporate public affairs research based on political science, in relation to Mitnick’s (2001) three threads, focuses on answering the question of the corporation’s motivation for political involvement.

### *Economics*

Getz (2002) argued that economists have examined phenomena from a cost-benefit standpoint. Four economic theories are frequently applied in approaching the

issues of corporate political actions: collective action theory, public choice theory, game theory, and transaction costs theory. The first three theories provide different explanations of why corporations are politically active; while the last three contribute to the understanding of how business chooses political strategies (Getz, 2002).

*Collective action theory.* Collective action theory involves the relationship between the voluntary provision of collective goods by private individual actor and the size of group he or she belongs to (Olson, 1965). This theory suggests that individual actors in large groups tend to act as free riders who enjoy collective goods without paying for anything if there are no incentives or sanctions involved. In small, privileged groups, collective goods are more likely to be provided because one or few actors value collective goods so much that they are willing to bear costs to assure they are provided. Because the benefits of political involvement are collective goods (Ulman, 1985), the theory provides a perspective explaining why some corporations are engaged in the political process while others are not. That is, firms in concentrated industries are more likely to be politically active than others (Getz, 2002).

*Public choice theory.* According to Holcomb (1994), public choice theory examines how government works by individual actors. This theory defines every political process as “a market-like exchange of self-interests between public officials and private actors” (Getz, 2002, p. 310). Public affairs research under this theoretical base analyzes individual behaviors by assuming that each political actor is influenced by self-interest. That is, the behaviors of individual political actors (government officials, policy makers, corporations, and interest groups) can be explained and predicted based on the actors’ incentives and constraints associated with a public policy or government action.

Firms enter the political process when they perceive a potential benefit or cost in a policy or governmental action. When there is an interest involved in the policy, firms provide incentives to government officials or legislators to adopt the policy. When firms detect a potential or existing cost caused by a policy, they provide benefits to obtain inaction or termination of the policy (Getz, 2002). Government officials and legislators consider their agenda, constituents (Chin, Bond, and Geva, 2000; Lord, 2000), and campaign contributions (Dean et al, 1998; Stratmann, 1991) when deciding to support or oppose a public policy in response to the demands of private sectors. In addition, research along this line suggests how corporations should select political strategies. Following the self-interest exchange assumption, corporations must first understand what constitutes incentives and constraints on decision-making of each individual actor on a given policy and then determine what the effective strategies would be.

*Game theory.* Game theory argues that a rational actor makes decisions to maximize his or her gains of interests in situations of uncertainty by anticipating what other actors in the situations will do (von Neumann & Morgenstern, 1947). This theory-based research assumes that 1) corporations engage in political activities when they anticipate their opponents are politically active and 2) corporations choose political strategies and targeted political decision-makers based on their expectations regarding their opponents' strategies and targets (Austen-Smith & Wright, 1992). The criticism of this application of game theory is that in many situations, political decisions of the firm and its opponents are made simultaneously. Nevertheless, Getz (2002) argued that game theory contributes to the understanding of the dynamic and social nature of political activity.

*Transaction costs theory.* Transaction costs economists focus on finding the most efficient organizational arrangement that ensures minimum transaction costs that result from transferring goods or services across a technologically separable interface (Williamson, 1985). This theory proposes that transaction costs are the reason why some firms internalize their public affairs function while others contract it out, as well as why sometimes firms act collectively with others in political advocacy while other times act independently.

Research along this line has shown that when the issues at hand are specific to the firm (i.e., issues are relevant to specific interests of the firm) and require specific professions to handle them, the firm is likely to participate in the political arena independently. In addition, the firm tends to internalize the public affairs function for issues that recur frequently while contracting intermediaries for issues that recur infrequently (Blau & Harris, 1992; Kaufmann, Englander, & Marcus, 1993; Shaffer, 1992). In terms of uncertainty, research has concluded the firm is more likely to join temporary coalitions to act collectively for issues that have precisely defined and highly shared objectives (i.e., low uncertainty of issues) (Littlejohn, 1986; Getz, 1997; Wexler, 1982).

In summary, economic theory provides explanations for the corporation's motivation to have political participation and selection of political strategies. Business becomes politically active when it needs to represent its interests in the political process, to exchange self-interest with political decision-makers' interests, and to react to its opponents' political moves. Business selects its political strategies based on the

incentives and constraints perceived by political decision-makers, the calculation of transaction costs involved in political strategies, and its opponents' strategies.

### *Sociology*

Sociologists examine the phenomenon of corporate political activity by focusing on the relationships organizations have with others in their environments. Resource dependence theory and institutional theory are frequently applied to public affairs research in sociology.

*Resource dependence theory.* Resource dependence theory suggests that one organization's dependence on the resources of other organizations determines the organization's behaviors toward the other organizations and their relationships in predictable ways (Kotter, 1979). Dependence exists when management perceives other organizations can influence (enhance or constrain) its organization's achievement of goals. Government is the ultimate sovereign authority that regulates business rules and supervises corporations; therefore, firms depend on government to varying extents. Dependence leads to political activity by corporations (Baysinger, 1984). Political activity is not used to reduce a corporation's dependence on government but rather to manage the uncertainty associated with dependence and, thereby, to minimize negative effects of dependence on the corporation (Getz, 2002, p. 313). This is why resource dependence theory well explains the strategic thinking of a firm in a public arena, as Getz argued.

Resource dependence theory also tackles the question of strategies and tactics of political actions. As management theorists identify resources as a key determinant of corporate strategies, resource dependence theory argues that the extent to which a

corporation depends on a political entity determines the corporation's political strategies. Hillman and Hitt (1999) suggested that corporations that are highly dependent on government should establish an ongoing relationship with government officials to effectively influence policy because the resources and contacts will already be in place before issues arise. Corporations that are little dependent on government tend to use a transactional (enter and exit) approach to practice political actions corresponding to each issue. Pfeffer and Salancik's (1978) finding is complementary to Hillman and Hitt's by suggesting that corporations which are moderately dependent on government tend to participate in the political process in a collective way.

*Institutional theory.* Institutional theory places emphasis on choices made in response to or in compliance with an organization's institutional environment, comprising the rules and requirements imposed on the organization (Bluedorn et al., 1994). According to Getz (2002), institutional theory assumes that compliance with the institutional environment is critical to an organization's success because the compliance produces operation legitimacy and gains desired support or reward from the organization's institutional constituents. Political activity is a means used by corporations to obtain informal and formal institutional resources, including legitimacy and laws and governmental policies favorable to organizational structures or processes. As for the selection of strategies, this theory posits that the ability and choice to act independently depends on institutional rules, as well as relative political capital (e.g., direct communication channels to and ongoing relationships with public officials) of the firm and its opponents. Political capital is produced by organizational resources (e.g., advanced technology and economic and social power). Institutional theory also addresses

the third thread of public affairs research in relation to capacity for rational action. It cites institutional resources as the prerequisite for successful action (Getz, 2002).

In conclusion, sociological theory related to corporate political actions suggests that the firm's motivation to participate in political advocacy is derived from its need to reduce the uncertainties associated with its dependence on government and to gain legitimacy and favorable political capital from its institutional environment. It argues that the level of the firm's dependence on government and its institutional resources determine the selection of strategies and tactics in practice. It also posits that institutional resources support the firm's capability for rational action in its political participation.

### *Management*

Management theorists study how top management influences the behavior of organizations. Getz (2002) pointed out four management theories that have been employed in business public affairs research: agency theory, behavioral theory of the firm, business strategy, and population ecology.

*Agency theory.* Agency theory has its roots in economics and been developed by management theorists. The application of agency theory to corporate public affairs is more aligned with its management (i.e., how to create and control agent) than economic perspective (i.e. how to reduce transitional cost). Agency theory examines the relations in which one party (agent) acts for another (principal), deals with problems derived from agent-principal relationships, and employs strategies the principal to reduce the problems (Eisenhardt, 1989; Keim & Baysinger, 1993; Mitnick, 1993). Agency theory in business public affairs focuses on the agency relationship—the firm as principal and the political decision-maker as agent—and treats the relationship as the product of business political

activity. Since it is structurally impossible for corporations to make policy decisions, the motivation of having political action is to create agents who act on their behalf and further, to maintain a good agency relationship (Mitnick, 1993).

Agency theory models political influence as a means of agent control and suggests that political strategies should be chosen based on the agency problems the firm is facing and attempts to resolve (Getz, 2002). For example, Keim and Baysinger (1993) pointed out one most common agency problem: companies must compete with other principals to assure that their political agents are serving in their interests. Thus, political strategies are used to maintain the status quo (if the firm's preference is aligned with the majority position) or increase the legislator's discretion to change the status quo (if the firm's preference is different from the majority position). They also argued that a successful political strategy should be developed by using many of the same considerations as an effective business strategy. Getz (1993) suggested that when political decision-makers do not understand the issue or know the firm's position on the issue, informing tactics should be employed to convey factual information. When political decision-makers disagree with the firm's preference on the issue or consider the issue of low priority, it should practice persuasive tactics to make political decision-makers change their positions.

*Behavioral theory of the firm and business strategy theory.* These two theories posit that an organization's decision of political engagement and activities is a result of the organization's characteristics and strategic thinking (Getz, 2002). Behavioral theory of firm asserts that organizational decisions are affected by characteristics of an organization, such as structure, recourses, routines, policies, philosophy, and history

(Cyert & March, 1963). That is, organizations seek acceptable rather than optimal decisions based on their characteristics (Simon, 1957; Getz, 2002). Getz (2002) pointed out that this theory has been applied to decipher the organizational characteristics that cause an organization to be politically engaged and its capability for rational action. Researchers have identified potential characteristics that increase an organization's political involvement as firm size, firm age, experience or traditions, and structure (e.g., the existence of a government relations department). Other researchers found that organizational resources and managerial discretion (e.g., political strategy, locus of control for business-government decisions, and diversification and centralization of public affairs function) were positively correlated with successful implementation of political activities to reach desired outcomes (Cook & Fox, 2000; Getz, 2002; Greening & Gray, 1994; Mahon, 1989; Mezner & Nigh, 1995; Schuler & Rehbein, 1997; Yoffie, 1987). Business strategy theory maintains that firms must develop distinctive competencies to improve economic success and corporate public affairs is one of the competencies in non-market environment. In a broad sense, every researcher who has examined political strategies has touched upon this theory.

*Population ecology theory.* This theory argues that an organization is affected by other similar organizations in its external environment because they all extract similar, if not the same, resources from the same environment (Hannan & Carroll, 1992; Hannan & Freeman, 1989; Getz, 2002). Therefore, the grain of an environment's resources significantly determines the number and variety of organizations that are allowed to co-exist in the environment (Gray & Lowery, 1997). Under this premise, population ecology theory in public affairs research examines the reason that causes organizations to

participate in the political arena independently or collectively, as well as the organization's capability for rational action. For example, Gray and Lowery (1997) and Lowery and Gray (1998) concluded that the more firms in an industry to target the same political decision-maker, the more likely a firm will independently engage in the political process to distinguish itself from others. When using population ecology theory to explain the factors influencing a firm's capability for rational action, it is found that organizations which have had desirable structures or processes in place for environmental changes are better able to adapt and therefore to succeed than those which have yet established the structures in response to the changes in the environment. Organizations must catch up with their competitors in the environment.

In summary, management theories suggest that corporations actively participate in politics because they need to create agents who serve for their interests or because of their characteristics. Management theories explain the selection of corporate political strategies based on the problems the firm has with its agents, the strategizing of its distinct competence in the political arena, and the similarity of its interests and those of other firms in the same operating environment. In addition, this management foundation of corporate public affairs makes more contributions to identify the factors that determine business capability for rational action (i.e., organizational structure, resources, distinct competencies, and other characteristics) than the theoretical foundations discussed previously.

#### *Public Relations*

As discussed previously, public relations scholars consider corporate political activities as a corporation's response to political issues to manage its interdependence

with publics who can enhance or constrain the corporation's goal achievement. Public relations scholars maintain that most organizations operate in an open system where they must obtain resources from the outside environment, incorporate those resources into its operations, and discharge products or services to the outside environment (J. Grunig & Hunt, 1984; L. Grunig et al., 2002). Consequently, interdependence results because of the mutual needs between organizations and publics in their environment. Relationships assist organizations in managing interdependence with their publics and contribute to organizational effectiveness (L. Grunig et al., 2002). Keim (1981) asserted that organizations must begin with developing an informed and motivated constituency and establishing contacts with political decision-makers regardless of which corporate political strategies they choose to apply. This seems to be one of the most well reasoned views on corporate public affairs across disciplines (Jaatinen, 1999). This argument is accordance with public relations value of corporate public affairs: establishing and cultivating quality, long-term relationships with strategic publics of an organization.

### *Summary*

Each theoretical foundation brings different perspectives into the studies of corporate public affairs when analyzing the questions of motivation of corporate political involvement, corporate political strategies, and corporate capability for rational action to achieve desired outcomes in a firm's political arena. It is clear that each theory provides partial explanation by accounting for particular factors that affect the management of public affairs function of a firm. An integration of these theories is needed to better examine corporate political activities and improve the strategic management of public affairs.

### Strategic Management of Public Affairs

Strategic management of an organization is a comprehensive, continuous process to maximize the organization's bottom line by matching its internal strengths, weaknesses, values, objectives, and best course of action with the goals of its stakeholders and the identified opportunities and constraints in the environment (Higgins, 1979; Marx, 1990; Pearce & Robinson, 2003; Steiner, Miner, & Gray, 1982; Uytterhoeven, Ackerman, & Rosenblum, 1997). It is also a process of setting forth a guide for tomorrow's discussion and results by combining the current mission of an organization and its environmental conditions (Greene, Adam, & Ebert, 1985, p. 536). Strategic management focuses on strategic decisions, which deal with "the determination of strategy" (Steyn, 2002, p. 129) to balance an organization's mission and environment.

Public affairs, in most organizations, strategically manages an organization's posture on its external environment; that is, it embraces issues management and develops corporate public policy. The association of public affairs with issues management. Public affairs can best add value to the strategic management process by advising the expectations of external strategic stakeholders<sup>4</sup> and external trend intelligence<sup>5</sup> on a regular basis (Ashley, 1995). Therefore, by establishing a close and systematic relationship between strategic management and public affairs, an organization can exert maximum usage of strategic knowledge of outside stakeholders and trend intelligence.

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<sup>4</sup> A company's external strategic stakeholders usually include: governmental officials, legislators, media, community leaders, and special interest groups.

<sup>5</sup> External trend intelligence refers to information regarding trends, events, issues, and driving forces of public policies related to a company.

Employing strategic management can empower public affairs to a managerial function and advance its recognition within an organization. The Excellence Study (L. Grunig et al., 2002) indicated that strategic management empowers the professional status of public relations in an organization in two ways. First, according to a postmodern view of strategic management proposed by Knights and Morgan (1991), strategic management is a subjective process in which participants from different management disciplines in an organization shape decisions by asserting their disciplinary identities and values (Knights & Morgan, 1991; Knights, 1992). Public affairs offers its expertise to the process to enable top-level decision-makers to well “enact” an organization’s external environment (Weick, 1979). That is, public affairs managers assist decision makers in navigating an organization’s environment by bringing the viewpoints of their constituencies<sup>6</sup> and current external trends to decision making (L. Grunig et al., 2002). Only when it earns a seat at the strategic management table will public affairs be recognized as a profession by other departments in an organization. Secondly, strategic management is a process wherein major organizational decisions and policies are made to coordinate the achievement of goals (Buchholz, Evans, Wegley, 1989; Nathanson, Kazanjian & Galbraith, 1982). If excluded from the strategic management process, public affairs is limited to a technical function to support and carry out decisions. Therefore, practicing strategic management for a whole organization advances public relations to the managerial table.

New principles of strategic management have emerged and affected practices of strategic management since scholars have been critiquing the concept of strategic

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<sup>6</sup> Throughout this paper, I will use the terms “constituencies” and “stakeholders” interchangeably. Both terms refer to groups of people who affect and are affected by organizational activities (J. Grunig & Hunt, 1984; J. Grunig & Repper, 1992).

thinking from the late 1980s. Bengfort (2000) identified six new principles of this kind: 1) strategic management continues to receive increasing importance to an organization's effectiveness in a volatile environment, 2) strategic-making is less formalized and positivistic and more cognizant of political ambiguities, competing interests, and unexpected developments than before, 3) the strategic management process needs to include new voices and perspectives even though senior management still makes the final decision as to strategy, 4) strategic thinking should challenge assumptions and shake up the thinking of organizations, 5) the strategic management process is a tool to determine the extent of power held by an organization's constituencies through communication within the organization, and 6) globalization and technology will require greater interdependence among organizations for them to be successful. Consequently, organizations must redefine their relationships with their constituencies and enhance their ability to cooperate and develop alliances (pp. 41-62). Bengfort further maintained that these emerging principles led to a stronger linkage between strategic management and public relations.

Key concepts in strategic management of public affairs are strategy, context, content, and process. Strategy refers to what should be done for an organization: organizational objectives and the corresponding courses of action (Candler, 1993; Daft, 2001). It could also be seen as the thinking or logic behind organizational objectives and actions (Narayanan & Nath, 1993; Robert, 1997). It is an indication of an organization's value (Porter, 1997) at the present as well as for the future (Drucker, 1954). The context of strategic management refers to the environment in which an organization practices strategic management, whereas content is the substantive issues that need to be managed.

Content is also seen as the levels of strategy (Steyn, 2002). Process refers to specific steps or phases through which strategies are formulated, implemented, and evaluated.

*Strategic Thinking, Strategic Planning, and Strategy*

Several strategic management scholars have attempted to distinguish among strategic management, strategic thinking, and strategic planning by arguing that strategic thinking and planning are the elements of strategic management (Mintzberg, 1994; Robert, 1997; Steiss, 1985). According to Robert (1997), strategic thinking is the process where management sets direction and articulates its vision by thinking through the qualitative aspects of the business and the environment it faces. Strategic thinking provides a framework to guide strategic choices and operational plans in the organization.

Strategic planning, in a broader sense, can be defined as what is done in relation to an organization's envisioning and development of the necessary procedures and operations to achieve its goals (Steyn, 2002). In a more specific definition, strategic planning is referred to the subprocess of strategic management that operationalizes strategies into practice (Robert, 1997; Wheeler & Sillanpaa, 1997).

No definite conceptualization of a strategy exists. A strategy can be seen as an approach, design, scheme, system, or pattern that directs organizational behavior that reflect what kind of corporation it wants to be (J. Grunig & Repper, 1992; Jain, 1997; Kami, 1984; Mintzberg, 1987); the thinking and logic behind the actions (Robert, 1997, P. 22); or the plans and means to achieve organizational goals (Daft, 2001; Narayanan & Nath, 1993). The fundamental aspect of strategy is that it requires choices that decide what kind of value an organization wants to deliver to whom because the organization cannot be all things to all people with limited resources (Porter, 1997; Steyn, 2002).

The prescriptive and emergent approaches serve as the two prominent views to strategy formulation (Lynch, 1997). The prescriptive approach sees strategy formulation as a linear and rational process, starting from analyzing the current situations and strategies of an organization and then developing new strategies for the future. In this approach, objectives are set in advance to guide strategy formulation. The prescriptive approach aims to anticipate environmental changes with a predetermined set of objectives and elements to prepare an organization for what lies ahead. It also treats the process, content and context of strategic management as being linked together sequentially (Steyn, 2002). The emergent approach, developed by Mintzberg (1987), proposed that rather than predetermined, the objective and elements of strategy should emerge along with the process wherein the strategy continuously evolves by adapting to organizational needs. Emergent strategies are incremental in nature. The emergent approach aims to understand environmental changes and assumes that the process, content, and context are interrelated in the strategic management process (Steyn, 2002).

#### *Strategic Management of the Stakeholder Approach*

##### *Approaches to the Role of Corporations in Society*

Business and management scholars have developed several approaches to examine the roles of corporations in society. The role a corporation perceives it plays in society shapes its management approach. The earliest approach was identified by Steyn (2002) as the profit-centered/shareholder approach, originating during the Industrial Age (1900-1950). This approach posits that the only legitimate role of business in society is to form capital (Steyn, 2002). Managers, in this approach, are obligated to maximize profitability for the organization's shareholders (Friedman, 1961) and only consider other

stakeholders when they contribute to the financial performance (Halal, 2000). Social responsibility of the corporation, therefore, is to legally generate profits.

The social responsibility/ethics approach was raised in the Neo-Industrial Age in the 1960s. With rapid economic growth, managers began to sense the divergent expectations of U.S. corporations from various groups (e.g., investors, employees pensioners, and communities) when they deal with social demands in economic transactions (Dennis & Holcomb, 1995; Halal, 2000). As a consequence, “corporate social responsibility” became a prevailing attitude among chief executive officers. Davis and Blomstrom (1996) defined corporate social responsibility as “the obligation of decision-makers to take actions which protect and improve the welfare of society as a whole along with their own interests” (p. 34). Stakeholders, in this approach, are increasingly brought into consideration by top management in terms of morality, ethics, and social responsibility of corporations (Halal, 2000). This approach also implied that business seeks stakeholders’ approval to exist and operate in society (Post et al., 2002).

The corporate social responsiveness approach appeared in the early 1980s (Steyn, 2002). In this approach, the attitude of business-society relations shifted from being socially responsible by fulfilling social expectations of corporations to how corporations operate their social responsibilities by responding to social needs (Carroll, 1996). This approach treats stakeholders in the same way as the social responsibility approach does.

The corporate social performance approach became a prevailing trend in the 1980s and the 1990s. This approach examines what ethical behaviors an organization can actually exhibit based on its specified nature of responsibilities, preferred philosophy of responsiveness to social pressure, identified stakeholder issues that tie to the

responsibilities, and factors that link responsibilities to organizational gains (Carroll, 1996; Steyn, 2002). Consequently, this approach brought social pressures and ethical issues into a more pragmatic frame. Stakeholders, in this approach, are seen as agents of morality or social responsibility that enhance or constrain corporate economic performance (Carroll, 1996).

*The Stakeholder Approach to the Role of Corporations and Strategic Management*

With the evolution of business, management progressed to the concept of a stakeholder approach. The stakeholder approach<sup>7</sup> centers on the interdependence, influence, and relationships between an organization and its constituencies. Organizations are made up of and are interdependent with stakeholders, who have divergent and sometimes conflicting stakes in the organizations. Because of interdependence, stakeholders are perceived as not only groups that anticipate divergent benefits from an organization's activities but also important organizational resources that foster its growth. In practice, organizations cannot satisfy all stakeholders with their limited resources. Therefore, corporations are redefined by how their CEOs value, prioritize, and manage stakeholders and the multilateral relationships with them (Post et al., 2002).

Priorities of stakeholders are fluid and issue-driven. To better manage the divergent or conflicting interests among stakeholders or between stakeholders and organizations, Halal (2000) proposed that organizations should integrate stakeholders into a productive whole called "a corporate community" (p. 10). In a corporate community, stakeholders collaborate with managers in problem solving to create mutual benefits.

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<sup>7</sup> There are several overlapping terms for this approach, including "the multiple -constituency approach" (Connolly, Conlon, & Deutsch, 1980), "the stakeholder strategy" (Svendsen, 1998), "the strategic constituencies perspective" (L. Grunig et al., 2002), and "the stakeholder view" (Post et al., 2002).

Thus, the role of a corporation is to integrate the economic resources, political support, and special knowledge of each stakeholder and transform them into financial and societal wealth.

Corporation-stakeholder relationships are the essence of the stakeholder approach. Relationships assist organizations in managing interdependence with their stakeholders. That is, when stakeholders are in a quality, loyal relationship with an organization, they contribute to organizational effectiveness and financial success, reduce the cost and risks, and add to the long-term value of corporations (J. Grunig & Hung, 2002; Post et al., 2002; Svendsen, 1998; Wheeler & Silanpää, 1997). Relationships with stakeholders are dialectical in nature and directly affected by issues relevant to them. This explains why issues management plays a central role in the stakeholder approach.

Donaldson and Preston (1995) elucidated three aspects of the stakeholder approach. First, it is *descriptive*—delineating what an organization is by presenting a constellation of co-operative and competitive interests within the organization. Second, it is *instrumental*—linking organizational strategic management to the resulting achievement of that corporation's performance goals. Third, it is *normative* in that stakeholders are identified by the interests of the stakeholder regardless of that organization's corresponding interests in them. That is, stakeholders may be the groups of people who have interests and ability to affect an organization but the organization does not have any interest in them. Post et al. (2002) argued that the stakeholder approach embraces elements of resources at every dimension of the organizational environment (i.e., resource base, industry structure, and social and political setting) within a dynamic and longitudinal framework, emphasizing path dependencies (p. 53).

In conclusion, the development of corporation societal roles—from focusing on shareholder, social responsibilities and responsiveness, stakeholders, to communities—indicates that corporations increasingly recognize themselves as part of the broad environment in which they operate and they must effectively deal with the social, political, and legal dynamics of the environment (Steyn, 2002). Strategic management of the stakeholder approach enables corporate managers to make strategic decisions by considering the social, political, and legal business issues emerging in the environment by incorporating stakeholder concerns into the organizational decision-making process.

With the stakeholder approach in mind as the metatheoretical framework of strategic management, public relations can contribute to organizational effectiveness by identifying its strategic stakeholders, prioritizing them in given situations, reconciling organizational goals with stakeholders' expectations, and cultivating stakeholder relationships that enhance the achievement of organizational goals (L. Grunig et al., 2002). Strategic management of the stakeholder approach consists of two parts: stakeholder analysis and stakeholder management.

Stakeholder analysis involves “identifying and prioritizing key stakeholders, assessing their needs, collecting ideas from them, and integrating this knowledge into strategic management process” (Harrison & St John, 1998, p. 14). Organizations can classify and weight stakeholders in terms of their stake, influences, and nature of interdependence with organizations. Stakeholders can have ownership, economic, political, or societal stakes in organizations. They might exert formal, economic or political power on organizations. In terms of the nature of interdependence, stakeholders can be identified as primary (those who have formal, legal, or official relationships with

corporations), secondary (those who are not primary stakeholders), core (those who are essential to organizational survival at all times), strategic (those who are vital in response to threats or opportunities at a particular point in time), or environmental (all others in the environment that may potentially enhance or constrain an organization) (Carroll, 1996; Clarkson, 1994).

Stakeholder management centers on systematically linking stakeholder interests with the organizational decision-making process (Freeman & Lidfka, 1997) and managing multilateral stakeholder relationships to enhance organizational effectiveness and stakeholder benefits (Freeman & Gilbert, 1992). Freeman (1984) argued that organizations have managed stakeholders differently and further identified three levels of stakeholder management capability: the rational, process, and transactional. At the rational level, organizations merely have the ability to identify and be familiar with stakeholders in the environment. At the process level, management establishes a formal process to scan the environment and obtain information of stakeholder concerns to be used in organizational decision-making process. At the transactional level, managers actively engage in relationship building with stakeholders and integrating stakeholder interests into organizational decisions.

#### *The Context of Strategic Management of Public Affairs*

The context of strategic management, as mentioned earlier, is the environment in which an organization resides, enacts, and develops its strategies. Environment is a major concept in the strategic management process; however, there is no consensus as to what environment is among scholars (J. Grunig & Repper, 1992). Scholars interpret and apply this concept to the strategic management process in different ways.

Pearce and Robinson (2003) defined “environment” as the sum total of conditions and forces beyond the organization’s control that fashion an organization’s competitive situation and, thus, affect its strategic options of business. Instead of defining environment as the sum of all objective conditions surrounding an organization, some scholars argue that it is reflected by the subjective perceptions of the management. For example, Starbuck (1976) regarded environment as an “arbitrary invention of the organization itself” (p. 1078). Lenz and Engledow (1986) viewed environment as a patterning of strategic issues that takes into account the trends, issues, or events perceived to have effects on an organization and its stakeholders. Duncan (1972) and Weick (1979) conceptualized environment from a communication perspective. They saw environment as the flow of information; that is, environment consists of the information received by organizational members and the meanings they interpret in their response.

In strategic management literature, interpretations of environment can be clustered into three categories (Steyn, 2002):

The *macro* environment (so-called remote or societal environment) refers to the social, political-legal, ecological, technological, and cultural sectors in an organization’s broad environment that exert influences on its long-term decisions.

The *operating* environment (so-called task environment) includes sectors that have direct transactions with an organization or directly influence its regular operations and goal achievement or both. This environment is more controllable for an organization than is the macro environment (Wheelen & Hunger, 1992).

The *functional* environment (so-called internal environment) consists of functional areas within an organization. The vision, mission, corporate culture, policy, and

dynamics also form part of the internal context (Olsen, Murthy, & Teare, 1994).

Strategic management is also subject to the internal context of an organization because its internal context affects the organization's capability for rational action.

J. Grunig and Repper (1992) argued that strategic management literature seldom identifies who in the organization should diagnose the environment and how to do it. They believed that strategic public relations would close the environmental gap in strategic management theories.

Strategic management of public affairs aims to fit the macro, operating, and functional environments within which a corporation operates to organizational goals. The *macro* environment of public affairs for a multinational corporation can be analyzed by six variables of a host country: the political system, economic system, media system, culture, level of development, and context and nature of activism. Almond and Powell (1978) defined the *political system* as "the continuing process by which those decisions backed by legitimate coercion are made and put into effect" (p. 64). In addition, it is part of the arrangements a society has for formulating and purposing its collective goals. An *economic system* can be described as interaction of organizations participating in the production, distribution, and use of goods and services based on rules and orders (Bornstein, 1985). Economic systems can be divided into three types: capitalism, market socialism, and planned socialism (Gregory & Stuart, 1992). A nation's *media system* is often portrayed by the freedom and functions of the media in society. Consequently, a nation's political system usually prescribes its media system. *Culture* can be defined as the collective programming of the mind that is acquired and transmitted by symbols. Culture distinguishes the members of one human group from another (Hofstede, 1980;

Kluckhohn, 1951) and serves as a framework of human behavior, including political activities. *Development*, according to J. Grunig (in press), refers to opportunities to improve the quality of lives of a nation's citizenry. There are three level of development based on the United Nations' typology: less-developed countries, developing countries, and developed countries. *Activism* is a collective action organized by more than two individuals to influence another public or publics (L. Grunig, 1992). Activism is a primary concern for the majority of corporations (Mintzberg, 1983). In a democratic, developed country, public affairs professionals should pay attention to activist groups as a driving force to public policy formulation. The macro environment often shapes the approach of a corporation's response to public policy (i.e., reactive or proactive).

The *operating* environment of public affairs in this study refers to the bargaining relationship between an MNC and the various levels of a host government it has to interact with because the primary purpose of this study is to understand the interaction of MNCs with the various levels of Chinese government. Relative power of an MNC and a host government in bargaining depends on the multinational corporation's cross-border flexibility (Blomstrom & Lipsey, 1993; Cowling, 1990; Loewendahl, 2001; Julius, 1990), control of resources desired by a host government (Blomstrom & Lipsey, 1993; Loewendahl, 2001), and relationships with governmental officials who serve as agents of the multinational corporation (Y. Chen, 2004). Analysis of the bargaining relationship between a multinational corporation and a host government will be discussed in detail in a later section. This level of environment determines the selection of corporate political strategies and tactics for public affairs activities.

The *functional* environment of strategic public affairs refers to the structure of public affairs in a multinational corporation. There is a considerable body of work examining the structure of the public affairs function and a firm's political activities (e.g., Greening & Gray, 1994; Mahon, 1982; Meznar & Johnson, 2003; Post et al., 1983; Rehbein & Schuler, 1999). The structure of public affairs can be defined by a range of variables: the level of formalization associated with public affairs activities (Greening & Gray, 1994; Mahon & Post, 1989), allocation of budgetary resources (Greening & Gray, 1994; Keim and Baysinger, 1993), the placement of the public affairs division (Buchholz, Evans, & Wagley, 1994), decentralization (i.e., the division of decision-making authority) (Dunn, Cahill, & Boddewyn, 1979), and integration into the strategic planning or line functions (Greening & Gray, 1994).

When practicing strategic management of public affairs, all three types of environment should be taken into consideration. It is noted that the macro environment directs the operating environment, which shapes the functional environment to some extent. When examining how MNCs can maximize economic benefits earned from structural transformation of various industries in China, Luo (2000) noted that the Chinese government had targeted technologically-intensive industries for foreign investment and the infrastructure for further development of the state's economy (the macro environment). The central and local governments have amended related policies and initiated measures to attract more investment. Consequently, policies and measures give power to MNCs when bargaining with governments (the operating environment), which, in turn, as argued by Hillman and Hitt (1999), allows those corporations to a form

transactional structure of public affairs, meaning public affairs division exists for an emerging issue and disbands after the issue is resolved (the functional environment).

### *The Levels of Strategic Management of Public Affairs*

Strategic management takes places at different levels of an organization: enterprise, corporate, business-unit, functional, and operational. Strategic management levels reflect the content of strategies with different focuses and stakeholders of importance (Narayanan & Nath, 1993; Steyn, 2002). However, strategies at different levels are interrelated and need to be consistent to promote organizational profitability.

#### *The Enterprise Level*

Enterprise strategy, so-called organizational strategy (Pearce & Robinson, 1982), serves as the broadest level of strategy of an organization. This overarching strategy is concerned with issues relating to how an organization positions itself in the social and political environment (Ansoff, 1979; Bowman, 2000). That is, enterprise strategy decides an organization's role in society; directs organizational responses to issues in the environment; and dictates the organization's relationship with its environment, especially with stakeholders. Enterprise strategy, therefore, is stakeholder oriented and emphasizes nonfinancial components of an organization's achievement (Steyn & Puth, 2000).

#### *The Corporate Level*

Corporate strategy defines the set of businesses that form the organization's performance as a whole, selects grand directions for diversification and growth, and manages organizational resources and capabilities (Harrison & St. John, 1998). This level of strategic management can be best described as "the responsibility of the board and top management for the organization's financial performance" (Steyn, 2002, p. 132).

Strategic management at this level is finance and shareholder-oriented, within the scope of an organization's macro environment, such as its economic and technological components (Digman, 1990; Narayanan & Nath, 1993; Steyn, 2002).

#### *The Business-Unit Level*

Strategic management at the business level, so-called specialty level (Pearce & Robinson, 1982), focuses on an organization's approach to its market/product/service segments. Business-level strategies generally cover a single product, service, or related groups of products or services (Pearce & Robinson, 1982; Jain, 1997). The general manager of a business unit is typically responsible for this level of strategic management in which he or she transforms the directions set at the corporate level to concrete objectives and strategies for individual divisions based on ongoing analysis of the organization's business markets and resources (Jain, 1997). Business-unit strategies are market-oriented, focus on task and macro environment, and primarily aim at stakeholders that directly affect an organization's financial performance such as customers, employees, suppliers, distributors, and regulators.

#### *The Functional Level*

Strategic management at the functional level identifies how functional areas of an organization contribute to the objective achievement of the organization's higher-level strategies; that is, what should be done in each of the key functional areas according to their unique expertise and allocated resources (Harrison & St John, 1998; Pearce & Robinson, 2003). This level, therefore, is concerned with strategy implementation. Senior managers of each functional area are responsible for functional strategies, with an orientation towards supporting strategies at the enterprise, corporate, and business-unit

levels (Pearce & Robinson, 2003). Each functional area pays attention to its primary stakeholders based on stakeholder importance to each area's contribution to the organization.

### *The Operational Level*

Strategies turn into action at the operational level. To make operating units strategic, unit managers or project leaders implement strategies to manage the units in a cost-effective manner. This type of strategy typically consists of short-term objectives and implementation programs to achieve functional goals. Strategic management at the operational level strives for maximum productivity and minimum cost by capitalizing on "any possible synergies and distinctive competencies that an organization may possess" (Steyn, 2002, p. 132).

Research has shown that strategic management of public affairs should be engaged in three levels for it to perform to its maximum: the enterprise, functional, and operational levels (e.g., Ashley, 1995; L. Grunig et al., 2002; Heath, 2003; Marx, 1990; Steyn, 2002). At the enterprise level, public relations managers provide top managers with intelligence on stakeholders' influences on organizational goal achievement and consequences of organizational behaviors on stakeholders, as well as prioritizing the organization's stakeholders based on a given situation or issue. The Excellence Study of public relations (L. Grunig et al., 2002) showed that public relations contributes to the effectiveness of an organization when public relations professionals are part of the dominant coalition wherein they shape organizational goals and help to determine which external stakeholders are in the strategic management process (L. Grunig et al., 2002). Steyn's (2000) strategist, Wright's (1995) communication executive, and European

public relations managers with a reflective role (Van Ruler, 2000; Vercic et al, 2001) are different labels for public relations professionals who participate in the overall strategic management.

At the functional level, public relations managers develop programs to strategically communicate with the identified constituencies, for the purpose of pursuing desired policies and maintaining and cultivating organization-constituency relationships. To be strategic, public affairs managers need to apply systematic approaches to 1) identify stakeholders who are consequential to the organization, 2) identify and monitor external trends that might influence the organization's operation, 3) scan and monitor issues that affect the strategic stakeholders, and 4) cultivate and evaluate the quality of organizational relationships with the strategic stakeholders. At the operational level, public affairs managers must implement public affairs programs that are planned, managed by objectives, and evaluated by research. J. Grunig and Repper (1992) argued that in order to be included at the organizational level of strategic management, public relations has to first demonstrate its strategic ability at the departmental and program levels. Results of the Excellence Study supported this argument (L. Grunig et al., 2002).

#### *The Process of Strategic Management of Public Affairs*

The process of strategic management refers to different phases or steps that constitute strategic management. Most strategic management scholars have developed models of the steps in the process (J. Grunig & Repper, 1992). After examining the models, five phases are widely discussed as components of the process of strategic management. In practice, these phases are interactive and do not occur in a fixed order as presented below.

### *Environmental Analysis*

Environmental analysis is often designed as the first step of strategic management (Ashley, 1995; Hambrick, 1982; Phillips & Calantone, 1994). Environmental analysis consists of four parts: “scanning to detect warning signals; monitoring to gather and interpret sufficient data on trends to discern patterns; forecasting future directions of changes; and assessing current and future changes with regard to their implications for the organization” (Steyn, 2002, p. 133). Environmental analysis is an essential tool of strategic management because it links the organization to its macro and operating environments by collecting information on stakeholders and issues relevant to the organization. More specifically, Pearce and Robinson (1982) maintained that environmental analysis produces a company profile that reflects its internal conditions and capabilities as well as an assessment of its external environment that reports competitive and general contextual factors.

### *Goal Formulation*

The phase of goal formulation is concerned with the determination of mission of the organization, including establishment of broad statements of its purpose and philosophy (Pearce & Robinson, 2003; J. Grunig & Repper, 1992), as well as the prioritization of goals. Pearce and Robinson (2003) proposed an interactive opportunity analysis, an analytical process to match the company’s internal profile with its external assessment, to give insights on its organizational mission.

Goal formulation is typically a political process, which involves personal values, perceptions, attitudes, interests, and power of managers and stakeholders participating in the strategic management process (Mintzberg, 1983; Pearce & Robinson, 2003).

Although financial goals usually dominate the goal formulation and prioritization processes, social goals are gaining increasing importance as the corporate role shifts to the responsibility to society. Chrisman and Carroll (1984) argued that financial and social goals do not necessarily compete with each other. Rather, they can be reconciled to benefit both corporations and stakeholders. Affirmative actions, consumer product safety, occupational safety, corporate philanthropy, and environmental protection are the common areas where the reconciliation of economic and social goals occurs (Chrisman & Carroll, 1984).

#### *Strategic Planning and Strategy Formulation*

As discussed previously, strategic planning focuses on the development and operationalization of strategies to achieve the identified financial and social goals of an organization; that is, to choose how to get there in practice. This stage involves the identification of 1) desired options derived from the organization's financial and social goals, 2) long-term objectives and grand strategies that are required to achieve desired options, and 3) short-term objectives and strategies compatible with long-term objectives and strategies (Pearce & Robinson, 1982). Andrews (1987) pointed out four major determinants of strategy formulation. First is the identification of strengths and weaknesses (what *can* be done). The second factor lies in the opportunities and threats to the organization (what *might* be done). The third determinant considers personal values and aspirations of managers (what they *want* to do), and the fourth one is concerned with the organization's acknowledged obligations to society (what it *ought* to do).

### *Strategy Implementation*

In the implementation phase, strategies become reality by means of detailed short-term, operational plans that specify tactics and schedules at operational levels.

Operational planning should allocate tasks to specific budgeted resources, people, facilities, technologies, and reward systems to achieve particular objectives in each planning period (Digman, 1990; Pearce & Robinson, 1982; Steyn, 2002). In addition, Pearce and Robinson (2003) argued that specific functional tactics (e.g., activities or actions) developed in operational plans should incorporate the following elements: one or more short-term objectives, a clear time frame for completion, and identification of people who are responsible for each task.

### *Evaluation and Control*

The evaluation and control stage involves management's review and assessment of the success of the strategic process to ensure that the organization stays on track to achieve its goals. The results of evaluation can further serve as a basis for control and valid information for future decision-making. This research proposes the strategic management of public affairs based on a stakeholder approach. That is, stakeholders constitute the internal and political environments of an organization because of interdependence and therefore, public affairs is a function of balancing the demands of multiple stakeholders and the goals of the organization (Brenner & Cochran, 1991; Hosseini & Brenner, 1992; Schuler & Rehbein, 1997). Consequently, the evaluation of strategic management and organizational effectiveness should take a stakeholder approach by examining the satisfaction of each identified situational constituency with organizational performance and the quality of the organization's relationships with them.

The review of strategic management and public affairs can be reduced to the following propositions:

Proposition 1: The strategic management of public affairs from a stakeholder approach suggests that public affairs contributes to organizational success when it helps balance demands of stakeholders and organizational goals with trends and events occurring in the organization's environments. Public affairs makes this contribution through managing issues that influence the organization's future operation and building quality, long-term relationships with strategic publics through communication.

Proposition 2: Public affairs needs to be integrated into the overall strategic management of the organization and strategically managed at the functional level for it to have maximum effects.

Proposition 3: The Strategic management of public affairs at both organizational and functional levels considers factors in the macro, operating, and functional environment of the organization and its process contains five phases: environmental analysis, goal formulation, strategic planning and strategy formulation, strategy implementation, and evaluation and control.

Proposition 4: Under the strategic management of a stakeholder approach, organizational effectiveness should be evaluated by the satisfaction of each identified situational constituency with organizational performance and the quality of the organization's relationships with them.

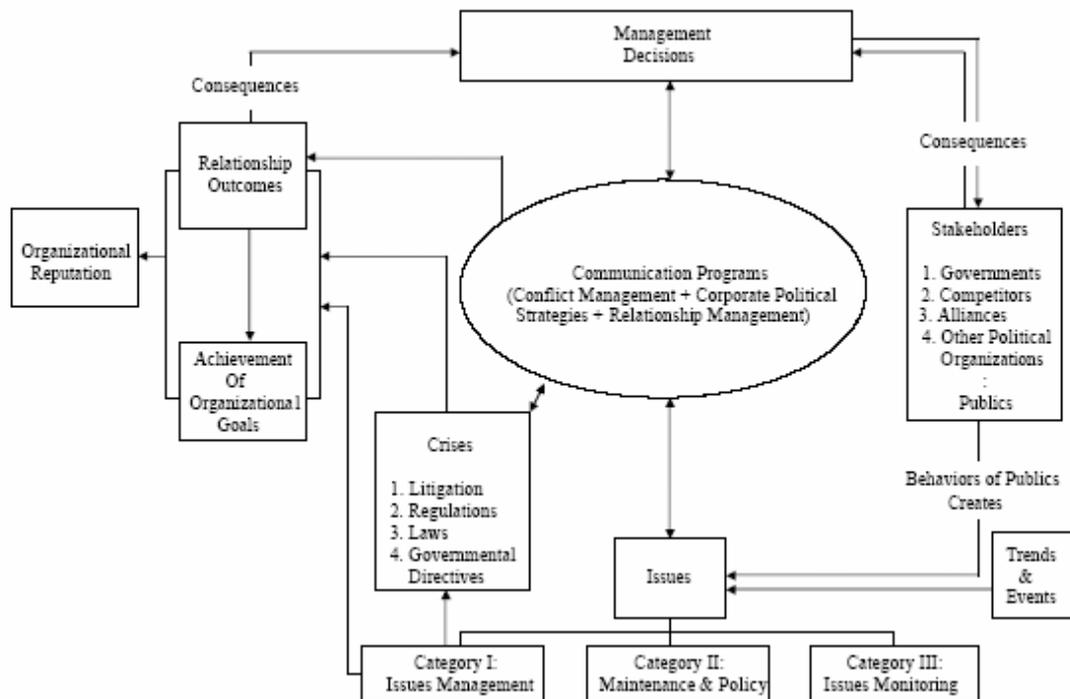
#### The Model of Strategic Management of Public Affairs

Figure 1 presents a model adapted from J. Grunig and Repper (1992) and L. Grunig et al. (2002). This model explains the role of public affairs in the overall strategic

management process of an organization and the nature of strategic management of public affairs programs. The central concept of this model is that strategic management is a dynamic process of reassessing an organization's management decisions based on the behaviors of organizational stakeholders and publics, the relationships between the organization and its stakeholders and publics, and the trends in the environment through public affairs strategies and communication programs.

*Management Decisions and Consequences on Stakeholders*

When top management decision-makers of an organization (at the top of Figure 1) make a decision, they must interact with the organization's stakeholders or publics (at the right) because the decision has consequences on stakeholders or publics or because management needs to seek support from stakeholders or publics to implement a decision or achieve its goals (L. Grunig et al., 2002). Stakeholders or publics also might initiate interaction with management because they want to influence the decision-making process.



*Figure 1.* Model of strategic management of public affairs. Adapted from L. Grunig, J. Grunig, and Dozier's (2002) model of strategic management of public relations and Ashley's (1995) anticipatory management decision process model.

Therefore, the consequences of organizational decisions determine who the publics of an organization are and whom the organization needs to establish a relationship with through political strategies and communication (in the center). There are four stages in the overall strategic management of an organization and public affairs professionals play different roles in each stage: the stakeholder, public, issues, and crisis stages. These stages describe the evolution of publics, issues, and crises.

#### *The Stakeholder State*

J. Grunig and Repper (1992) defined stakeholders as groups of people who might affect or be affected by decisions of an organization, such as employees, customers, or community residents. Each organization has its own map of stakeholders. Therefore, when diagnosing an organizational environment, a strategic public relations manager should first identify the categories of stakeholders of an organization (Freeman, 1984; L. Grunig et al., 2002; J. Grunig & Repper, 1992; Post et al., 2002) and then prioritize them based on their impact on an organization or the extent to which the organization will affect them by its decisions (J. Grunig & Hunt, 1984; Pfeffer & Salancik, 1978). Even though stakeholders might affect or be affected by an organization, most of them remain passive (J. Grunig & Repper, 1992). Ongoing communication programs are essential at this stage because communication, before conflict has occurred, is most effective in building long-term, quality relationships with stakeholders (J. Grunig & Repper, 1992).

#### *The Public Stage*

Stakeholders become publics when they become more active and aware of the impacts of organizational decisions. It is important for public affairs professionals to identify and segment active publics from other types of publics (i.e., aware, passive,

latent publics) because active publics typically behave in a way to directly promote or constrain an organization's decisions. J. Grunig's (1997) situational theory of publics is the most frequently used theory in this regard. The situational theory posits that three variables affect an individual's probability of being a member of an active public: problem recognition, constraint recognition, and level of involvement. Problem recognition refers to the extent to which an individual stops to think about the consequence of an organization's decision. Constraint recognition means the extent to which an individual feels constrained to do anything about the consequence. Level of involvement refers to the extent to which an individual connects himself or herself with the consequence. An individual is most likely to become a member of an active public when the person has high problem recognition, low constraint recognition, and high level of involvement.

#### *The Issues Stage*

Issues to an organization occur in two ways. First, when publics fail to terminate harmful consequences or secure favorable consequences of benefits, they generally make issues out of consequences. Issues, in turn, might generate crises if they are not well communicated and fully resolved (L. Grunig et al., 2002, p. 146). Second, issues can be created by present trends and events in an organization's internal and external environments. Trends are descriptions of social, technological, economic, environmental, or political movements over time, which constitute the context of an organization's future operation (e.g., the growth of GDP of Chinese people). Events refer to developments that change an organization's future operation (e.g., the China's accession to the World Trade Organization in 2001) (Ashely, 1995, p. 241). Nevertheless, in both situations, openly

discussing and negotiating issues with publics can improve relationships an organization has with publics.

### *Issues Management*

As explained previously in the model of strategic management of public affairs, communication programs in the issues stage are termed “issues management” by public relations practitioners and scholars. J. Grunig and Repper (1992) viewed issues management as the external component of strategic management.

The term “issues management” was coined by W. Howard Chase in 1976. Since then, issues management has been evolving. Today, issues management has two premises (Heath, 2002). First, issues management is more than monitoring and communicating issues. It is a management strategy for engaging an organization in the public battles to develop proactive actions and effective guidelines that would allow for or foster corporate growth. Many scholars (e.g., Camillus & Datta, 1991; Heath, 2002; Marx, 1990; Tucker & Trumfheller, 1993) advocate that issues management should be a part of the overall strategic planning of an organization. Heath (2002) maintained that when combining issues management with strategic planning, an organization can not only react strategically to identified threats in the environment but also spot and even forge opportunities through legislation, regulation, and litigation (p. 210). In addition, P. Brønn and C. Brønn (2002) argued that issues management is an activity that provides organizations information regarding emerging problems and opportunities early on, so that the organization’s strategic planning can be proactive and, thus, superior. Secondly, managing issues means more than monitoring and communicating issues. It is also a

process for directing an organization to meet or even exceed corporate responsibility expected by publics of the organization (Heath, 2002).

*The strategic function of issues management.* Successful issues management has four applications: scouting the terrain, enhancing strategic planning, getting the house in order, and providing strong defense and offense (Heath, 2002). Successful issues management strives for vigilantly managing issues that have impact on an organization, including scanning, monitoring, analyzing, and prioritizing issues. As a result, issues management is a strategic tool for an organization to scout its terrain.

Issues management also enhances strategic planning by systematically detecting threats and opportunities to an organization resulting from issues developed in its environment. Consequently, issues management makes an organization act intelligently and proactively. Successful issues management gets the house in order because it enables an organization to implement appropriate standards of corporate responsibility based on the understanding of stakeholders' expectations of the organization learned in the process of effective issues monitoring and communication. With the information gathered from issues scanning, monitoring, and analyzing proactively, issues management enables an organization to engage in strategic public policy dialogue with a tough defense and smart offense (Heath, 2002; Vasquez, 1996). In summary, issues management is a management strategy that contributes to the effectiveness of an organization by making it understand and respond to its stakeholders in a proactive manner.

*Issues management and public affairs.* Issues management contributed to the emergence of contemporary public affairs from 1965 to 1985 (Dennis & Holcomb, 1995). Dennis and Holcomb pointed out that, in 1982, 91% of Fortune 500 companies had

engaged in issues management activities and almost 70% considered it of growing importance to a firm. Some companies saw issues management as merely a tool to make government relations more sophisticated. Organizationally, issues management most often started in public affairs units, and even today commonly resides there (p. 29).

Issues management, as defined by the Public Affairs Council in 1978, is “a program which a company uses to increase its knowledge of the public policy process and enhance the sophistication and effectiveness of its involvement in that process” (as cited in Dennis & Holcomb, 1995).

Dennis and Holcomb (1995) further argued that an issues management approach of public affairs is superior to other policy-oriented approaches because of the following reasons. First, issues management takes a proactive and interactive approach in assisting a corporation managing forces in its environment. Compared with the aggressive nature of a policy-oriented approach, issues management enhances a corporation’s strategic planning and provides flexibility to public affairs activities. Second, an issues management approach is more anticipatory than other traditional approaches because it forecasts future pressures and opportunities as well as focuses on emerging issues at present.

Third, issues management is a more systematic approach than other management styles. To be systematic requires a high level of expertise such as environmental scanning, issues monitoring, communicating, and analyses. These represent the four attributes of issues management. Fifth, an issues management approach allows public affairs specialists to interact with a wider range of corporate stakeholders than the policy-oriented approach, which limits public affairs to dealing with forces within the formal

components of government. Finally, an issues management approach advances public affairs by responding to forces to a greater extent by being involved and working with top management in the issue-managing process, which subsequently results in increasing support for public affairs within the corporation.

*An issue.* There is a range of definitions of an issue across disciplines. Issues management scholars define an issue as “a contestable question of fact, value, or policy that affects how stakeholders grant or withhold support and seek changes through public policy” (Heath, 1997, p, 44). In public policy, Bartha (1982) defined an issue as “a problem or situation that has an influence on people that requires government involvement” (p. 82). Ashley (1995) argued that trends and events form issues and determine the issues’ duration, direction, acceleration, and amplitude. According to public relations scholars, an issue is created by an organization’s publics who are aware of negative consequences on them by the organization’s behaviors and take action on (J. Grunig & Repper, 1992; L. Grunig et al., 2002). In negotiation, an issue is an item on an agenda or a topic of concern (Putnam & Holmer, 1992, p. 138). An issue has a complex nature because an issue is defined and interpreted by people’s frames of reference and often involves diverse parties (Bowen, 2000).

*Analyzing and prioritizing issues.* In order to manage an issue, an organization first analyzes the issue’s influence on its operation by writing an issue brief. An issue brief usually summarizes analytical information of an issue, including the focus of the issue, the background of the issue, a description of the trends, driving forces, stakeholders who influence it, a forecast of the issue’s future prospects, and potential implications for the organization (Ashley, 1995; p. 242). However, not all issues need to be or can be

managed by a corporation. Issues should be sorted and prioritized by their importance to an organization (i.e., to what extent an issue produces or hurts organizational profits), probability of becoming critical, possibility to be influenced by the organization through political activities. Ashely (1995) suggested three categories of issues :

- Category I: issues that have high priority and require action of the organization
- Category II: issues that are too mature in the issue life cycle to be influenced or cannot be influenced because of its nature and may require organizational structural or policy re-adjustments, and
- Category III: issues that have potential influence on organizational operation but require no action at the point in time.

Category I issues should be the focus of issues management. Ashley (1995) proposed an 11-step issues management plan to maximize the fit between the issue's direction and the organization's goals. The 11 steps are as follows:

1. Issues owner: This step assigns issue ownership to the department that is mostly affected by the issue. Ownership does not require the department to exclusively carry out the work on the issues. The senior manager of the assigned department will own the issue and be responsible to the dominant coalition for its resolution.
2. Issue action team: In this step, the public affairs manager helps the senior manager to select the action team that includes members from affected departments by the professionals with needed specialties.

3. **Situational assessment:** Situational assessment depends on information collected from environmental scanning. Situational assessment should include background information of the issue, a list of all parties involved in the issues, trends of the issue, the stage of issue life cycle, and the organization's budgetary resources for this issue.
4. **Impact analysis:** This analysis focuses on potential harms and benefits associated with the issue to the organization's current and future operation.
5. **Stakeholder assessment:** The action team develops a stakeholder map that indicates the affected stakeholders of the issue and prioritizes stakeholders by the issue's impact on them and their importance to the organization.
6. **Organizational position:** After understanding the issue and its potential impact on the organization and its stakeholders, the team should decide the organization's stand on the issue.
7. **Stakeholder objectives:** Based on the organization's stand on this issue, stakeholders' objectives should be identified and prioritized.
8. **Technical or operating objectives:** Detailed technical or operating objectives should be established for the development of the action plan.
9. **Action plan implementation:** This step requires the action team to carefully carry out the developed plan and closely monitor the process.
10. **Measurement and fine tuning:** This step engages the action team in measuring the effectiveness of action and adjusting the action plan in response.

11. Performance evaluation: After the action plan is completed, research should be conducted to evaluate performance based on criteria in accordance with organizational position, stakeholder objectives, and technical and operating objectives determined at the early stages of issues management. Since the action team will be dismissed once the plan is set in place, evaluation of performance is the responsibility of the public affairs division.

Category II issues emphasize internal re-adjustments that often involve several departments of an organization. As a result, a sequence of actions should be in place to develop adjustments necessary for Category II issues. Establishing policy on a mature issue whose full impact on the organization is unknown, the organization requires the best strategic thinking of organizational staff who have the most knowledge of and are most familiar with the issue (Ashley, 1995). As a result, the first step toward developing policy on a Category II issue is to assign in-house responsibility for the issue to the department or division that is most knowledgeable of and familiar with the issue. The second step focuses on reaching consensus on what, where, and how the issue will affect the organization. After reaching consensus, the public affairs managers and the senior manager who is responsible for the issue, along with members of affected departments, start to formulate corporate policy to respond to the issue. Once corporate policy is formed, public affairs professionals monitor the issue for further information to determine when the policy becomes operational.

For Category III issues, a regular environmental scanning system should be instituted to monitor developments of those issues that might influence an organization's

future. If such developments occur, issues will be re-evaluated and may be identified with a Category I status.

### *The Crisis Stage*

When an issue evolves to the crisis stage, such as Ashley's (1995) category II issues discussed above, it will have direct impact on an organization's operation, relationships with publics, and reputation. Public affairs professionals at this stage minimize negative impact on the organization by 1) communicating with publics to show accountability, to claim organizational responses to or positions on the crisis, and to maintain relationships with publics, 2) developing necessary structural or policy adjustment for the firm, or 3) practicing political strategies to manage the crisis.

### *Strategic Management of Public Affairs Programs*

The center oval in Figure 1 represents the strategic management of public affairs programs themselves (J. Grunig & Repper, 1992). To strategically manage public affairs at the functional level, public affairs programs should start with formative research providing information from systematic environmental scanning and research findings that identify public affairs problems or opportunities. Programs should proceed with developing achievable and measurable objectives, implementing action plans, monitoring and adjusting the action plans through evolution of issues, and evaluating the extent to which the programs have met the objectives. Public affairs programs usually contain political strategies to negotiate policies and communication strategies to manage relationships and conflict with publics. The effective selection of political strategies will be discussed in detail later.

*The Management of Organization-Public Relationships*

Issues and crises directly affect the quality of organization-public relationships (OPRs) and achievement of goals, which, in turn, build an organization's reputation.

Figure 1 also indicates that relationship outcomes influence management decisions and achievement of goals.

Daft (2001) argued that the key element of an organization is its *people* and their *relationships* with one another. He pointed out that organizations cannot exist without interacting with outside constituencies and some companies even have to cooperate with them, including competitors to obtain mutual advantage. Recent trends in organizational management focus on the importance of organization-public relationships (organizational external constituencies) and human resources (organizational internal constituencies).

Post et al. (2002) proposed redefining a corporation based on its relationships with constituencies that make up and directly assist or constrain the corporation. They further suggested that the long-term success of an organization lies in the managerial attention to the interests and concerns of an organization's constituencies and in its quality, long-term stakeholder relationships.

Freeman and Gilbert's (1992) view of business echoes the argument of Post et al. (2002). They saw business "as a connected set of relationship among stakeholders where the emphasis is on the connectedness" (p. 12). They argued that stakeholders are part of a corporation. Harmonious relationships between a corporation and its stakeholders contribute to effectiveness because each stakeholder adds value to the value of others, eventually creating a good deal for all.

In 1984, Ferguson advocated OPRs as the most promising paradigm of public relations. From the Excellence Study, L. Grunig, J. Grunig, and Ehling, (1992), Dozier et al. (1995), and L. Grunig et al. (2002) also concluded that public relations contributed to organizational effectiveness when it helps the organization build good, long-term relationships.

Hon and J. Grunig (1999) asserted that an organization-public relationship starts when an organization's behavior results in consequences to its publics. From a resource dependence approach, organizations try to minimize the dependence on the environment and compete with other organizations in acquiring necessary resources to survive (Daft, 1998). Those organizations become a public to the organization because they affect the organization's goal achievement. Yet, collaborative networks theorists advocate sharing of resources to make an organization more competitive. The quality of a relationship between an organization and its publics, therefore, depends on how an organization interacts and deals with its publics in the environment. Hence, this study uses Hung's (2002) definition of OPRs: "organization-public relationships arise when organizations and their strategic publics are interdependent and this interdependence results in consequences to each other that organizations need to manage" (p. 40).

#### *Types of Organization-Public Relationships*

Public relations scholars have proposed two typologies of OPRs (e.g., Hon & J. Grunig, 1999; Hung, 2002). Two types of relationships are exchange and communal relationships (Hon & J. Grunig, 1999). In exchange relationships, one party provides benefits to the other only because it already has given or will give benefits in return. In contrast, in communal relationships, one party provides benefits to the other without

expecting anything in return. J. Grunig and L. Grunig (1999) advocated the necessity for public relations professionals to cultivate communal relationships with strategic publics. It is because communal relationships foster two-way communication, mutual understanding, and organizational attention to social responsibilities (Bowen, 2000; Seib & Fitzpatrick, 1995; Hung, 2002).

#### *Cultivation Strategies of Organization-Public Relationships*

Cultivation strategies are ways to keep a satisfactory relationship like it is and restore any damaged relationships to a better state (Hung, 1999). J. Grunig and Huang (2000) and Hon and J. Grunig (1999) conceptualized symmetrical and asymmetrical maintenance strategies based on Huang's (1997) and Plowman's (1995) research. The symmetrical approaches are disclosure or openness (organizations disclose feelings or thoughts to their publics), positivity (organizations attempt to make their publics enjoy the relationship), assurances (organizations recognize the legitimacy of their publics in their relationships), networking (organizations build the same network as their publics), sharing of tasks (organizations share joint tasks with their publics), cooperation or collaboration (organizations work with publics to reach a mutually satisfactory relationship), being unconditionally constructive (the effort to do whatever is best for the relationship, even though the other side does not reciprocate), and win-win or no deal (parties withdraw from the negotiation table until they gain the mutual beneficial agreement).

The asymmetrical approach includes distributive negotiation (parties try to maximize gains and minimize losses), avoiding (hiding from the conflicts physically or psychologically), contending (the attempt to convince the other side to accept its

position), compromising (both sides give and take a little to meet part way between a preferred point), and accommodating (one party lowers or yields its position).

*Relational Outcomes of Organization-Public Relationships*

To effectively evaluate OPR, Hon and J. Grunig (1999) proposed the following four relationship indicators (trust, control mutuality, relational commitment, relational satisfaction). Huang (2001) added favor and face as the fifth indicator of OPRs with Chinese publics.

Trust is an important foundation for relationships. J. Grunig and L. Grunig (1998) defined trust as “the extent to which both management and publics express willingness to make themselves vulnerable to the behavior of the other and confidence that the other party will take its interests into account in making decisions” (p. 4). Trust also emphasizes one party's willingness to be frank in dealing with the other party.

Stafford and Canary (1991) defined control mutuality as “the degree to which partners agree about which of them should decide relational goals and behavioral routines” (p. 224). Imbalance of power exists in relationships. Either one side or both can have the rightful power to influence the decision-making process. L. Grunig et al. (1992) also argued that a quality relationship could still be produced in a relationship where power distribution is unequal as long as parties followed a norm of reciprocity. Stafford and Canary (1991) argued that it is crucial to be aware of mutuality and control it in interpersonal and organization-public relationships because of interdependence<sup>8</sup> and relational stability.<sup>9</sup>

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<sup>8</sup> Interdependence refers to a phenomenon where an actor's behavior has consequences on the other's behavior and vice versa.

<sup>9</sup> Relational stability prevents unexpected changes in relationships.

Morgan and Hunt (1994) described commitment from the perspective of marketing. Relational commitment, they argued, occurs when partners in a relationship recognize that it is necessary to maintain the relationship and are willing to put maximum effort into furthering that relationship. Meyer and Allen (1984) argued that when studying organization-public relationships, two types of commitment should be distinguished: affective commitment and continuance commitment. Continuance commitment, in an organizational context, refers to “the extent to which employees feel committed to their organizations by virtue of the costs that they feel are associated with leaving” (p. 375). Affective commitment refers to “an affective or emotional orientation to an entity” (J. Grunig & Huang, 2000, p. 46). J. Grunig and Huang argued that organizations need to work toward both types of commitment in their public relations effects. Hung (2002) found that commitment is most salient among the relational outcomes to cultivate relationships with Chinese publics.

Satisfaction is a relational outcome often used to evaluate OPRs. Stafford and Canary (1991) defined relational satisfaction as occurring when “the distribution of rewards is equitable and the relational rewards outweigh costs” (p. 225). They also argued that positive relational satisfaction is affected by perceptions of partners' constructive maintenance behaviors.

The model of strategic management of public affairs proposes the following research questions:

RQ3: What is the role and value of public affairs in the overall strategic management process of a multinational corporation in China?

RQ4: What is the relationship between issues management and public affairs?

RQ5: What is the relationship between public affairs and relationship building and cultivation with a corporation's strategic publics?

RQ6: How do multinational corporations in China manage their public affairs practices?

### Modeling Effective Corporate Political Strategies

Corporate political activity has long been a subject of interest to scholars from multiple disciplines. Most of the studies have identified practices of corporate political activities and strategies but failed to define "the conditions under which political activity of different types and levels produces (or fails to produce) different kinds of effects" (Preston, 1986, pp. 268-269). Even though a number of research studies have been conducted to answer that call since then, this work remains incomplete (Getz, 1993). This study attempts to fill this void by developing a conceptual model of effective corporate political strategies.

#### *Corporate Political Strategies*

There are various types of corporate political strategies. The practice of corporate political strategies varies among corporations and industries. Researching the Western literature, six corporate political strategies that are most frequently used and may be applicable in China are identified as follows: 1) constituency building, 2) advocacy advertising, 3) lobbying, 4) coalition building, 5) reporting research results or public poll results, and 6) personal services (Keim & Zeithaml, 1986; Getz, 1993).

#### *Constituency Building*

Constituency building, which is viewed as an application of corporate lobbying at the grassroots level, refers to corporations' efforts to identify, educate, and motivate individuals, who may be affected by public policies that have an impact on the

corporation, to become engaged in political actions (Keim, Zeithaml, & Baysinger, 1984). Each corporate constituency can serve as a grassroots constituency for an organization. The 1979 Conference Board study identified the most common corporate grassroots constituencies respectively as employees, stockholders, plant communities, retirees, and labor unions. Corporate constituency programs attempt to inform constituencies on relevant issues, educate them regarding the potential impact on them, and eventually encourage them to take political actions in the legislative process, often through letters or phone calls to their elected representatives when legislative bills are being considered in committee or subcommittee (Keim & Zeithaml, 1986, p. 829). Research has often focused on the employee constituency and concluded that this strategy is feasible and potentially effective (Aplin & Hegarty, 1980; Baysinger, 1984; Baysinger, Keim, & Zeithaml, 1985).

#### *Advocacy Advertising*

Advocacy advertising is a means to marshal issue advocacy. It is designed to reach, and to influence in many cases, a general or targeted audience with messages regarding public policy through any medium<sup>10</sup> (Keim & Zeithaml, 1986; Mack, 2001; Sethi, 1979). Keim and Zeithaml (1981) maintained that source credibility, accuracy and a noncoercive approach were the requirement of any corporate advocacy advertising program. The art of advocacy advertising has been advanced. Wilcox et al. (2003) noted that corporations or interest groups nowadays can obtain data of the general population's geography, demographics, and interests. This sort of data can help to tailor a message to an audience with specific geographic, demographic, and interest group characteristics and

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<sup>10</sup> The media that have been utilized to run advocacy advertising include: broadcast or cable television, radio, newspapers, general-circulation magazines, specialized publications, internet websites, direct mail or e-mail, and computerized telephone calling programs (Mack, 2001, p. 159).

guide issue ad placement on each medium for it to generate maximum effect (Mack, 2001). Literature on this strategy has examined its applications among corporations and provided guidelines to improve the strategy's effectiveness (e.g., Sethi, 1979).

### *Lobbying*

There is extensive research on the forms and strategies of lobbying. The common forms of lobbying include direct lobbying, grassroots lobbying, and coalition lobbying. There is a wide range of lobbying strategies and tactics. Strategically, a corporation selects its lobbying forms and strategies based on the nature of the issue and its political environment; and typically it uses a combination of different lobbying forms and strategies.

*Direct lobbying.* Direct lobbying is the most commonly known and widely practiced application of lobbying. It involves individual lobbyists' efforts in personal, face-to-face communication to influence political decision-makers, such as by testifying at congressional hearings, making direct contacts and interactions with political decision-makers in the office or by phone, and taking part in informal exchanges (Johnson, 1992). Lobbying of this sort is reported as the one that occupies the most time and resources of a lobbyist (Schlozman & Tierney, 1986). The reasons for preference of direct lobbying are 1) direct communication ensures the lobbyist's messages are delivered and facilitates feedback and information exchange, and 2) it helps to initiate and maintain the lobbyist's personal relationships with political decision-makers. One-to-one encounters of lobbying also give the lobbyist more control of the lobbying progress than grassroots lobbying and provide proof of the lobbyist's involvement at high levels of the political process (Mack, 1989; Sachs, Cantor, & Neale, 1986). Mack (1989) argued that as the political process

becomes more complex and competitive, the lobbyist's credentials are essential for successful direct lobbying. The credentials are built up with the lobbyist's communication skills, personal integrity and political ethics, and professional competence.

*Grassroots lobbying.* Grassroots lobbying is gaining an increased preference among corporations and interest groups. In the United States, grassroots lobbying is an \$800 million industry (Wilcox et al., 2003). Advances in communication technology, statistical and demographic data, and virtually no rules or regulations create the advantages of using this technique (Sachs et al., 1986; Wilcox et al., 2003). Grassroots lobbying, according to Schlozman and Tierney (1986), is "any means by which a group generates public pressure on those in government" (p. 185). This lobbying mode is typically targeted at legislators and encompasses indirect tactics such as advocacy advertising and phone or letter-writing campaigns to legislators, as well as direct techniques such as constituency building (Keim & Zeithaml, 1986; Schlozman & Tierney, 1986; Wilcox et al., 2003). Lobbying of this sort is operated under the principal-agent principle. The principle states that legislators are agents serving their voters (principals). In order to get re-elected, the legislator must represent his or her constituents' interests and be acutely aware of pressure from constituents.

*Coalition lobbying.* Coalition lobbying is to leverage a corporation's lobbying capabilities to a higher level of influence through alliances; and the higher level of influence, in turn, creates a synergy that exceeds the effectiveness of its components (Mack, 1989, p. 107). The assumption of coalition lobbying lies in the conventional wisdom: Alliances and coalitions have more power and a better chance to effectively

lobby the issue than lobbying independently. A corporation can practice coalition lobbying through membership in trade associations or other membership organizations or by joining with other interest groups in an issues coalition. Two other reasons explain the rise in coalitions. One has to do with the increasing number of interest groups in the political arena. When the number of interest groups increases, the power and resources each individual group obtains diminish. Joining together as a coalition allows small groups to balance the power disparity with their larger counterparts. The other factor relates to the decentralization of power in Congress resulting from congressional reform (Reynolds, 1987). The decentralization of power in Congress has created more subcommittees, which, in turn, lead to the diversification of decision-making authority in Congress. Consequently, it has become difficult to reach all decision-makers in a timely fashion. Coalitions provide a network of linkages possessed by each of their members to reach and communicate with decision makers throughout Congress more effectively than approaching them individually.

In conclusion, these three avenues of lobbying differ by the representation of the corporation's position on a particular issue. They are complementary and can be used in combination.

*Lobbying strategies and tactics.* Lobbying strategies and tactics are well conceptualized by Jaatinen (1999):

A lobbying strategy is a combination of strategic relational communication and strategic issues communication based on the political role and objectives defined by an organization for itself. The tactics of lobbying are conceptualized as communication campaigns. (p. 57)

A contingent view of lobbying assumes that a lobbying strategy corresponds to the situation at hand and the strategy denotes specific lobbying tactics to practice. A lobbying strategy can be developed to influence the decision maker, his or her background factors (i.e., the opinions of voters and groups in the decision maker's district), or to influence the political setting around the decision maker (e.g., the media support and public opinions) (Jaatinen, 1999). A lobbying strategy is deemed effective when it changes the interdependence among political actors or when it alters the direction of influence among them. The change of interdependence happens when a political decision-maker is disengaged from the bindings to his or her constituencies or to other political actors. The direction of influence among actors might be altered if one or more actors' backgrounds have changed.

Jaatinen (1999) suggested a comprehensive typology of 12 lobbying strategies shaped by the opinions of the decision maker, organizational competitors, and mass media and the citizens on issues. The strategies are as follows:

1. Maintenance strategy: to maintain and strengthen the stand held by the decision maker. This strategy is appropriate when all three actors (the competitors, the media, and the citizens) hold the same position as the corporation's.
2. Support strategy: to enhance the positive stand held by the decision maker by neutralizing the citizens' opinion that is not aligned with corporate interests. This strategy corresponds to the situation where the decision maker and competitors have the same position as the corporation but the public opinion is against the position.

3. Publicizing strategy: to use citizen opinion to support the corporation's desired position. This strategy is effective when the decision maker and the public are for the corporation but its competitor advocates an opposite view on the issue.
4. Integrative negotiation strategy: to act first before the publicity and the competitor do to enhance the decision maker's positive attitude on the issue. This strategy is useful when the decision maker is for but the competitor and the public are against the corporate position on the issue.
5. Informing: to create a majority of the constituents of the decision maker's district to support the corporation. This strategy should be chosen to deal with the situation in which the competitor and the public support the corporation's position but the decision maker has a neutral opinion on that position.
6. Concessions: to act as informing but provide some concessions to somewhat neutralize the negative public opinion. This strategy should be implemented when public opinion opposes, the decision maker is neutral, and the competitor is on the side of the corporation.
7. Being unconditionally constructive: to do what is best for the relationship to persuade a majority of the decision-maker's district to the corporation's side and increase the visibility of the organized interests on this side. Showing the narrow support of the competitor's cause might be helpful. The strategy is appropriate when public opinion is supportive, and the decision maker is neutral, but the competitor has an opposing view of the issue.
8. Distributive negotiation: to act first to create a majority of the constituents of the decision-maker's district to support the corporation. In addition, it is important

for the corporate lobbyist to distinguish the corporation among the competitors in the decision-maker's eyes. It is also important to show the organized interests on the corporation's side to the decision maker. Distributive strategies are used to protect corporate interests. This strategy is practiced when there is opposition to the corporation from the competitors and the general population but the decision maker still holds a neutral position in that matter.

9. Win-win or no deal: to create a division of opinions among constituents and emphasize the organized interests of constituents in the decision maker's district as well as having the support of the competitor. The situation corresponding to this strategy is where the decision maker is opposed to the corporation's position but both the competitor and the public opinion support it. Win-win or no deal means when the lobbyist cannot find a solution, he or she agrees to disagree and start to work on another problem
10. Defensive strategy: to defend the corporation's position by building coalition with the competitor and mobilizing the corporation's constituencies to influence the decision maker's opinion. In this strategy, the decision maker and the public opinion are adversarial whereas the competitor is supportive. As a result, the corporate lobbyist must avoid the issue going public and construct every move to the decision maker skillfully.
11. Rights-based negotiation: to refer to the right to be heard and be taken into account by the decision maker because of the supporting public opinion. The corporate lobbyist should also bring a majority of the constituents in the decision maker's district to the corporation's side and emphasize the organized interests of

the constituents. This strategy is appropriate when the decision maker and the competitor become opponents. Public opinion however, is on the corporation's side.

12. Adaptive strategy: to adapt the corporation to better fit the new conditions. This strategy is used when it is impossible to influence the issue; that is when all actors have turned negative.

### *Coalition Building*

Coalition building is the prerequisite for exercising coalition lobbying. Coalitions, according to Tucker and McNerney (1992), are groups designed to create movement on an issue by either changing its direction or accelerating its relevance to the public. In the context of corporate public affairs, coalition building involves efforts by the corporation to find other groups that share common political interests on a particular legislative or regulatory issue (Wexler, 1982). Potential external coalitions of a corporation include stockholders, suppliers, clients, labor unions, the community, the industry, and government (Mintzberg, 1983). The process of coalition building consists of two phases. First, it gathers a credible network of disparate groups representing varying interests on an issue. It, then, seeks to facilitate and initiate focused dialogue, wrestle for common ground, and work together to advance mutually beneficial agendas in the network of coalitions (Tucker & McNerney, 1992).

Coalition building activity, in many situations, results in alliances among groups with a similar position on and some common interests in an issue. Tucker and McNerney (1992) argued that an alliance is built only when every partner views the relationship as one in which everyone is in a "win-win" situation (p. 28); however, mutual benefits and

credibility enhance the consolidation of coalitions. Once a coalition is formed, members reach a consensus on “a statement of vision, common values, or definition of the problem or situation” (p. 38). They then proceed to create messages and select tactics to achieve their goals. Coalition relationships may be temporary and terminated when the issue resolves or may become permanent and lead to a formal association (e.g., The Business Roundtable) (Keim & Zeithaml, 1986).

Public relations theorists have examined the value of public relations to the coalition building process. Pien (1994) studied how public relations contributes to strategic management for a coalition. She noted that public relations assists members in a coalition in sharing issue-related information, craft a unified stance on an issue, or create a platform from which to launch the issue into the public policy area. Public relations can also assist an organization in breaking down an alliance through relationship management. In order to achieve this goal, the corporate public affairs officer needs to understand the following: the type of the coalition, the motivations for forming the coalition, the mutual gains within the coalition, and the power dynamics of the coalition (who are in the inner circle of the coalition). Other research on coalition building has focused on its development and applications in political processes (Keim & Zeithaml, 1986).

Xie, the president of one of the biggest public relations agencies in Guangzhou and a former high-ranked Chinese Communist Party member, noted that coalition building is the most suitable means for MNCs in China to influence a governmental policy for two possible reasons (personal communication, January 14, 2004). First, politically, China is in an authoritarian system that does not encourage individual

influences on the formulation of policy. Coalition building increases relative power of involved parties in dealing with the Chinese government. Second, hierarchy is emphasized in Chinese culture. Chinese governmental officials only talk to a corporate representative who has an authority in the corporation equal to or higher than that of the official in his or her government (Blackman, 2000; Hung, 2002). MNCs in China often build coalitions with their home states' trade associations or embassies to obtain a position capable of interacting with Chinese officials. An example of this is that a few direct-selling corporations (i.e., Amway, New Skin, and Avon) have built coalitions with the American Institute of Commerce in China to promote the formulation of Chinese regulations regarding direct selling (Xie, personal communication, January 14, 2004).

#### *Reporting Research Results or Public Poll Results*

Reporting results of research or public polls is a means of providing information on the issue of concern to political actors (i.e., policy makers and governmental officials). Research results inform political actors the latest data or knowledge of the issue, whereas public poll results show political actors the preferences of their constituents. Reporting public preferences tends to be more effective in influencing legislators than governmental officials because legislators need to secure their re-election. Citing research results seems to be commonly practiced when dealing with technological or environmental policies with high uncertainty. In the case of the Yucca Mountain Project,<sup>11</sup> reporting research results is the most commonly practiced political strategy by all involved parties to influence the passage of the project (Chen & Hung, 2002). Because safety is the key

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<sup>11</sup> The Yucca Mountain Project is a plan to build a permanent underground repository at the Yucca Mountain, Nevada to store 77,000 tons of high-level radioactive nuclear waste generated in the United States nationwide for 10,000 years ("History of project," n.d.).

determinant for the approval of this repository, organizations involved are citing all sorts of research results to promote or block this public policy.

Blackman (2000) maintained that reporting research results is an effective strategy to deal with administrative problems with the Chinese government, such as applying for a license of a product that is not yet regulated. He argued that Chinese bureaucrats are risk-averse and avoid responsibilities. Reporting research results facilitates the process for the approval because the results serve as proof and exempt the official from an obligatory responsibility when the proposed matter goes wrong.

#### *Personal Services*

Personal services by multinational corporate leaders in official government positions or trade associations can produce great benefits to corporations (Getz, 1993). Executives may serve at the federal cabinet level, in executive and administrative departments, or as consultants for members of special committees to benefit their corporations politically (Getz, 1993, p. 244). In China, leaders of MNCs are invited to serve as consultants for various levels of Chinese government (Xie, personal communication, January 14, 2004).

#### *Effectiveness of Corporate Political Strategies*

The effectiveness of a corporate political strategy, in this research, is defined as the extent to which the strategy achieves its objective. For a public affairs strategy to be effective, it must be based on the overall strategy of the organization and have a contingent view reflecting a given situation. Wilde (1988) suggested that an effective public affairs strategy is the one that considers the interests involved, issues of question, responsible institutions, and individuals who make up policy. Jaatinen (1999) indicated

the three requirements of an effective corporate public affairs strategy: 1) a strategic communication policy, which determines how to effectively improve mutual understanding between the corporation and its strategic publics, as well as to build and cultivate quality, ongoing organization-public relationships; 2) strategic planning on specific issues, which requires separate issues management plans to create synergy; and 3) ethics, which ensure the corporation would not attain desired outcomes by sacrificing its legitimacy of operation.

Keim and Zeithaml (1996) and Baysinger (1984) examined the effectiveness of public affairs strategies based on the nature of issues. Keim and Zeithaml associated effective strategies of influencing legislative decision-making with the *salience* of an issue for voters in the targeted legislator's district and *consensus or conflicting preference* of the voters regarding the issue. Baysinger argued that corporate political strategies are contingent upon three issue types: 1) issues that allow an organization to pursue its own interest at the expense of other firms or society at large (domain management issues), 2) issues that threaten the legitimacy of organizational goals and purposes (domain defense issues), and 3) issues that threaten organizational practice to pursue its goals and purposes (domain maintenance issues).

As discussed previously, Keim and Baysinger (1993) maintained that the development of business political strategies should be similar to the development of a firm's product-market strategies. These strategies are two integrated sets of activities designed to match an organization's internal resources with its external environment to maximize competitive advantage over its rivals. They differ in objectives. One is to earn

economic profits and the other is to produce policy outcomes that are favorable to the organization's continued economic survival and success (p. 136).

Keim and Baysinger (1993) argued that the effectiveness of a corporate political strategy depends on three factors: potential value, ease of imitability, and organizational support. Potential value is determined by a public affairs executive's ability to understand the nature of the political situation facing an organization and political technologies an organization has to influence decision makers and key constituencies. Ease of imitability refers to the extent to which a firm's political strategy may be imitated by other firms in the public policy arena. A public affairs executive should identify a comparative advantage of an organization that sets it apart from other organizations or interest groups. He or she, then, should develop a firm's political strategy based on the identified advantage to make the firm competitive in political battles. Organizational support refers to available resources, supportive management, and suitable organizational structures that are dedicated to the chosen political strategy. A political strategy is likely to be effective when available resources are sufficient, top management is supportive, and organizational structures are suitable for making the chosen political strategy operational.

#### *The New Model of Effective Corporate Political Strategies*

After integrating research on effective corporate political strategies, I develop a theory-based model of effective corporate political strategies (see Figure 2). This proposed model is built on Getz's (1993) model of corporate political activities. As Figure 2 illustrates, a multinational corporation's choice of political strategies is contingent upon three groups of variables.

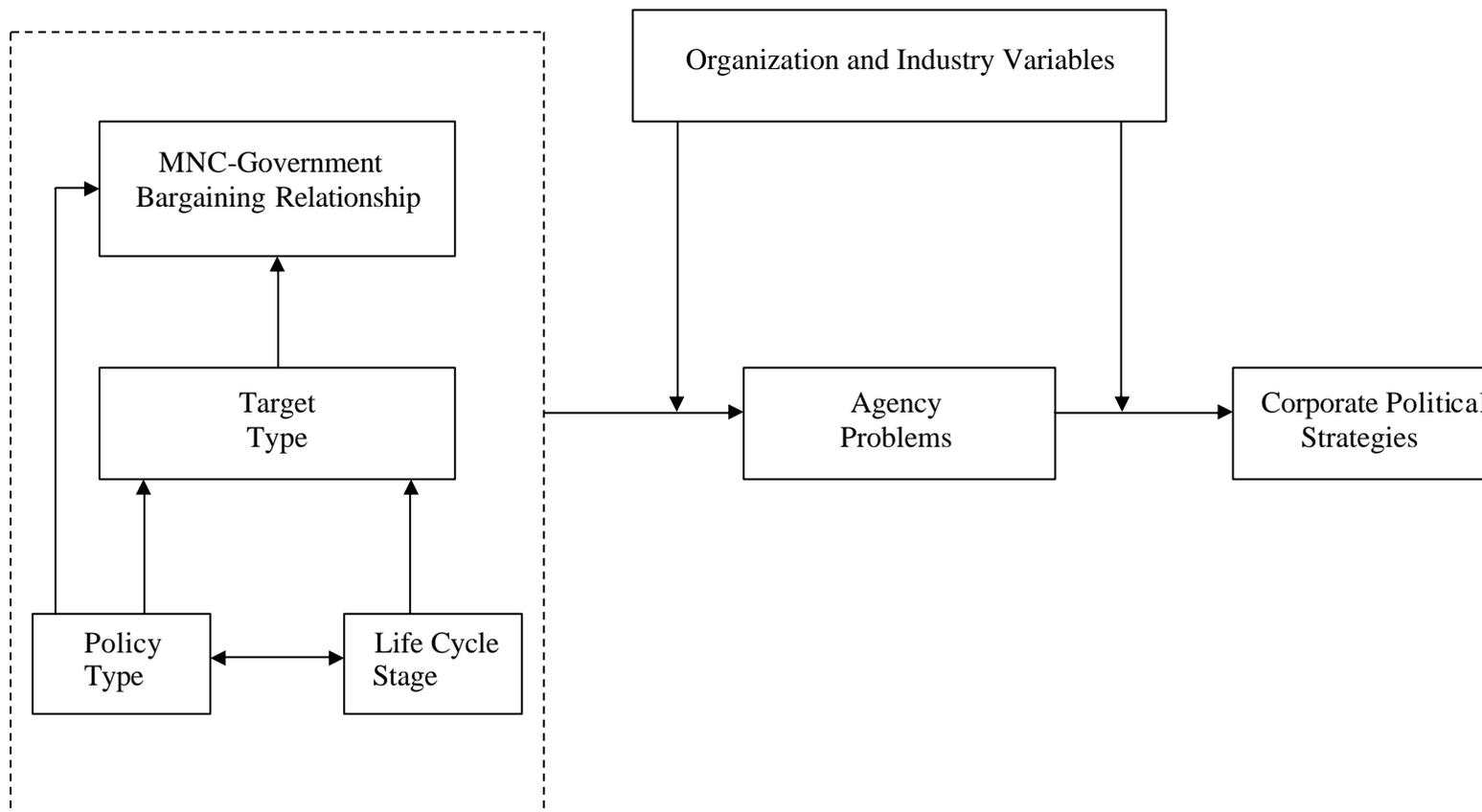


Figure 2. Model of effective corporate political strategies.

*Dependent Variable: Corporate Political Strategies*

Corporate political strategies in this model include 1) constituency building, 2) advocacy advertising, 3) lobbying, 4) coalition building, 5) reporting research results or public poll results, 6) personal services, 7) testifying at governmental hearings, and 8) legal actions (Getz, 2002; Keim & Baysinger, 1993). The nature, purpose, and practical tactics of each strategy are discussed in the previous section of corporate political strategies.

*Independent Variables: Targets, Issues, and MNC-Government Bargaining Relationship*

Four variables interact with each other to influence the choice of political strategies: target of political activities, type of policy, issue life cycle, and MNC-government bargaining relationship. Each variable will be discussed and the nature of interaction among them will be explained as follows.

*Targets.* A target refers to individuals, groups, or organizations at whom corporate political strategy is directed. In general, targets can be analyzed using four elements: authority (governmental or nongovernmental); level (international, national, regional, or local); function (executive, legislative, or judicial); and access (internal or external) (Getz, 1993). For this study, targets will be described by the following dimensions: level (national, regional, or local); function (executive officials or political leaders); and access (internal or external).

Nongovernmental and international targets are beyond the scope of this study and will not be included in the model. Judicial targets are dropped from this study because MNCs rarely deal with the judicial branch of the Chinese government (Xie, personal communication, January 14, 2004). MNCs in China have strong incentives to target the

executive branch, especially regulatory agencies that supervise foreign business operations because it approves foreign investment applications, has authority to interpret policies, and promulgates policies that affect the corporation's business (Xie, personal communication, , January 14, 2004). Corporate political strategies frequently target the legislative branch.

Constitutionally, the National People's Congress (NPC) is deemed to be the "highest organ of state power" to establish laws in China. When the NPC is not in session, the Standing Committee of the NPC can enact amendments and additions to laws passed by the NPC. Legislation is also enacted at more local levels by the people's congresses of provinces, municipalities, autonomous areas, and cities. However, elite preference is deeply rooted in the Chinese policy-making process. In China, top political leaders are the most decisive factor in the making of foreign policy (Pearson, 2001). As a result, the functional dimension of the model determines the targets as either executive officials or political leaders in China. Access of this model is different from the original definition of Getz (1993). It refers to the established quality, long-term relationship between an organization and targets. If the relationship is already in place, the organization has internal access to interact with the target. Otherwise, the access will be external.

*Policy types.* One of the most widely cited typologies of policies from Wilson (1977) identifies four types of policies a corporation may be affected by: economic, technological, political, and social. Economic policies have most applications to a business corporation and include monetary and fiscal policies, foreign investment laws, trade rules, and tax laws. Technological policies are those with the purpose of increasing

innovation, such as polities that establish centers for scientific or technological research. Political policies include policies that involve relations between countries and rules of the political game within a state (e.g., election rules). Social policies are broader than the other three types of policies. They include policies that deal with societal problems or the public good (e.g., demographic change, poverty, and social welfare).

*Issue life cycle.* The concept of public issue life cycle is used to explain evolving phases of policy-making and corporate political action and responses (e.g., Buchholz, 1988; Marx 1990). An issue evolves through three stages: emergence, formulation, and implantation (Buchholz, 1988; Getz, 1993). The *emergence* stage of issue life cycle covers the period of time from when business firms, the government, or active interest groups begin to create social expectations to the time when expectations become political issues. Buchholz (1988) argued that the goal of organizational political action in this stage is to mold public opinion that is positive to the organization's position on the issue through communication strategies. The primary action target should be active citizen groups. Marx (1990) noted that an organization has the best chance to influence the decision on the issue in this stage when it is still a social expectation. The *formulation* stage involves the development of means for dealing with the political issues, such as laws, regulations, or public policies (Getz, 1993). Buchholz (1988) maintained that the goal of this stage is to influence the formulation of policy by participation strategies, such as constituency building, campaign contributions, direct contacts to political actors, negotiation, and lobbying. Governmental officials and legislators are the main targets of corporate political action in this stage. The *implementation* stage occurs when the political decision made is put into effect. The strategic choice of corporate political

action may be to comply with the policies through organizational readjustments or refuse to obey the policies. Governmental officials should be the key actors corporate public affairs professionals need to deal with. Marx (1990) indicated that a reactive organization constrains its influence on the issue when acting on the issue in its formulation or implementation stage.

*MNC-government bargaining relationship.*<sup>12</sup> MNC-government bargaining relationship serves as another independent variable of the model. Here, the MNC-government bargaining relationship is analyzed based on international political economy theory (Loewendahl, 2001), dependence theory of bargaining (Loewendahl, 2001), and agency theory.

The international political economy (IPE) approach postulates that the distribution of gains of state actors from market activities is predetermined by the interaction of the order of the world economy and political factors—such as power, values, and political autonomy of state actors. Furthermore, economic order and political factors reinforce each other (Gilpin, 2001). The work of Strange (1991) in IPE emphasizes a salient point of international market activities; that is, economics cannot be separated from politics, and a nation's domestic and international market activities influence one another under the structures where they take place. According to Strange (1991), structures set agendas and assign power to states, groups, and individuals who contest the central political issue of economical gains (who gets what?) both within the state and in the world economy. Structures also determine the range of options each state, group, or individual can employ in the competition.

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<sup>12</sup> Most of this section is extracted from the article of Y. Chen (2004).

Strange (1988) identified four independent structures: finance, production, knowledge, and security. Among them, knowledge is the over-arching structure that affects and governs the change of the other three (Strange, 1988). She further distinguished between two types of power: relational power and structural power. Relational power is the ability to persuade an actor to do something he or she is against, whereas structural power is the ability to shape structural change and general policy. Structural power, according to Strange, is more decisive than relational power in affecting outcomes of policy or regime formation and reinforces relational power as well.

IPE well explains the interrelated influence of economics and politics on the bargaining relationship between MNCs and host governments in the national and global market. The relationship between MNCs and host governments arises from their economic interdependence (Loewendahl, 2001). Bargaining is central to the relationship and subject to the exercise of relative power. This brings a political dimension into the economic interdependence in two regards. First, the MNC and the government are actors in a political arena who constantly bargain the economic interdependence with each other at the local, national, and global levels (Dicken, 1990; Loewendahl, 2001; Stopford & Strange, 1991). Second, the MNC and the government should be conceptualized as “political systems of power,” within which constituent individuals and groups compete with each other to determine the interests and objectives of the MNC and the government in bargaining (Cawson et al., 1990; Daft, 2001; Kobrin, 1987; Post et al., 2002; Schienstock, 1992). In other words, the interest<sup>13</sup> and institutional structure of each actor constrain its bargaining autonomy and ability to fully exploit their respective powers.

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<sup>13</sup> The interest structure of an actor refers to the external and internal interest groups that can exert influences on or constrain the actor with respect to its bargaining behaviors.

This political aspect of bargaining leads to a differentiation between potential and actual power. Potential power depends on the perceptions of relative power; whereas actual power is the exercise of relative power, depending on an actor's ability and willingness. Both potential and actual power of MNCs and governments are determined by domestic and international politics and economics, as well as the structures in which MNCs and governments operate. As a result, the IPE perspective hypothesizes that the operations and strategies (e.g., public affairs strategies) of MNCs are conditioned by forces operating in the structures at the local, regional, national, and global levels.

IPE studies have concluded that two structural changes in the international political economy (i.e., covering FDI policy and industrial structures and the change nature of government intervention)<sup>14</sup> increase the interdependence between MNCs and governments. However, this increased interdependence highlights the asymmetrical gain of bargaining power of MNCs over governments because of "globalization, regional integration,<sup>15</sup> and the technological and commercial expertise of MNCs" (Loewendahl, 2001, p. 110). Consequently, two fundamental sources of MNCs' relative bargaining power are: cross-border flexibility (Blomstrom & Lipsey, 1993; Cowling, 1990;

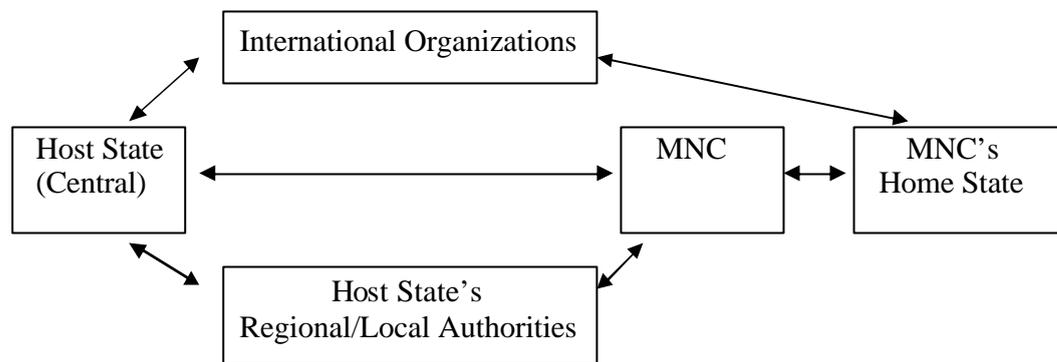
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<sup>14</sup> Covering FDI policy and industrial structures refer to the convergence of foreign direct investment (FDI) policies and industrial structures among nations to promote FDI and attract MNCs. Covering FDI policy and industrial structures are a result of positive government attitudes toward MNCs that were shaped by changes in the international political economy (Loewendahl, 2001). The debt crisis in the 1970s and 1980s dried up bank loans in developing countries and made them turn to inward FDI as a source of new funds (Wells, 1998). The intensive competition among countries with similar structures, resources, and capabilities forces developed countries striving to attract MNCs to enhance national competitiveness (Dunning, 1993). The change nature of government intervention refers to the shift of government's function from protectionism to encouraging firms (domestic and foreign) to operate their value-adding activities in its territory (Loewendahl, 2001, p. 101). Nicolaidis (1993) argued that this shift is caused by globalization of production and interdependences among cross-border MNCs.

<sup>15</sup> Regional integration (e.g., the Single Market Program in Europe in 1986 to implement the Single European Market) increases bargaining power of MNCs by not only diminishing the host-state government's ability to provide competitive interests to MNCs on the basis of national ownership (Loewendahl, 2001; Sadler, 1992) but also increasing mobility of MNCs to operate in different localities within the same region (Guisinger, 1985).

Loewendahl, 2001; Julius, 1990) and control of resources (Blomstrom & Lipsey, 1993; Loewendahl, 2001). Cross-border flexibility (locational flexibility) represents a multinational firm's ability to operate in a number of locations. The control of resources refers to the extent to which the multinational controls the resources, especially the controls of advanced technologies. The more options an MNC has in relation to its operating locations or the greater its advanced technology capability, the more bargaining power the MNC has over its host state. In this case, the host state has to grant more government incentives to attract the MNC. Further, based on its resources, the MNC may even become a crucial decision-maker in designing the economic and legal systems of its host state.

In conclusion, the IPE perspective argues that one needs to link all these forces (i.e., economies and politics at the domestic and international levels, structures, and relative power) together into an analytical process to fully understand power distribution between MNCs and governments in bargaining. Figure 3 suggests the interplay among these spheres. Besides the interaction between the multinational corporation and the host government, the host state's regional and local authorities, the home state of the multinational corporation, and international organizations can exert influences on the dynamics of the MNC-government bargaining.



*Figure 3.* The influences on MNC-government bargaining.

Dependency theory of bargaining, developed by Bacharach and Lawler (1981), has made two contributions to the understanding of MNC-government bargaining. First, it examines bargaining power in more than just relative terms. IPE only explains relative power between MNCs and governments. However, if MNCs and governments are bargaining over resources that are qualitatively different or have non-fixed quantities or both, considerations of absolute, total, and relative power are required to understand the bargaining process. Second, it predicts when the agreement of a bargaining situation is likely to occur.

Bacharach and Lawler (1981) maintained that bargaining power is derived from dependence; that is, the more A depends on B, the more bargaining power B has over A. They defined dependence as the stake in their bargaining relationship, depending on the degree to which parties have alternatives to the outcomes and the degree of commitment parties have to the outcomes at issue. Loewendahl (2001) equated alternatives to locational flexibility of MNCs and commitment to the demand by MNCs and governments for each other's resources (p. 123). Absolute, total, and relative power can be explained by the two variables:

- Absolute power: the power of A, only determined by B's alternatives and commitment and regardless of A's alternatives and commitment. One party's absolute power is inversely related to the other party's alternatives and positively related to the other party's commitment.
- Total power: the sum of mutual dependence between A and B, depending on A and B's alternatives and commitment.
- Relative power: A's relative power is the ratio of B's dependence on A to A's dependence on B.

The relationship among absolute, total, and relative power explains an actor's bargaining power and the likelihood of agreement in bargaining. One's high absolute power on the other party leads to its higher relative power. That is, if an MNC has high absolute power derived from its host government's few alternatives and high commitment in the mutual dependence, it has higher relative power over the government. In addition, high total power of actors (i.e., high interdependence) increases the likelihood of agreement. Combining these two assumptions, Loewendahl (2001) further proposed the following hypotheses. Agreement is likely when there is high total power resulting from either high absolute power of both MNCs and governments or one party's medium with the other's high absolute power. Medium total power (i.e., if both actors have medium absolute power or if one party has high while the other has low absolute power) leads to an ambiguous probability of agreement and low total power (i.e., if both party have low absolute power or if one has low and the other has medium absolute power) makes agreement unlikely to occur.

IPE and dependency theory nicely lay out the two sources of and the relationship among different types of bargaining power. However, both theories overlook the political dimension of power; that is the exercise of power is a contested decision made by individuals and groups who have conflicting interests with respect to MNC-government bargaining. This suggests that the third source of bargaining power rests on the MNC's ability to control unique human (relational) resources associated with the bargaining process. As a result, agency theory is applied to fill the gap of Loewendahl's (2001) analysis of MNC-government bargaining.

As discussed previously, agency theory in MNC-government bargaining focuses on the agency relationship, in which the MNC is principal and the government official is agent, and treats the relationship as the MNC's public affairs strategy to increase its bargaining power. There are two explanations for this phenomenon. First, since it is structurally impossible for MNCs to directly make policy decisions, they create governmental agents who act on their behalf in the policy-making process (Mitnick, 1993) and further enhance their bargaining power with the host government. Second, governments, as previously discussed, are political systems and their actual power in bargaining is constrained not only by internal and external interest groups with conflict interests to MNC-government bargaining but also by limited bargaining autonomy produced by their instructional structures. Creating agents to serve an MNC's interests will constrain the government's actual power of bargaining, especially when the MNC lacks the flexibility to operate business in multiple locations or resources the host government desires. Furthermore, positive agency relationships produce a favored status and support from Chinese authorities to an MNC's objective in a specific policy, access

to the policy-making process, as well as stability and predictability in operations in spite of political and economic turbulence (Chen, 1996; Hung, 2002; Luo, 2000; Post et al., 2002).

Policy type, issue life cycle stage, target type, and MNC-government bargaining relationship are the independent variables of this model. These variables affect one another. The policy type and issue life cycle stage influence each other and indicate the target type of corporate political strategy. Target type affects the MNC-government relationship in political interaction. Policy type also exerts influence in that relationship.

*Intermediate Variables: Agency Problems*

As discussed previously, corporate political strategies can be explained as an effort by the principal (MNCs) to create or control the agent (targets of political strategies). That is, corporate political strategies are used to build relationships with governmental officials or decision makers who will advocate the corporate interest in the political arena or solve problems with the agent and thereby better control it in serving the corporation's interest. Getz (1993) identified four types of agency problems: knowledge, disposition, capacity, and effort. She further examined the contextual factors of each problem type and the relations among problem type, target type, policy type, and life cycle stage.

Knowledge problems exist when an agent does not know or understand what the principal wants. This type of problem is most likely to occur in the emergence stage of social and economic issues when a firm is incapable of articulating its position on an issue, a firm's position on an issue is narrower than general business interests, or the

information about an issue is complex. Media coverage and other communication strategies can overcome knowledge problems between the firm and the policy maker.

Disposition problems are present when an agent disagrees with the principal's interest. This type of problem occurs throughout all life stages of social, economic, and technological issues when the agent has multiple principals with divergent interests or when the issue is seen as having a moral or value component. Matching a firm's interest with the larger public interest helps to moderate this type of problem. Increasing dependence by the policy maker on the firm for information related to the issue is also useful. As a result, reporting research results, constituency building, and advocacy advertising are effective strategies to resolve disposition problems. Targets that a firm has internal access to are likely to be favorably disposed toward the firm's interest (p. 255). Therefore, relationship building and cultivation serve as another appropriate strategy to deal with this type of problem.

Capacity problems exist where an agent is incapable of acting in the principal's interest. Capacity problems are likely to occur in the formulation and implementation stages across all policy types when an agent does not have legal authority, resources, or skills to successfully pursue the principal's interests.

Effort problems occur when an agent does not exert sufficient effort in pursuit of the principal's interest. It is inevitable that effort problems exist in the emergence stage of an issue life cycle. In addition, when an agent has multiple policy problems, it is likely to poorly serve the principal's interest. More importantly, this type of problem is usually associated with disposition problems. Therefore, multiple policy problems and the factors that provoke disposition problems generate the occurrence of effort problems.

Agency problems are intermediate variables. The extent and type of agency problems are contingent upon the characteristics of the policy at hand, the target type, and the MNC-government bargaining relationship. Particular agency problems result in the selection of appropriate political strategies because the political strategies are not equally effective to resolve the present agency problems.

*Monitoring Variables: Organization and Industry Factors*

As discussed previously, the behavioral theory of the firm, organizational theory, and population ecology theory suggest that political activities of a corporation are affected by the corporation's organizational and industrial factors. Firms that engage in political activities are likely to be large (Epstein, 1969), especially when using buffering strategies<sup>16</sup> (Meznar & Nigh, 1995); to have resources devoted to political activities (Yoffie, 1987; Meznar & Nigh, 1995); to have formal structures for public affairs, issues management, and government relations (Brenner, 1980; Greening & Gray, 1994); to have business in a large number of countries (Meznar & Johnson, 1996); and to be dependent on government (Hillman & Hitt, 1999) or a regulated industry (Brenner, 1980). Industry wise, they are likely to be concentrated (Yoffie, 1987; Getz, 1993), regulated (Epstein, 1969; Yoffie, 1987; Getz, 1993), and strongly affected by macroeconomic policies and dependent on government (Epstein, 1969; Yoffie, 1987; Getz, 1993).

These organizational and industrial factors affect a corporation's interpretation of the impact of an issue, as well as its will and ability to employ political strategies. Consequently, they moderate the relations between the independent variables (the characteristics of the issue, target type, and MNC-government bargaining relationship)

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<sup>16</sup> Buffering strategies, according to Meznar and Nigh (1995), refer to the strategies a firm uses to insulate itself from external interference, resist environmental change, or control the change.

and the intermediary variables (agency problems) and between the intermediary variables and the dependent variables (corporate political strategies).

The research and theories of corporate political strategies suggest the following propositions.

Proposition 5: An effective corporate political strategy must be ethical, consistent with the overall strategy of the organization, and with a contingent view reflecting a given situation.

Proposition 6: The selection of effective corporate political strategy is affected by the characteristics of the issue at hand, the targets of the issue, the multinational corporation's relationship with the target in bargaining, the present agency problems, and organizational and industrial factors of the multinational corporation.

The review of different corporate political strategies and their effectiveness leads to the following research questions:

RQ7a: What are the corporate political strategies used by multinational corporations in China to resolve administrative issues?

RQ7b: What are the corporate political strategies used by multinational corporations in China to influence the policy-making process?

RQ7c: What are the corporate political strategies used by multinational corporations in China to resolve conflicts with the Chinese government?

RQ7d: What are the corporate political strategies used by multinational corporations in China to build and cultivate government relations?

RQ8: How do multinational corporations in China select a political strategy in relation to a given situation?

RQ9a: What are the factors the corporate public affairs professional in a multinational corporation takes into consideration when judging the effectiveness of a chosen political strategy in a given situation?

RQ9b: How do multinational corporations in China evaluate the effectiveness of their overall public affairs function?

#### Summary of Propositions

Proposition 1: The strategic management of public affairs in this research takes a stakeholder approach. Public affairs contributes to organizational success when it helps balance demands of stakeholders and organizational goals with trends and events occurring in the organization's environments. Public affairs makes this contribution through managing issues that influence the organization's future operation and building quality, long-term relationships with strategic publics through communication.

Proposition 2: Public affairs needs to be integrated into the overall strategic management of the organization and strategically managed at the functional level for it to have maximum effects.

Proposition 3: The Strategic management of public affairs at both organizational and functional levels considers factors in the macro, operating, and functional environment of the organization and its process contains five phases: environmental analysis, goal formulation, strategic planning and strategy formulation, strategy implementation, and evaluation and control.

Proposition 4: Under the strategic management of a stakeholder approach, organizational effectiveness should be evaluated by the satisfaction of each identified situational

constituency with organizational performance and the quality of the organization's relationships with them.

Proposition 5: An effective corporate political strategy must be ethical, consistent with the overall strategy of the organization, and with a contingent view reflecting a given situation.

Proposition 6: The selection of effective corporate political strategy is affected by the characteristics of the issue at hand, the targets of the issue, the multinational corporation's relationship with the target in bargaining, the present agency problems, and organizational and industrial factors of the multinational corporation.

#### Summary of Research Questions

RQ1: How do MNCs in China define corporate public affairs, corporate political involvement, government relations, and lobbying?

RQ2: How do MNCs in China structure the management function of MNC-government interaction?

RQ3: What is the role and value of public affairs in the overall strategic management process of an MNC in China?

RQ4: What is the relationship between issues management and public affairs?

RQ5: What is the relationship between public affairs and relationship building and cultivation with a corporation's strategic publics?

RQ6: How do MNCs in China manage their public affairs practices?

RQ7a: What are the corporate political strategies used by MNCs in China to resolve administrative issues?

RQ7b: What are the corporate political strategies used by MNCs in China to influence the policy-making process?

RQ7c: What are the corporate political strategies used by MNCs in China to resolve conflicts with the Chinese government?

RQ7d: What are the corporate political strategies used by MNCs in China to build and cultivate government relations?

RQ8: How do MNCs in China select a political strategy in relation to a given situation?

RQ9a: What are the factors the corporate public affairs professional in an MNC takes into consideration when judging the effectiveness of a chosen political strategy in a given situation?

RQ9b: How do MNCs in China evaluate the effectiveness of their overall public affairs function?

## CHAPTER III

### OPERATIONALIZATION

The purposes of this research are to examine how public relations professionals in multinational corporations (MNCs) in China practice and evaluate public affairs with the different levels of Chinese government and further to develop a strategic management model of public affairs. This chapter lays out the design of this research, that is, its methodology and methods. Methodology refers to the framework for doing research within which data collection occurs, whereas a research method is a means of collecting data (Harding, 1987; Lather, 1992; Sha, 1999; Yin, 1994). This chapter will illustrate that qualitative research is best suited for the study's purposes, while interviewing and document review are the most reasonable and feasible methods for the study's data collection. This chapter is divided into the following sections: 1) the appropriateness of qualitative methodology; 2) research methods: interviewing and the review of documents; 3) managing data: collection, storage, and retrieval; 4) transforming data: description, analysis, and interpretation; 5) pretest; 6) contingency plans; 7) research evaluation; and 8) ethical considerations associated with the nature of the research.

#### The Appropriateness of Qualitative Methodology

Qualitative research is based on the constructivist tradition, which emphasizes that reality is holistic (Wimmer & Dominick, 1997) and socially constructed (Guba & Lincoln, 1994; Potter, 1996). A holistic view of reality reflects the integration of all aspects of the context under study in a natural setting, including its inherent logic, arrangements, and explicit and implicit rules of the context (Miles & Huberman, 1994), as well as the researcher and the researched who interact to interpret the context.

Constructivist ontology assumes that reality is socially constructed by the meanings that people ascribe as a result of their observations and interactions (Guba & Lincoln, 1994; Potter, 1996).

Qualitative research is best used for exploratory or descriptive research that tries to uncover what lies deeply in the complexity and process of any little-known phenomenon by conveying the interaction of context, setting, and the participants' frames of reference (Marshall, 1985, 1987; Marshall & Rossman, 1999; Strauss & Corbin, 1990). Qualitative research is the most appropriate methodology for this study's data collection and analysis for three reasons. First, qualitative research allows a researcher to assess the meaning of human interaction in multiple dimensions (Denzin & Lincoln, 1994; Whitehead, 1985) and captures the essence of a participant's attitudes, beliefs, feelings, and existential experience of complex and emotional issues (Bowen, 2000). The focus of my research is to explore the context, practices, strategies, interaction, and evaluation of public affairs efforts of MNCs as related to the Chinese government. The strategic management of public affairs is a multidimensional and dynamic issue. Qualitative data, with emphasis on people's living experience and self-interpretation, can reveal their perceptions, assumptions, prejudgments, and presuppositions (van Manen, 1977), as well as the connection between their meanings and their social world (i.e., MNCs' understanding and interpretation of the Chinese political environment around their business operations) (Miles & Huberman, 1994). Because public affairs practices usually involve the exercise of power (Bacharach & Lawler, 1981; Loewendahl, 2001) and ethical issues (Carroll, 1996; Wilcox et al., 2003), data contain interviewees' experiences, perceptions, and emotions.

Second, qualitative research allows a researcher to holistically examine a phenomenon in which a large number of relevant variables have yet to be identified. This study serves as the first academic attempt to examine the public affairs practices of MNCs interacting with different levels of Chinese government from the public relations perspective after 25 years of Chinese economic reform. The dynamics of MNC-government relations, China's multi-level governance of foreign business, the international influences on the Chinese policy-making process, the situational interpretations of laws and regulations, and the differences of social culture and business operations are hypothesized to influence MNCs' selection of public affairs strategies. Likely, there are other factors that play a role in the process waiting to be discovered. Because Miles and Huberman (1994) advocated qualitative research to be the best strategy to discover and develop hypotheses, the complex yet little-known nature of the phenomena explored in this research results in the need for qualitative data.

Third, qualitative methodology allows flexibility of research. Wimmer and Dominick (1997) argued that qualitative approaches allow researchers to shift their emphases as data emerge in the field. Miles and Huberman (1994) maintained that this inherent flexibility of qualitative research increases the confidence that the researcher will be able to identify the essence of interaction and obtain the meaning of what has been transpiring. Given the complex nature of the ongoing phenomenon investigated in exploratory research, the practicality of the qualitative methodology will enable me to keep up with the emergent changes in the research process in order to fully examine the phenomenon.

### Research Methods: Interviewing and Review of Documents

Within the qualitative framework, I conducted interviews and document reviews to answer my research questions. This combination of methods provides both primary and secondary data. This triangulation may produce a valid and comprehensive understanding of complex phenomena (L. Grunig, 1995).

#### *Interviewing*

Interviewing served as the primary data collection method for this research because of its appropriateness and feasibility. Interviews are well suited to my purpose of exploring how MNCs practice public affairs to deal with different levels of Chinese government because interviews are a deliberate conversation that go into a participant's mind, examine how he or she defines and experiences an idea, and discover how those definitions and experiences dictate his or her view of the world in social situations (Kahn & Cannell, 1957; McCracken, 1988). Interviews were more feasible than other qualitative research methods because of the sensitive nature of political activities. Interviews were more feasible than participant observations insofar as they provide empirical data without the researcher's presence in the process of a firm's political involvement. They were more feasible than case studies since they do not commit corporations to having the researcher stay in their offices for too long. They were more feasible than focus groups because activities with the Chinese government are viewed as a taboo topic that people do not discuss openly.

#### *Forms of Interviews*

All interviews were designed to be qualitative, long, cross-cultural, and elite-oriented. The interviews are qualitative in this project because they are made of "semi-

structured” (cf. H. Rubin & I. Rubin, 1995), open-ended questions (see Appendix A) to understand interviewees’ experiences through their own narrations. Hertz and Imber (1995) advocated qualitative interviews as the most appropriate technique when studying political and administrative elites, such as public affairs managers who interpret and respond to the political conditions of MNCs in China.

Long interviews, according to McCracken (1988), extract deep information from participants by engaging them in a “sharply focused and highly intensive” (p. 7) interview process. Interviews in this research were designed to take approximately one to one and a half hours, depending on the information flow and interaction between the researcher and the interviewee.

Cross-cultural interviewing, as defined by Ryen (2002), refers to “the collection of interview data across cultural and national borders” (p. 336). The interviews were cross-cultural at two levels: 1) I, as a Taiwanese, have a different cultural background from those of the participants from whom I collected data (e.g., the local Chinese and Westerners) and 2) the data were drawn from participants across national and cultural boundaries. Researchers who use cross-cultural interviews have faced two problems when trying to understand “local nuances in the languages and cultures of their respondents” (Ryen, 2002, p. 335). I conducted interviews in English or Chinese, depending on the preference of each participant. I dealt with the problems in the following ways. First, I followed the cultural norms associated with each participant’s culture (i.e., Chinese culture or Western culture, mainly U.S. culture) to guide the interview and interaction processes. Second, I paid close attention to and recorded participants’ nonverbal actions as observational comments. When analyzing the data, I

considered both the verbal and nonverbal components of the participants' answers in order to fully understand their meaning.

Elite interviews, as defined by Marshall and Rossman (1999), are interviews with individuals holding positions of authority (e.g., chief executive officers and the public affairs head), influence, or specialized knowledge in an organization (e.g., public affairs managers). More broadly, I considered MNCs, the type of organization chosen for this study, as elites because of their strong influence on global economics and the national development of the host country. Interviewing elites has the advantage of eliciting broad information from the managerial perspective, such as the overall significance of a company's industrial position in the Chinese market, identification of corporation-controlled resources that are demanded by the Chinese government and vice versa, and a deep understanding of a corporation's decision-making processes with regard to public affairs management. More importantly, elite interviews can extract vital and rare information, such as the details of public affairs practices with high-ranking Chinese bureaucrats and officials. I expected the data drawn from elites to make contributions in identifying the factors that shape public affairs practices and in developing a normative strategic management model of effective public affairs for MNCs.

The researcher's hard work is a prerequisite to elite interviews. First, the researcher has to work professionally and efficiently to gain participation from elites because they tend to be busy, evasive, unresponsive, and effective in insulating themselves from unknown academics. Second, the researcher has to work hard to demonstrate his or her thorough knowledge on the subject matter and his or her ability to conduct the interview to keep information flowing from elites.

*Advantages and Disadvantages of Interviews*

The major advantage of interviews is their ability to extract in-depth information (McCracken, 1988) that allows researchers to understand participants' experiences and to reconstruct events in which they do not participate (H. Rubin & I. Rubin, 1995), within a relatively short period of time (Marshall & Rossman, 1999). The major disadvantage of interviews is dependence on the cooperation and honesty of small groups of respondents, as well as the possible misrepresentation resulting from the interviewer's bias and lack of ability to properly comprehend responses (P. A. Adler & P. Adler, 2002; Marshall & Rossman, 1999; H. Rubin & I. Rubin, 1995).

Acquiring descriptive data, cooperating with participants in interpreting findings, and practicing reflexivity are recommended for a researcher to deal with the issues of misrepresentation arising from his cultural and personal biases. During the interviews, I summarized and interpreted the participants' answers to interview questions. After that, I sought the cooperation of the participants by asking them to confirm my summaries and interpretations for the purpose of ensuring data validity. I made my conclusions based on data I gathered. I also attempted to solicit participants' help in interpreting findings by asking some of them to review the results and give me their comments. However, they could not do so because of their busy work schedules.

Bolam, Gleeson, and Murphy (2003) defined reflexivity as the active process of reflection that the qualitative researcher engages in to document how the research process, in general, and he or she, in particular, constructs the object and reaches conclusions. As a result, reflexivity allows a researcher to examine his or her background, values, culture, and experiences that might influence interpretation of the research. I believe that only

when a researcher clearly understands the possible biases he or she has regarding the research subject can he or she prevent them from interfering in the conclusion-drawing process. Reflexivity is discussed in detail in the section of research evaluation.

P. A. Adler and P. Adler (2002) discussed the issues of reluctant respondents. They argued that reluctance comes from two sources: reluctance to grant access and resistance to reveal information. The level of reluctance is mainly determined by the topic of research and the nature of respondents. Renzetti and Lee (1993) pointed out the following four research areas that often produce more unwilling respondents than others: 1) where research intrudes on the private sphere or on secretive personal experience, 2) where it deals with deviance and social control, 3) where it impinges on the interests of powerful persons or the status quo, and 4) where it is concerned with things sacred to those being studied (p. 6). P. A. Alder and P. Alder (2002) identified reluctant respondents as those who have secrets and are fearful of public attention, as well as those who are advantaged or disadvantaged in positions of wealth, status, and power. Reluctant respondents were the primary concern in considering the feasibility of this research, because the research topic impinges on the interests of the powerful (MNCs), and the respondents themselves are the advantaged (elites).

P. A. Alder and P. Alder (2002) provided guidelines for researchers to overcome reluctance of the two sorts, respectively. When dealing with limited access, they suggested that researchers approach respondents by casting the interviews as a one-time event; providing compensation; and taking advantages of sponsorship, relational groundwork, and joint membership.<sup>17</sup> To overcome resistance to provide information,

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<sup>17</sup> Sponsors may be insiders of the groups under study who serve as a “referral to others in the setting” (P. A. Adler & P. Alder, 2002; p. 526) or who act “indirectly to facilitate acceptance of the researcher” (Lee,

researchers should pay close attention to setup issues, interview conduct, and relationships with the interviewees.

To overcome the obstacle of reluctance, I used a combination of strategies as recommended by P. A. Adler and P. Alder (2002), which are as follows: compensation, sponsorship, and a careful review of interview conduct and relationships with the interviewees. Yeager and Kram (1995) argued that to recruit organizations, “the research must have an identifiable ‘payoff’ for the organizations, and it must be presented in terms neither threatening to the organization’s purpose nor foreign to its culture” (p. 46).

To recruit MNCs, I primarily wrote one paragraph in my solicitation letter (see appendices B and C) to explicitly inform each corporation the anticipated benefit it can gain from the research. This benefit is inherent in the corporation’s history of interaction with the Chinese government and its public affairs activities. Generally, the benefit was cited as “[y]ou will find your participation in this study beneficial to you and your company for two reasons. First, this study will provide the most comprehensive, up-to-date source of data on how MNCs plan, resource, conduct, and evaluate public affairs and government relations in China. Second, this study proposes a strategic management model of public affairs by bridging the research findings with the most cutting-edge theories in the literature of public affairs (MNC-government bargaining power) and Chinese business (economic, political, and cultural factors). In return for your assistance, I will be happy to provide you with a written report of the study. The report, I believe, will contribute to the effective public affairs practice of your company by benchmarking

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1993, p. 131). Relational groundwork is a strategy that suggests researchers take the time to develop relationships in order to get access to people they will be studying.

with other MNCs in China. It might also provide useful insights on how to work with the Chinese government on [the company's current public affairs issue.]”

I found my sponsors through introductions by acquaintances. Proper interview conduct and relationships with interviewees were ensured by advance preparation. J. B. Johnson and Joslyn (2001) argued that advance preparation can serve the following purposes. First, it saves the interviewee's time by directly asking questions that are important and cannot be answered otherwise (e.g., media coverage). Second, it helps the researcher “interpret and understand the significance of what is being said, recognize a remark that sheds new light on a topic, and catch inconsistencies between the interviewee's version and other versions of events” (p. 193). Third, it impresses the interviewee with the researcher's serious interest and knowledge of the topic. Fourth, it earns the trust and respect of the interviewee as the interview proceeds. Considering these, I prepared myself by studying all available documentation and materials regarding the public affairs events of each participant's company.

### *The Participating MNCs*

Sampling helps reduce data in an anticipatory way and is crucial for later analysis (Miles & Huberman, 1994). Qualitative research deals with relatively small samples of people nested in their context and studies them in depth. Qualitative sampling tends to be purposive in accord with theory, rather than random (Kuzel, 1992; Miles & Huberman, 1994; Morse, 1989). Consequently, the generalization of qualitative sampling, as argued by Firestone (1993), is analytic to theories, not “sample-to-population.”

Miles and Huberman (1994) explained that a qualitative “case” may range widely from individuals to roles, groups, organizations, and cultures (p. 29). To fully investigate

the complexity of a multinational corporation's public affairs practices with different Chinese authorities, this study employed multiple-case sampling, which means to sample a number of similar and contrasting MNCs in China. Miles and Huberman (1994) argued that multiple-case sampling can add confidence that findings are robust, and the emerging theory is generic by following a "replication strategy" as defined by Yin (1994). They also maintained that an explicit sampling frame is required in multiple-case sampling and that the frame should be guided by research questions and the conceptual framework.

I used a theory-based strategy (Kuzel, 1992; Patton, 1990) to construct the sampling frame of this study. The literature of doing business in China suggests that industry type and entry mode influence business-government interaction and corporate political activity. Therefore, the frame chosen for this study was a combination of MNCs in different *industries* and with different *entry modes* of operations in China as listed in the 2002 *Fortune 500*.

Different entry modes create different relationships with the Chinese authorities. Five modes are allowed for a foreign company to enter the Chinese market. For the purpose of this study, I roughly divided these modes into three categories:

- Wholly foreign owned venture: controlled and managed by foreign interests solely;
- Joint venture with majority foreign ownership: Foreign investors have more power in controlling and management than their Chinese partners; and
- A combination of wholly owned and joint ventures: A multinational corporation has subsidiaries as wholly owned and joint ventures.

It is evident that a joint venture with a majority foreign ownership tends to have the closest relationships with the Chinese government among the three because the Chinese partner in a joint venture is often considered as *insider* by the Chinese government; whereas the wholly foreign-owned venture has the most superficial relationship with the Chinese government (Post et al., 2002). I consulted with the web sites and print publications of each participating multinational corporation to identify its entry mode.

The conceptual model of MNC-government bargaining power discussed in Chapter 2 suggests that the relative power of a multinational corporation partially depends on the Chinese government's need for its controlled resources. In addition, the relative power of a multinational corporation determines the range of public affairs strategies it can use to interact with the Chinese government. Luo (2000a) noted that the Chinese government, especially the local governments of municipal and coastal cities, favors foreign investment in technologically intensive industries, including the automotive, computer, pharmaceuticals, telecommunications, electronics, machinery, and chemicals. Therefore, I recruited MNCs with different entry modes and from several industries to compare and contrast their public affairs practices.

### *Recruiting*

The sensitivity of my dissertation topic brought a lot of challenges and frustration in recruiting companies. I employed several sampling methods to make sure I got enough participants for my study. To apply the theory-based sampling, I first selected prospective companies from the *Fortune 500* list that are multinational and have established operations in China. I surfed on the official web sites to find the contact

information of the departments in charge of the companies' interaction with the Chinese government. However, almost all corporate web sites only provide the telephone and fax numbers and mailing addresses of their general lines. When I worked as a research assistant for a Maryland alumnus in China a few years ago, we easily accessed the contact information of a company's public relations department from the company's web site. Perhaps these companies had received too many requests during the past years; so now, they have removed the contact information of their specific departments from their web sites. So, establishing contact with the departments became difficult. I sent out initial invitations via regular mail, electronic mail, and fax to solicit participation. I followed up companies' responses by phone a week later.

I soon realized that this recruitment method was ineffective. Regular mail and faxes did not generate any response. I only got few replies via electronic mail; most signified reluctance to participate. As a result, I called the companies that did not respond to my inquiry, so I could convince them to participate. Because I could not obtain the contact numbers of the departments responsible for business-government interaction in those companies, I had to ask their operators to transfer me. Operators often refused to direct my calls. They said that I needed to know the staff member's name or extension number for the call to be transferred, their companies do not participate in research, or I would have to fax my request and wait for the company's response. The companies whose operators did transfer me to the relevant departments either told me they would not participate, or it took them a long time to reply because the contacts had to pass my request to the department head. The sensitive topic of business-

government relations of this research required the department head to make a decision on the inquiry. I recruited five MNCs through this process.

I learned that it was also inefficient to reach potential participants through operators because the operators served as company gatekeepers to prevent me from talking with their departments about my research. I believed that they treated me like a saleswoman. As a result, I had to use other methods. First, I employed the snowball sampling strategy (Kuzel, 1992; Patton, 1990) to recruit MNCs within the sampling frame. Second, I collected member lists of several professional public relations associations (e.g., the International Public Relations Association, the China International Public Relations Association, and the International Association for Business Communicators). Some people on the member lists were working at the identified companies and, thus, I got access to their public relations departments. Third, I found the names and contact information of public relations practitioners in the companies via Google, a web search engine, and I recruited their participation by phone calls and emails. Fourth, I asked several public relations agencies in China to refer me to their clients who are interested in my study. Fifth, I attended the China International Public Relations Association's conference where I met public relations practitioners from the identified companies. After the conference, I contacted them for their participation.

Using the five methods mentioned above, I was able to recruit 12 participants from the 2002 *Fortune 500* list. However, these approaches also caused frustration on occasions. For example, I had the chance to know the vice president of a professional public relations association in China, who has many contacts with MNCs. I told him about my research, and he promised me that he would help me recruit participants from

the association's members. Yet, whenever I met him, he never mentioned this and shied away from my query. In the end, I did not obtain his assistance. Another example was when one acquaintance referred to me a general manager from a famous international computer company in Beijing (although she did not personally know this participant) by providing me the contact information. However, when I called this person, he angrily asked how I got his contact information. I had to explain the situation to him. He then agreed to participate in the research and asked me to check his schedule with his secretary. However, when I contacted his secretary to make an appointment, the secretary said that she had to discuss with the general manager to know his schedule and arrange the interview accordingly. So, I had to call back several times. In the end, the general manager never did the interview because he was either on business trips in other cities or on a vacation abroad. It is also worthy to mention that making the decision to attend the conference was difficult for me. At that time, I was running short of budget in Beijing. The registration fee for the conference was expensive because the conference was designed for practitioners and it did not offer a student rate. Fortunately, I got three MNCs to participate in my research from the conference that I attended.

How many interviews a qualitative study should have is a moot question on statistical grounds or by standard rules. The number of interviews is a dilemma of breadth and depth of data. H. Rubin and I. Rubin (1995) provided a useful answer to this question by stating that good data should fulfill the criteria of completeness and saturation-that is, a researcher should keep interviewing until the data provide satisfactory, in-depth information (completeness) or until no new information emerges (saturation).

The 12 participants recruited from the theory-based sampling did not satisfy the criteria of completeness and saturation. To compensate for the insufficient data, I recruited other MNCs that were not *Fortune 500* companies through reputational selection (Goetz & Lecompte, 1984, as cited in Miles & Huberman, 1994) and snowball sampling as my contingency plan proposed. Reputational selection is a method to sample prospective participants based on the recommendation of an “expert” or a “key informant.” I obtained my reputational-selection sample from Chinese public relations practitioners and scholars, my existing participants, and journalists who provided me names of MNCs that practice public affairs in China. In addition, I identified prospective participants by reading publications on business in China that discuss many companies’ government relations practices as case studies. I applied snowball sampling by acquaintance introductions and reference from my existing participants. These two strategies assisted me in recruiting 13 additional MNCs.

Acquaintance referrals were the most effective method to obtain the participation of MNCs for my research because of the sensitive research topic and cultural characteristics of the Chinese society. Acquaintance referrals allowed contacted companies to better know me and the research. It somewhat overcame the reluctance of respondents. Furthermore, in a *guanxi*-based society as China, one is likely to accept a stranger’s request when the stranger is referred by his or her acquaintance. *Guanxi* is transferable social capital. It means that when A refers me to B, I inherit A’s *guanxi* relationship with B to some extent. Therefore, if B turns me down, B is running a risk of hurting his or her *guanxi* relationship with A. In addition, acquaintance referrals let target participants trust me which, in turn, increased their willingness to participate.

All in all, I studied 25 MNCs in Shanghai, Beijing, Tianjin, and Hong Kong. Appendix A represents the background information of the 25 companies, including their industries, entry modes, interview locations, and interview participants. Most MNCs set up their local offices in three major cities in China: Beijing (northern China), Shanghai (central China), and Guangzhou (southern China). Beijing, equivalent to Washington, DC, in the United States, is where the central government and ministries are located, whereas Shanghai and Guangzhou are centers of commerce. Beijing offices are often established for public affairs purposes, such as accessibility to and by the central government, convenience, cost (e.g., reduced response time), and interaction with governmental officials (insiders). Shanghai and Guangzhou offices tend to be set up for business consideration. I conducted three interviews in Tianjin, because the interviews were obtained through a referral by one of my research participants whose company is based in Tianjin. Hong Kong was also one of the interview locations because one multinational corporation bases its public affairs director in that area. As Table 2 indicates, 11 participating MNCs were wholly owned foreign subsidiaries; five were joint ventures; and nine were a combination of the two.

Table 2

*Participating MNCs*

(n = 25)			
Sampling	Fortune 500	Non-Fortune 500	
	12	13	
Entry Mode	Wholly foreign-owned	Joint venture	Combination
	11	5	9

### *Interviewees*

Except for two MNCs where I talked with two representatives each, I interviewed one person in each of the 25 MNCs I conducted total of 27 interviews. The interview participants were selected by the participating MNCs. Because of the sensitive nature of business-government activities, interview participants were top-level managers responsible for these activities. They included a chief executive officer, four company presidents, three functional vice-presidents, a director, a government-relations representative, a senior manager, and 16 department managers (see Table 3). Eighteen participants were male and nine were female. In addition, twenty-four were Chinese; two were Italian; and one was British.

Table 3

### *Interview Participants*

Interview Participants (n = 27)		
Gender	Male	Female
	18	9
Nationality	Chinese	Non-Chinese
	24	3
Position Titles	CEO	1
	Company president	4
	Functional vice-president	3
	Representative	1
	Senior manager	1
	Department manager	16

All interviews were open-ended. As Table 4 shows, interviews ranged from a minimum of 30 minutes to a maximum of more than two hours. I interviewed 24 participants face-to-face and three by telephone. Most interviews were conducted in

Chinese (i.e., Mandarin) as preferred by participants. Twenty-three interviews were audio-taped with the consent of the participant and were later transcribed, while the remaining four without participant consent were recorded by note-taking.

Table 4

*Data Collection Summary for Interviews*

Interviews (n=27)			
Length	Minimum 30 Minutes	Maximum 2 Hours+	Mean 67.5 Minutes
Language	Mandarin Chinese 23	English 4	
Interview Method	Face-to-face 24	Telephone 3	
Recording Method	Audio-taped 23	Note-taking 4	

To supplement the 27 interviews, I also talked with the following: a manager in a U.S. commercial association in Beijing, three managers of public relations agencies, a journalist in international business with a major Chinese news agency, a vice president of a Chinese public relations association, and the president of a multinational corporation in China who is widely recognized as the government relations expert in China. I interviewed them to gain knowledge of government affairs in China from different perspectives. I spoke with the manager in the commercial organization because it was mentioned by all my U.S.-based MNC respondents as an important and credible resource for government affairs. The MNCs indicated that the organization has earned much respect in both the Chinese government and the business community. The organization has been much involved in the interaction between its members and the Chinese

government, such as in the fields of policy advocacy, negotiation, conflict resolution, and business cooperation. The three managers of public relations agencies and the association president provided a profile of government affairs practices of MNCs in China. The journalist provided expertise and access to information on many MNCs in China. My conversation with the MNC China president only lasted for 30 minutes and the questions were different from the original interview protocol. Therefore, I did not include the interview in the data analysis. I treated the interview as a conversation with an informant.

In addition to the MNC China president, I also had conversations with several informants to enrich my understanding and sensitivity of MNC-government relationships and of China at large. The informants included university professors who specialize in public relations and Chinese public relations practitioners. They shared well-known government affairs cases, and their observations of government affairs, and changes and trends in society. Informant conversations allowed me to quickly relate to what participants said and to probe effectively during the interviews.

#### *Interview Protocol*

A semi-structured interview protocol is widely used to allow the researcher the capability of covering certain topics and the flexibility to pursue the participants' thoughts (Bowen, 2000; van Zoonen, 1994). See appendices D and E for the English and Chinese version of my interview protocol.

Each interview in this study began with grand-tour questions to ease into the process and build rapport with the interviewees (Spradley, 1979). Grand-tour questions included:

1. Please tell me about your position.
2. How long have you worked for the corporation?
3. What are your responsibilities in public affairs?

The second set of interview questions focused on how MNCs define, understand, and structure public affairs, and what they expect from the function. Specifically, this set of questions asked:

4. How does your corporation define public affairs?
5. How does your corporation define corporate political involvement?
6. How does your corporation define government relations?
7. How does your corporation define lobbying?
8. Which organizational unit(s) of your firm is (are) in charge of the interaction with the Chinese government?
9. What are the responsibilities of that unit (those units) you just mentioned?

The third part of the interview protocol was concerned with the relationship between corporate public affairs and strategic management. Specifically, I examined whether MNCs in China strategically manage public affairs at the functional level and the organizational level. The questions of this part included:

10. Does the public affairs unit (public relations/external affairs/government relations/government affairs unit) in your firm participate in the overall strategic management of your firm? If yes, how? Do you have any examples? If no, why not?

11. What are the factors that determine the participation of the public affairs unit (public relations/external affairs/government relations/government affairs unit) in the process of your firm's strategic management?
12. Does the public affairs unit (public relations/external affairs/government relations/government affairs unit) in your firm manage issues that might affect your firm?
  - a) If so, how? Furthermore, does issues management influence the development of public affairs programs? Please give me some examples.
  - b) If no, why not?
13. Does the public affairs unit (public relations/external affairs/government relations/government affairs unit) in your firm develop programs to establish or cultivate relationships with the Chinese government? If yes, how? Do you have any examples? If no, why not?
14. Does the public affairs unit (public relations/external affairs/government relations/government affairs unit) in your firm manage its programs? (For example, does it conduct research to identify trends in environment, develop objectives, and evaluate outcomes of programs?) If yes, how? Do you have any examples? If no, why not?

I asked these questions about public affairs strategies:

15. When does the public affairs unit in your firm deal with the Chinese government?

16. How does the public affairs unit (public relations/external affairs/government relations/government affairs unit) in your firm negotiate a regulation or rule that affects your business with the Chinese government? (Do you have any examples?) If it never occurs, why not?
17. How does the public affairs unit (public relations/external affairs/government relations/government affairs unit) in your firm build relationships with the government officials?
18. How does your firm develop a public affairs strategy to use in a given situation? Do you have any examples?
19. What are the factors that influence the selection of political strategies in your firm? Do you have any examples?

I also asked questions about the factors that influence the selection of strategies and the means multinational companies use to evaluate their public affairs practices:

20. What are the criteria you use to judge the effectiveness of a chosen political strategy for a given situation?
21. How do you assess the effectiveness of your public affairs programs?
22. How do you measure the effectiveness of your public affairs unit (public relations/external affairs/government relations/government affairs unit)?

I used English or Chinese to conduct the interviews, corresponding to the languages preferred by the public affairs managers and senior management of the public relations department participating in the research. The interview protocol and consent form were originally written in English and translated into Chinese. Appendices F and G show the English and Chinese versions of the consent form, respectively. Being a

Chinese native speaker, I did the translation myself. However, Usunier (1998) warned that ignorance of language leads to biased or even false findings. To ensure the accuracy of my translation, I applied back-translation suggested by Campbell and Werner (1970) and Usunier (1998). That is, I asked a scholar in public relations who is bilingual in English and Chinese to translate my Chinese interview protocol and consent form back into English to ensure the Chinese interview protocols and consent form convey the same meanings of the English originals.

The other language problem I faced is the different usages of Chinese by Taiwanese and mainlanders. I dealt with this problem as follows. First, I asked a local public relations practitioner to do a validity check of my interview protocols and consent form. Since the person has expertise and graduate education in public relations, he is competent to validate whether the terms I used in these documents are current and appropriate. Second, I asked two participants in my pretest to check the wording and terms of the interview protocol, which, in turn, was revised in line with their comments.

#### *Pretest*

Pretests of interviews serve two purposes. First, they ensured the quality of data collected from the actual interviews by examining the quality of my interview protocol, interview style, interview techniques, and control of time before undertaking the interview process itself. This process allowed me to identify necessary changes to the protocol (e.g., the arrangement of the interview questions) and vocabulary in Mandarin Chinese and English that appropriately expresses terminology in my interview questions. They also provided me an opportunity to discover the most effective way of asking questions and taking down notes during an interview. Third, pretests provided additional

information relevant to the research topic such as the subtle, sensitive aspects of talking about activities with the Chinese government.

I conducted two pretests for the interview. The first pretest was with a Chinese government official by telephone. Because of the busy schedule of the Chinese government official, I was only able to let her review my interview protocol to suggest any revisions. The rationale of using a Chinese government official for the pretest was two-fold. One, my major concern with the interview protocol was the different language usage of the Taiwanese and the mainlanders in China. I translated the interview protocol from English to Chinese based on my language usage as a Taiwanese. However, my participants who preferred to use Chinese for interviews would be mainlanders. A Chinese government official could tell whether the interview questions were appropriately worded for mainlanders. Second, a government official interacts with various companies and could determine whether the protocol was useful to elicit information about government affairs in China.

My other pretest was done face-to-face with a president in an MNC's China office in Shanghai. I conducted this pretest as if I were conducting a formal interview. I audio-taped the interview with the participant's consent. This pretest went very smoothly. The president was responsive and articulate. He answered the questions in a very systematic way. I learned how to better ask or clarify each of my interview questions from the way he answered. After the interview, I asked him how I could improve the protocol. The two pretests suggested minor changes of the original interview protocol. Therefore, I also included the data of the second pretest for analysis.

I made the following revisions for the interview protocol based on the pretests.

First, in the second pretest, I noticed that I did not make enough effort to establish rapport. The pretest only went smoothly because the president was articulate and responsive. To resolve this problem, I revised the protocol; and I asked the participants at the start of the interviews to talk about their businesses in China. Second, based on the pretest experiences, I learned that interview question 7<sup>18</sup> was somewhat confusing to the participants. To clarify, I could rephrase the question as follows: “What are the functions of the unit(s) to your company?” Third, one of the participants did not understand the term “issues management.” To remedy this, I came up with a description of the function that could be understood by lay people.

#### *The Review of Documents*

I conducted a document review of materials related to the public affairs activities of participating MNCs. Document review in this research used the technique of qualitative content analysis to obtain supplemental data from the written record. Content analysis is a research method of studying and analyzing communication in a systematic, objective, qualitative, or quantitative manner for the purpose of identifying patterns (Kerlinger, 1986; Marshall & Rossman, 1999).

I reviewed documents before and after the interviews. Before the interviews, I conducted the first round of document review by analyzing available publications related to each participating multinational corporation’s public affairs activities such as mass media materials (including newspaper coverage and magazine feature stories), case studies published in books or journals, and archives on the Internet. The after-interview document review focused on the materials provided by the interview participants,

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<sup>18</sup> This interview question reads: “What are the responsibilities of the unit(s) mentioned in the previous question?”

including their internal web sites that contain media clippings and reports and organizational publications distributed to the Chinese government. Unfortunately, only few participants provided materials. I reviewed all obtained documents on the following dimensions: 1) the reported public affairs activity; 2) the presumed reason for the activity; 3) the context of the activity; 4) the target of the activity; 5) the outcome of the activity; and 6) the patterns, strategies, and organizational culture involved in the activity.

In summary, I reviewed documents on participating MNCs from the following sources:

- Search engines: Google (Chinese and English sites), Yahoo (Chinese and Taiwanese sites), and Lexis-Nexis;
- Online news database: *People's Daily*;
- Cases on the web site of China Public Relations sponsored by the China International Public Relations Association;
- Case studies in books in relation to MNC-government interaction;
- Newspaper and journal articles; and
- Materials provided by interview participants.

#### Managing Data: Collection, Storage, and Retrieval

Huberman and Miles (1994) referred to data management as “the operations needed for a systematic, coherent process of data collection, storage, and retrieval” (p. 428). They argued that data management is required to ensure high-quality and accessible data, to document data analyses throughout the study, and to retain data and associated analyses after the study is completed (p. 428). In short, data management focuses on *processing* data (Wolcott, 1994).

### *Data Collection*

The majority of raw data of this research was derived from interviews. I started my participant recruitment in the United States five months before I went to China. However, I did not obtain any participation from the United States; and thus, I decided to enter the field to recruit participants. I arrived in Guangzhou on May 19, 2004 to meet with my informants who agreed to refer participants to me and to directly contact prospective MNCs. Unfortunately, the prospective participants introduced by my informants all refused to participate. With the unsuccessful recruitment and limited budget, I had to travel to Hong Kong to stay with a friend. In Hong Kong, I concentrated on soliciting participants by several methods discussed above. I went back to China on June 6 with nine scheduled interviews in Shanghai and Beijing. I stayed for approximately three weeks each in Shanghai and in Beijing, four days in Tainjin, and a few days in Hong Kong for interviews.

Because of time and budget constraints, I conducted all scheduled interviews in one place and then went to another city for interviews with MNCs in that area. In each of the interview locations, I continued to recruit participants alone by conducting interviews. I did two rounds of interviews in several cities in China for participant recruitment. One was from June 6 to July 7 in Shanghai and Beijing, and the other was from August 3 to August 24 in Beijing, Tianjin, Shanghai, and Hong Kong. With limited budget, I had to travel back to Taiwan during the time between the two rounds of interviews. When I was out of the field, I continued recruiting participants.

### *Data Storage and Retrieval*

Data storage and retrieval are the essence of data management for two reasons. First, Wolfe (1992) noted that data can easily be “miscoded, mislabeled, mislinked, and mislaid” with the lack of a clear working schema (p. 293). Second, a useful data storage and retrieval system allows researchers to track available data; effectively use data at different points of a project; and record the analyses made, so that the study can be verified and evaluated by its readers and other researchers (Huberman & Miles, 1994). I stored, retrieved, and retained the materials as suggested by Huberman and Miles (1994) (see Table 5).

Table 5

#### *Stored, Retrieved, and Retained Materials*

- 
1. *Raw material*: tapes, interview notes, and documents.
  2. *Partially processed data*: write-ups and transcripts, including the initial, cleaned, and “commented-on” versions. Write-ups include observational comments during interviews and reflective remarks during or after interviews.
  3. *Coded data*: transcripts and write-ups with specific codes attached.
  4. *Other analytical material*: notes on the conceptual meaning of the data and the analysis.
  5. *Data displays*: versions of matrices or charts used to display retrieved information, along with the associated analytic text.
  6. *Report text*: drafts of the design, methods, data, findings, and discussions of the study.
  7. *General documentation*: consent forms, solicitation letters, chronological log of interviews, and relevant documents.
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### Contingency Plans

Contingency plans are designed to ensure the success of data collection by developing strategies to avert anticipated problems or crises in the process. I developed three contingency plans to deal with the potential problems associated with data collection. I anticipated that the main challenge would be access to MNCs. If I were not able to recruit enough *Fortune 500* MNCs after soliciting their participation in every possible way, I would have used the following alternatives.

The first alternative would be to conduct more interviews with public affairs professionals in each multinational corporation that had already agreed to participate in the research. In this way, I expected to obtain in-depth data of individual MNCs' public affairs practices that would allow me to do a detailed comparison among the corporations. If this alternative were not feasible, I would have enlarged my participant sample to include non-*Fortune 500* multinational companies, Taiwanese companies, and public relations practitioners in agencies. Taiwanese companies would have been recruited from the members of The Taiwanese Businessmen's Association in China. The association is a coalition of Taiwanese companies doing business in China and serves as a representative in negotiating business-related issues affecting Taiwanese companies with the Chinese authorities. The practitioner participants would have been those who were from public relations agencies that specialize in public affairs and have worked for MNCs.

Another problem I might have encountered would have been the withdrawal of participation of any of the MNCs that had initially agreed to be part of the research. If this occurred, I would have tried to recruit other multinational companies by obtaining references from acquaintances and existing participants.

Finally, I anticipated the problem of participants withholding information in relation to their public affairs strategies. To overcome this problem, I would have eased their concerns by restating the purposes of my study, and reassuring confidentiality of participants. If these two were not effective, I would have led the interview to discuss the previous or current public affairs activities of the participant's company that I gleaned from available documentation before the interviews to elicit his or her elaboration of public affairs strategies.

#### Transforming Data: Description, Analysis, and Interpretation

Treating data in qualitative research is an interactive process of transforming the mass of information gathered to reach meaningful conclusions for readers by organizing and comparing them (Huberman & Miles, 1994; Wolcott, 1994; Yin, 1994). To understand how a researcher transforms data to render meaningful accounts, two important issues need to be discussed: the researcher's epistemological assumptions and his or her techniques (Huberman & Miles, 1994).

#### *Epistemological Assumptions*

Epistemology deals with how one observer can come to "know" the phenomenon (Potter, 1996; West & Turner, 2000). In this study, I took the epistemological stance as a "transcendental realist" in the constructivist paradigm (Bhaskar, 1989; Harre & Secord, 1973; Manicas & Secord, 1982). Huberman and Miles (1994) explained well the epistemology of a transcendental realist as follows: "...[s]ocial phenomena exist not only in mind, but in the objective world as well, and... there are some lawful, reasonably stable relationships to be found among them. The lawfulness comes from the sequences and the regularities that link phenomena together; it is from these that we derive the

constructs that account for individual and social life” (p. 429). Therefore, a credible qualitative researcher strives to “transcend” historically and socially constructed knowledge derived from the meaning-making process of experiences by carefully constructing the explanatory structure of a social phenomenon that is supported by the data collected.

Wolcott (1994) provided three ways of data transformation, namely, description, analysis, and interpretation. Simply put, description is to place data into categories emergent from the data to address what is going on. Analysis is to systematically identify the essential features embedded in the data and explain how the features relate to each other. Interpretation is to reveal the meanings and contexts of the phenomenon derived from the data. Description and analysis rely on *aggregation* of evidence; whereas interpretation relies on particular *pieces* of evidence. Wolcott noted that these three techniques are not clear-cut. However, researchers can employ them to organize and present data with varying emphases.

#### *Description*

Descriptive accounts are represented by data as originally collected. Some qualitative researchers who apply this strategy treat descriptive data as facts and, therefore, believe that data can speak for themselves to reach an independent account of what is going on (Wolcott, 1994). Wolcott suggested that a researcher should include as much detail as possible in the early writing stages. However, all included detail must be relevant to the phenomenon under study. Then, the researcher needs to make vigilant efforts to weed out overwritten or trivial information.

### *Analysis*

Analysis usually builds on and goes beyond descriptive accounts. Analysis involves systematic procedures to identify essential features and their relationships that address “how things work” (Wolcott, 1994). The level of analysis in this study is organizations (i.e., the 25 MNCs); that is, this study analyzes the similarities and differences of public affairs the MNCs with the different levels of Chinese government. Consequently, the analysis aims to find the general themes (aggregative categories) across MNCs. The challenge of this sort of analysis is to reconcile the uniqueness of one multinational corporation with the conclusion of generic principles regarding the studied phenomenon across all MNCs (Huberman & Miles, 1994; Silverstein, 1988). To deal with this challenge, I followed Noblit and Hare’s (1988) suggestion that the researcher preserve uniqueness in the process of making comparisons in the analysis. Data analysis<sup>19</sup> of this research consisted of three interactive subprocesses: data reduction, data display, and conclusion drawing and verification (Huberman & Miles, 1994).

#### *Data Reduction*

Qualitative methods tend to produce a large amount of data even after the implementation of anticipatory data reduction. Further data reduction steps are necessary before data analysis. Raw data collected can be reduced by focusing on certain pieces of information, grouping similar items together, comparing different pieces of data, or summarizing data (or all of these) (Miles & Huberman, 1994). As a result, data reduction is an analytic choice of a researcher to “sharpen, sort, focus, discard, and organize data in

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<sup>19</sup> Miles and Huberman (1994) originally used the term “data analysis” to refer to the whole process in which one engages in the transfer of data into valid conclusions and useful meanings. To avoid confusion, I used “data transformation” to refer to the whole process and “data analysis” to a special technique of data transformation: that is, a systematic procedure that leads to identification of the essential features embedded in the data and the relationships among the features.

a way that final conclusions can be drawn and verified” (p. 11). In each interview, I asked participants to clarify the points that I did understand or was confused with. In addition, I constantly compared a participant’s answers with those in previous interviews. By comparing and contrasting their answers, I could identify significant points and ask the participant to elaborate on these. During data analysis, I preliminarily reduced data when transcribing the interviews. I transcribed data in summary to capture the interview participant’s central assertions without the loss of major information (Sha, 1999).

#### *Data Display*

Data display is an analytic activity that results in “organized, compressed assembly of information that permits conclusion drawing and action” (Miles & Huberman, 1994, p. 11). Because people tend to cognitively simplify extended text and overweight vivid information (e.g., exciting events or bizzard information), good displays of data lead to valid analysis. To display data, I first read the transcripts of interviews to mark the passages I thought were relevant to the research questions. After that, I created tables to sort each participant’s marked passages in topics as Hung (2002) practiced. For example, one research question asked about the evaluation criteria for government affairs effectiveness. I put the participants’ marked passages related to evaluation criteria together. By doing so, it was easy for me to identify data patterns.

#### *Conclusion Drawing and Verification*

According to Miles and Huberman (1994), conclusion drawing is an analytic activity to decide what things mean based on displayed data. It involves the researcher’s interpretation. Their definition of conclusion drawing restricts it to an interpretative process. I argue that the researcher can draw conclusions from a descriptive account or

an analysis without his or her interpretation. Therefore, in this research, conclusions can be drawn at the levels of description, analysis, and interpretation. Conclusions need to be verified as the analysis proceeds (Miles & Huberman, 1994). They can be verified by a variety of means, one of which is a second thought of the researcher or extensive efforts to reach “intersubject consensus” among researchers when drawing conclusions from the same set of data.

In my research, I drew conclusions by comparing and contrasting patterns and linking them. In addition, before I drew any conclusion, I listened to the tapes again and looked at my field notes to make sure I did not misunderstand participants.

#### *An Interactive Process of Data Transformation*

Miles and Huberman (1994) argued that these three subprocesses of data transformation and data collection are interactive; that is, the decision made in one subprocess might lead to subsequent changes or additional activities in other subprocesses. For example, a new way to code data (data reduction) might lead to new ideas on what should go into a matrix (data display), a new preliminary conclusion (conclusion drawing), or a decision to collect additional data to test the conclusion (data collection).

#### *Interpretation*

Interpretation is an activity in which a researcher “transcends factual data and cautious analyses, and begins to probe into what is to be made of them” (Wolcott, 1994, p. 36). This means that interpretation addresses the meanings and contexts of the phenomenon based on analytic results. Therefore, interpretation goes beyond analysis and is more subtle than analysis. Most importantly, interpretation allows a researcher to

link findings to an existing or an emergent theory. However, the linkage must be theory-driven, clear, with cautions, and supported by evidence.

#### *Data Transformation of This Research*

For this research, I applied all the techniques discussed above to transform data into meaningful conclusions. That is, I collected, reduced, and organized data in accord with my research foci. Next, I systematically displayed data to identify aggregate categories emerging from the data and the uniqueness of cases. I then compared and related the identified categories to each other, as well as explained the uniqueness of cases based on their contexts. Finally, I linked the categories and uniqueness back to theory to conclude and interpret public affairs practices in China. After drawing the conclusions, I verified them by evaluating the soundness of my research.

In addition to the techniques, I also used the comparative-analysis method in data collection and data analysis. In data analysis, comparative analysis helps a researcher link data by constantly comparing and contrasting them (Strauss, 1987). This process allows a researcher to refine his or her data collection in latter interviews. This process should continue until little new information is learned from the ongoing interviews (Bowen, 2000). I followed Strauss' (1987) guidance to compare and contrast data by writing memos on patterns identified in the data. After the end of each interview, I wrote down patterns found in the interview on my field notes. As Bowen (2000) explained, these patterns were preliminary ideas on research findings and they were revised as the data evolved.

### Researcher as Instrument

Qualitative researchers believe that they are part of the setting, culture, or context they are trying to understand because qualitative studies are done by researchers' techniques derived from their own imagination and experience (Altheide & Johnson, 1994; Miles, 1979). In this section, I discussed my field experiences to assist readers in understanding what I observed and felt in the field. My field observations and feelings influenced my relationship with the data; that is, how I collected, analyzed, and interpreted data.

I gained knowledge about China from my education in Taiwan. For political reasons, that knowledge might have been biased and might have formed some negative stereotypes. One of them is China being an authoritarian country ruled by the Chinese Communist Party and where people are controlled by the government. This stereotype was reinforced when I was told by my informants that they failed to recruit participants for me because this research talks about "politics." In addition, when I was in China, I had to go to an Internet café for Internet access. Soon, I noticed that I could not surf on many Taiwanese web sites, especially the web sites of news media. Those instances made me constantly sense the government's control on many aspects of the society.

Being in the field was an overwhelming experience for me. It was only my second trip to China and my first time to travel alone for a long time in China. I had to make many adjustments along the way because Taiwanese and Chinese societies are different and I had limited budget for the fieldwork. China and Taiwan were more different in living, dining, and public transportation than I expected. Therefore, I was uneasy in the early period of my stay in China, especially when I was in Guangzhou.

Guangzhou was the first city I stayed in where people mainly speak Cantonese and not Mandarin Chinese. When I arrived at the Guangzhou train station from Hong Kong, I was overwhelmed by the many people I saw. Some of them were sitting on the floor, some were spitting, and some were asking me whether I needed to go downtown.

Because of the budget constraint, I decided to stay in friends' apartments, university hostels, or motels in each interview location. In Guangzhou, I first stayed in a university hostel. I felt very unsafe and uncomfortable in the hostel. The door of my room had a lock but the windows did not. People could easily open the windows from the hallway. My bathroom was not clean, and the mattress was too firm. It felt like sleeping on the box spring and not on the mattress. All night, I could hear voices from other rooms. I was not able to rest in the hostel because of safety concern. Fortunately, I had the chance to know a student from the university. With her help, I sneaked into her dormitory and stayed with her and four other people after two days in the hostel.

I observed some differences in dining and public transportation in Guangzhou as well. Because I was not familiar with the city, I usually ate at the dining hall of the university where the hostel I stayed in was. Food in China is generally saltier and greasier than in Taiwan. As for transportation, I usually took the bus in Guangzhou and Beijing, and the subway in Shanghai. However, the bus system in China is different from that in Taiwan. In Taiwan, bus passengers put their fare in a collection box in the bus. In China, there is a person in the bus who sells the tickets to the passengers. Since China cities are big, and the fare varies according to where one would go, a passenger has to tell the salesperson where he or she is going; and the salesperson will inform the passenger of the corresponding fare. However, buses were usually jam-packed in these cities,

especially during rush hours. Many times, I had to squeeze in to get to the salesperson for a ticket. The passengers usually had to wait for a long time, too, for the ticket purchase. I discussed with some local Chinese about this bus system. Some argued that China has to keep these salespersons. Otherwise, many people would be unemployed and some social problems may emerge.

All these differences caused my discomfort and uneasiness and it took me some time to get used to these. Therefore, in the early stage of my data collection, I wanted to finish each of the interviews and go home as soon as possible. As a result, I could not immerse myself into the society during that period. In addition, I could not relate well to the social context of the participants' answers.

When I arrived in Shanghai, I stayed in my Taiwanese friend's house where I felt more comfortable. In addition, Shanghai is more similar to Taiwan than Guangzhou. For example, many shops and restaurants in Shanghai could also be found in Taiwan. I took the subway to many places in Shanghai just like I do in Taipei. Also, my participant-recruitment process went more smoothly in Shanghai than in Guangzhou. By the time I arrived in Beijing in late June, I was getting used to the Chinese society. In addition, I was beginning to enjoy conducting the interviews and my interview skills had improved as well.

Another field experience worth mentioning is the distinctiveness I sensed among the cities of Guangzhou, Shanghai, and Beijing. Most MNCs establish their headquarters in these three cities, because these are the most developed cities in China. Guangzhou is a city where one can find very cheap merchandise. The people seem friendlier than in Shanghai and Beijing.

Shanghai is a very commercial metropolis. I felt like Shanghai is the most westernized city in China ; and it has the most luxurious hotels, restaurants, shops, and facilities. Businesses flourish everywhere in Shanghai and expatriates are everywhere. It is also a multi-cultural city because China rented several areas of the city to many countries (e.g., United Kingdom, France, Germany, and Japan) as a result of wars. People in Shanghai are open to multiple cultures and they welcome new things and concepts. Also, I considered people in Shanghai more business-oriented and caring less about politics than people in Beijing.

My first impression of Beijing was that it is a “gigantic” city. It takes more than 30 minutes to go from one place to another in Beijing. The city has a strong sense of Chinese history and thus is politically inclined. Historical buildings (e.g., palaces, museums, and temples) are everywhere. However, living in Beijing is not so comfortable as living in Shanghai. For example, city buses are not so advanced as those in Shanghai. Some foreign stores and merchandise in Shanghai cannot be found in Beijing. People in the service industry are “bureaucratic” and, generally, the people in Beijing pay more attention to politics and social issues.

#### Ethical Considerations

Because of the interactive dynamics of qualitative research, qualitative researchers should evaluate the quality of knowledge that they produce based on not only its truth but also the rightness or wrongness of researchers’ actions in relation to the people whose lives are being studied (Miles & Huberman, 1994, p. 288). Consequently, they must be relentlessly ferreting out any ethical dilemmas and discussing them forthrightly, for only then can qualitative research be conducted in a rigorous manner

(Wengle, 1988; Wolcott, 2001). This proposed dissertation research was reviewed by and got approval from the Communication Department Human Subjects Review Committee (HSRC) and the University of Maryland Institutional Review Board (IRB). At the beginning of each interview, participants were asked to read and sign an informed consent form that explained the details of the study and their rights as participants. Specifically, I recognized the following ethical issues that require attention before, during, and after the project: confidentiality, potential harm, and comfort with disclosure.

### *Confidentiality*

One main, if not the most important, ethical concern for participants of a study is confidentiality. They may want their involvement to remain confidential throughout and after the study and researchers usually guarantee this. I ensured confidentiality in the following ways. First, I asked participants to read and sign the informed consent form, which states that the participant's name and identity will not be revealed at any time without his or her permission. Three of the 27 participants refused to sign the consent form, because they considered that their participation was made as private individuals and not as representatives of their companies. However, I verbally guaranteed the confidentiality of the names of the participants and their companies. Second, I fully informed them that it was necessary for my committee members to know the identity of all MNCs participating in the study; however, the names of participants and their firms would not be used in the dissertation or in subsequent materials or publications without their written consent. Third, I referred to the participants by their position titles (e.g., government affairs managers, public affairs directors, or vice presidents of government affairs) and to the MNCs studied in the dissertation by their industries (e.g., a

telecommunications MNC), instead of their actual names. Appendix A indicates how I referred to each interview participant. Data and consent forms signed by participants were safely stored at my apartment and will be destroyed five years from the completion of this project (American Psychological Association, 2001). I am the only one who has access to the interview data (e.g., notes, audio tapes, and transcripts).

### *Potential Harm*

Harm to participants can be derived from a variety of sources. This study attempts to understand public affairs practices by MNCs; therefore, potential harm to participants in this study might be “looking bad” to others or threats to one’s interests, position, or advancement in the corporation. Researchers cannot guarantee that participants will not be hurt or will not feel embarrassed in any possible way. However, the possibility of harm to participants can be reduced by ensuring confidentiality of participants and reporting fair conclusions based on data collected (Miles & Huberman, 1994). To protect participants from harm, the consent form presented before each interview informed participants that there was no foreseeable harm associated with this study, that their participation was voluntary, and that they were free to withdraw from the research at any time without penalty. In addition, I kept participant comments off-record whenever they asked me to do so.

“Harm cuts both ways,” Miles and Huberman (1994, p. 292) warned. Because of the sensitive topic of this research and my identity as a Taiwanese, I faced a small chance of risks which was being questioned or censored by the Chinese authorities. Advance preparation was extremely crucial to prevent this risk and to protect myself. I consulted with a university professor in China regarding this issue. He advised that according to

the regulation, I should enter China with a research visa in order to take all collected data out of the country. However, as a Taiwanese, I should use a special passport to enter China, not a visa. To reduced the risks associated with my research, the professor's university issued me an official document (see Appendix H) stating that I am an assistant lecture and investigator hired by the university to do public relations research in China. I brought the documentation with me all the time during the data-collection process in China. Advance preparation also included pretesting the interview protocol to tone down any threatening phases or terminology, and learning political sensitivity of the subject through the interview pretest and personal communication with senior managers in public relations agencies in China.

#### *Comfort With Disclosure*

Comfort with disclosure of participants mainly comes from their level of trust toward and confidence in the researcher. I tried to gain the participants' trust by being "candid but discreet" with them (Wolcott, 2001, p. 151), securing confidentiality of their participation, and establishing good rapport with them (Spradley, 1979). By being candid and discreet, I reassured the participants that the purpose of my research was to contribute to the void of public relations theory and practice and not to serve the interest of any individual corporation or of the Chinese government.

Rapport refers to the harmonious relationship between the researcher and the participants that produces respect and trust between them. Good rapport further leads to the flow of information (Spradley, 1979). I made the effort to build rapport with the participants by asking several questions about the company's business background. I developed confidence of participants through my knowledge on the subject and my

advance preparation. In addition to trust and confidence, I believe that my sensitivity to and knowledge of the subject that I learned from informal interviews with informants and the pre-interview review of documents related to participating companies' political activities enhanced the comfort level of disclosure of the participants. Most of them were more responsive and forthcoming in the interviews than I had expected. It was very difficult to recruit participation for this research because of its topic of corporate political activity. However, once MNCs participated, they were committed to the interview and provided vital information. This might have resulted as well from their interest in the research and the executive summary of findings that I promised to provide them in return for their participation.

CHAPTER IV  
ECONOMY, POLITICS, MULTINATIONAL CORPORATIONS, AND *GUANXI*  
IN CONTEMPORARY CHINA

This chapter provides background information that assists Western readers to better understand the context of multinational corporation-government interaction in China. This chapter consists of four parts: China's economy, China's political systems, multinational corporations (MNCs) in China, and *guanxi* in Chinese business and government affairs. The first part introduces the Chinese market type, China's economic system, and its economic reforms. The second part explains the political institutions of China, the operations of the political institutions, and two emerging changes of the Chinese government officials. The third part focuses on the numbers of MNCs and foreign direct investment in China, as well as on the relationship between MNCs and the Chinese government. The last part of this chapter discusses *guanxi* in terms of its definitions, principles, and differences from Western networks; applications to Chinese business and government affairs; and association with bribery and corruption.

China's Economy

Undoubtedly, China's unique market characteristics and economic system dictate an MNC's behaviors in China, including its government affairs practice. Hence, it is crucial to understand the characteristics of the Chinese emerging market and economic system as a socialist market economy to fully appreciate the opportunities for and limitations on government affairs of MNCs in China.

*China as an Emerging Market*

Even though the definitions of “emerging markets” are loose, China is identified as an emerging market by world economic organizations and publications (e.g., The International Finance Corporation, 1999; *The Economist*, 1998; *The Academy of Management Journal*, 1998 as cited in Luo, 2002). According to the World Bank, emerging markets are those where “GDP per capita income is below \$8, 000 per annum but potentially dynamic and rapidly growing economies, where MNEs [multinational enterprises] can seek lucrative opportunities for medium to long-term investments” (as cited in Luo, 2002, p. 4). Luo (2002) further identified five commonalities of emerging markets that are evidently salient in China. First, emerging markets tend to have a weak legal infrastructure, including legal system development and enforcement. Luo explained that the issue of this problem is not so much the difficulty of enacting and developing various laws, but rather the social, political, historical, or cultural factors that impede the implementation and enforcement of the laws. Most importantly, “people” play a more significant role in shaping commercial activities than the laws. This leads to “unique commercial practice and business culture that are people-oriented and socially-embedded” (pp. 5-6). This characteristic most reflects on the intellectual property rights (IPR) issue that MNCs have been facing in China. This feature also explains the emphasis MNCs place on government relations to foster their operations in China when the interpretation and enforcement of laws are heavily subject to responsible government officials.

The second characteristic is that emerging markets tend to have a weak factor market and institutional support needed for economic development and business growth.

According to Luo (2002), a “factor market” refers to the capital, labor, and production materials markets; whereas institutional support includes efficiency of customs offices, transparency of government policies, and services offered by commercial and industrial administrative agencies. Particularly in China, institutional support has been a bigger weakness than its factor market. Nevertheless, after its accession into the World Trade Organization (WTO), it has been improving its incomplete institutional support, such as informationalization of government policies, publicizing policy-making, implementing e-government, and efficient government services (especially in the special economic zones and free trade zones in Shanghai and Guangzhou).

The third characteristic is that emerging markets usually experience fast economic growth accompanied by uncertainties and volatilities. Luo (2002) argued that uncertainties or risks may be derived from the country’s macro-economy, a particular industry sector within the macro-economy, government policy changes, industry structural changes, or volatile capital market or product material market. The example of Amway Asia Pacific (AAP), as previously discussed, best illustrates this promising but volatile nature of China’s emerging market. AAP entered China in 1992. Already by 1997, it had reached net sales of \$178 million (its second biggest market worldwide), thousands of direct sales representatives nationwide, and a seemingly promising future (“Amway,” July 21, 1998). This all changed on April 21, 1998, when China’s State Council banned direct sales activities throughout the country to curb growing pyramid schemes and inventory-loading scams. This change of government policy halted AAP’s business in China. The company soon found itself losing \$2 million per day and angry representatives whose riots resulted in 10 dead (“Rioting after,” 1998). Only when the

company waged a massive lobbying campaign, invested an additional \$18 million into China, and changed its Chinese operation model in direct-selling could the company get the ban lifted.

The fourth feature is the heterogeneous consumption behaviors in emerging markets. Emerging markets often provide strong market demand generated by “increased individual incomes (especially middle-class consumers), pent-up demand previously stifled by government control, and a large population of consumers” (Luo, 2002, p. 6). But these consumption behaviors are not the same as those in advanced markets and are highly diverse in terms of region and generation differences. For instance, Hung (2002) found that many Chinese consumers abused the product return policy and customer services to gouge money from foreign enterprises by reporting false complaints. Street and Matelski (2003) maintained that although there was a great distinction between consumer behaviors of peasants and city dwellers, the more compelling distinction was found among generations of the children and young adults (people born under the one-child policy), the middle-aged (children of the Cultural Revolution survivors), and the senior Chinese (survivors of the Cultural Revolution).

The last characteristic concerns the competitiveness of MNCs in emerging markets. Luo (2002) argued that even though fast-moving MNCs might be dominant in emerging markets and benefit from the markets’ opportunities in the first place, they would soon face competition with the local companies and intensified rivalries from foreign firms in the market. It is evident that the Chinese government asks for the MNCs’ technologies and know-how in exchange for their access to the Chinese market. Because of this, local Chinese companies are quick in learning to enhance their own

capabilities and sharpen their skills. Consequently, MNCs in China confront competition with not only advanced foreign firms but also local companies.

#### *China's Economic System as a Socialist Market Economy*

China's experience of introducing a market economy in a socialist setting is unique (Suliman, 1998). Deng was the major leader of economic and political reforms in China from 1978 to 1992. During Deng's official visit to the United States in 1979, he realized that the rich resources, the skill of the workers, the technology of the engineers, the free-market systems, and the research and development could improve China's economic competitiveness and bring better lives to its people (Ho, 2004). However, he questioned whether China could adopt this free-market system from the United States or if only part of the system could be applied to China. In the end, Deng decided to introduce a socialist market system, a system with the features of a free-market system and a central-planned system.

#### *Deng's Economic Reform*

Economic reforms have constantly moved China's economic system from a central-planned economy to a socialist market economy, a so-called *marketization* process (Chen, Wu, & Xie, 2000). Under the principle of a socialist market system, all reforms are instituted on the premise that an individual's creativity could be stimulated in a way that societal interests are also maintained. Therefore, a socialist market economy allows business enterprises to be subject to market mechanisms (i.e., supply and demand) and under the government's supervision to macro economic activities such as national infrastructure, industry regulations, and monitoring the development of each industry. The government controls the overall economic development of the country by such

measures as taxation policies, interest rates, government expenditures, trade, and industrial policies. Simply put, a socialist market economy is a market economy under the government's guidance of macro-central planning.

Under the guidance of Deng, industrialization is the central theme of China's economic reforms (Ho, 2004). Deng implemented the open-door policy and the joint-venture policy to generate foreign capital and foreign technology necessary for industrial development in China. The open-door policy resumed China's foreign trade with importers worldwide by lowering tariff rates and liberalizing the control of foreign exchange transactions. Importers brought in capital goods such as "machinery, equipment, and essential industrial supplies of materials to promote industrial development" (p. 101).

Joint ventures are formed by foreign companies and the Chinese companies that work together to pursue mutual economic interests. Foreign companies participate in joint ventures by providing their advanced technology and managerial skills to their Chinese partners in exchange for access to the local market. Joint ventures served as a primary mode for foreign companies, including MNCs, to first enter the Chinese market in the early stage of its industrial development. For example, an automotive joint venture of Volkswagen and the Shanghai Tractor and Automobile Corporation was founded in 1984 to produce Volkswagen cars in China. With this joint venture contract, Volkswagen had enjoyed almost the entire market share of automobiles in China until late 1990s.

Another well-known example, "The 1998 Agreement" or "Kodak Model," is a joint venture contract between the Eastman Kodak Company (Kodak) and the Chinese

government. The agreement has been viewed as the best case that illustrates the importance of government affairs in securing corporate business success in China (Huang, 2002). The contract allows joint venture cooperation between Kodak and the whole Chinese photographic film industry. The contract stipulates that all except for Chinese state-owned photographic film enterprises (seven in total) should cooperate with Kodak, except for China Lucky Film Corp. (樂凱). Three of the enterprises form joint ventures with Kodak and the other three receive financial investment from Kodak. Kodak, under that contract, is approved to invest \$12.6 billion to build factories to produce film in China. In addition, the agreement states that the Chinese government could not cooperate with any other foreign companies than Kodak in the photographic industry until 2001 in order to protect Kodak's interest. After nailing down its joint venture project with China Lucky Film Corp. on October 30, 2003, Kodak has had a monopoly on the Chinese photographic film industry. The Kodak Model tremendously contributes to its expansion of market share in China. In 1996, China was only the 17th biggest market for Kodak. By 2001, it had become Kodak's second-biggest market after the United States. Kodak predicted that by 2006, the Chinese market would become its biggest worldwide ("Yeh Ying," 2003).

In this economic reform of joint ventures, one important innovation was Deng's launch of two special economic zones in Guangdong (in the Shenzhen city) and Shanghai in 1979. In special economic zones, the Chinese government provides the infrastructure and the fixed assets (such as railroads, highways, seaports, warehouses, buildings, plants, utilities, telecommunications, and fire and police protection). Companies, once approved, can start operations there as a free market system with little government intervention.

Deng experimented with the special economic zones in order to try out his model of “a country of two systems,” a central-planned economy coexisting with a capitalist economy. This model will be applied to China’s ruling on Hong Kong, Macao, and Taiwan. That is, China allows these areas to practice capitalism the same way as it is done in the special economic zones. With the success of the two economic zones, Deng launched other 32 special economic zones in not only coastal cities but also inner cities.

#### *Zhu’s Economic Reform*

After Deng, Zhu Rongji became the premier of the State Council of China and continued China’s economic reform. Before becoming the premier, Zhou served as the president of the Central Bank of China. During his term as the premier, he successfully controlled the inflation rate under three percent, achieved an annual economic growth of eight percent for the country, and maintained the stability of its currency (Renminbi; RMB) (Zeng & Yan, 2002). The Chinese people call him “the Chinese Jack Welsh” (Ohmae, 2002).

In 1998, Zhu brought in three reform measures for a vital, independent economy in China: the reform of state-owned enterprises, the reform of the financial system, and the reform of the administrative institutions. Close attention needs to be drawn to the reform of state-owned enterprises. Zhu’s measures for reforming state-owned enterprises with serious deficits were designed to save the enterprises by holding the management and supervisor government officials accountable for the performance of the enterprises. The measures were as follows: The central government first let the provincial and county governments take back the management of state-owned enterprises in their judicial districts. After taking over the enterprises, corporate managers and their supervisory

government officials who fail to achieve certain financial objectives two years in a row would be fired.

These measures resulted in two consequences. First, local governments have become independent from the central government to gain their income and tax revenue. They have to compete with each other for not only a market share of their supervised state-owned enterprises but also a foreign direct investment (FDI) in their region. Secondly, local government officials have become aggressive to develop their local economy because their performances are judged by the financial performance of their supervised state-owned enterprises and the annual economic growth in their provinces or counties. These consequences, in turn, triggered political reform of several local governments to become efficient and strategic, as well as to adapt their governing role to be more service-oriented.

## China's Politics

### *Political System*

China's political system consists of two parts: the political parties and the government. According to a political system typology<sup>20</sup> developed by Almond and Powell in 1988, China has an authoritarian political system. Authoritarian in structure and ideology, the Chinese government is ruled by the Communist Party of China (CPC) and serves as an arm of the Party. There are five supreme institutions in China's political system: 1) the National Party Congress of the CPC; 2) the National People's Congress of the Government, parallel to the Congress of the United States; 3) The Chinese People's

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<sup>20</sup> Almond and Powell (1988) claimed that the most important dimension to political systems is the structural-functional distinction, which reveals how much power a government has over its citizens and its media. Thus, they classified political systems in a continuum with authoritarian at one end and democratic at the other.

Political Consultative Conference, a uniquely Chinese institution representing the parties and political groups other than the CPC, 4) the courts and judicial system, and 5) the procuratorates, whose function is similar to “the grand jury of the United States to indict military and civilian services for misconduct” (Ho, 2004, p. 115). According to Ho, Chinese governance consists of three levels: the central, the provincial, and county. The five institutions operate on all three levels. Figure 4 illustrates the relationship among these supreme political institutions.

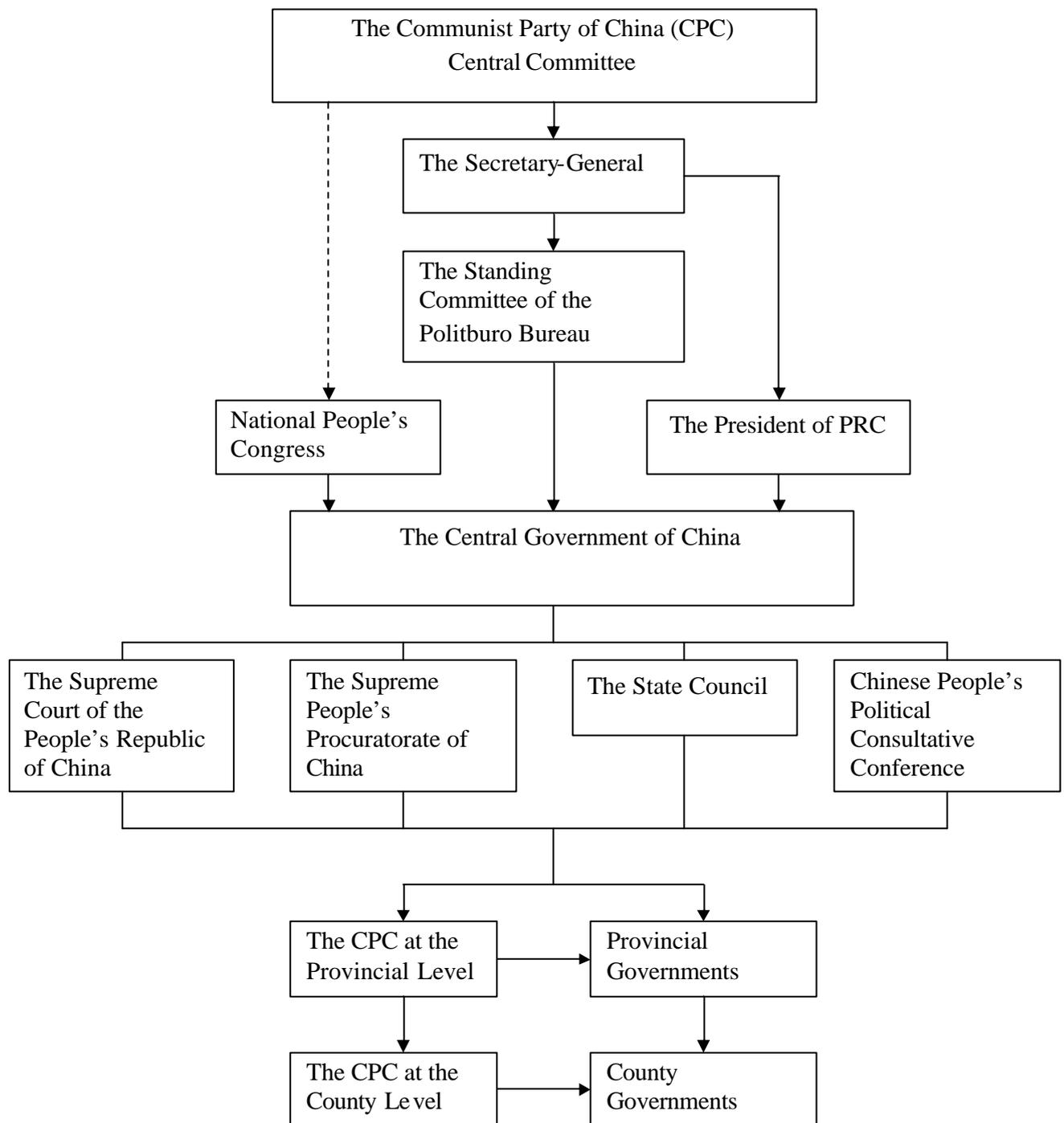
### *The Communist Party of China<sup>21</sup>*

The CPC has a monopoly power reaching to almost every aspect in the Chinese society. In addition to the CPC, there are eight minor political parties in China that are under the CPC’s supervision.<sup>22</sup> According to the Organization Department of the CPC Central Committee (2004), the CPC had 68.2 million members at the end of 2003. The Communist Party originally recruited members mainly from farmers, workers, soldiers, and intellectuals (Ho, 2004). In 2001, Jiang, the Party leader and the president of the People’s Republic of China then, announced that the Party would start to recruit members from businesses. This indicates the shift from the Party’s communism nature toward socialism with Chinese characteristics because of China’s economic reforms (Ho, 2004; Ohmae, 2002).

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<sup>21</sup> U.S. literature uses the name “Chinese Communist Party” (CCP) to refer to the dominant party in China. However, according to the Chinese official government websites and its media, the Party’s name is translated as “the Communist Party of China” (e.g., [www.gov.cn](http://www.gov.cn), [www.govonline.cn](http://www.govonline.cn), [news.Xinhuanet.com](http://news.Xinhuanet.com)). Therefore, I chose to call it “the Communist Party of China” (CPC).

<sup>22</sup> The eight minor political parties are: 1) the Revolutionary Committee of the Chinese Kuomintang, 2) the China Democratic League, 3) the China Democratic National Construction Association, 4) the China Association for Promoting Democracy, 5) the Chinese Peasant and Workers Democratic Party, 6) the China Zhi Gang Dang, 7) the Jiu San Society, and 8) the Taiwan Democratic Self Government League.



*Figure 4.* The Organizational Relationship Among the Supreme Institutions in China's Political System

The CPC operates at the country, provincial, and national levels. The CPC members elect delegates to the Country Party Congress. The Country Party Congress delegates elect the delegates to the Provincial Party Congress who, in turn, elect the members of the National Party Congress. The National Party Congress of the Communist Party, comparable to the party conventions in the United States, is the highest authority of the Party and meets every five years. Its responsibilities include listening to the briefing of major achievements of the Party, making decisions on major policies of the Party and the nation, revising the Party's Constitution, and electing members of the Central Committee and the Central Commission for Discipline Inspection of the CPC. The Central Committee is the top management of the Party and meets once a year. When the National Party Congress is not in session, the Central Committee implements the Party's policies, manages the daily operation of the Party, and represents the CPC. The Central Commission for Discipline Inspection is responsible for censoring corruption or illegal conduct of Party members and officials and is under the supervision of the Central Committee.

The Central Committee is comprised of three organs of power of the Party, including the Politburo Bureau, the Secretariat, and the Central Military Commission. The Central Committee elects a Politburo Bureau (or the Political Department) among members in the Committee. The Politburo Bureau, then, elects its Standing Committee, which is the most powerful organ of the CPC. The Standing Committee manages the important affairs of the Party as a whole and exercises the Central Committee's power when it is not in session. The Standing Committee members all vote to decide which one is to be the secretary-general of the CPC. The secretary-general must be a member of the

Standing Committee. He or she is the leader of the CPC and the real head of the country in power. The Central Committee is also responsible for approving the members of the Secretariat and the Central Military Commission. The Secretariat, led by the secretary-general, serves as the administrative mechanism for the Politburo Bureau and its Standing Committee. The Central Military Commission represents the power core of China's military forces. The secretary-general usually serves as the chairman of the Central Military Commission to control military forces of the country. In addition to these organs, the Central Committee also directly supervises 14 institutions and departments, such as the Party School that trains elite Party members in Marxist-Leninist thought and Party ethics; the Organization Department, similar to human resources department of the Party at the central level; the United Front Work Department; the Taiwan Work Office of the CPC and the State Council that serves as the office authority to negotiate Taiwan-related issues with the Taiwanese government institute; the Policy Research Office; the Propaganda Department; and the *People's Daily*, the official publication of the Party (Ho, 2004; "Departments and Institutions," n.d.).

#### *The People's Congress*

The People's Congress—at county, provincial, and national levels—is the legislative authority in China. The National People's Congress (NPC) is equivalent to the Congress in the United States. It is the highest legislative authority and the state power in China. The representatives of the National People's Congress are elected through the same mechanisms as those used for electing the delegates for the Party Congress of the CPC. The NPC meets annually for about two weeks to "review and approve major new policy directions, laws, the budget, and major personnel changes" ("Background Note,"

2002). New initiatives of policy directions are proposed by the State Council and endorsed by the Central Committee of the CPC. Since the CPC leads the country, the NPC usually approves the proposals. However, the NPC may make changes to embrace the recommendations of the Chinese Political Consultative Conference and other alternative views. When the NPC is not in session, its elected Standing Committee exercises state power.

*The Executive: The State Council and Local Governments*

As mentioned previously, the CPC supervises the executive. The role of the Chinese government is to implement Party policies. Because of the massive size of population and territory in China, the Chinese government operates at the central, provincial, and county levels. The State Council, equivalent to the White House, is the highest executive institution in the central government. Members of the State Council include a premier, a variable number of vice premiers, five state councilors (whose “protocol equivalents of vice premiers but with narrower portfolios”), ministers, and heads of State Council commissions (“Background Note,” 2002).

The State Council has administrative and legislative power. To carry out a socialist market economy, the State Council controls the macro-economic development and has administrative power to approve projects with an investment of \$30 million RMB or more. The State Council employs a top-down mechanism to formulate laws, regulations, and policies. As a result, the State Council is the strategic target for business lobbying of MNCs in China.

In addition to the central government, local governments (i.e., governments at the provincial and county levels) are crucial to managers in MNCs because they also exercise

both administrative and legislative power. It is because “Chinese laws recognize the principles of entrusted or inherent power” (Blackman, 2000, p. 176). That is, the laws are broadly made in principles by the central government and their rule-making and enforcement are left to the lower levels of the bureaucracy based on “concrete local conditions and actual needs” (Corne, 1997, p. 83). Local governments are virtually granted unlimited discretion to the implementation of a law as long as they do not violate “the spirit of the applicable law and the Constitution” (Blackman, 2000, p. 176).

### *Operation of the Chinese Government*

#### *Central Law, Local Interpretation, and the Powers of Local Bureaucrats*

To fully understand how the Chinese government operates regarding enactment of laws, regulations, and policies, one must understand the relationship among a central law, local interpretation, and the powers of local bureaucrats. Zhu (1996) best explained the relationship as follows. The central government initiates laws in principle by considering the overall needs of the country as a whole. It, then, instructs provincial governments and central ministries to issue concrete corresponding regulations or policies according to each local condition, custom, and actual need. Provincial governments also instruct country governments to adapt regulations or policies to their needs. In this context, each administrator is empowered to “give a go-ahead to an exception” of all central government regulations and can “find out a suitable reason for it, such as to relieve rural poverty, to reduce losses incurred by a state-owned firm, or to defuse disturbances among a group of employees” (Zhu, 1996, p. 276).

*Complex Chinese Governance on MNCs*

MNCs in China face a complex Chinese governance vertically (i.e., various governments at the three levels) and horizontally (i.e., various government authorities at each level). Given the vertical structure of the complex Chinese governance, MNCs have to manage their relationships with all levels of governments to deal with the opportunities and hurdles resulting from the discretionary power of local governments. With Zhu's reform measures, government officials are held accountable for local economic development (e.g., local GDP growth). Leaders who fail to meet their economic growth objectives two years in a row will be fired. As a result, local governments exercise their administrative and legislative power to advantage their economic growth and income-gathering. This phenomenon creates opportunities to an MNC in terms of exceptions of central regulations that generate more corporate profits, which eventually increase local tax revenue. The phenomenon may also create hurdles to an MNC in terms of different regulations and policies from one province (or county) to another, as well as local intervention on the MNC's business operation.

Horizontally, there are numerous departments with overlapping juridical authorities at each level of the Chinese government. Mao's no terms policy for government officials leads to this phenomenon that requires special consideration of an MNC's strategic behavior in government affairs. There were no terms for Chinese government officials under Mao's rule (Ho, 2004), nor is there a retirement system. Literately, an officer could serve from the day he or she was appointed to the day he or she died. Therefore, government departments were continuously being established to accommodate the massive and expanding number of officials. Soon, newly-established

departments began to duplicate the existing ones and this resulted in contestant fights between one another for their jurisdiction (Ho, 2004). Even though with Zhu's administrative reform provincial-level governments across China were downsized by 47 percent (Zeng & Yan, 2002), MNCs still have to deal with various departments involved in a single issue.

#### *Current Changes in the Chinese Government*

A couple of changes are evidently emerging in the Chinese government because of China's political reforms and its accession to the WTO. A notable change of the Chinese government is that the average age of government officials is much younger than before. After China entered the WTO in December 2001, the challenging task of the Chinese government is how it can successfully attract high-quality foreign direct investment (FDI) to foster long-term, stable economic growth in China (OECD, 2003). The Chinese government has been revising its FDI policy to effectively solicit FDI. However, the revision of policy cannot be complete without institutional change. Government officials with improved managerial skills and expertise are one of the critical elements of institutional change. As a result, the Organizational Department of the Communist Party of China regularly sends selected young elite government officials to seminars, training, or higher-education in Chinese universities or abroad to learn up-to-date knowledge, advance their expertise, and sharpen their skills. With their education or training, government officials are the new blood in the governments. They tend to be more modernized, Westernized, open-minded, efficient, professional, aggressive, and service-oriented. They also get promoted more quickly than others (personal

communication, June 9, 2004). This shortens the gap of efficiency and professionalism between Chinese bureaucrats and those in Western countries.

The other change of the Chinese government has resulted from China's WTO commitment. In this WTO implementation era, China has to gradually open several industrial sections (e.g., banking, insurance, and oil). As a result, the Chinese government is undergoing a series of policy-making and regulation-formulation steps. For Chinese government officials, many of the developing policies and regulations are totally new to them. To overcome this challenge, they involve reputable MNCs in the formulation process by seeking their feedback on policy drafts. Consequently, the policy-making process becomes more transparent than in the pre-WTO period (personal communication, August 13, 2004).

These two changes in the Chinese government indicate that it is moving toward professionalism, efficiency, and being service-oriented. In addition, the relationship between the MNC and the Chinese government in general is more amiable and they have increased cooperation and interaction. However, it does not mean that every Chinese government at the central, provincial, and county level has undergone the two changes to the same extent. It is evident that local governments in the coastal region (especially those in special economic zones and free trade zones) have adapted themselves to a higher extent than the central government and the local governments in the inner part of China.

## MNCs in China

### *Overview of MNCs in China*

After Deng's economic reform starting 1978, MNCs have flooded into China. By 2000, 400 of the *Fortune* 500 MNCs had invested in China (Luo, 2000a). FDI is the primary vehicle for MNCs to expand their businesses to China. In 2002, China, with the most rapid rate of FDI among the FDI recipients, had become the largest FDI recipient in the world (MOFCOM, 2002). According to the Foreign Investment Department of the Ministry of Commerce of China (FIDMCC), by the end of November 2004, the accumulative amount of contracted FDI reached \$10178.168 billion and the actual use of FDI was 559.023 billion. The top five FDI sources were: Hong Kong (\$43.12 billion), the U.S. (\$39.889 billion), Japan (\$36.34 billion), Taiwan (\$33.11 billion), and the Virgin Islands (\$24.3 billion). There are 220,000 foreign-invested enterprises (FIEs) registered and in operation ("News Release," 2004). Previously, equity joint ventures were the dominant format used by foreign enterprises in China. The 2002 and 2003 statistics show that wholly foreign-owned enterprises became the primary entry mode in two consecutive years, accounting for 60.15 % and 62.39 % of the total annual realized FDI value respectively ("Statistics of FDI," 2003; "Statistics of FDI," 2004).

FIEs, especially MNCs, play an important role in China's economy and contribute to its rapid economic growth<sup>23</sup> (Luo, 2002; Wong, 1999). As shown in Table 6 and Table 7, total value-added industrial output of FIEs reached 27.22 % of the nation's total

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<sup>23</sup> China's spectacular economic growth can be shown by the following events. The size of China's economy has grown more than tenfold since the late 1970s (*China Statistical Yearbook*, 1999). From 1978 to 1997, China's GDP grew at an average annual rate of 9.8%, dwarfing literally all other countries with GDP growth in the same period (World Bank, 1998/99). China increased its per capita income four fold from 1978 to 1987 while it took Britain about 58 years (1780-1838); 34 years for Japan (1885-1919); and 11 years for South Korea (1966-77) to reach the same economic growth (World Bank, 1997; Wong, 1999).

in 2003, with a tax contribution to the nation's total of 20.86 %. According to FIDMCC, export of foreign-invested enterprises from January to November of 2004 totaled \$302.132 billion, accounting for 57.05 % of the country's total value ("Import & Export Statistics," 2004). In addition, FIEs helped to make China the biggest foreign exchanger reserve holder worldwide by contributing 41.2% of the nation's total foreign exchange reserves by the end of 1997 (Luo, 2000a).

Table. 6

*Several Economic Indicators on China's Absorption for Foreign Investment in 2003*

	Nation's total	FIEs	FLEs' Share %	Change % from 2002
Investment in fixed assets (100 million RMB)	55118	4424.86	8.03	1.44
Value-added industrial outputs (100 million RMB)	41045	11174	27.22	20
Tax return from industry and commerce (100 million RMB)	20461.6	4268*	20.86	22.81

NOTE: This number indicates the total foreign-related tax revenues. Tax revenues from FIEs accounted for more than 98% of foreign-related tax revenues.

Source: Adapted from [www.fdi.gov.cn](http://www.fdi.gov.cn)

Table. 7

*Foreign-Related Tax Revenue (Excluding Customs Duty and Land Fees), 1992-2002*

Year	National Tax Return from Industry and Commerce (100 Million RMB)	Total Foreign-related Tax Revenues (100 Million RMB)	Growth Rate %	Share %
1992	2876.1	122.26	--	4.25
1993	3970.52	226.56	85.31	5.71
1994	4728.74	402.64	77.72	8.51
1995	5515.51	604.46	50.12	10.96
1996	6436.02	764.06	26.40	11.87
1997	7548	993	29.97	13.16
1998	8551.74	1230	25.94	14.38
1999	10311.89	1648.86	33.78	15.99
2000	12665	2217	35.45	17.5
2001	15165	2883	30.04	19.1
2002	17004	3487	20.95	20.52
2003	20461.6	4268	22.81	20.86

*Note.* Tax revenues from FIEs accounted for more than 98% of foreign-related tax revenues.

Source: Adapted from [www.fdi.gov.cn](http://www.fdi.gov.cn).

In addition to their contribution to China's economy, MNCs also assist social development in the Chinese society. For instance, as of 2003, 4.8 % of the actual FDI was utilized in the Chinese Western region, the least developed and poorest part of China

(“FDI Utilized,” 2004). This is a corporate behavior that supports the Chinese government’s Developing Western Region Policy to boost the economic development in Western China, which in turn, will improve people’s lives in that region. Motorola China has had more than 6,000 employees directly involved in the Project of Hope, the well-known social philanthropy in China that primarily helps children in poverty. Carrefour, a giant chain supermarket company, helped China win the bid for holding the 2010 World Expo in Shanghai (“The 1<sup>st</sup> Guangming,” 2004). Additionally, various MNCs vigorously fund scholarships or sponsor programs in Chinese universities to help young poor Chinese people have a chance to get educated in order to modernize Chinese society.

#### *MNC-Government Relationships*

As discussed in Chapter 2, the nature of an emerging market such as the one in China promotes cooperation between MNCs and the Chinese government in country-level internationalization, industry-level competitiveness, firm-level capability, and individual-level productivity. In addition to the nature of an emerging market, China’s economic and political reforms make FDI a desirable resource to all levels of Chinese government. According to resource dependency theory (Bacharach & Lawler, 1981), FDI escalates the government’s willingness to work with MNCs. China’s accession to the WTO also leads to increased MNC-government cooperation in policy- and regulation-making. As a result, it is evident that MNC-Chinese government relationships are more cooperative than ever, especially the ones the government has with the leading MNCs in various industries, such as Motorola, Kodak, General Electronics, Volkswagen, and Boeing (personal communication, 2004).

MNC-Chinese government relationships also have an element of competition. Even though MNCs and the Chinese government cooperate frequently, it does not mean that their relationships are stable. The competition-cooperation dialectic of MNC-Chinese government relationships makes the relationships always dynamic. Chinese enterprises' entering the global business community poses increased MNC-Chinese government competition that might make their relationships hostile.

The recent issue of the dispute between Intel and the Chinese government serves as a good example of MNC-government competition that could negatively affect their relationship. The dispute resulted from a government policy that requires every chipmaker to incorporate China's own standard for wireless security, known as WAPI, into any chips sold in China by July 1, 2004. WAPI is not compatible with so-called Wi-Fi chips<sup>24</sup> used internationally. The problem of complying with this policy is that "complying could mean turning over proprietary technology to one of 24 [Chinese] government-sanctioned companies" ("Why China is," 2004).

The Chinese government explained the rationale of this policy as follows: The Chinese government simply does not want to depend on U.S. standards for encryption technology, such as the Wi-Fi standard, because doing so might endanger the nation's security. On March 10, 2004, Intel Corp., the leading company in wireless semiconductors, announced that it would not comply with this policy by the government's deadline even though it could mean that Intel could never sell its latest wireless device Centrino in China. Intel's primary concern is that since Centrino builds

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<sup>24</sup> Wi-Fi chips allow personal computers and other electronic devices to connect wirelessly to the web and the Internet ("Why China is," 2004).

in a Wi-Fi transmitter with its microprocessor, integrating the Chinese Wi-Fi standard might let Intel share its critical know-how with the Chinese companies that work on the new Wi-Fi standard. Turning over its technology might foster the Chinese rivals to rapidly become competitive in the industry. After the announcement, Intel also collaborated with other U.S. tech companies to lobby Washington to step in and escalate this dispute to a national issue. After a series of discussions, the Chinese government decided to halt the enforcement of the policy. Even though Intel won this high-profile case, it pays the price of having a hostile relationship with the Chinese government and becoming the target of nationalism by the public.

#### *Guanxi* in Chinese Business and Government Affairs

##### *Guanxi*

*Guanxi* is a pervasive concept in examining Chinese culture. It has been scrutinized by various disciplines, including sociology, psychology, history, economics, business, politics, and communication. Each of the disciplines explains different but partial aspects of *guanxi*. For the purpose of this study, I delimited the discussion of *guanxi* to its relations with business and government affairs in China.

*Guanxi* is commonly defined as personal connections (e.g., Graham & Lam, 2004; Luo, 2000b; Gao & Ting-Toomy, 1998; Wang, 2001). *Guanxi* is built on the existing and available *guanxi* base. The *guanxi* base is defined as “a commonality of shared identification amongst two or more people” (Luo, 2000b, p. 4). According to Luo (2000b) and Yang (1994), a *guanxi* base can be formed from five sources: *locality and dialect* (i.e., if you and the other person come from the same place or speak the same dialect), *fictive kinship* (i.e., if you and the other person share the same surname), *kinship* (i.e., if you and

the other person are immediate kin as related by blood or marriage), *work place* (i.e., if you and the other person used to be colleagues, schoolmates, or alumni), *friendship* (i.e., if you and the other person are friends), and *trade associations or social clubs* (i.e., if you and the other person have interacted in social events that can form institutionalized *guanxi*). Simply put, *guanxi* bases can be divided into two categories: blood and social bases.

*Guanxi* bases themselves are essential but insufficient to form *guanxi*. The establishment of *gaunxi* requires also personal interactions and sentiment (*ganqing*, 感情) (Wang, 2001). *Guanxi* bases, however, represent the foundation of *guanxi* networks. Without a shared *guanxi* base, it is very difficult to establish *guanxi*. If a shared *guanxi* base does not exist, one shall rely on the intermediary or third party (*zhongjian ren*, 中間人) to provide a shared *guanxi* base with oneself and the person he or she desires to interact with.

*Guanxi* is transferable. That is, A can establish *guanxi* with B through C's existing *guanxi* with B. Therefore, personal references have been an effective means in *guanxi* establishment. The transformability of *guanxi* makes the *zhongjian ren* (the intermediary) an essential social capital for companies, especially for foreign companies, to bank for current and future use. This social capital, in turn, reinforces the necessity of continuous establishment, maintenance, and cultivation of the web of one's *guanxi* networks. This cultural characteristic well explains the common expectation of government affairs as ongoing work with a long-term pay-off.

In addition to the transferability of *guanxi*, Luo (2000b) pointed out other principles underlying *guanxi* cultivation, utilization, and maintenance regarding the

nature of *guanxi* as personal, utilitarian, reciprocal, intangible, long-term, and contextual. *Guanxi* ties two people by exchange of favor and face over a long run. Once people commit to the network of *guanxi*, they have to follow an invisible and unspoken code of reciprocity, equity, and trust (Luo, 2000b). Each party in a *guanxi* network contributes and obtains unequally in accordance with its hierarchical status. Nevertheless, each party must perform reciprocity. If one fails to do so, it is likely that he or she will lose the trust of all parties involved in that *guanxi* network and trust is the essential foundation of sustained *guanxi* networks (Luo, 2000b; Wang, 2001).

Given the intangibility of rules of *guanxi*, *guanxi* maintenance and cultivation are highly contextual-specific. One behavior that is appropriate in a situation might not be suitable for another situation. For instance, the giving of a gift on the Chinese New Year or other important Chinese festival is considered a must-do in the Chinese society. To give a gift on the Chinese New Year while one is up for promotion or a job might be considered as bribery. Therefore, *guanxi* development, maintenance, and cultivation are more an art than a science. One can only become skillful at such practice through experience in his or her cultural and contextual sensitivity.

#### *Guanxi and Western Networks*

Relationship establishment (*guanxi*) and networking building are crucial to business in every part of the world. Corporate managers strategically use *guanxi* or networks as a means to get access to the resources that enhance their firms' competitive advantages. Because of this, many western managers claim that *guanxi* has been oversold in China. However, it should be noted that scholars and professionals concluded that *guanxi* and Western networks are similar but not the same (e.g., Luo, 2000b; Hackley &

Dong, 2001). *Guanxi* contains the essentials of Western networks along with other Chinese aspects. The commonality of these two concepts, according to Luo (2000b), is their emphasis on continuity of a relationship that requires the active and reciprocal involvement of all parties in the relationship. *Guanxi* and Western networking differ in the following ways. First, Luo (2000b) argued that *guanxi* is social capital whereas Western networks are solely commercial-based. *Guanxi* involves the personal exchange, such as social or humanized obligation (*renqing*, 人情), face or social status (*mianzi*, 面子), and favor (Hung, 2002; Luo, 2000b; Wang, 2001).

Secondly, the core of *guanxi* is personal relationships whereas networking focuses primarily on relationships among corporations and institutions. When a corporation uses a personal relationship to achieve its objective, *guanxi* is practiced at the organizational level. *Guanxi* is built, maintained, and cultivated through interpersonal interactions and a “*guanxi* network does not correspond with formal organizational borders” (Wang, 2001, p. 89), whereas networking is in place when two or more corporations with congruent goals can provide each other access to resources they individually need (Luo, 2000b). Networking can be established and developed by organizational interactions (e.g., organizational efforts to expand the market or bring in transactions). Therefore, firms in Chinese society continuously build *guanxi* through their managers with their strategic publics first. If successful, transactions will follow. Western firms build networks to obtain transactions first. If successful, a corporation-to-corporation relationship might be formed.

Thirdly, when choosing potential partners to build *guanxi* with, the Chinese assess potential partners’ long-term commitment to themselves and their social status. Chinese

companies prefer to build relationships with others that have long-term commitment to the companies and higher social status than the companies. However, Western corporations typically look into potential partners' commitment to the overall market and the customers when building networks (Luo, 2000b).

#### *Guanxi and Economic Transactions*

*Guanxi* is social capital and a valuable organizational asset that creates economic transactions. Economic sociology emphasizes that social trust fosters economic activities. Social trust refers to expectations of interpersonal relationships where involved parties treat each other with fair and stable exchanges (Smelser & Swedberg, 1994; Dobbin, 2004). *Guanxi* is a type of social trust because it is formed under the existing mutual trust that reduces opportunistic behaviors (Luo, 2000b). In addition to the sociological aspect of economy, China's developing legal framework, intuitional instability, and powerful government officials with administrative interference and policies all increase the weight *guanxi* has in economic activities. To identify the role of *guanxi* in economic transactions in China, Luo (2000b) summarized that *guanxi* can reduce transaction costs (i.e., operation uncertainty, information costs, contextual hazards, and competitive threats) and enhance corporate gains (i.e., institutional support, government preferable treatment, economic return, business effectiveness, organizational legitimacy, and strategic capability).

Understanding the value *guanxi* brings to economic transactions, it should be noted that with China's accession to the WTO and its business environment becoming more "normal" with customers and suppliers, *guanxi* has become less important to business operations in China. However, it still matters. For MNCs to maintain long-term

competitive advantage and success in China, quality, price, and innovation along with *guanxi* are all essential. (OECD, 2003; K. Lieberthal & G. Lieberthal, 2003).

#### *Guanxi and Government Affairs*

Managers in China need to build *guanxi* with strategic government officials for their firms to overcome the uncertainties derived from the incomplete legal system and ambiguous regulations and their respective enforcement. Studies have shown that personal relationships (e.g., *guanxi*) are vital to firms' survival and performance (e.g., Blackman, 2000; Hung, 2002; Wang, 2001). *Guanxi* with government officials provides personal connections, loyalties, and trust between corporate managers and government officials.

Given the features of China as an emerging market, personal connections with government officials are more important than those in other types of markets. Government officials in contemporary China still have considerable power to approve projects; allocate resources; render government favors; enact, interpret; and enforce regulations; and arrange financing and distribution (Luo, 2002). Personal ties with government officials provide benefits to corporations at both operational and managerial levels. Operationally, personal ties with government officials assist firms in avoiding bureaucratic hurdles caused by ambiguous rules or prolonged processes. Managerially, close ties with government officials allow firms to proactively detect business opportunities (e.g., information on new market sources and outlets) and risks (e.g., forthcoming policies and their unwritten interpretations) to better manage the uncertainties in Chinese economic and political environments.

Loyalties to government officials lead to officials' trust toward corporate managers, which, in turn, forms the recognition of managers as a member of their groups. With the collective nature of Chinese culture identified by Hofstede (1980), the Chinese provide more preferential treatment and favor to their insiders than to outsiders (Gao & Ting-Toomey, 1998). Consequently, the insider identity given by government officials to corporate managers facilitates their firms' access to the market (e.g., regulated industries or market segments), institutional support, production factors (e.g., raw materials and scarce resources), infrastructure (e.g., power supplies), and networks with high-level government officials and governmental institutions that enhance the external legitimacy of the firms.

Even though *guanxi* networks provide benefits to enterprises, they do have three major drawbacks, according to Wang (2001). First, *guanxi* networks are costly. Because China is so big in terms of the sizes of its territory, governments, and populations, it costs much for companies to establish *guanxi* networks with their strategic publics. Secondly, *guanxi* networks are fragile. The personalized nature of *guanxi* networks makes them unstable. That is, when the key corporate or government individuals who tie the *guanxi* network for a company leave their posts, the network is most likely to be gone too. Lastly, the personal-exchange nature of *guanxi* and its gift-giving cultivation means easily solicit bribery behaviors of companies. This illegal conduct results in the companies' long-term loss of public trust.

To effectively build, maintain, and cultivate *guanxi* with government officials, corporate managers must not only follow the principles previously discussed but also pay

careful attention to the characteristics of Chinese bureaucrats. Several characteristics of Chinese bureaucrats will be illustrated next.

### *Characteristics of Chinese Bureaucrats*

Hierarchy or social status, face, risk-averse, and relational harmony are characteristics of Chinese bureaucrats. Each one is discussed as follows.

*Hierarchy.* Chinese people emphasize hierarchy because it guides the code of rules underlying interactions with one another. As discussed before, Chinese government officials have power to get things done and manage people even after 20 years of economic reforms. Consequently, government officials hold high status in the hierarchy. Their high status requires respect when interacting with them. Being respectful, on many occasions, means giving face to government officials. One specific application of this is that government officials only talk with corporate representatives with equal or higher status (Hung, 2002; Graham & Lam, 2004). That is also why contracts can be nailed down and conflicts can be resolved by high-level meetings between government officials and global CEOs of MNCs. Another application is that when inviting government officials to major corporate events, it is a must to arrange for the officials to give remarks as the first or the second one in the order (personal communication, June 16, 2004).

*Face.* Face refers to personal reputation, one's social standing in his or her social network. Face can be "earned, lost, given, or taken away" (Graham & Lam, 2004, p. 49). Sources of face include wealth, intelligence, attractiveness, skills, positions, social status, and good *guanxi*. Face is a very important concept to the Chinese, especially to those who have high social status. It might be because face serves as the most important measure of one's social worth (Graham & Lam, 2004). Causing a loss of one's face,

even unintentionally, can be disastrous for interpersonal relationships. On the other hand, if one can give face to another person, it often cultivates his or her *guanxi* with the person. Face usually matters much to Chinese government officials. A manager of a global public relations agency in China offered a good example of the importance of giving face to the Chinese bureaucrats. The manager had assisted his client in negotiating with the Chinese bureaucrats on a project as a third party. During the course of negotiation, it had become obvious that there was only one solution to the problem. However, instead of proposing the solution directly, the manager had to lead the bureaucrats to the solution and eventually gave all credit to the bureaucrats for coming up with the solution. The manager said: “It is the only way to do it. You have to give face to them” (personal communication, August 16, 2004).

*Risk-averse.* Chinese bureaucrats are risk-averse and this characteristic results in “decisions being postponed or passed up the hierarchy” (Blackman, 2000, p. 204). Because of this characteristic, it is crucial for MNCs to find the right bureaucrats for their problems. It is important to take necessary actions to shift the responsibility of an official when an MNC proposes to do something new or different.

*Relational harmony.* Harmony in relationships is highly emphasized in a collective culture such as China’s (Graham & Lam, 2004; Hung, 2002). Relational harmony is one antecedent condition for good *guanxi*. Therefore, it is always wise to keep harmony in interpersonal relationships no matter what issues or conflicts are present. This also leads to the indirect style of most government officials. When an MNC proposes a project or expresses a problem to a government official and the official does not think the project can be feasible or the problem can be resolved, instead of saying

“No”, he or she usually responds, “Let’s study it” (我們研究研究) or “Not a big problem” (問題不大) (Blackman, 2002).

### *Gaunxi, Bribery, and Corruption*

Because *guanxi* involves personal exchanges of favor and creates economic value, *guanxi* is often associated with bribery and Chinese government officials are notorious for corruption. Gift-giving is a common practice in China as a means to express goodwill, appreciation, respect, or affection. According to Chinese customs, giving money as a gift is acceptable on some occasions, such as the Chinese New Year (usually from elderly to youth), weddings, birthday celebrations, and funerals. Luo (2000b) argued that gift-giving turns into bribery only when the objective of the gift-giver is to get a nonreciprocal favor by offering a personal gain.

Bureaucratic corruption has been a problem in China that impedes economic and political maturity. Along with a long Chinese history of corruption and influence of *guanxi*, the low salary system of Chinese bureaucrats (resulting from numerous bureaucrats at different levels) might be another driving force for corruption after economic reforms widened the salary discrepancy in Chinese society (Luo, 2000b). A 1999 statistic from the Central Commission for Discipline Inspection shows that by December 1998, 158,000 Party members were penalized for corruption: 5,357 at the county level, 410 above the prefecture commissioner level; and 12 above the provincial level (as cited in Luo, 2000b, p. 204). By implementing his administrative-institution reform, Zhu successfully scaled down corruption among Chinese bureaucrats. However, it is clear that the Chinese government has to continue its fight with bureaucratic

corruption. Luo summarized 14 types of Chinese corruption activities that are crucial for Western government affairs specialists to know (p. 206):

1. Seeking benefits for dependents, relatives, and friends in school administration, job assignment, cadre status, exit permit, and admission to the party;
2. Taking bribes or embezzling state funds and properties;
3. Providing trusted followers with key official positions and later benefiting from such an arrangement;
4. Retaliating and framing cases against others in search of self-benefit;
5. Using public position and power to assist own businesses;
6. Taking advantage of one's position to occupy or build houses (from public funds) for his or her family;
7. Lavish lifestyle funded by state capital or graft;
8. Forming cliques to pursue selfish interests;
9. Gambling or visiting prostitutes using public funds;
10. Spending extravagantly from public funds on weddings or funeral arrangements;
11. Collecting bribes ostensibly as contributions for weddings or funerals;
12. Smuggling;
13. Kickbacks; and
14. Collecting graft under the name of "services" or "consultations."

#### Summary

With Deng's economic reform measures—the open-door policy and joint-venture policy—multinational corporations were thrilled with the fantastic opportunity to enter the Chinese market. More than 400 *Fortune* 500 MNCs had invested in China and their

tax revenue accounted for 20.86 % of the country's total in 2003. Foreign enterprises soon realized that the unique economic and political systems in China create both daunting opportunities and serious challenges to their business operations. To be successful in the Chinese market, foreign enterprises have to well navigate with the Chinese government and their Chinese partners to manage China's dynamic economic and political environments. This demonstrates the essential value of government affairs to multinational corporations in today's China.

China has an emerging market that operates under a social market system. An emerging market has advantages to foreign enterprises, including its fast-growing economy, its needs to depend on foreign enterprises, and its cheap labor and huge customer base. However, an emerging market also presents many uncertainties to business resulting from strong government intervention, weak infrastructure, developing legal system, and experimental reforms in economy and politics. A social market system mandates that business enterprises operate according to a market mechanism while the Chinese government controls the nation's macro-economic activities. Economic reforms since Deng to today's Post-WTO China have made a more mature and sophisticated market mechanism in its economy and created more bureaucratic competition (between the central and the local governments and among the regional governments) for foreign investment than in a central-planned market.

China employs an authoritarian political system, consisting of political parties and the Chinese government. The CPC holds the power of the nation. It leads the country and supervises the government. Because of the massive population and territory, all Chinese political institutions operate at three levels: the national, regional, and county.

Chinese policy making is top-down. The Standing Committee of the CPC's Politburo Bureau determines the overall policy directions for the nation. The central government initiates relevant policies in principles by considering the overall needs of the country. Then, central ministries and provincial governments issue concrete corresponding policies according to each local condition, custom, and actual need. Lastly, provincial governments instruct county governments to adapt policies to their needs. This top-down mechanism creates powerful governments at all three levels. Local bureaucrats are allowed to modify policies as long as they do not violate policy principles. Powerful governments and increased bureaucrat competition resulting from economic and administrative reforms challenge a government affairs specialist's ability to simultaneously deal with multiple actors with competing interests and incompatible agendas for one issue.

*Guanxi* is the most salient cultural component rooted in government affairs in China. *Guanxi* is personal connections maintained and expanded by personal exchange of renqing, mianzi, and favor. *Guanxi* is similar to Western networks but it focuses primarily on personal relationships, long-term commitment toward one another, trust, and social status. In addition to cultural roots of *guanxi* in China, the characteristics of the Chinese emerging market (i.e., numerous uncertainties, developing legal system, and strong government intervention) lead to the pervasive influence of *guanxi* networks on economic activities and business-government interaction. Business managers establish *guanxi* networks with the Chinese government and their Chinese partners to take advantage of opportunities and avoid political and economic turbulence.

The establishment, maintenance, and cultivation of *guanxi* should adhere to the principles of being transformable, personal, utilitarian, reciprocal, intangible, long-term, and contextual-specific. When building *guanxi* with government officials, one must pay close attention to the issues of hierarchy and respect, face, relational harmony, and the official's risk-averse nature. *Guanxi*-embedded government affairs makes its practice long-term, invisible, and reliant on a personal influence model (J. Grunig et al., 1995) to some extent. It is often linked to bribery. With China implementing deeper economic reforms as a condition of its WTO membership and the Chinese economic environment becoming more "normal" with partners and customers, *guanxi* has become less important to business operations in China but still matters to some extent. The bottom line is that good *guanxi* networks alone are not sufficient to achieve business success in today's China.

## CHAPTER V

### RESULTS

I studied 25 multinational corporations (MNCs) in China Shanghai, Beijing, Tianjin, and Hong Kong. Except for two MNCs where I talked with two people, I interviewed one person in each MNC. As a result, I conducted 27 interviews in total. Participants were top-level managers responsible for the function (including CEOs and presidents of the MNCs, as well as department vice president, directors, and managers) because of the sensitive nature of business-government activities. The 25 MNCs covered a range of industries and the three entry modes, namely wholly foreign-owned companies (n=11), joint ventures (n=5), and both (n=9).

All interviews were open-ended conversations, ranging from half an hour to two hours. I conducted 24 interviews face-to-face and three by telephone. I used English and Chinese to conduct interviews depending on participants' preference. I audio-taped 23 interviews with participant consent and recorded the remaining four by note-taking.

In order to supplement the 27 interviews with people in MNCs, I also conducted interviews with a manager in a U.S. commercial association in Beijing, three managers of public relations agencies, a journalist in international business with a major Chinese news agency, a vice president of a Chinese public relations association, and the president of an MNC in China who is widely recognized as the government relations expert in China. In addition, I talked with several informants (i.e., university professors specializing in public relations, public relations practitioners, and officials of a Chinese public relations associations) on many occasions to establish my knowledge of this subject in China.

I transcribed all interviews for analysis. I started the data-analysis process by first reading the transcripts of interviews to mark the passages I thought were relevant to the research questions. After that, I created tables to sort each participant's marked passages in topics. For example, one research question asked about the evaluation criteria for government affairs effectiveness. I put the participants' marked passages related to individual categories of evaluation criteria together (e.g., goal achievement, quality of relationships, and satisfaction of service). After reading organized data several times and trying to understand what they meant in the context, I established patterns (e.g., quantitative or qualitative criteria) from categories. I included exceptional or unique statements by taking their underlying contexts into consideration and by referring to existing theories. I employed the comparison analysis method throughout the process.

In this chapter, I discuss the answers to my research questions. I have grouped the results according to my research questions proposed in the conceptualization chapter: definitions of MNC-government interaction management, organizational structure of the government affairs function, government affairs in the overall strategic management, issues management in government affairs, relationship management in government affairs, government affairs management, effective political strategies, factors determining the political strategy selection, and evaluation of government affairs effectiveness. I begin each section with a brief review of concepts and propositions, before offering detailed answers to the research questions and discussion of the results. I conclude each section with a summary of the major results on the research questions.

### Research Question 1: Definitions of the Management of MNC-Government Interaction

Several terms frequently appear in the literature to refer to the management function of business-government interaction, including corporate public affairs, corporate political involvement, government relations, and lobbying. The literature suggests that public affairs, a specialized function of public relations, oversees an organization's activities with its external environment. Corporate political involvement is "[a corporation's] participation in the formulation and execution of public policy at various levels of government" (Sethi, 1982, p. 32). Government relations, a subset of public affairs, refers to a function that allows a corporation to actively participate in all phases of government with utilized resources and organizational effectiveness (Dominguez, 1982). Lobbying is a specific corporate political strategy for influencing decision-making on a certain issue in the interest of a corporation (Jaatinen, 1999). To discover how MNCs define the management function of MNC-government interaction in the Chinese context, I asked the first research question as follows:

Research Question 1: How do MNCs in China define corporate public affairs, corporate political involvement, government relations, and lobbying?

When asked the definitions of corporate public affairs, corporate political involvement, government relations, and lobbying, all participants stated that they did not differentiate among these functions much in practice. One participant from the electronics MNC even said: "Should they be different? What's the difference?" As a result, they did not define these similar functions individually.

Nevertheless, the participants intuitively considered corporate public affairs as somewhat different in nature from the other three. Most participants identified corporate

public affairs as one major corporate function, called public affairs or external affairs. They associated corporate political involvement, government relations, and lobbying with another function, so-called “government affairs” in China. They defined public affairs as a function of MNCs to communicate and interact with their external publics in general. Because governments are one of the external publics, four participants defined public affairs as an umbrella term that covers the other three. Government affairs was broadly defined by the participants as a function focusing on company-government interaction, including the activities of corporate political involvement, government relations, and lobbying.

Prior to participant interviews, I used the term “public affairs” to refer to the unit that encompasses issues management, policy formulation, and business-government relationship management in the first three chapters. The participants, however, revealed that they viewed these activities as “government affairs” rather than “public affairs.” Therefore, to avoid confusion, I use the term “government affairs” to describe the unit responsible for the three functions in the organization.

One thing worth noting is that corporate political involvement was the most unfamiliar term to participants because it was the least practiced function in China. As the public affairs director with the chemical MNC explained:

The concept of corporate political involvement is a totally different subject in the States than in other parts of the world because in the States...political involvement is a normal part of business. Whereas in Asia, you probably don't want to have a very visible political involvement because if you're on the side

with a certain party and if the party loses in the next election or political power reshuffling, you're gonna deal with a really serious blow to your business.

After noting that participants were more comfortable using government affairs to describe the management of interaction between MNCs and the government, which was the focus of this study, I asked two follow-up questions: 1) How does your firm define government affairs and 2) What are the main parts of the functions of government affairs in your firm? The participants gave complementary definitions of government affairs and described similar parts of the function regardless of their industries.

#### *Definition of Government Affairs*<sup>25</sup>

Government affairs was broadly defined by participants as every interaction between a firm and different levels of the Chinese government that was related to the firm's business in China. Specifically, the pharmaceutical MNC identified its government affairs as a function to effectively develop the company's business under the rapidly changing industrial policy in China. The U.S. information technology MNC expected government affairs to ensure a policy environment with maximum flexibility and as minimum an impediment as possible to its operation in the Chinese market. In a parallel manner, the MNC with business in multiple industries defined government affairs as "a crucial corporate function that supports and further develops the firm's business by establishing quality relationships with the Chinese government and creating a healthy political environment that is favorable to the firm." Both participants from the chemical and safety solution MNC and the consumer product MNC defined government affairs as

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<sup>25</sup> The majority of this portion is excerpted from a manuscript by Y. Chen (2005) submitted to the 55th annual conference of the International Communication Association.

a function to better understand the agenda and policy priorities of government agencies.

An organization's strategic government agencies include those that shape China's macroeconomic structure or supervise an MNC's industry. By doing so, government affairs helps the MNCs to develop their overall business plan that better adjusts possible policy changes to maximize their economic gains.

#### *Importance of Government Affairs in China*

Participants agreed that government affairs was crucial to the MNC's operations in China because the government was a strategic public that not only had the power to directly or indirectly influence the business but also had a unique and complex nature.

There are two indicators of the Chinese government's powerful influences on economic development of its market. First, under a socialist market economy, the Chinese government sets up the directions of the country's macro-economy. "Government affairs is more important to companies in China than those in any other part of the world. Because of its socialist market economy, the Chinese government directly influences the domestic market through industrial policies or governmental directives," the president of a direct-selling MNC said. In other words, the Chinese market does not operate under free-market principles. The market is controlled by the Chinese government's political mechanisms to ensure it is developed in a way desired by the government. Therefore, this MNC president argued, "If an MNC does not practice excellent government affairs to factor the government's influence on its investment in to its business strategic management in China, it is likely that the MNC will fail in this market."

Secondly, the government supervises MNC business operation and development by requiring MNCs to get approval and licenses for businesses. Most MNCs knew or had learned from experience that they needed government affairs to better manage businesses in China because of government intervention. “Everything is negotiable in China,” said by the chairman of a U.S.-based semiconductor MNC. He implied that regulations and application procedures are flexible in China. On the one hand, if an MNC or a foreign company knows how to communicate with the government, it can simplify the application process for a license and save the company much time, effort, and cost. On the other hand, if a company does everything by the written rules without communicating with relevant government departments, the company will soon realize that it is very difficult to get an approval even with tremendous time, effort, and cost. This often leads to the failure of launching a business in China.

The government affairs manager in an express-shipping MNC echoed this point: Originally, my company did not have government affairs. But the company had learned that a lack of government affairs function increased the difficulties of doing business in China. So, in our 2003 organizational reconstruction, the top management from the U.S. headquarters required our China branch to form a strong government affairs function.

The complex nature of the Chinese government increased the importance of government affairs to MNCs in China. The government affairs manager of a pharmaceutical MNC said that government affairs is most crucial to his MNC’s China branch because “health and medical policies affect 1.3 billion people in China...the large and complex government structure requires the policy-making process to involve

numerous government authorities with overlapping jurisdiction and competing interests.” Many MNCs had separate departments of government affairs and public relations to manage the complex Chinese governance on foreign business and the uniqueness of Chinese bureaucrats. As the government affairs manager with an aerospace MNC said : “The government is one of the key audiences of the company. With its unique nature and direct control on our business in the industry, government affairs is separate from public relations. The two departments work closely together.”

In addition to these two political influences of the Chinese government on business operations, the government affairs manager in the commercial organization in Beijing that focuses on trade-related issues between the United States and China provided another observation that best captures the importance of government affairs from the macro- and micro- perspectives:

Government affairs is increasingly important to MNCs operating in China as it [China] integrates with the global economy and as its domestic market expands. MNCs always have government issues to deal with, either at the national or the local level, increasingly on the local level. As a result, MNCs need people who can understand these things to help MNCs deal with them in order to support operations. It [government affairs] might be strategic or technical just depending on what the issues are.

#### *Parts of the Government Affairs Function*

Participants identified six parts of the government affairs function in their MNCs in China: 1) communication management; 2) issues management; 3) business development; 4) problem solving, conflict resolution, and crisis management; 5) event

and activity organization; and 6) MNC-government relationship management. The findings further show that the MNCs placed varying emphasis on the functions according to their overall business plan, their current phases of investment, the nature of their industries, and their respective positions in the industries.

### *Communication Management*

*Communication between the MNC and the government.* Government affairs was communication management between a firm and the Chinese government.

Communication encompassed daily-basis operational contact to critical managerial interactions. All participants maintained that it was the government affairs department's responsibility to not only establish open communication channels with their counterparts and key audiences in the government but also maintain regular communication with them.

The Chinese government surely is one of the most strategic publics of an MNC because they interfere with the MNC's business through policies. For instance, if governments are the major customers of an MNC or the must-have partners for an MNC's operation, they are the most strategic public to the MNC. When the government is the most strategic public, the management of the MNC's communication and relationship with the government becomes an essential part of its government affairs to contribute to the overall organizational effectiveness. The government affairs manager in an integrated oil and gas MNC said that her department maintains an open communication channel with the government and its partners that are Chinese state-owned companies to learn how the government is operated and how its partners interact with the government. She emphasized the importance of knowing how the MNC's partners communicate with the government. She further explained the importance of this

communication management in two regards. First, knowing how the MNC's partners and the government communicate with each other allows the MNC to learn how to effectively cultivate, or at least maintain, good relationships with its partners. For example, when the MNC identified an indirect communication pattern between a partner and its supervising government department, the MNC should avoid reporting the issue concerning the partner directly to the government department. Secondly, knowing its partners' communication patterns and channels allows the MNC to identify the government official or department the MNC can go to when it has a problem with its Chinese partners.

Communication could benefit the MNCs' financial returns by getting the most accurate interpretation of a law, regulation, policy, or directive, as well as by providing the most up-to-date information of industrial policy and the government's agenda. It could also bring in government officials' perspectives on some issue or discover business opportunities in cooperation with the government. In addition, it could cultivate the MNCs' relationships with the government at the personal and organizational levels and increase organizational credibility and awareness of the firm among government authorities.

*Communication dimensions.* MNCs used one-way, two-way, mediated, interpersonal, asymmetrical, and symmetrical forms to communicate with the Chinese government. One-way and mediated communication behaviors focused on information dissemination from the MNCs to their target government authorities by newsletters, brochures, and position papers. Asymmetrical and symmetrical communication forms were used simultaneously during lobbying. Most participants emphasized the importance

and benefits of using symmetrical communication when managing conflicts with the government.

Interpersonal communication was a must-use communication form in government affairs, especially in lobbying, conflict management, and relationship management. In the Chinese culture, face-to-face interpersonal communication renders personal sentiment and shows one's sincerity and respect to others. Personal sentiment, sincerity, and respect facilitate the government official's willingness to engage in symmetrical communication that enhances mutual understanding. Increased mutual understanding in turn, not only promotes positive outcomes of lobbying and conflict management but also cultivates relationships. More importantly, lack of face-to-face interpersonal communication to government officials could be interpreted as "not giving face to the government official" or "careless of the issue from the MNC," as explained by the government affairs manager in a power engine MNC. These interpretations often resulted in unfriendly interactions or entangled relationships between the MNC and the government official.

*The "one voice, one company" concept.* An interesting finding of this part of the government affairs function is a management concept, so-called "one voice, one company." The concept of "one voice, one company" has been promoted in the management of communication between an MNC and the Chinese government. The "one voice, one company" concept advocates the role of government affairs departments in consolidating all communication behaviors of a company toward the government in order to create a single entity of the company. This concept was emphasized by two MNCs of the research: the multi-industry MNC and the chemical and safety solution MNC.

The multi-industry MNC viewed its government affairs as a corporate function (rather than a business function) that serves as the firm's unified communication window to the government. This MNC has several special business units (SBUs) that pursue various contracts with the government at the same time. The MNC did not want its SBUs to send out conflicting messages to the government, nor the government to receive different messages from different corporate personnel. As the vice president of government affairs of the MNC said: "We emphasize 'one face, one voice' in our company...if each one of our SBUs goes to talk with the government directly, the government will get so confused."

The need to practice the "one voice, one company" communication strategy is similar in the chemical and safety solution MNC. The public affairs manager there stated,

We have 24 companies and numerous operations in China and over 2,000 products worldwide. Each company has a different agenda with the Chinese government. So, it is important for us to promote this "one [company X]" concept when interacting with the Chinese government. Doing so could internally coordinate our different agenda and resources to better leverage with the Chinese government; while externally, it could present our company as a unified entity in front of the Chinese government.

To carry out this "one voice, one company" strategy, each of the two MNCs assigned a single department in the company to serve as the primary corporate contact for government officials and oversee the company's government affairs function. The assigned departments were the government affairs department in the multi-industry MNC and the public affairs department in the chemical and safety solution MNC. The

departments coordinated and supervised all corporate responses to government requests, corporate activities with the government, and outgoing information concerning government-related issues and events to the media and other external publics.

### *Issues Management*

Issues management was another major part of the government affairs function. Issues management was central to government affairs because it shaped the priority of government affairs and guided the government affairs programs. The public affairs director for the chemical MNC said,

As a leading player in the chemical industry, we are dealing with different issues from time to time, big and small. So, we tend to be very issue-driven. However, as we develop and grow in China, here we have n't had lots of what we called "the legacy issues," which our company deals with in other parts of the world. So, it is important for us to identify issues we have in China to re-shape our government affairs function here.

Given the importance of issues management to government affairs, the information technology MNC focused its entire government affairs function on issues management. Its government affairs manager said,

Compared to other MNCs, we emphasized issues management very much...Each of us in the department was assigned to different policy issues, such as e-commerce related policy, electronic signature, digital rights, and encryption. We got our objectives and responsibilities according to the given issue...We also do government relations. But that's only because government relations and contact

were the foundation of government affairs. Without them, you could not deliver your messages [to the government].

Government affairs specialists managed issues with different nature s, including operational, administrative, regulatory, and societal issues. Nevertheless, they primarily focused on policy advocacy and regulation monitoring because the different levels of the government have constantly released new or revised policies and regulations almost everyday. The multi-industry MNC and a high-tech innovation MNC described the same need to manage policy-related and regulatory issues in China 's volatile environment. For both MNCs, the function of the government affairs department was to assist a firm to fully comply with and take advantage of the policies that are reasonable or with positive effects on the firm or its industry as a whole. For policies that are not applicable or with negative impacts on the firm or its industry, however, the government affairs department should actively influence them toward its preferred direction. Government affairs would attempt to influence the policies by communicating with the government. During the discussions, it would point out the negative consequences caused by a policy or regulation, present relevant information, and propose useful suggestions or alternatives to the government.

Many MNCs had a systematic procedure in their firms to guide their issues management practice. The procedure often contained the following stages: environmental scanning, issue identification, issue monitoring or strategy formulation, action implementation, and evaluation. The systematic procedure, coupled with the MNCs' global networks, experiences, technology, and resources, allowed the participants

to better perform issues management than the government affairs professionals in other types of companies.

### *Business Development*

Government affairs contributed to a firm's business development in three ways: 1) by getting licenses for the firm's new operations or local expansion (or both), 2) by discovering new business opportunities associated with change of policy or government priorities, and 3) by assisting the firm secure national projects. The government affairs manager of the express-shipping MNC described how government affairs contributed to the MNC's business development as follows: "A tier of government affairs is to open stores in new locations. We [government affairs] take care of every problem of the application and approval process."

The manager from the pharmaceutical MNC said that government affairs enormously helped the firm to detect business opportunities that resulted from policy or regulation changes because "medical policy is one societal issue that affects everyone here... A change of policy or regulation, for example a price change of medical products, will affect our business enormously." The vice president of the multi-industry MNC explained how government affairs assisted his firm in getting national projects: "National projects are managed and directly influenced by government authorities... Because we have a good relationship with the government and good reputation, we [government affairs] can work on gaining support from some government officials or agencies to get the projects."

*Problem Solving, Conflict Resolution, and Crisis Management*

Government affairs personnel would be called in whenever a government-related problem, conflict, or crisis emerged. Therefore, government affairs occupied a problem solving, conflict resolution, and crisis management role. In problem and conflict solving, government affairs specialists often worked with their MNCs' governmental partners if the MNCs had one. An MNC's governmental partners may be state-owned Chinese companies or government organizations. The managers of an MNC's governmental partners were also public servants. As a result, the managers of state-owned companies or government organizations and the Chinese government officials spoke the same languages and saw each other as insiders. Therefore, government officials trusted these managers more and were more likely to positively solve problems and conflicts with them than with government affairs specialists from the MNC. Furthermore, those top managers usually have good *guanxi* networks with government officials. Good *guanxi* networks allowed the Chinese managers to know the right door to knock on or the right person to talk to (or both) and provided them useful social capital in a given problem or conflict.

In addition to working with their Chinese partners, the MNCs tended to use a cooperation strategy to create a win-win situation to both sides when dealing with a problem or conflict. When cooperation was not available or desirable to an MNC, compromising and dominating strategies would be used to solve the problem or conflict with the government. Regardless of the strategies, government affairs personnel first tried to understand an existing problem and conflict from both sides. They then

communicated the problem or conflict with the government from the perspective that is most effective or persuasive to the government.

When dealing with conflicts, it was crucial to first determine if there actually is one. Participants in the chemical MNC and a commercial organization said that often people thought they had a conflict with the government when in fact it was not the case. This happened because of bad communication, incomplete information, or a rush to judgment. The manager with the commercial organization in Beijing provided an example:

One company contacted us saying that they were blacklisted by the Chinese government in national projects and would like us to bring them back in. I talked with the firm, related government officials, did some triangulation of the fact, and realized what really happened was that the project had been scaled down and thus the company couldn't do the project.

The participant from the chemical MNC added another example:

Sometimes my colleague comes to me anxiously and saying "Oh, my God, we have a problem with the government." And everybody panics. But what often happens is that after we sit down and think the thing through step by step, we realize it is not an issue at all. It's just something we need to deal with the government. Not a big deal.

An interesting finding regarding government affairs in conflict resolution should be noted. Three participants advocated that government affairs staff should bring in a different perspective during conflicts that concern a firm's long-term relationship with

the government. As the government affairs manager in the high-tech innovation MNC explained,

Unlike business units that emphasize sales and financial profits of a project, government affairs emphasizes a firm's long-term gain from adherence to regulation and fulfillment of social responsibilities. So, we should address different sides of a conflict to exhaustively examine possible alternatives.

When involved in crisis management, the government affairs department was responsible for the political or governmental portion of the crisis. The fundamental task of government affairs in crisis management was to update and explain the nature of the crisis to involved government departments. One principle of crisis management emphasized by many MNCs was that the government affairs specialists should provide all involved government departments the same information regarding the crisis. If an MNC provides different information in terms of its context and amount to different departments, it will damage trust the departments have toward the MNC and negatively affect the relationships the MNC has with them. In addition, the government affairs department should make sure that all messages from and behaviors of its MNC are consistent with the MNC's central statement and comply with related policies and regulations.

#### *Organization of Events and Activities*

Government affairs handled the organization of events between a firm's functional departments and different levels of the Chinese government. Events took the form of executive visits to different levels of government authorities, delegation tours to an MNC's headquarters or facilities in its home country, seminars, trainings, workshops,

and banquets. Most participants said that meetings between top-level management and top-rank government authorities provided an effective avenue to influence the decision-making of the government. A journalist commented that events and activities between the MNC and the government were the platforms for indirect lobbying.

Government authorities also invited MNCs to activities such as meetings of policy discussion, seminars, and exhibitions. Attending government activities increased an MNC's interaction with the government which in turn, not only helped the MNC to get information from the government but also strengthened its relationship with the government. The government affairs department usually screened the invitations and chose for attendance the ones either reflective of an MNC's goals or beneficial to its agenda. For example, the public affairs department of the chemical and safety solution MNC used its internal newsletters to disseminate information of government activities to alert other departments in the MNC. In the newsletters, the public affairs department also recommended important ones for relevant departments to attend.

#### *MNC-Government Relationship Management*

MNC-government relationship management was reported as a core government affairs function that identifies strategic government authorities for the firm and establishes and cultivates relationships with them. In particular, most participants considered MNC-government relationships (MGRs) as the foundation of government affairs. For the government affairs director in the chemical MNC, MGRs and government affairs were inseparable: "In reality, the line [between MGRs and government affairs], I think, it's very difficult to draw because when you conduct government relations activities, you are actually doing lots of things more than just

building and nurturing relationships. You don't want to walk into a meeting empty handed and you certainly don't want to leave a meeting empty handed!"

A consumer product MNC positioned MGRs as the essence of its government affairs. Its vice president of government affairs said,

The overall strategy of my department is to establish and cultivate inter-organizational relationships with the strategic government agencies we have identified. To reach this end, we assist our firm in building a good reputation, which, in turn, promotes regular interaction between the firm and the government agencies. The interaction allows us to help the agencies improve their skills and services, support China's development, and serve the society as a whole. By doing so, we will gain support from the government agencies and sustainable relationships with them.

Strategic government authorities, from the participants' perspective, were the ones that had governance on or cooperation with their MNCs. Some participants used a "mapping" method to further identify authorities that required their special attention and efforts to cultivate relationships with. This mapping method and specific cultivation strategies for MGR will be explained in a later section devoted to the discussion of relationship management in government affairs. In terms of evaluating the quality of existing relationships with government authorities, participants believed that no measurements would adequately assess relationship quality; and thus they relied on their intuitive evaluation.

*Summary of Research Question 1*

I found little difference in how MNCs defined corporate public affairs, corporate political involvement, government relations, and lobbying. However, participants regarded corporate public affairs as somewhat different from the other three because corporate public affairs, in their view, is a broader concept that covers interactions with external publics. As a result, some participants regarded public affairs as an umbrella term that covers other related practices, such as corporate political involvement, government relations, and lobbying. In addition, participants frequently used “government affairs” to refer the corporate function responsible for managing all activities between corporations and government, such as political involvement, government relations, and lobbying. Because corporations in Asia tend to be low-profile in declaring their political preferences, the term “political involvement” is not familiar to participants.

Two major factors resulting in the Chinese government’s strong influence on market development are its policy on the country’s macro-economy and the requirement that MNCs get approval and licenses for business operation. Since the economic system in China is not a free market economy, the government’s strong influence on corporations’ business operations has reinforced MNCs’ practices in government affairs.

Depending on the different business plans of the MNCs for different investment phases and market focus, the MNCs placed emphasis on various parts of the government affairs function in China accordingly. These parts include: communication management, issues management, business development, problem solving, conflict resolution, crisis management, event and activity organization, and relationship management.

## Research Question 2: Organization of the Management Function of MNC-Government

### Interaction in MNCs in China

The Excellence Study found that organizational structure influences the role and behavior of the public relations practitioner (L. Grunig et al., 2002). More specifically, it suggested that the public relations function should be unified within a single department that is placed high in the organizational hierarchy to be excellent. To fully understand how MNCs manage their interaction with the Chinese government, I proposed the following research question:

Research Question 2: How do MNCs in China structure the management function of MNC-government interaction?

The literature suggests various terms (e.g., corporate public affairs, corporate political involvement, government relations, and lobbying) for the management function of MNC-government interaction. When I proposed this research question, I did not know what MNCs in China called this management function of MNC-government interaction. Hence, I included all the terms in the original research question. As the interviews evolved, I found that most participants used the term “government affairs” to describe the function. Therefore, I revised the research question as follows:

Research Question 2 revised: How do MNCs in China structure the government affairs function in their organizations?

#### *Organizational Structure of Government Affairs at the Corporate Level*

Because of the gigantic size of China and various levels of the government, MNCs with a certain scale of business in China commonly structured their government affairs function at two levels: the corporate and local levels. Government affairs at the

corporate level was management-oriented whereas it was more operation-based at the local level. At the corporate level, government affairs managers focused on an MNC's relationships with the central government authorities that were beyond the focal location but were influential on the MNC's overall business operation in China, such as its industrial access, resource procurement, distribution arrangements, and product marketing. At the local level, managers were responsible for MNC-government relationships with local government authorities that oversaw the MNC and could exert influence on its operation.

Most MNC participants, at the corporate level, had a department, a team, or a single staff member coordinating their government affairs function for the companies as a whole. The department, team, or person was usually based in the MNCs' holding companies in China or Asia-Pacific, China headquarters, or Beijing representative offices. Seven of the 25 MNCs had a whole department devoted to the government affairs function. The departments had names like "government affairs," "government programs," "government and public affairs," and "government relations." Eleven MNCs integrated their government affairs function into the public affairs, public relations, external relations, external affairs, external communication, corporate communication, business development, marketing, and finance and accounting department, or the office of general manager. The remaining seven MNCs did not have a single department, team, or staff member to oversee the function of government affairs. Rather, they relied on their top manager (chief executive officers or presidents) and department heads who constantly interact with the government to perform government affairs.

The MNCs had a single government affairs department when their business operations were greatly influenced by the government because the government was their key customer or necessary partner or it highly controlled their industries through regulations (or both). For instance, the aerospace MNC and the multi-industry MNC highly emphasized government affairs and had a sophisticated practice because the majority of these two MNCs' customers were either government authorities or state-owned companies. "Governments are a unique public in China," the government affairs manager in the aerospace MNC explained. "A set of rules guides the behaviors of government officials and they subscribe to a certain way of thinking when facing an issue. So, we need a specialized department to manage our interaction with them." The oil and gas MNC needed a separate government affairs department because its partners were all state-owned companies and the oil industry was highly regulated by the Chinese government. Other MNCs in the energy, express-shipping, high-tech, pharmaceutical, and consumer product industries had a single government affairs department because their business directions in China were highly subject to policies and regulations.

For those that integrated government affairs in various departments, a team or a staff member in the department would be specialized in government affairs. In the consumer product MNC, government affairs was handled by its external affairs department because governments were one of its external publics. Both of the two MNCs in the chemical industry had their public affairs departments responsible for their government affairs practice. The energy MNC and the networking-solution MNC assigned a team and a manager respectively in their corporate communication departments to perform government affairs. The chief representative officer (CRO) and

its business development department of the financial media MNC handled its government affairs function. The Chinese news media are highly regulated by the government and consequently, the MNC's CRO and business development staff had to work closely with the Chinese government to expand its business. Also because of the heavy restriction of the news media, the MNC had not yet invested heavily in China. As a result, the company did not have a professional staff responsible for government affairs. It relied on its CRO and business development staff to manage government affairs.

Interestingly, two MNCs had their government affairs subordinated to the finance and accounting department and the office of the general manager. The manager in the Taiwanese electronics MNC explained the company's appointment of managers in the department of finance and accounting as corporate contacts to government officials:

Under our CEO [who is the ultimate contact for the government], government affairs activities involve a wide range of company-government interaction regarding different issues. We hope our staff members resolve these issues based on not only their relationships with the government officials but also their expertise on the issues at hand. Our company most frequently interacts with the Chinese government for tax and customs issues that are the responsibilities of our finance and accounting department. So, government affairs in my firm is under that department.

In the auto MNC, government affairs was primarily handled by one manager and its policy research team in the office of the general manager. The government affairs manager was responsible for the coordination between the firm and government authorities, especially the National Development and Reform Commission (NDRC) and

the Ministry of Science and Technology (MOST). In addition to the government affairs manager and the policy research team, a public relations manager handled the MNC's interaction with several semi-governmental and non-governmental organizations in relation to customer complaints. Because this auto MNC is a pioneer joint venture and because there is considerable Chinese governmental intervention in the automobile industry, the government affairs manager needed to coordinate the following.

First, the manager coordinated between the NDRC and the company. Every year the MNC introduces new models of cars and remodels old products. New models and revised models have to be registered in the catalog of the NDRC to be legally manufactured and sold in the market. To complete the registration process, the government affairs manager and relevant department heads need to communicate with the government to get the approval. The Chinese automobile industry is a typical monopoly. Therefore, few products are sold in the market. Since developing a new model requires a large amount of investment, the MNC needs to make sure its new models can be placed in the market.

Secondly, since the MNC is a joint venture with five percent stock share owned by the government, the government annually evaluates the company's technological performance. Therefore, the government affairs manager and relevant department heads need to maintain communication exchange with the MOST to smoothly carry out the evaluation process.

#### *Organizational Structure of Government Affairs at the Local Level*

At the local level (e.g., MNCs' special business units or local factories), government affairs was needed to achieve business objectives and maintain daily

operations. Therefore, MNCs' local-level government affairs was not managed by a single department, unit, or staff member but rather by the chief representatives or managers of various departments (or both) in the MNCs' local branches or special business units. These people frequently interacted with local governments.

MNCs often worked with departments of local government in relation to their daily operation issues. These departments included the tax bureau, commerce and industry bureau, the police department, the labor department, the standards and inspection department, and the like. As a result, this kind of governmental contact was primarily managed by MNCs' local branches or special business units on site.

#### *Cooperation Between Government Affairs and Public Relations*

Several MNCs had separate government affairs and public relations units. In these MNCs, these two units had different foci and formed different types of cooperation. The general distinction between government affairs and public relations was that government affairs focused on policy and regulation analysis and direct interaction with government authorities. Public relations took a secondary role in MNC-government interaction in publicizing relevant information to the media, organizing events and activities, and increasing the awareness and image of a company among government officials through mediated communication.

In the multi-industry MNC, the government affairs department only worked with the public relations department on relationship management with the government. The vice president of government affairs explained the cooperation between government affairs and public relations as follows:

My department [government affairs department] manages and directs all the interactions between our firm and the government...if the government invites us to participate in a big seminar and I decide that we should participate because doing so is good for our relationship, then I will seek support from the public relations department.... Public relations only provides support to the event.

The president of a direct-selling MNC explained the different emphasis on the work of the external affairs department (responsible for government affairs of the MNC) and the public relations department. Public relations focused on disseminating messages regarding the MNC's responsiveness to government policies and regulations to its employees and the media. External affairs did not disseminate information. Rather, it worked on direct interaction and relationship development with government officials in order to assist the MNC in understanding and assessing the impacts of policies and regulations, as well as to alert it to changes in policies and regulations in early stages. Even though they had different foci, these two departments did work closely together to support each other's tasks.

#### *Use of Outside Public Relations Firms in Government Affairs*

Evidence showed that the MNCs I studied seldom used the services of outside firms for government affairs. When the MNCs used outside government relations firms, it was for the following services (ranked in terms of popularity): 1) assistance with establishing *guanxi* with strategic government authorities, 2) research and counsel on government affairs, 3) lobbying the government on behalf of the MNC, and 4) preparation of materials and handling of administrative problems in the application process for licenses.

There were several reasons why most MNCs did not use the services of outside government relations firms. First, because of their top positions in the industry and their access to resources desired by the government, most MNCs already possessed quality relationships and direct communication channels with government officials. Second, most MNCs preferred to conduct government affairs by themselves because it allowed them to keep internal business and government issues out of the public eye. Third, most MNCs already had advanced government affairs expertise and access to experienced global government affairs staff within their multinational network. Last, MNCs were reluctant to use outside government relations firms because they believed these firms often over-promised but delivered little.

#### *Summary of Research Question 2*

China's complicated government structure has resulted in the MNCs having two levels of government affairs within their corporations: the corporate and the local. The corporate level focuses on the company's overall management of the interaction with the central government. The local function concentrates on the relationship with local governments that influence the MNCs' local operations. At the corporate level, there was a department, a team, or a single staff member coordinating the government affairs practices for the companies. An interesting result was that government affairs was housed in the department of finance and accounting in the electronics MNC and in the office of the general manager in the auto MNC. At the local level, the government affairs practice was managed by the chief representatives or managers in the different departments (or both) in the local branches or special business units.

When examining the cooperation between government affairs and public relations, MNCs separated the two functions because of their different foci and specialties. Government affairs for most MNCs in this study focused on policy and regulation analysis and the companies' direct interaction with the local and central government authorities. Public relations was considered a secondary, publicity role in the business-government interaction. Public relations also managed communication with other stakeholders. Only one participating MNC mentioned that the government affairs department works with the public relations department in the relationship management part of government affairs.

The MNCs seldom used outside public relations firms for government affairs. However, when public relations firms were hired for government affairs, they provided the following services: assistance in *guanxi* establishment, research and counsel, lobbying, and resolving problems encountered in the licensing-application process.

### Research Question 3: Government Affairs in the Overall Strategic Management of the MNCs in China

This part of the inquiry examines the integration of government affairs with the overall strategic management of the MNCs in China. The Excellence Study found that strategic management and planning are tightly linked to the excellence of public relations and communication (L. Grunig et al., 2003). The literature suggested that strategic management of public affairs aims to match an organization's internal resources to its external opportunities and risks. Strategic management of public affairs involves two levels of action. At the program level, government affairs programs should be strategically managed based on research through a systemic procedure from

environmental scanning to performance evaluation. At the functional level, government affairs should be integrated into the overall strategic management of an organization to better interact with its socio-political environment. The integration of public affairs with overall strategic management is most effective “during the early stages (social expectation and political) of the issues life cycle when alternative solutions can still be advanced and there is sufficient lead time to modify business plans” (Marx, 1990, p. 12). The research question was proposed as follows:

Research Question 3: What is the role and value of government affairs in the overall strategic management process of an MNC in China?

To fully examine the inclusion of the government affairs function in the overall strategic management of MNCs in China, I focused on the participation of government affairs heads, the value government affairs brings to the management process, the roles of government affairs in the process, the relationship between participation in overall strategic management and government affairs excellence, and the factors affecting the inclusion

#### *The Value of Government Affairs in the Overall Strategic Management*

Sixteen of the 25 MNC participants reported that their government affairs participated in the overall strategic management process of the MNCs. The results showed that government affairs contributed to the overall strategic management when it assisted integration of the MNC’s business goals with the expectations of the strategic constituencies in its political environment. Government affairs contributed to the strategic management by the following:

- Providing necessary background on issues,

- Introducing accurate interpretation of the latest policies and regulations,
- Assessing the impacts of policies and regulations on firms,
- Managing long-term quality MNC-government relationships,
- Predicting the directions of future development of China's macro-economy,
- Assessing the feasibility or appropriateness of a proposed business development according to the socio-political environment in China.

#### *The Roles of Government Affairs in the Overall Strategic Management*

Even though many government affairs specialists participated in the overall strategic management process of the MNCs, the specialists played different roles in the process. The findings suggested a taxonomy of government affairs roles in the overall strategic management of the MNCs in China.

Katz and Kahn (1978) defined an organizational role as “recurring actions of an individual, appropriately interrelated with the repetitive activities of others so as to yield a predictable outcome” (p. 189). Dozier (1992) argued that the enacted role of a practitioner ties to his or her professional status recognized in an organization. The findings showed that government affairs managers of the MNCs in China played four roles in the strategic management process: the business developer, expert prescriber, senior adviser, and internal consultant.

#### *The Business Developer Role*

The business developer was one of the decision-makers in the MNC's strategic planning of its overall business development. Hence, the business developer was a member of the dominant coalition and had formal power in shaping the MNC's overall business planning in China. MNCs that were in highly regulated industries or those

affected by great government interference in achieving their financial success tended to include government affairs in the overall strategic management process to guide their business development. Government affairs strategically planned the MNC's business development by matching its resources and competitiveness with the opportunities and risks in the Chinese market. Government affairs specialists identified the opportunities and risks derived from the following: industrial policies and regulations, transformation of industrial structure, the government's priorities, and future directions of economic development of the country. Government affairs programs in this type of MNC were strategically integrated with their business plans. The highest-level managers of government affairs in this role held themselves accountable for the success or failure of not only government affairs programs but also the overall development of the MNC, as did other business managers in the corporation.

The vice president of external affairs in the customer product MNC spoke of his team's leading role in the firm's business development:

We are responsible for the firm's business development in China because these two elements can't be separated. We participate in the decision-making process of every major strategic decision of the firm, such as business strategy formulation or modification. After the strategy has been set, my team will develop our programs accordingly. If you don't manage the firm in this way, it's highly likely that the investment will be wasted and your budget will never be enough since China is such a huge, diverse market...My team makes recommendations to the possible strategic directions of our firm by evaluating the direction's feasibility and competitiveness from a legal and political perspective.

Without us, the firm can't ever get the approval to start its business projects in China.... My team is also in charge of risk assessment of every new product's launch in the market. For example, we examine the lines and slogans used in the ads to see if they are appropriate to the Chinese culture and society, as well as if they will provoke complaints from the customer or the government.

The president of the direct-selling MNC, who noticed that the Chinese government often used governmental directives or industrial policies to influence the market and shape the economic development of the country, included his government affairs managers in the meeting for the firm's "three-year investment plan." The government affairs managers participated in the meeting to directly shape the firm's goals and business directions in accordance with the government's priority in the nation's economic development.

The government affairs manager in the pharmaceutical MNC echoed this sentiment. He observed an increasing importance of government affairs in his firm to empower the department from a "supporting function that merely supports the tasks of the marketing and sales departments" to "one of the primary functions that manages the firm's business development." He described the contribution government affairs made to his firm's strategic management of business as follows:

We [government affairs managers] are a regular member of the firm's strategic management meetings. We are included in the meetings because government policies usually have influences on our various drugs. For the drugs that have been in the market for sometime, changed government policies might lead to new regulations on them, such as new standards for quality inspection of the drug.

Government affairs needs to take care of these issues. For our new drugs that are about to be put on the market, government affairs is responsible for doing the strategic planning for the drug's pricing, bidding, and marketing by considering relevant government policies.

Several MNCs in highly regulated industries in China reported practicing government affairs in order to enhance their business development. MNCs in these highly regulated industries compete for market access and local market expansion with a host government (Luo, 2002). Therefore, their business operations and local market expansion in China must to be approved by the Chinese government. The energy and oil industry is highly regulated because oil and natural gas are limited, national resources controlled by the Chinese government. MNCs in this industry must adopt the joint-venture mode to team up with the Chinese partners that are government institutions or state-owned companies to enter the local market. This makes government affairs the primary function that directly contributes to the bottom line of MNCs in this industry. Consequently, government affairs managers in the industry are likely to serve as business developers, such as the manager in the energy MNC. Domestic express-shipping in China is an industry that will be gradually open to foreign companies as a condition to China's entry to the World Trade Organization. The external affairs manager of the express-shipping MNC played her business-developer role to assist the MNC in expanding its business by obtaining governmental approvals to launch shops in new locations.

*The Expert Prescriber Role*

The expert prescriber, similar to Broom's (1982) conceptualization of public relations expert prescriber, was the MNC's acknowledged expert on all matters related to MNC-government interaction. In the interviewed MNCs, the expert prescribers made decisions on government affairs matters relevant to the overall strategic management of the MNCs and the top management complied. The former public relations manager in the aerospace MNC reported that the top manager of the firm's government relations department exercised an expert prescriber role in the MNC's strategic planning as follows:

Our firm's overall strategy in China is pretty much fixed: that is, to sell airplanes and assist the Chinese in safely operating the planes. This strategy won't change... Thus, the value of government relations in the strategic management is rather to well use its understanding of the Chinese publics and China's political environment to effectively lobby involved government authorities and institutions to buy more planes and thus, get the firm more contracts. The senior management [of the MNC] is in the U.S. and they don't know about the situations in China. Government relations people [of our China branch] on the ground tell the management the important issues in China, the risks these issues pose to us, and how we should do our lobbying activities accordingly.

This statement explains the role of the government relations manager as an expert prescriber rather than a business-development manager in the overall strategic management of the MNC. To better explain the relationship between airplane sales and the MNC's lobbying, it is necessary to introduce relevant background information on this issue in China according to the same public relations manager for the aerospace MNC.

Aerospace is a highly regulated industry in China because the purchase of aircraft involves huge stakes and influences the infrastructure of the country. According to the Chinese policy, any investment project or financial exchange that exceeds 3 million RMB has to be approved by the central government.

Therefore, aircraft purchases must be approved by the National Development and Reform Commission (NDRC) and the Civil Aviation Agency of China (CAAC). These two central government authorities have veto power over contracts between the supplier and the airline. The NDRC and the CAAC work under different priorities. The NDRC is a macro-economic regulatory department, with a mandate to develop national economic strategies and long-term economic plans of China. Therefore, its priority is to make sure that the airplane purchasing is beneficial to the overall economic development of the country. The CAAC's job is to supervise the development of the Chinese aviation industry; that is, the CAAC's priority is to maintain a healthy growth and a continuous development of the Chinese aviation industry. Hence, the CAAC generally supports the position of the airlines in their airplane purchasing. The NDRC is the authority that might hold up a purchase because of its consideration for the country's overall economic development.

In the case of the aerospace MNC, the priority of its government relations department was to work with the airline to get the approvals of contracts from the NDRC and, most importantly, the CAAC. To achieve this goal, the government affairs specialists had to set up the firm's lobbying priority based on "the understanding of China's publics, sensitivities to the Chinese political environment, and accurate judgment of the government's agenda priority," the same public relations manager said.

*The Senior Adviser Role*

The senior adviser role, as identified by Dozier (1992), is an expert who provides knowledge and makes recommendations on government affairs or communication to the top management but is constrained in making final decisions. Government affairs managers of MNCs in China in this role made recommendations, suggestions, or plans to assist a dominant coalition in making strategic decisions. However, government affairs managers in this role did not have authority to make the decisions. They only exerted informal influence in the decision-making process through their advice.

The government affairs manager of the high-tech innovation MNC said that he participated in the formulation of the firm's overall strategies that were "long-term and crucial to the firm" by providing advice to the dominant coalition on "the impact of policy and regulation on the firm's business." He explained that because the sales or marketing specialists strived to increase the sales of his MNC to contribute to the bottom line, they focused on short-term business planning. Government affairs professionals, on the other hand, should be responsible for the strategic management of the MNC's long-term development based on the political and economic development in China because business operations in China were greatly affected by the government. He further described his senior adviser role in the overall strategic management: "Based on our understanding and interpretation of current policies and regulations, we form our own prediction of the economic directions in China emphasized by the central government. We make recommendations on our firm's business development based on the prediction."

No MNCs are more sensitive to the effect of the policies or regulations on their businesses than Taiwanese MNCs because of the political situation between Taiwan and

mainland China. Economically, Taiwanese MNCs are no different than other MNCs that desire to establish their foothold in the Chinese market for its cheap labor and huge customer base. However, political tension between Taiwan and mainland China derived from Taiwan's ambiguous identity makes Taiwanese MNCs' business operations in China highly contingent on the policies and regulations on both sides of the Taiwan Straits. This situation requires government affairs to have a seat at the table when the strategic decisions of the Taiwanese MNCs in China are made.

The finance manager with the Taiwanese electronics MNC described the senior adviser role his department performed by providing analyses of the opportunities and risks associated with the policy or regulation to the firm's business development and recommending how the firm should react. For example, the firm can only manufacture certain products in China by using its cheap labor and land because the Taiwanese government regulates so that only certain Taiwanese companies can move their businesses to China. Government affairs needed to provide this policy information and propose corresponding alternatives to the top management when it decided whether the firm should move the manufacturing lines to China. Another example provided by the manager is that "we [government affairs specialists] continuously monitor the regulations in our industry. If the government is going to deregulate certain products in the market, we will make recommendations on the strategic planning of the firm's related business to the top management."

In addition to the understanding of policies and regulations, government affairs specialists often advised their MNCs on how government operated in China. As such, they provided their colleagues access to and information on key government authorities.

As mentioned previously, the government affairs department of the oil and gas MNC maintained regular communication with the government and its partners to understand how the government operated and the interaction pattern between the government and its partners that were state-owned companies in China. The government affairs manager further mentioned that by knowing the interaction pattern between the government and the firm's partners, she could alert the firm to an emerging issue or possible conflict with its partners, advise the firm on whom to find when it has an issue with its partners, and suggest solutions to the issue or conflict that often impedes the achievement of the firm's goals.

In a similar manner, the government affairs director with the chemical MNC said that his department advises the MNC to “knock on the right door and connect up with the right people.” In addition, the department “provide[s] our folks with the necessary background of a certain issue, a certain official, or a certain situation to help our folks prepare before they walk into...the most senior-level type of meeting [with the government].”

Government affairs managers also provided valuable advice in helping top management examine decisions from a broad perspective by considering a decision's possible impact on a corporation's external publics, especially the community and society as a whole. In this situation, the senior adviser served as corporate conscience to assist the dominant coalition in making strategic decisions that not only make the corporation competitive in the market but also fulfill its social responsibilities. Evidence suggested that government affairs managers who were also the head of public affairs in the MNCs were more likely to provide this kind of advice than those who were not involved in

public affairs. The public affairs director for the chemical MNC performed his role as the corporate conscience in the MNC's overall strategic management by providing common sense and informing the dominant coalition of the impact associated with the possible decision.

Common sense is important. When people get very obsessed and involved in a certain project, they tend to focus on the value that project is going to bring but tend to ignore other things that are concurrently happening. So, my role is to provide the common sense. And at times, I'll just play the devil's advocate role to sort of provide a different perspective to the discussion... . Number two is that sometimes it's interesting to see how people can think without even considering the possible impact on the community or society. So, I certainly provide the input from this broad positioning point of view because at times if you win a certain business but the business is going to have a serious blow to your reputation, then you've got to make a choice: "Do I want the money or the serious blow on my reputation?" So, our role is not just to make the company look good. It's also our job to show that I help the company not to walk into any trap without us knowing it.

#### *The Internal Consultant Role*

The internal consultant primarily provided knowledge and fact-checking on policies, regulations, the Chinese government, and the political environment in China. In addition, participants in this strategic management role in the MNCs usually ensured that their organizations' strategic goals follow industry policies and regulations. Thus, the MNCs' legitimacy in the Chinese society will be enhanced, or at least will not be

jeopardized, by their behaviors. The bottom line is that they served as a gate keeper in their MNCs. The public affairs manager with a chemical and safety solution MNC explained his department's internal consultant role as follows:

We don't regularly participate in the strategic management. We will be called upon in the meetings when it is necessary. That means when the senior managers have questions or concerns regarding policy, regulation, or the government, they will ask us to attend the meeting. The senior managers will describe to us the issue at hand and their preferable solution. Then, they will ask us to judge if the solution is appropriate, feasible, or on the right track.

*Organizational Environment and Roles in Strategic Management*

While examining the four different roles government affairs managers may play in an organization's strategic management process, I found two environmental influences on their roles: level of industry regulation and frequency of environmental changes. Table 8 illustrates the relationship between organizational environment and the roles of government affairs in strategic management.

Table 8

*Organizational Environments and Roles in Strategic Management*

	<i>Loosely Regulated</i>	<i>Highly Regulated</i>
<i>Minimal Change</i>	Internal consultant or senior advisor	Expert prescriber
<i>Great Change</i>	Business developer, expert prescriber, or senior advisor	Business developer

MNCs in highly regulated industries with rapidly changing environments have government affairs managers who act as business developers. When an MNC is in an industry with a rapidly changing environment, the MNC's success greatly depends on its ability to adjust its goals to new opportunities or threats resulting from policy or regulatory shifts. Consequently, a government affairs manager should work with other members of the dominant coalition to set up an MNC's strategic plan based on his or her knowledge of policies and regulation. Also, he or she tends to be held as responsible for the MNC's financial success as other members in the dominant coalition. Government affairs managers served as business developers in the direct-selling and express-shipping MNCs. Direct-selling and express-shipping are two highly regulated and turbulent industries in China because the government is concerned about direct-selling fraud and the express-shipping industry is under pressure to comply with WTO mandates.

MNCs in highly regulated industries with relatively stable environments have government affairs managers who act as expert prescribers. Example of this role were evident at the aerospace and energy MNCs. For example, the aerospace MNC operated in environment in which government constraints were strict and not likely to be lifted soon. Companies in this type of environment do not need to constantly revise their strategic business plan. Instead, they have to communicate and work with the government to diminish governmental constraints on their businesses. This may include quickening project approvals or enhancing working relationships with Chinese partners.

MNCs in loosely regulated industries with much turbulence expect government affairs managers to be business developers, expert prescribers, or senior advisors. A turbulent political environment requires companies to constantly match their goals with

the changes in the environment. Therefore, in this environment, consultancy on policy and regulatory changes is essential to an organization's strategic management. However, loose regulations mean that the significance of policy and regulatory changes may vary among individual MNCs. Whether a government affairs manager in this environment serves as a business developer, expert prescriber, or senior advisor depends on the extent to which an MNC's market competitive value is subject to a change of policies or regulations. Government affairs managers in the consumer-product and pharmaceutical MNC enacted the business developer role. In the information technology MNC, the government affairs manager took a senior advisor role.

MNCs with loosely regulated industries characterized by little change tend to have government affairs managers who work as internal consultants or senior advisors. Among the four types of environments, governmental influence is least salient to MNCs in this type. Government affairs managers in these MNCs primarily provide necessary consultancy to the dominant coalition for its decision-making. Personal (e.g., professional knowledge) and organizational factors (e.g., management style or organizational culture) help government affairs managers to play either of these two roles within MNCs.

In conclusion, it should be noted that environmental influence is simply a factor that establishes the tendency of a particular role enactment according to systems theory. In reality, the actual role enactment will be determined by a combination of environmental, personal, and organizational factors. The chemical and safety MNC signified the influence of other factors on role-taking. This MNC operates in an environment with low government regulation but a relatively turbulent setting.

According to the relationship between external environment and the role of government affairs indicated in Table 8, the MNC's government affairs manager should perform as a business developer, expert prescriber, or senior advisor. However, he served as an internal consultant. This deviation was caused by the MNC's method of management. The local public affairs manager explained that the regional headquarters drafted the overall plan that local offices were expected to adopt. Therefore, the regional public affairs manager for the Asia-Pacific region served as the expert prescriber of strategic planning. The local public affairs manager only provided external input but was not involved in the drafting.

*The Integration of Government Affairs With Strategic Management Leads to Excellent  
Government Affairs*

Several findings established a positive relationship between the participation of government affairs in strategic management and excellence in government affairs. First, the participants in the MNCs, in which their government affairs departments or top government affairs managers participated in the overall strategic management, reported a sophisticated practice of government affairs. In these MNCs, government affairs consisted of all six parts of the function and conducted research from time to time for their programs. Second, the participants in the MNCs that integrated government affairs with strategic management had a good understanding of the purpose and substance of government affairs in the MNCs. Third, the participants in the MNCs that incorporated government affairs into strategic management discussed the issues of MNC-government interaction from a management perspective with the concepts frequently used in the academia. Last, participants who have a seat at the table when organizational decisions

are made believed that government affairs can contribute to organizational effectiveness and that lobbying is practical in China.

This positive relationship between the government affairs' integration into the firm's strategic management and the function's excellence does not describe the cases of the multi-industry MNC and the chemical and safety solution MNC. These two suggested an excellent government affairs function during the interviews but did not include their government affairs top managers in the overall strategic-management process. This finding suggests that excellence in government affairs is a factor that contributes to this function's participation in an organization's overall strategic management. However, it is not the only factor that determines the participation. Other factors will be introduced in the following section.

*Factors Determining Government Affairs' Participation in the Overall Strategic Management*

Dozier, J. Grunig, & L. Grunig (1995) argued that different functions in an organization earn their seats at the table by their managerial expertise when the dominant coalition makes strategic decisions for the organization. Marx (1990) pointed out that analytical capabilities of public affairs specialists and management systems in the corporation necessitate the integration of public affairs with the overall strategic management. Management systems are pre-determined conditions of organizations. Public affairs specialists' analytical capabilities, on the other hand, can be enhanced by long-term, quality relationships they have established with external stakeholders of their organizations.

The results showed that government affairs' participation in the overall strategic management was not merely determined by the function's excellence (i.e., its expertise or proven worth to the process) as found in the Excellence Study. One public affairs manager argued that several factors made government affairs an important member of the overall strategic management team in her energy MNC:

It's [because of] a combination of lots of things... an expectation of the company...the company's culture...an element of respect for the function within the company... and lastly there's an element of individual credibility. It's not just a formal policy expectation but it's the people who think that, "Yes, they are actually bring value." So, they actually want to involve you.

This statement suggests that in addition to the functional factor, a few other factors related to the organization and its industry affect the inclusion of government affairs in the overall strategic management process. The factors are: organizational mechanisms of management, organizational expectation and culture, and the nature of the MNC's industry.

#### *Organizational Mechanisms of Strategic Management*

Organizational mechanisms of strategic management refer to centralized and decentralized strategic management. Centralized strategic management allows top management to develop the strategic management for all products of the firm. Decentralized strategic management places the responsibility for business management on special business units (SBUs) throughout the firm to develop individual business plans for each product line or group of products that are strategically interrelated (Marx, 1990).

The multi-industry MNC with more than 10 industries in China employed decentralized strategic management that does not emphasize the overall strategic management of the company but rather values a specialized strategic plan for each SBU. As a result, the MNC had an overall goal for the organization but no overall strategic management. Also, business management and strategies were developed by each SBU. Therefore, even though the MNC had a strong professional function of government affairs at the corporate level, its top government affairs managers did not “participate or supervise the strategic management of individual SBUs” but were always informed on each SBU’s strategic plan. This happened because government affairs specialists did not have enough expertise on each SBU’s industry. Nevertheless, government affairs would provide its expertise on Chinese policies and regulations when needed by some SBU for strategic management. For example, government affairs usually advised each SBU on the emphasis of government policies on its industry and alerted a particular SBU whose industry had been encouraged or discouraged by the government for China’s macro-economic development.

Even though government affairs did not participate in each SBU’s strategic management, the MNC’s government affairs top managers (the president and the vice president of the department) did exercise a direct reporting relationship to the MNC’s chief executive officer (CEO) in China. In addition, SBU heads constantly updated their strategic plan and worked with top government affairs managers to achieve their goals. With these interactions, top government affairs managers could not only obtain knowledge of each SBU’s strategic plans but also influence the plans to some extent by directly communicating with the CEO or SBU heads when necessary.

### *Organizational Expectation and Culture*

Organizational expectation and culture are two components of organizational context that promote excellent public relations (Dozier et al., 1995; L. Grunig et al., 2002). When an organization's dominant coalition expects its public relations department to function excellently, the department is more likely to deliver excellent public relations and, thus, enacts a managerial role in the organization's strategic management. However, top communicators must first demonstrate their managerial role expertise for the dominant coalition to form the expectation of excellent public relations. Organizational culture has a strong influence on the nature of an organization's behavior, including its communication and management behaviors (L. Grunig et al., 2002). The Excellence Study (2002) found that participative culture—usually found in a decentralized, deformedalized, destratified, and complex structure—produces symmetrical and open communication which, in turn, facilitates shared decision-making.

The public affairs manager in the energy MNC explained that government affairs participates in her MNC's strategic management because of the expectation and culture of the MNC. The expectation to include government affairs in the MNC's overall strategic management was derived from the managerial expertise of top government-affairs managers. One of the MNC's values stating that the MNC should consider the interests of its internal and external publics formed the organizational culture that promoted the inclusion of government affairs in the strategic management of the MNC. To align the MNC's behavior with its values, government affairs managers involved in the MNC's strategic management advised the dominant coalition from the perspective of its external publics, especially the Chinese government.

*The Nature of an Organization's Industry*

The nature of an organization's industry also plays an important role in determining the integration of government affairs and the overall strategic management. As previously discussed, in highly regulated industries (e.g., energy and oil, telecommunication, express-shipping, aerospace, automobile), MNC business development was tightly controlled by the government. In those MNCs, government affairs either worked closely with the marketing, sales, or business development department or led business development of the MNC. Consequently, government affairs had a seat at the table when strategic decisions were made even if the function was practiced in a less-than-excellent manner. For MNCs in loosely regulated industries (e.g., manufacturing), government affairs tended to be a supporting function and was less likely to participate in the overall strategic management process regardless of its excellence.

*Summary of Research Question 3*

This research question aims to understand the participation of government affairs in the strategic management of the MNCs in China. Sixteen of the 25 MNCs I studied included the government affairs function in their overall strategic management process. Government affairs contributed when it helped integrate the MNC's business goals with the expectations of the strategic constituencies in its political environment. Government affairs managers of the MNCs in China played four roles in the strategic management process: business developer, expert prescriber, senior adviser, and internal consultant. The business developer was a member in the dominant coalition and had formal power in shaping the MNC's overall business planning in China. The expert prescriber served as the MNC's acknowledged expert on all matters related to MNC-government interaction.

The senior adviser was an expert who provided knowledge and made recommendations on government affairs to the top management but was constrained in making final decisions. The internal consultant primarily provided knowledge and fact-checking on policies, regulations, the Chinese government, and the political environment in China for the decision-making of the dominant coalition.

The results suggested a positive relationship between the participation of government affairs in strategic management and excellence in government affairs. In addition to excellence in government affairs, organizational mechanisms of management, organizational expectation and culture, and the nature of the MNC's industry also affected the integration of government affairs with the overall strategic management. Government affairs was most likely to participate in overall strategic management when it had managerial expertise and when an MNC was in a highly regulated industry, had an established management mechanism to do the overall strategic management, valued the interest of its strategic stakeholders and expected to include the interest in the management process.

#### Research Question 4: Issues Management in Government Affairs

Issues management is an essential part of government affairs, as discussed in answer to the first research question. When government intervention and constant changes in the economic and political environments are inevitable, regular and formal issues management can improve the effectiveness of a government affairs team and promote proactive operation of a firm (Marx, 1990). The literature suggests the following research question:

Research Question 4: What is the relationship between issues management and government affairs?

Policies and regulations are constantly made and revised in China because of its incomplete legal system, institutional adjustments through a trial-and-error process, and accession to the WTO. As a condition of its WTO membership, the Chinese government has to gradually deregulate its domestic market in several industries. The government, thus, has to develop corresponding policies and regulations to successfully carry out the market deregulation. Consequently, government affairs specialists of MNCs in China whom I interviewed primarily focused on policy and regulatory issues that created opportunities or posed risks to their business operations. Government affairs performed issues management to integrate the strategic management of business with the trends of Chinese policies and regulations.

Among 25 interviewed MNCs, 19 regularly practiced issues management; eight even had a formalized process of issues management; and one focused on issues management as the essence of what its government affairs department did. Six did not regularly practice issues management but monitored policies and regulations from time to time through various formats. These MNCs were relatively small-scale in terms of their investment or local market share in China.

#### *The Value of Issues Management in Government Affairs*

Issues management was rooted in the energy and chemical MNCs because of the nature of the industries. These two industries tend to be highly regulated worldwide because oil and gas are scarce, nonrenewable resources of a state and chemical products always pose a level of risk to the population. For the energy and oil and gas MNCs in

this research, issues management assisted in promptly grasping business opportunities to expand their business in China. As the public affairs manager of the energy MNC said, “Oil and gas companies by the nature of business have very important relations with the government and its regulations...in China, maybe that’s more so than in a free market to define the opportunities you have.” For the two chemical MNCs, issues management, most importantly, helped them to prevent crises caused by their risky operations and avoid negative public sentiment toward their products.

Consumer product, direct-selling, and pharmaceutical MNCs used issues management primarily to better market their products according to relevant policies and regulations. The multi-industry MNC and the three MNCs in the information-technology industry performed issues management mainly to proactively react to anticipatory issues to prevent them from evolving into crises.

#### *Global Issues Management Networks*

Many MNCs stated that their issues management team in China closely cooperates with its counterparts in their global headquarters or Asia-Pacific headquarters. For these MNCs, the local issues management team is responsible for managing local issues and reporting the issues to the management in the global or Asia-Pacific headquarters for assistance or supervision (or both). Because an MNC has operations in many countries, with today’s communication technology, its issues in one country are likely to draw attention to its publics in other countries to cause negative effects on its operations there. As a result, many MNCs’ local government affairs teams also sought advice from or cooperated with other government affairs teams in other countries if needed. Some MNCs had established an internal database that stores the reports of all

issues the MNCs have handled worldwide. The database proved to be a useful resource by providing possible solutions to their issues managers in China.

Interestingly, I found that the financial news MNC did not directly manage its local issues in China. Rather, the MNC's issues management was led by the management in its Asia-Pacific headquarters in Hong Kong. The communication manager of the MNC explained that with a small operation in China, the MNC's core management in Hong Kong had the ultimate power to decide how issues affecting its China branch should be managed. In the management process of the issues emerging in China, the chief representative, the business development manager, and the communication manager in the Chinese branch were responsible for environmental scanning, issues identification, and issues monitoring. When detecting an issue, the local staff members would gather relevant information and propose how the issue should be managed based on their knowledge of the local market and the Chinese society. The management in Hong Kong would formulate strategies and action plans for the issue for the local team to execute. During the issues-management process, the management in Hong Kong and the local team in China would maintain open and regular communication regarding the issue. They would also report the issue and its development to the company's U.S. headquarters.

#### *Issues Management Process*

The issues-management process of MNCs usually consisted of 1) environmental scanning, 2) issues identification, 3) issues monitoring or strategy formulation, 4) strategy implementation, and 5) evaluation. The public affairs manager of the energy MNC maintained that issues management in her company "stretches from internally assessing

an issue, understanding your own position on it, to lobbying on it.” The government affairs manager of the information technology MNC illustrated the steps of its issues management as “environmental assessment,” which the team did everyday, “formulation of action plan, execution, and evaluation.”

#### *Standard Process Versus Irregular Process*

Several participants spoke of a standardized process of issues management that was applied globally by their MNCs. Because issues management is crucial to chemical and energy MNCs, all chemical and energy MNCs but the oil and gas MNC followed a standard process when performing issues management. The public affairs manager of the energy MNC reported that issues managers in her MNC followed a standard process but applied flexible approaches to manage issues. The standard process was called “the regulatory review” where “people raise issues and discuss them in different forums.” The regulatory review was conducted in each of the MNC’s local branches worldwide. In addition to the regulatory review at the national level, the MNC had a monthly Asia-Pacific Forum where regional issues were submitted and discussed. In the process, each individual manager took the liberty of deciding how he or she would raise the issue and how it should be managed.

The public affairs director in the chemical MNC said that public affairs managers in every operating country of the MNC employ the same issues management process to assist their issues owners. He explained the process as follows,

Public affairs owns the process, but we are not subject-matter experts in all issues. So, if we are talking about a certain issue that concerns a particular chemical, we have to bring in a subject-matter expert. And we’ll assist the subject-matter

expert in guiding him through that process to reach the most desired outcomes...to help him think through all the different possible scenarios, cover all different stakeholders, [and] be able to communicate.

Every manager in the chemical and safety solution MNC followed a formalized process to manage issues and crises as follows. Any manager who detects an issue would report it to the core team of issues management. The team would then identify the stage of the issue and report it to the Asia-Pacific CEO and his or her issues management team. Then, these two core teams would work together to manage the issue. To assist its managers to carry out this standardized issues management system, the public affairs department of the MNC would conduct two seminars every year. One was to train its managers to effectively use the system to manage issues and crises. The other was to inform the managers on the changes and update information of the system.

The public relations manager of the networking-solution MNC said that it employs a proactive, standard process worldwide for issues management. The MNC even made a corporate manual of issues management. The MNC's issues management system contained two phases: issue management and crisis management. During issues management, the system would automatically escalate an issue that cannot be resolved within a certain amount of time to the next-higher level of management until it was resolved. In this way, the issues-management system functioned as an internal warning system that keeps the company aware of an emerging issue before it becomes a crisis.

The multi-industry MNC established another kind of system to proactively manage its issues. The MNC published an internal newsletter, *Early Warning*. The newsletter, containing the latest development in policy and regulations, was circulated

among the business leaders and function heads of the MNC in China. After circulation, the government affairs staff would seek feedback from the readers including problems and issues they anticipate, given the latest developments. The government affairs department then consolidated their feedback and worked with the involved government authorities to resolve the problems and manage the issues.

#### *Core Team Versus Issue-Based Team*

The MNCs reported two structures of their issues management teams: core team and issue-based team. A formal core team is responsible for the management of every issue, regardless of its nature. A core team is usually composed of individuals from the dominant coalition and the heads of departments whose perspectives and inputs are valued in the decision-making process. Table 9 shows the composition of the core teams in several MNCs. For example, in the chemical MNC, the core team consisted of business development, legal, and public affairs personnel. The public affairs director of the MNC explained that business development should be in the team because it determines the issue from a business point of view; legal ensures the company's behaviors will be legally acceptable; and public affairs positions the issue for the company and develops the entire communication program for the issue.

Operating within a core team structure, employees who detect a possible issue would report it to the team in their MNCs. The core team then would verify the issue, identify its stage, and manage it accordingly. Individual managers knowledgeable on the issue or directly affected by the issue, if necessary, would be called on to work with the core team during the process.

With the issue-based team structure, the dominant coalition of an MNC assigns an identified issue to an owner. The issue owner or so-called “issue manager” would then form a task force where government affairs is a member to manage the issue. Membership of a task force is determined by the nature and dynamics of the issue. When the issue is resolved, the task force is dismissed. New task forces form based on the nature of emerging issues. Task force membership usually includes those from the top management and managers of the affected departments.

Table 9

*Core Team of the Issues Management*

MNC	Core Team Membership
Networking- solution MNC	CEO, chief technology officer, legal, public relations, and government relations
Chemical MNC	CEO, legal, public affairs, and business representative
Chemical and safety solution MNC	CEO, general managers of branch offices, public affairs, human resources, safety, and engineering
Agribusiness and food MNC	General manager, technology, legal, and spokesperson

*Step 1: Environmental Scanning*

Environmental scanning is the first step of issues management. Environmental scanning aims to detect issues in an MNC’s environment that have consequences on its operations. This step, called “environment assessment” by the information technology

MNC, is one in which government affairs specialists “assess the MNC’s external environment through various information channels on a daily basis.”

*Environmental scanning methods.* MNCs employed three methods to scan their environments. The first method was to assign the entire environmental-scanning responsibility to one government affairs specialist. The specialist was responsible for screening all information concerning the entire company. The second method was to first assign each existing and anticipatory issue area to an individual government affairs specialist as an issue-area owner who scans information that might indicate an existing or emerging issue in his or her area. The third method was to assign environment scanning to the department(s) in an MNC that frequently interacted with information sources, such as government officials and media. MNCs without a separate government affairs department often used this method; so their environmental scanning was done by other departments, such as business development, public relations, or communication. It should be noted that these three methods are not exclusive. Several MNCs used a combination of the first and third methods or the second and the third methods in environmental scanning.

Government affairs specialists of MNCs in China used direct and indirect channels to obtain information from different levels of the government. The direct channel was through interactions (i.e., communication or other activities) with the government officials. The indirect channel was through media or a third party. Government affairs specialists increased their interaction with government officials by attending seminars and conferences, serving as consultants of governments, joining

chambers of commerce and industrial associations, and holding social events and other activities for the governments.

*Government services as a source of environmental scanning.* All levels of the Chinese government, especially the administration of special economic-development zones (e.g., free tax zones, free trade zones, and special economic development zones), provide updated information in their jurisdiction as a service. This government service became very common especially after China entered the WTO. For example, the public affairs manager for the chemical and safety solution MNC pointed out two important outlets from the Ministry of Commerce (MOFCOM) for him to gather information and keep up with the current development of China's economy: a top-level official meeting and the "Policy Express Meeting." The MOFCOM established a working committee for foreign-invested companies. Every year the MOFCOM invites its top government officials, such as the minister, vice minister, or committee members of the MOFCOM, to talk with the foreign-invested companies that serve on the working committee. The meeting provides a forum for top-level officials in the government and foreign-invested companies to engage in direct communication with each other.

Government officials can share the latest information with the companies, introduce the agenda of the MOFCOM, explain the need for new policies or regulations, and provide interpretations of policies or regulations. Foreign companies can use the meeting to express their concerns to government officials for resolution. The meeting is held two to three times per year. In addition to the meeting with top-level officials, the MOFCOM also holds the Policy Express Meeting every other month. Each Policy

Express Meeting facilitates thorough discussions between the government and the company focusing on a policy or commerce issue.

Local governments provide similar services to disseminate information to foreign companies. The president of a motor oil MNC said that as a company registered in a free tax zone in Shanghai, he enjoys the information service from the administrators of the zone. The president receives an electronic newsletter weekly from the policy and law department of the free trade zone administration. The newsletter contains notices from the Shanghai municipal government, latest issues, policy and regulation changes, and the emerging policy and regulatory trends. In addition, the zone administrators organize seminars focusing on new policies and regulations to help the companies in the zone better understand them. They also hold regular meetings with the companies as an avenue to gather their concerns.

Many participants stated that the Chinese government actively shares information or its draft policies and regulations with selected MNCs for feedback because the MNCs are the leading companies in the industry, or because they have established credibility with the Chinese government. The external affairs manager of the express-shipping MNC stated that two government institutions, the Development Research Center of the State Council and the State Information Center, usually provided the latest information to the MNC. In addition, because of the MNC's well-known brand name in the shipping industry, the State Council also provided it with the draft of the amended Postal Law of China for its feedback. Two other MNCs, in the automobile and aerospace industries, reported the same practice. This finding well explained that government affairs

specialists were obligated to improve the recognition, reputation, or image of their MNCs to increase government officials' awareness of the MNCs.

*Print and electronic media as a source of environmental scanning.* Print and electronic media were the essential sources of information for environmental scanning. Respectable newspapers (such as the *People's Daily*) are the mouthpiece of the Communist Party of China and the central government and, thus, they provide credible and important sources of information regarding emerging trends in policies and regulations. Participants examined the media coverage on their MNCs to analyze the government's attitude towards them.

The Internet has increasingly become an important medium for environmental scanning because of rapid electronic-government (e-government) development and the growth of Internet users in China. Because of government's promoting of e-government, almost every government department or institution has official web sites on the Internet containing important notices, as well as information of the latest issues, policies, or regulations in development. These web sites are in different languages, such as in Chinese, English, Japanese, and Korean.

The booming population of Internet users in China tremendously changes interpersonal communication behavior and makes the Internet the most powerful medium forming issues or public attitudes in a relatively short amount of time. For example, SARS was first discussed over the Internet before the Chinese government officially announced it. After the government acknowledged the SARS crisis, the Internet continued to generate speculation and discussions regarding SARS and had an effect on the management of the issue. Recent cases show that public attitudes, formed by online

discussion, increasingly bring pressure to the Chinese government. Thus, government affairs specialists should also regularly monitor online discussions in list-serves or forums to proactively detect public sentiments or issues that might lead to policy outcomes affecting their organizations at the early stage.

Because of the tactical and time-consuming nature of scanning print and electronic media coverage, many government affairs departments of MNCs in China used media coverage services. Media services provide capabilities of tracking, organizing, and analyzing comprehensive coverage on an MNC from print and Internet media 24 hours a day and seven days a week. Government affairs specialists can search coverage by date range, media source, or market name, as well as by keyword in the text. They can also format the information to preferences from headline summaries, copies of news articles, to even streaming video. Information can be sorted by title, date, and media type. In addition to creating a “clip book” of an MNC’s media coverage, some services further analyze coverage with several criteria, including message communication, tone, and issue positioning, to better understand the impact on coverage on the MNC.

*Third-party reports as a source of environmental scanning.* Third-party reports from consulting firms, research institutions, commercial organizations, and think tanks were another useful source of information for government affairs specialists. The public affairs manager detected possible issues for the chemical and safety solution MNC by examining the analyses of policy and regulation trends from the third-party reports. Another government affairs manager in the oil and gas MNC said third-party analyses can provide insights for her to better understand the policy or regulations from the angle of the Chinese government.

*Step 2: Issues Identification*

With the information gathered from different sources, government affairs specialists then identify whether a problem that would affect an organization's ability to achieve its strategic business plan exists. Issue identification should involve not only recognizing existing or emerging issues but also determining the nature and impact of the issues on the organization. The vice president of government affairs in the multi-industry MNC described his three-step process of issue identification: "I first identify an issue by analyzing its impact on our company. Then, I find out who's involved. And lastly, I have to confirm the government's position of the issue."

*Identifying an issue.* Identifying issues may sound like a simple task. It actually requires a careful, thorough process with close attention to political and cultural factors. This is especially true of MNCs. MNCs operate in many countries and with globalization, they are likely to encounter issues in one country that can influence publics in others.

Some participants described their issue misidentification experience as a result of cultural insensitivity or hasty behavior. The government affairs manager from the chemical and safety solution MNC illustrated the difficulty of issue identification in the cultural context,

...our current crisis...started as a regulatory issue between the firm and a U.S. government agency...but it became such a huge company crisis in China after the news concerning the issue was introduced with a different angle by a Chinese web site. Thinking back then, I am not sure if I was able to identify the potential impact the issue would have on the firm's Chinese publics...We [local Chinese working for MNCs] have been influenced by and been used to the MNC's way of

thinking. I think this crisis highlights a challenge for us to identify issues from the local public's perspective, rather than a MNC's viewpoint.

*Assessing issue impact.* The impact assessment of an issue should be specific in terms of how it affects an organization. The MNCs in China used several ways to assess an issue's impact. The information technology MNC focusing on issues management of government affairs required its government affairs specialists to identify the nature of an issue, the internal client of the issue, and the extent of the impact when evaluating an issue. As the government affairs manager of the MNC explained: "When assessing an issue's impact, we first need to know who the internal client of this issue is. Should the issue affect one of our products or our clients? Then, we have to determine if the issue is our own problem or one that affects the IT [Information Technology] industry."

The networking-solution MNC analyzed the impact of an issue in terms of the scale of an internal restructure or policy readjustment the MNC has made to align it with the direction of the issue. For example, when the issue of China's WAPI standard that requires every chipmaker to incorporate the WAPI standard into chips for wireless security occurred, the MNC evaluated the impact of this issue by examining possible alternatives the MNC had to respond to the issue. According to the MNC's government affairs manager, the company first studied the difference between the existing international standard and the WAPI standard in depth. It then evaluated whether the MNC could adapt the existing standard to the WAPI standard. When the answer was negative, the MNC estimated how much time and money it had to invest to incorporate the WAPI standard into its products. The MNC concluded that the WAPI issue had a huge impact on its business because adopting the WAPI standard would tremendously

increase its product cost. As a result, the MNC actively joined an industrial collective lobbying the Chinese government to postpone this policy implementation.

*Prioritizing issues.* After confirming an issue's existence and impact on an organization, an issues management team has to further prioritize the issue according to its importance to the organization. An issue can be categorized into three types: 1) a high priority, an issue that has become critical and requires immediate response; 2) a middle priority, an issue that is too far along to be effectively managed but requires an organizational adjustment or action; and 3) a low priority, an issue that is relatively unimportant or not ripe and requires no actions.

In addition to prioritizing issues, the MNCs also identified issues by their nature in order to effectively manage them. For instance, the consumer product MNC divided issues into three categories to be handled differently: societal issues, internal issues, and product- and customer complaint-related issues. The vice president of the external affairs with the MNC explained different emphasis on the management of each issue type as follows:

Societal issues that affect the entire society, such as SARS, will definitely affect us to some extent. For instance, during the SARS period, individuals were not allowed to travel from city to city. It did affect our productivity and regular business operation.... Because that was a national policy, we needed to work with the government...to reduce the company's loss as a result of a societal crisis...the second type of issue is internal issues, such as labor disputes and strikes... To manage these issues, we need to apply laws and incorporate governmental power... The third type of issue is product- and consumer-complaint-related

issues. Most times consumers do not call our hotline to file a problem but rather file a report with government authorities, such as the China Customers' Association, the Administration of Industry and Commerce, and the Administration of Quality Supervision, Inspection and Quarantine. Therefore, we need to manage these issues with these government authorities.

*Step 3: Issues Monitoring or Strategy Formulation*

After identifying issues, an issues management team has to decide how its organization should respond to the issues. For high- and middle-priority issues, the issues management team needs to formulate strategies and corresponding actions. For low-priority issues, issue owners will continue to monitor them for shifts that affect future business operations.

Participants mentioned that the issue itself drives them to determine effective strategies and actions. In addition, when formulating strategies and corporate actions, they first determined the following interrelated aspects of a given issue:

- The company's position on the issue.
- The most suitable representative to handle the issue with government officials.
- Target government officials, including the appropriate government departments and the levels of the official.
- The unified communication protocol for the company's external publics.
- The resources the company can draw into the MNC-government interaction.

An accurate environment assessment of an issue helps an organization to understand the government's stand on the issue, as well as to develop the best reaction to the issue by determining its position and identify its representative, target officials, and

necessary resources. An organization's position can be either the perspective the organization takes when looking at the issue or the suitable response the organization has to the issue. Forming an appropriate position—one that considers the government's position while pursuing an organization's interest—is critical to the outcome of the issues management. Government affairs managers should assist their organizations in formulating appropriate positions on issues by determining which publics are strategic and taking them into consideration. Without doing so, an organization's position might lose legitimacy in society that, in turn, might turn the issue into a crisis.

A well-structured position paper is a tool to adequately express an organization's voice on an issue and contributes to the success of issues management. The information technology MNC provided a case of the Y2K issue that demonstrates how a well-structured position paper and a series of business-government discussions can obtain cooperation with the government to manage an issue viewed as a responsibility of a corporation. The government affairs manager described the government position of the Y2K issue before 2000 that called for the MNC's management of the issue: "The Chinese government thinks that individual hardware and software suppliers should take the full responsibility for the Y2K problem. When people encounter the Y2K problem, they should go to the suppliers who sold them the computer or software for services of reprogramming the software or retrieving lost data."

The MNC took a different perspective than the government that considered the Y2K problem as a responsibility of the whole high-tech industry. Therefore, it presented a position paper to the government, which argued that the Y2K problem is a problem of the whole industry because the industry designed computer time with two digits without

concerning what would happen after 2000. More importantly, with most advanced instruments using the same computer time programming in many important institutions, the industry should share the responsibility and work together to run more tests to find out the best solution and reduce the impact to the minimum.

With the position paper and many discussions, the MNC eventually persuaded the government that Y2K was an issue requiring the efforts of the entire industry and even the government to manage. As a result, in addition to a task force in the MNC to answer the calls from its clients 24 hours a day, the MNC also worked with the Ministry of the Information Industry to organize several seminars on this topic for the banks and private sector companies. The government affairs manager commented that the MNC successfully managed the issue:

We, as one of the biggest suppliers worldwide, were very much held accountable for the Y2K issue and it may create huge damage and negative impact on our business if mishandled. However, by aggressively working with the Chinese government, we managed to reduce the possible impact on our company to the minimum.

An appropriate position of an organization on an issue not only establishes the organization's legitimacy but also helps the organization to develop effective strategies when handling the issue. The organization's strategy for an issue should be developed in accordance with its position. As the public affairs director for the chemical MNC commented,

...[our position on] the issue will drive us to determine what level of government officials we're gonna talk to...which department...and what kinds of relationships

that we need to draw into the discussion in order to make it more effective. That may involve some third party help, consultants, agencies...someone who knows the industry better, someone who knows the specific subject even better than us, and someone who has a relationship better than us.

The detailed account of a strategy and action plan formulation provided by the vice president of the multi-industry MNC reflected the same sentiment. The vice president explained that after identifying the firm's position, the team developed a strategy and its overall objective. The strategy basically determined whether the firm would resolve this issue independently, collectively with industrial associations, or collectively with its home-government authorities. Then, the team made corresponding action plans. Each action plan contained 1) its specific objective, which should be measurable; 2) the methods the firm would use to achieve the objective, such as whether the company should organize a workshop or seminar to create a forum to discuss the issue with government officials or whether it should lobby the target government officials individually or collectively with the associations; 3) the timeline and order of actions; and 4) the required resources to execute the actions, such as who should be the agent to best advocate the issue in the government.

#### *Step 4: Action Plan Implementation*

Participants did not mention much detail regarding implementation. In general, the interviewed MNCs reported that action implementation includes executing action plans, evaluating the effectiveness of the plans in the process, fine-tuning the plans, and re-implementing the plans.

*Step 5: Evaluation*

Evaluation focuses on assessing the extent to which a plan achieves its objectives and how the strategic publics respond to the plan. Only a few MNCs mentioned that they evaluated the success of their issues management. They all took an outcome-based approach to success evaluation. That is, they judged whether the issue was successfully managed by determining if the issue was resolved or whether it developed in the direction desired. The participants depended on self-conducted informal evaluation.

*Summary of Research Question 4*

Because China's regulatory structure is developing and its recent WTO entry has prompted regulatory reform, the country is undergoing constant regulatory and policy change. MNCs, in order to adapt to these changes, integrate issues management in government affairs as part of their strategic business operations in China. Different participating MNCs used issues management approaches for different industry purposes. Most of the participating companies regularly practiced issues management. Some even had a standardized issues-management procedure.

MNCs usually have offices in different parts of the world. As a result, issues happening in one country may create negative effects in another. MNCs' local issues-management teams, in addition to managing local issues, ought to report such issues to the global or Asia-Pacific headquarters. There are two major structures of issues management teams among the participating MNCs: core team and issue-based team. In the core-team structure, a core team is formalized and used to manage all issues of a firm. The core teams of the interviewed MNCs consist of members in the dominant coalition and the heads of relevant departments. In the issue-based-team structure, an MNC

assigns an identified issue to an issue owner (namely, the issue manager), who will form a taskforce to handle the issue. Even though there are different procedures for handling issues among MNCs, their procedures all include the following steps: 1) environmental scanning, 2) issues identification (including prioritizing issues), 3) issues monitoring or strategy formulation, 4) action-plan implementation, and 5) evaluation. Table 10 summarizes the major findings of each step of this issues-management process.

Table 10

*Steps of Issues Management*

Environmental Scanning	Issue Identification	Issues Monitoring or Strategy Formulation	Action Plan Implementation	Evaluation
1. 3 methods <ul style="list-style-type: none"> <li>- One government affairs specialist for all issues</li> <li>- Each government affairs specialist for issues in his/her assigned area</li> <li>- Other departments</li> </ul> 2. Information sources <ul style="list-style-type: none"> <li>- Interaction with government officials or government services</li> <li>- Print or electronic media</li> <li>- Third-party reports</li> </ul>	1. Identifying an issue 2. Assessing issue impact <ul style="list-style-type: none"> <li>- Which product or department is affected by the issue</li> <li>- The firm's readjustment required by the issue</li> </ul> 3. Prioritizing issues <ul style="list-style-type: none"> <li>- High priority</li> <li>- Middle priority</li> <li>- Low priority</li> </ul>	Issues monitoring Continuous monitoring Strategy formulation <ol style="list-style-type: none"> <li>1. The firm's position of an issue</li> <li>2. The firm's representative</li> <li>3. Target officials</li> <li>4. The communication protocol</li> <li>5. Other resources of the firm</li> <li>6. Action plans               <ul style="list-style-type: none"> <li>- Objective</li> <li>- Methods</li> <li>- Timeline</li> <li>- Required resources</li> </ul> </li> </ol>	1. Evaluating action effectiveness 2. Fine-tuning the plan 3. Re-implementation	Achievement of objective

### Research Question 5: Relationship Management in Government Affairs of MNCs in China

This research question examined the relationship between the government affairs and relationship management. The literature suggested that relationship management should be a component of the strategic management of government affairs. The research question was proposed as follows:

Research Question 5: What is the relationship between government affairs and relationship building and cultivation with a corporation's strategic publics?

#### *The Contribution of MNC-Government Relationships to Effective Government Affairs*

In the *guanxi*-oriented society of China, most participants commented that relationships with the government were the foundation of government affairs. As mentioned in the first research question, government affairs and government relations were inseparable and reinforced each other from the participants' viewpoint. Relationships with different levels of the government provided access to the "right" people as the target public to facilitate government affairs. Using relationships with government authorities could serve as a strategy for government affairs, such as the personal influence model identified by J. Grunig et al. (1995). Effective government affairs in turn improved the quality of MNC-government relationships.

#### *Strategic Publics for MNC Government Affairs*

The first step of managing MNC-government relationships (MGRs) is to identify the strategic publics who affect or are affected by an MNC's relationship with the Chinese government. Government officials, Chinese partners, embassies, associations for industries and foreign-funded enterprises, commercial organizations, think tanks and

universities, media, and non-government organizations were eight publics strategic to MNCs' government affairs in China. Each one will be discussed next.

### *Government Officials*

Officials in the government departments that have governance over MNCs and their industries were the most strategic public to government affairs for two reasons. First, under a socialist market economy, the government can intervene in the market. This gives the government powerful influences on economic activities. Surveys conducted by the United States-China Business Council in 1995, 1996, and 1998 revealed that government interference is a key problem for foreign-invested businesses (Blackman, 2000).

Second, the central, provincial, and county governments have administrative and legislative power. As discussed in Chapter 4, the Chinese laws are formulated by the central government in principle and left for the provincial and county governments to develop the laws' corresponding enforcement according to local needs and situations. In other words, each local Chinese bureaucrat has legislative power to adapt laws, regulations, and policies as long as he or she does not violate certain principles.

The administrative power of government officials includes their power to 1) approve licenses and projects and 2) regularly or irregularly monitor, inspect, or audit an enterprise in areas such as tax return, facility security, labor treatment, and fire equipment. Of these two, license and project approvals most concerned MNCs. License and project approvals usually have to go through a complex and time-consuming process that involves several government departments. As the president of the mobile oil MNC said :

One of the characteristics of doing business in China is being patient because many Chinese regulations are not “company-friendly” at all, especially the procedures of license application. The Chinese bureaucrats can’t justify why the procedures need to be so complicated and time-consuming for us to get a license. But if you really follow the procedure step by step without working around it with the bureaucrats, you will make many unnecessary efforts to get a license. Not to mention, you need to get multiple licenses to launch your business here.

Doing more than just being patient and working around government officials, the consumer product MNC developed a network analysis system to better measure the time needed for the company to get a license or project approval. The essence of this strategy, similar to PERT developed by the U.S. Navy (J. Grunig & Hunt, 1984), was a network diagram that illustrates the relationships among government authorities (e.g., a government department or unit) involved in the process of a license or a project application. The MNC first recorded how much time it takes for an application to move from one government authority to another all the way through the process. The MNC then determined which authority is a greater or lesser obstacle.

For instance, if the MNC’s government affairs specialists have *guanxi* networks with government officials in some departments or units, the officials might be able to speed up the reviewing process in their respective departments or units. Consequently, these authorities will be marked as easily-go-through. If the official in a department or a unit is very firm in sticking with the standard procedure or tends to be slow in reviewing applications, the authority will be identified as difficult-to-get-by. As a result, the MNC

must allow a normal time period for its application to get through this authority to another.

By using this system, the MNC has produced two network diagrams. One illustrates the number of days it takes for an application in a normal situation to move from one stop to another until the process is complete. Thus, the diagram gives the MNC the total number of the government authorities involved in the application procedure and the maximum amount of time for the MNC to complete the entire procedure. The other diagram demonstrates, in a time-constraint situation, which authorities can shorten their reviewing process and by how many days. Hence, the MNC knows which departments or units it can appeal to speed up the procedure when time is short. With the two diagrams, the MNC has a pretty good idea of the maximum and minimum length of time to get an approval through a certain procedure. Therefore, it can “better manage its time, manpower, and budget to get an approval,” the vice president of external affairs said.

As discussed in RQ 2, MNC government affairs had different foci at the corporate and local levels. Managers responsible for government affairs at the local level of an MNC interacted with the provincial and county governments to maintain daily operations and cooperate with routine government inspections. With this orientation, local MNC managers focused on provincial or county government leaders and department heads who oversaw the MNCs’ local operations as strategic individuals with whom to build relationships. Government leaders included the mayor and vice mayor or the chief and deputy directors of the special economic or free trade zones where an MNC factory or SBU was located. Government departments included tax, security (i.g., police and fire), labor, and utility departments.

Government affairs managers at the corporate level assisted MNCs in managing their relationships with ministries, government agencies, and departments at the central government for managerial purposes. These ministries, agencies, and departments make strategic decisions in China's economic development. Government affairs specialists in the headquarters or the holding company of MNCs were directly responsible for these managerial contacts. More importantly, participants pointed out that they must cultivate relationships with not only the head but also senior officials at the rank of director or deputy director of each strategic ministry, agency, and department in two regards. First, most top leaders in the ministry, agency, or department have plenty of responsibilities and do not personally know or handle each issue or policy. It is their chief directors, deputy directors, or secretaries who closely work on the issue or policy and report to them. The leadership, then, often goes along with what the directors or deputy directors suggest when making a policy or handling an issue. This unique political phenomenon is called "director politics" (*chu zhangzheng zhi*, 處長政治) or "secretary politics" (*mi shu zheng zhi*, 秘書政治) in China.

Secondly, Chinese government officials are career bureaucrats and have long incumbency. Once they get in the office, they stay in the office until the last day of their terms. This is opposite from the so-called "revolving door" phenomenon in the United States, where government officials tend to rotate among governmental posts, private positions, and the legislature. Thus, directors and deputy directors in China can serve as long-term contacts for MNCs in the government. More importantly, today's middle-level officials as directors and deputy directors will become tomorrow's top-level ones. Therefore, government affairs managers in MNCs strategically cultivate long-term

relationships with these directors and deputy directors to make them as agents who advocate the MNCs' interests in the government.

*Identifying key government authorities and officials.* To identify key government authorities (i.e., government ministries, agencies, departments, centers, and units), the participants consulted with several common sources:

1. The organizational chart published by the government annually. The chart shows all ministries, agencies, and departments of the central government, as well as their head officers.
2. The official web site of each ministry and department. Recently, the Chinese government has started to promote the development of its e-government infrastructure as discussed previously. Most of the ministry, department, institutions, centers, and local governments have already established their web sites and upload useful information varying from their organizational chart to their agendas and latest development.
3. Counterparts in the government. MNCs can get information from their government contacts through their communication exchange. In addition, administrators in special economic zones and free trade zones provide services to assist foreign companies to overcome problems in business, such as to help them better understand government structure and operations, as well as to regularly disseminate newsletters with information on the latest policies and regulations.
4. Industrial associations and organizations, such as chambers of commerce and trade-related organizations (e.g., the United States-China Business Council). The associations and organizations serve as the bridge between their members and the

Chinese government. They also gather information and analyze trends in policies and regulations for their members.

Identifying strategic government departments of an MNC requires some research but it is not very difficult. It is identifying the key person in each strategic department that gets tricky. The participants pointed out several informants that they depended on when identifying key decision-makers in a particular government institution: 1) the working-level officials in the institution whom the participants had regular interaction with; 2) officials in other government institutions who work closely with the institution in question; and 3) experienced government affairs experts in consulting firms, relevant organizations, or embassies.

*Prioritizing key government authorities.* After identifying strategic authorities in the central and local governments, government affairs specialists have to prioritize the importance of each authority to their MNCs and allocate their budget and other resources accordingly. This step is crucial to government affairs in China because an MNC often has an issue that involves numerous government authorities at different levels. If an MNC does not accurately prioritize government authorities, it is unlikely for its government affairs to be effective. Two MNCs reported their unique strategies for segmenting or prioritizing their strategic authorities.

The multi-industry MNC “divided China’s strategic authorities into three types by their impacts on the MNC’s business...to set up our primary objectives when interacting with authorities of each type,” according to its vice president of government affairs. The first type of government authority was in charge of license and project approvals. The National Development and Reform Commission (NDRC) and the Ministry of Commerce

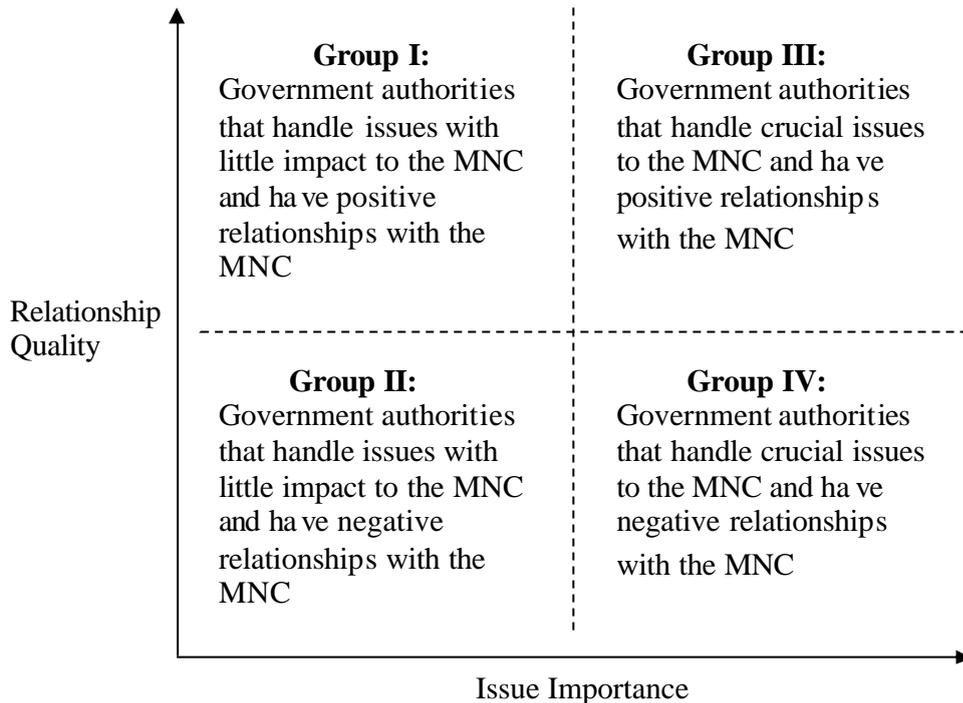
(MOFCOM) were two of the most crucial authorities to the MNC. The NDRC oversees infrastructure development of China and has the ultimate power to approve infrastructure developmental projects in the nation. Hence, “NDRC has direct impacts on our business,” the same vice-president added.

The second type of authority developed or influenced policies and regulations in China. This type of authority included the Administration of Industry and Commerce (AIC), Administration of Quality Supervision, Inspection and Quarantine (AQISQ), customs, and the Ministry of Foreign Affairs (MFA). The AIC oversees enterprise and trade mark registration, fare trade, and consumer rights. The AQISQ sets product standards and enforces product inspections. The multi-industry MNC formed a close working relationship with the MFA in policies and issues regarding United State-China trade because the MNC lobbied the U.S. government to establish a permanent trading-partner relationship with China. This behavior contributed to the favorable relationship between the MNC and the MFA. The MFA, in turn, assisted in arranging for the MNC’s officials to meet top-rank government leaders when they visit China, or for Chinese government leaders to visit the MNC headquarters on their official trips to the United States.

The third type of authority was those that the MNC strategically cooperated with to improve its image in the government. The Organization Department of the CPC was the most strategic authority of this type. The MNC had long cooperated with the Organization Department in training government leaders and managers of the Chinese state-owned enterprises. This training project has been very successful and received support from Premier Wen Jiabao, former President Jiang Zemin, and former Premier

Zhu Rongji. As a result, the MNC had established credibility and a positive reputation among top party leaders and government officials. “The positive image of our firm in the government tremendously helps us to win the bid of national projects with the government,” the same vice-president acknowledged.

To effectively manage its relationships with hundreds of government authorities that have power to govern the consumer product MNC, it used a “mapping strategy” to prioritize its strategic government officials. According to the MNC’s vice president of external affairs, the mapping strategy determined the importance of its strategic authorities by two variables: the quality of relationships between the MNC and the authorities and the impact of issues handled by the authorities on the MNC’s business. As shown in Figure 5, the two variables divide authorities into four groups. Those in Group IV are the top priority for government affairs specialists to build and cultivate relationships with because they do not have a good relationship with the MNC but handle issues crucial to the MNC’s business. Government affairs specialists focus on relationship maintenance and cultivation with officials in Group III. When having spare budget and resources, government affairs specialists can make an effort to cultivate relationships with the Group II officials that might someday become an intangible asset of the MNC. Those in Group I require little to no attention of government affairs specialists in relationship management because the officials already enjoy positive relationships with the MNC and manage issues that do not concern the MNC.



*Figure 5. The Mapping Strategy by the Consumer Product MNC*

The same vice president added that every year, his department typically identified six to seven government authorities in Group IV as its top-priority targets. His department then developed and implemented communication and relationship cultivation programs to improve the quality of the MNC's relationships with the targets or enhance positive attitudes of the targets towards the MNC. Common programs and activities of the MNC included "visiting the top-, middle-, and working officials in the target government authorities, providing training to the government official on the issues critical to our firm, inviting them to visit our R&D [research and development] center, and holding regular meetings and conferences with the government authorities," the vice president explained.

I argue that the mapping strategy is similar to J. Grunig's situational theory of publics. The mapping strategy recognizes that a government authority's influence on an

MNC is situational. The impact of the issues and the quality of MNC-government relationship predict the consequence of a government authority's behavior toward an MNC. Group IV government authorities can be seen as the active public in the situational theory. With the authority's power over issues that have critical impact to an MNC and their negative relationships with the MNC, their behaviors are most likely to have negative consequences on the MNC. As a result, the government affairs of the MNC should pay close attention and allocate most resources and time to them.

### *Chinese Partners*

If an MNC has joint ventures in China, it usually has state-owned Chinese companies as its partner. State-owned companies enjoy favorable relationships with provincial or county governments because the senior management of state-owned companies is assigned by the government and their profits go to local governments. In other words, state-owned companies have a government component. Therefore, government affairs specialists must help MNCs to build and cultivate quality relationships with them. The government affairs manager of the oil and gas MNC said that managing good relationships with Chinese partners is one of the top priorities of its government affairs. Oil is one of the national resources of China. Therefore, foreign enterprises must form joint ventures with state-owned companies to enter this highly regulated market in China. "They [Chinese partners] are important for us to keep good relationships with because in some ways, they are government institutions and we do run into problems with them," the same manager commented.

In addition to the governmental nature, MNCs viewed their Chinese partners as a strategic public to build quality relationships with because they could serve as a "go-

between” between MNCs and the Chinese government. Or, the Chinese partner could act as an intermediary who assisted MNCs in establishing *guanxi* with individual government officials. The general manager of the power cable MNC said:

Our direct partner is a cable company that belongs to a financial holding company of the municipality. They are our support in our relationship with the municipality... . And so, with [the municipality], we can enjoy good relations. If we need to have some permission or some discussion, this is mainly coming through them. It works....They can knock on the right door. They can contact the people. And they have good visibility because the company is a large company...[We] can try to negotiate the best conditions...state our needs and enjoy support from the municipality because of our partner.

### *Embassies*

Government affairs managers in MNCs maintained regular interaction with their home-country embassies, especially the commercial departments of the embassies. Embassies advocate the interests of enterprises from their countries. “There’s always a need to keep the local embassy people informed, particularly with the commerce department of the embassy about how we’re doing, whether or not we are facing a major issue,” the public affairs director for the information technology MNC said as he described the importance of his contact with the embassy. He added: “At times, of course, there’re pluses and minuses of getting the embassy people engaged in certain things... .If there’s a need...getting some help from them will be helpful...but that would be case-specific consideration, rather than bringing them in every discussion.”

From the international political economy perspective, the distribution of gains from market activities to each state actor is mainly determined by the order of the world economy and political factors (e.g., power, values, and political autonomy), which reinforce each other (Chen, 2004). If a state actor joins the global economy, the state's domestic market may be influenced by the forces of other states based on their strong political power or dominant power in the world economy. Embassies can exert their political influence on the issues that negatively affect their companies in the Chinese domestic market by representing their countries' official positions on these issues, as well as negotiating the issues with the Chinese government.

#### *Associations for Industries and Foreign Enterprises*

Government affairs specialists strategically managed their relationships with industrial associations and associations for foreign enterprises useful to their MNCs. Industrial associations are certainly a strategic public for MNCs in government affairs because they serve as industry representatives to communicate with the government when there is a common concern, problem, or issue. In addition to providing services, some industrial associations have regulatory power. For example, the president of the bicycle manufacturing MNC said that his MNC has to interact with the China Bicycle Association because it regulates bicycle standards for its products sold in China.

Various Associations of Enterprises with Foreign Investment under the central, provincial, and county governments in China were the foreign-enterprise association most frequently mentioned by the participants. The associations serve their member foreign-invested companies in light of the policies, laws, and regulations on opening-up and reformation to boost the foreign investment in China. Their goal is to safeguard the

legal rights and interests of their members so as to increase the mutual understanding, positive relationships, and cooperation between the enterprises and the governments.

Since the associations are governmental organizations serving as the bridge between the MNC and the government, the MNCs maintained good relationships with them.

### *Commercial Organizations*

*Chambers of commerce.* The chamber of commerce of individual countries is one association that government affairs managers in MNCs kept a close contact with.

Chambers of commerce provide their members with 1) the latest information of important issues and emerging trends in China's economy; 2) policy analysis and updates; 3) networking opportunities for the members, especially newcomers; and 4) activities and events for the members to interact with the Chinese government, such as luncheon and dinner banquets, delegation visits to provinces, and seminars. In addition, a nation's chamber of commerce serves as a coordinator to organize coalition lobbying activities for an issue that affects many of the nation's enterprises in the industry. "It [American Chamber of Commerce (AmCham)] is all business but it has earned a lot of respect from the Chinese government...and the business community as well. Thus, I've got involved in the AmCham's activities in Hong Kong, Beijing, and Shanghai as well," said the government affairs director of the chemical MNC as he spoke of the importance of the AmCham to his work.

*Chambers of commerce for industries.* Similar to associations, government affairs specialists built relationships with several chambers of commerce for industries under the Ministry of Commerce because the chambers manage import and export activities (e.g., standards for export goods) of the companies. For instance, the China Chamber of

Commerce for Import and Export of Machinery and Electronic Products regulate s product standards and quality inspection of bicycles exported to other countries. Consequently, it was one of the governmental organizations the bicycle manufacturing MNC maintained relationships with.

*United States-China Business Council.* In addition to chambers of commerce, most U.S. MNCs reported a close working relationship with the United States-China Business Council (USCBC) in their government-related issues. The USCBC, founded in 1973 as the National Council for US-China Trade, is the principal organization of U.S. corporations engaged in business relations with China. The USCBC was the first organization set up for facilitating trade and commerce between the United States and China in the absence of formal diplomatic relations between the two nations. With the massive growth of US-China economic engagement since the end of the 1970s, the USCBC has continued to primarily serve the interests and needs of U.S. firms to improve their business relationship with China. It also assists firms that have newly entered the Chinese market. Most importantly, with its expertise and long history in China, the USCBC plays a central role in analysis and advocacy of key policy issues of significance to not only U.S. businesses but also the future of US-China relations. The USCBC's web site gives a description of its advocacy on policies or issues concerning US-China commerce:

The Council's activities in support of government policies conducive to expanded US-China commercial and economic ties include educational meetings with Members of Congress and Congressional staff, and frequent testimony on behalf of the US business community in Congressional or other venues. The Council

also works to enhance media and public understanding of complex issues in US-China relations, appearing frequently on major broadcasts and providing accurate statistical and analytical information to media representatives. The US-China Business Council has long served as a respected host for senior visitors from China and from the United States government (“An Introduction,” n.d.).

#### *Think Tanks, Universities, and Media*

Third-party advocacy has become an essential part of government relations efforts since the 1990s (Kraus, 1995). In democratic countries, such as the United States, third-party advocacy usually takes the format of grassroots lobbying by mobilizing an organization’s constituencies (e.g., employees, suppliers, customers, and community members) to contact their legislators on the organization’s behalf. Given China’s authoritarian political system, the third party in China is not individual citizens because they cannot directly participate in politics by voting. Rather, the third party includes individuals in organizations or institutions whose opinions can influence the outcome of government policy. According to the participants, the third party they used in lobbying included think tanks, universities, and large media and news agencies.

These three publics were especially important to the financial news MNC. The communication manager of the MNC said that in addition to government departments, think tanks and local media were the most important target to the MNC in government affairs. The communication manager explained,

Think tanks—such as universities, the China Academy of Social Science, and distinguished university professors—are important because they are the consultants of the government and have good relationships with the government.

Top management of local media, such as the editor of *People's Daily* and *Economic Daily*, is also important to us because these editors are equivalent to government officials and have a say on issues related to us in the government.

#### *Non-Government Organizations*

Three participants mentioned non-government organizations (NGOs) as one of the strategic publics they maintained relationships with. The business development manager in the semiconductor MNC spoke of the nuance of its relationships with Chinese NGOs in the industry as a long-term investment. He explained that Chinese NGOs are in the development stage. As a result, Chinese NGOs are weak and cannot yet influence industry-related issues, such as policies, regulations, and the enforcement of regulations. However, his MNC had kept close interaction with the leaders of these developing NGOs and assisted them in becoming mature in order to play a strong role in the industry development later. The business development manager implied that it is the MNC's strategy to create agents who can advocate the MNC's interest to collectively lobby the Chinese government in the future.

#### *Dimensions of MNC-Government Relationships*

To analyze types of relationships MNCs have with the Chinese government, I employed Luo's (2002) typology of MNC-government relationships in business management as well as Hon and J. Grunig's (1999) typology of organization-public relationships (OPRs) in public relations. Luo's typology identifies four types of relationships between an MNC and its host government, depending on the extent of their competition and cooperation. The four relationship types are estranger, contender, partner, and cooperator relationships. An *estranger* relationship exists when an MNC

keeps low cooperation and competition with a host government because the MNC is relatively independent from resources controlled by the government. A *contender* business-government relationship occurs when an MNC rigorously competes with regulatory authorities for resources or regulations while maintaining low cooperation with them. A *partner* relationship forms when an MNC collaborates with the host government and maintains low competition with it. A *coopetitor* relationship exists when an MNC forms high cooperation and competition with a host government.

Hon and J. Grunig's (1999) typology classifies OPRs into two types, communal and exchange. Communal relationships exist where one party provides benefits to the other party without expecting anything in return whereas exchange relationships are formed by exchange of interests of the two parties. Given the roles of MNCs and host governments, I argue that they do not do things purely for the benefit of each other.

Even though both typologies used discrete variables (i.e., competition versus cooperation and benefit exchange versus unconditional giving) to categorize relationships between two organizations, the originators of both typologies noted that inter-organization relationships may simultaneously contain all variables. These variables of relationships are not clearly cut, but rather continuous. In addition, J. Grunig (2000) argued that "Typologies are a useful way in which to begin the development of a theory, but for science and scholarship to progress, we need to move beyond typologies to theories composed of continuous rather than discrete variable" (p. 29). Given the multi-dimensional, dialectical nature of relationships and extensive studies on this subject, I argue that public relations scholars should move beyond relationship typologies to dimensions that can better represent inter-organizational relationships. Therefore, I

analyzed MNC-host government relationships by the dimensions composed with five pairs of continuous variables: 1) competitive and cooperative, 2) exchange and communal, 3) asymmetrical and symmetrical, 4) interpersonal and organizational, and 5) ethical and unethical.

#### *Competitive and Cooperative*

The first set of variables is competition and cooperation. As suggested by Luo (2002), an MNC and a host government may compete for input-, process-, and outcome-based resources while they may cooperate for country-level internationalization, industry-level competitiveness, firm-level compatibility, and individual-level productivity.

When asked about the relationships between MNCs and the Chinese government, all 25 participants answered that they had both competition and cooperation with different levels of the government. However, the levels of competition and cooperation were not homogeneous among participants. All participants, except the bicycle manufacturing MNC and the building material manufacturing MNC, maintained that they actively sought cooperation with the Chinese government and kept their competition as low as possible. Therefore, in addition to the descriptions of MNC-government relationships provided by the participants, I drew the following information to determine the levels of individual MNC's competition and cooperation with the Chinese government:

- Business modes: An MNC can establish either a wholly owned company or a joint venture with a Chinese company to practice business in China. Some MNCs choose to have some of their business units as wholly-owned and others as joint ventures. The joint-venture mode renders a higher level of cooperation with the

Chinese government than the wholly-owned mode because in joint ventures, MNCs mostly team up with state-owned Chinese companies.

- Number of cooperation projects with the government: The more existing or forthcoming projects between an MNC and the Chinese government, the higher the level of the MNC-government cooperation.
- Industry nature: Some industries are highly regulated for foreign companies, such as automobile, insurance, banking, and real estate. MNCs in these industries inevitably have more competition with the Chinese government than those in other industries.
- MNC's competition with the government reported by the media.

The results showed that seven of the 25 participants were identified as having low competition and cooperation with the Chinese government; three with high competition and low cooperation; five with low competition and high cooperation; and another 10 with high competition and cooperation. Participants mentioned competition with the Chinese government on tax issues, transparency of policy and regulation formulation, its WTO implementation, market access, natural resources, infrastructure access, and local protectionism on state-owned firms. Most competition was about policies and regulations since China's regulatory framework has not been fully developed. A participant commented that even after China's entry into the WTO, it still required special efforts to track down cases or information regarding the development of certain policies and regulations. In relation to regulations, many participants said that China's WTO implementation was not yet complete and it produced new issues in regulations that required the participants' close attention.

At least two participants mentioned their competition with the government for market access because of local protectionism. The consumer product MNC faced local protectionism when it tried to enter the ice cream market of a city. In this case, the vice president of external affairs explained, the local market share was monopolized by a local state-owned ice cream company whose profits are used as the budget of the restaurant in the local government. As a result, the MNC had to use other resources to negotiate access to the local market. The public relations manager in the auto MNC described how his MNC handled local protectionism:

It [local protectionism] of course exists but we don't argue it openly with the government because it's useless to fight about this. It will never change. But, of course, the level of protectionism decreases over time. Since we are a joint venture with a state-owned auto company of a city, what we do is that we work with the municipal government to maximize local protectionisms that benefits us in the city.

Almost all participants answered that they sought, actively or passively, some level of cooperation with the Chinese government. They agreed that cooperation with the government that creates mutual gains generated government support for their business and improved the quality of their relationships. MNC-Chinese government cooperation included business projects, construction of infrastructure (e.g., pipelines and railroads), policy and regulation formulation, training and seminars, social responsibility programs, philanthropy projects, community-related activities, research and development centers, school establishment, and foreign liaisons. Public diplomacy occurred when MNCs promoted the image of China on its interest in their home countries or in the international

arena. Foreign liaisons were the ones that the MNCs initiated or were involved in to improve interaction between China and another country. The CEO of the building-material manufacturing MNC pointed out this type of cooperation: “There are not many Italian companies in China and not many Chinese speaking Italian.... I was asked to coordinate an official meeting between a mayor from Italy and this city mayor.... I’ve also helped all sorts of activities between Italy and the Chinese government.”

#### *Exchange and Communal*

This dimension is the extent to which one party in a relationship is willing to unconditionally provide benefits to another. Most MNC-government relationships started as exchange relationships—such as their cooperation in joint ventures, in policy and regulation formulation, or in organizing seminars and training. In policy and regulation formulation or providing seminars, the MNCs shared their information, management knowledge, global experience, and advanced technology with the government in exchange for interaction with government officials to introduce information that advocates their interest. The MNCs usually formed communal relationships with the government by doing philanthropic work for Chinese society or fulfilling corporate social responsibility (or both).

Participants mentioned that quality exchange relationships between MNCs and the Chinese government evolved to communal ones as Hon and J. Grunig (1999) suggested. The president of the bicycle manufacturing company gave an example. He pointed out that the good working relationship between his MNC and the local government made them act in the interest of each other. The MNC actively shared its management skills and technologies with the local government to assist its development.

The government actively sought the MNC's comments in the policy and regulation formulation to take the MNC's interest into consideration.

#### *Asymmetrical and Symmetrical*

This set of variables, asymmetry and symmetry, represents the extent to which the win-win or one party's domination describes the purpose of MNC-government relationships. Most participants said that they pursue a win-win situation with the government when it is feasible. They acknowledged that a win-win approach not only helped ensure cooperation but also sustained a long-term, quality relationship between the MNC and the government. When handling a conflict or issue with the government, participants frequently stated that they first try to understand the conflict or issue from the government's viewpoint and then communicate with the government their perspective to find a solution. As the public relations manager of the networking-solution MNC remarked: "We cannot always make the government to have our way. After all, we are doing business in China and thus, we need to understand their way."

#### *Interpersonal and Organizational*

This set of variables includes the extent to which a relationship is interpersonal or organizational. Interpersonal relationships are built primarily on personal connections. Once the person in the relationship is gone, this relationship also ceases to exist. Organizational relationships are those formed by interactions between two or more organizations. Most participants described their relationships with the government as more organizational than interpersonal because of three reasons. First, Chinese government officials often rotate from one post to another for their career development. This makes it difficult for MNCs to sustain long-term relationships with government

departments through their government affairs practitioners' personal relationships with government officials. Second, interpersonal relationships often have bad connotations. According to the vice president of external affairs in the consumer product company, organizational relationships should be the focus of advanced public relations. In his view, organizational relationships are superior to interpersonal relationships because they do not require bribery, banqueting, socializing, or other "gray-area practice" in relationship cultivation. Last, the Chinese government highly values the global knowledge and experience of MNCs. Reputable MNCs have more opportunities to cooperate with the Chinese government for China's economic development.

As a result, the MNCs built relationships with the government through their reputations and interactions with the government. The vice president of external affairs in the consumer product MNC said that his department helped the MNC to build an "inter-organizational relationship" with the government by first establishing a good reputation of the firm among government authorities and then forming interactions between the MNC's functional departments and their government counterparts in order to promote China's development.

Even though the MNCs emphasized their relationships with the government as organizational, rather than interpersonal, participants also mentioned that quality interpersonal relationships between government affairs practitioners and government officials facilitated MNC-government interaction. The interaction, in turn, fostered their organizational relationships. As the same vice-president remarked, "Good personal relationships between corporate officials and their government counterparts are the

foundation of quality organizational relationships between the MNC and the government.”

*Ethical and Unethical*

This dimension is the extent to which the practice of relationship establishment, maintenance, or cultivation is ethical. A common example of an unethical relationship management is bribery. Many participants emphasized their “no bribery” policy in relationship development and cultivation with the Chinese government. They stated that they do give gifts to government officials on holidays and have social activities with the officials. However, they always made sure that their behaviors adhered to their MNCs’ ethical standards. They also mentioned that the Chinese government officials have become less corrupt than before because of the anti-corruption effort from China’s administrative reforms.

Interestingly, the finance manager of the Taiwanese electronics MNC gave what struck me as an “overly straightforward” answer on relationship development. The manager said that this MNC uses two methods to develop relationships with the Chinese government officials. When developing a relationship with a government official that is not immediately needed by the MNC, the manager would “do whatever the target government official likes” to build the relationship, such as “playing bridge, playing golf, and drinks with the officials.” When developing a relationship that is immediately needed by the MNC for an issue at hand, the manager would “give gifts” to build the relationship. Even though the manager’s answer contradicts what others participants said and implies an unethical relationship establishment by bribery, I believe the participant was being honest and provided a valuable answer. I make this judgment because

although many participants emphasized their ethical behaviors in government affairs, the same participants often provided me examples of unethical government affairs conducts of other companies in relationship building. Therefore, I concluded that government affairs practitioners used various strategies, ethical and unethical, in developing and cultivating relationship with government officials. I argue that organizational value and culture should have strong influence on an MNC's practice of ethical or unethical relationship development.

#### *Summary of Research Question 5*

Relationship management is an important part of the government affairs function. In China's *guanxi*-oriented society, quality relationships with government officials facilitate government affairs effectiveness. Quality MNC-government relationships not only provide the MNCs access to target government officials but also allow them to ask for favorable treatment from the government. As a result, a strategic component of an MNC's government affairs practice in China is identifying strategic publics in the political environment and cultivating relationships with them. Eight strategic publics identified by the interviewed MNCs were government officials, Chinese business partners, embassies, associations for industries and foreign-funded enterprises, commercial organizations, think tanks and universities, media, and non-government organizations.

To better understand the relationships between the people interviewed in the MNCs and the Chinese government, I used five pairs of continuous variables for analysis: 1) competitive and cooperative, 2) exchange and communal, 3) asymmetrical and symmetrical, 4) interpersonal and organizational, and 5) ethical and unethical. The

MNCs compete with the Chinese government for local market access. However, they cooperate with the government when working to integrate China into the global market, improve local industry competitiveness, enhance local infrastructure, develop policies and regulations, and fulfill social needs. Most participants in the study actively seek cooperation with the Chinese government and keep their competition with the government as low as possible.

Most MNC-government relationships started as exchange relationships—such as their cooperation in joint ventures, in policy and regulation formulation, or in organizing seminars and training. The MNCs usually formed communal relationships with the government by doing philanthropy work within China or fulfilling corporate social responsibility (or both). Quality exchange relationships between MNCs and the Chinese government evolved to communal ones. The MNCs made an effort to maintain symmetrical relationships with the government in which mutual benefits were created. Participants described their relationships with the government as organizational rather than interpersonal. However, they also acknowledged that good interpersonal relationships with government officials promote MNC-government interaction, which in turn, strengthens MNC-government relationships. Unethical MNC-government relationships were established through bribery and gift-giving. Evidence showed that most MNCs follow a code of ethics when building relationships with government officials. Nevertheless, giving expensive gifts is still practiced when MNCs seek to establish relationships with Chinese government officials within a short period of time. These dimensions reflect the nature of MNC-host government relationships. The dialects, the “dynamic interplay of opposing tendencies” (Baxter & Montgomery, 1996, p. 6) in

relationships, were affected by the behaviors of the MNCs and the government. These results echo Hung's (2002, 2005) findings on relational dialects of an organization and its publics.

#### Research Question 6: Management of Government Affairs in MNCs in China

One of the purposes of this dissertation is to develop an understanding of the strategic management of government affairs for MNCs in China. That purpose produced this research question:

Research Question 6: How do MNCs in China manage their government affairs practice?

The strategic management of public affairs should be at both functional and program levels. The strategic management of government affairs considers factors in the macro, operating, and functional environment of an organization. Its process contains five steps: environmental analysis, goal formulation, strategic planning and strategy formulation, strategy implementation, and evaluation and control.

#### *No Strategic Management of the Government Affairs Function*

When asked about how they manage their government affairs practices, most participants stated that they strategically practice government affairs to respond to issues at hand. Management of government affairs in the MNCs was therefore issue-driven. Government affairs practitioners examined an issue, analyzed the opportunities and risks associated with the issue, and matched resources with the identified opportunities and risks.

However, some participants recognized the lack of long-term development of strategic management of government affairs as a function in their MNCs. The public

affairs director for the chemical MNC argued that his MNC's government affairs practice was so issue- and project-driven that it failed to "establish long-term sustainable relationships [with government officials], play roles and get our [the MNC's] voice heard in the decision-making process, and represent the MNC or the industry" for the long-term growth of the MNC in greater China.

#### *Little Research in Government Affairs*

The MNCs, in general, used little research in practicing government affairs.

Many participants said they did not conduct research because of time constraints, limited budget, lack of research knowledge, or no need for research. Some participants stated that they conducted informal research, such as counting the house of an organizational event (e.g., seminars, trainings, or branch openings), information gathering (i.e., media monitoring and contacts with government officials and knowledgeable people outside the government), and asking the opinions of government officials toward an issue.

Participants in other MNCs said that they periodically conducted formal research to evaluate government affairs programs. The evaluation research methods will be discussed in the answer to the last research question.

#### *Advantages and Disadvantages of MNC Government Affairs*

Participants concluded that in general, MNCs had more advantages than local companies when influencing the formulation of business policies and regulations. The advantages of MNCs included their global knowledge, global network, advanced technology, brand names, and good relationships with the government. Global knowledge referred to what the MNCs had learned from their operations in multiple countries. The knowledge of policies and regulations in other countries is an example of

global knowledge of the MNCs. This global knowledge was most valuable to MNCs because most Chinese companies cannot provide it. “With the global knowledge we have,” the government affairs manager in the information technology MNC remarked, “to some extent, we [government affairs practitioners] are treated more as a partner than a person who just asks for the government to do things.”

A global network of government affairs allowed government affairs practitioners to work cooperatively in multiple countries. For instance, the multiple-industry MNC had a regular telephone conference with fellow government affairs staffers every Wednesday. Senior government affairs managers from all regional branches in the MNC had to participate in this meeting. During the conference, they would report the issues from each branch to the U.S. headquarters. They would also bring up the issues that affected different countries and that needed cooperation from the MNC’s government affairs departments in the other countries to solve.

Advanced technology, reputable brand name, and large investment were three other advantages for MNC government affairs. These factors served as assets that increased their organizational credibility among government officials. High organizational credibility led to great influence on and frequent cooperation with the Chinese government. Influence on and cooperation with the government, in turn, granted government affairs professionals access to top-level government officials and contributed to relationship development and cultivation with the officials.

Two disadvantages of the MNCs in practicing government affairs in China were nationalism and protectionism. Nationalism negatively affected government affairs efforts of the MNCs when local companies linked the policy or regulation formulation

with the national identity or national pride. The WAPI issue discussed in RQ5 was the most frequently mentioned example of Chinese nationalism. When U.S. chipmaker companies collectively lobbied the government on the regulation that requires every chipmaker to incorporate the WAPI standard into chips for wireless security, Chinese people formed opposition to the lobbying activity. They did this because they were proud of WAPI as “the Chinese standard” that represents their efforts and intelligence.

Protectionism occurred when the different levels of Chinese government used policies or regulations to lift the bar for foreign companies entering local markets. The public affairs director for the chemical MNC identified the anti-dumping issue toward U.S. companies in China as an example of protectionism. It was difficult for government affairs practitioners of the MNCs to resolve issues of protectionism.

#### *Summary of Research Question 6*

Consistent with the findings of the Excellence Study, these results show that government affairs management of the MNCs in China is issue-driven, short-term focused, and little research-based. The MNCs in general have more advantages than local companies in practicing government affairs. The advantages result from the MNCs' global knowledge, global network, advanced technology, brand names, and good relationships with the government. Participants also identified two disadvantages of practicing government affairs as foreign companies in China: nationalism and protectionism. Nationalism often diminishes the MNC's legitimacy in influencing Chinese policies and regulations that concern the national identity or national pride. Protectionism causes policy and regulatory issues between the MNCs and different levels of the government.

### Research Question 7: Political Strategies of MNCs in China

This research question was developed with the intention of possibly formulating a typology of corporate political strategies used by MNCs in China. As suggested by the literature review, the six corporate political strategies used most frequently are: 1) constituency building, 2) advocacy advertising, 3) lobbying, 4) coalition building, 5) reporting research results or public poll results, and 6) personal services (Keim & Zeithaml, 1986; Getz, 1993). However, few if any studies examine whether these corporate political strategies are applicable in China, a country with an authoritarian political system and a social market economy. Because of the different political and economic systems in Western countries and China, political strategies proposed by Western scholars might not be useful in China. Furthermore, corporations might utilize unique strategies in China. As a result, I proposed the following research questions:

Research Question 7a: What are the corporate political strategies used by MNCs in China to resolve administrative issues and operational problems?

Research Question 7b: What are the corporate political strategies used by MNCs in China to influence the policy-making process?

Research Question 7c: What are the corporate political strategies used by MNCs in China to resolve conflicts with the Chinese government?

Research Question 7d: What are the corporate political strategies used by MNCs in China to build and cultivate government relations?

#### *The Pattern of Political Behaviors of MNCs in China*

The results showed that the MNCs had consistent patterns of interacting with the Chinese government to influence its decisions, manage issues (policy, regulatory,

administrative, and operational ones), resolve conflicts, and build and cultivate relationships. Overall, the MNCs could choose from five levels of communication channels, three kinds of lobbying mechanisms, and seven strategies to interact with the Chinese government for various purposes.

#### *Five Levels of Communication Channels*

MNCs reported that several channels of communication were used to discuss issues with the Chinese government. These were: 1) nation-to-nation negotiation, 2) government official-to-government official negotiation, 3) worldwide CEO-to-government official negotiation, 4) country CEO-to-government official negotiation, and 5) SBU president-to-government official negotiation.

Nation-to-nation negotiation was used when an MNC lobbied its home country to have an issue discussed at the national level with the Chinese government. Government official-to-government official negotiation occurred when an MNC had a government official from its home country represent the MNC when discussing the issue with the Chinese government. Worldwide CEO-to-government official negotiation occurred when an MNC's CEO or chairman discussed an issue with top-level Chinese government officials, such as the secretary general, the president, or the premier. Country CEO-to-government official negotiation or SBU president-to-government official negotiation occurred when an MNC sent its country CEO or SBU president to discuss its issue with Chinese government officials from different levels of government, depending on the level and impact of the issue.

### *Three Lobbying Mechanisms*

Evidence showed that the MNCs used three mechanisms to conduct lobbying: 1) lobbying the government independently; 2) lobbying the government collectively within a coalition that included other affected companies and industry associations ; and 3) lobbying the government with the help from their embassies, chambers of commerce, and other home government bodies. An issue's impact and an MNC's resources determined the lobbying mechanism of the MNC. An MNC tended to independently lobby the government on the issue that primarily affects the MNC and does not concern other companies. When an MNC did not have enough resources to lobby on an issue, it would choose to conduct collective lobbying. Also, when an issue affects multiple MNCs or an industry as a whole, affected MNCs usually worked with each other to lobby the government for two reasons. First, a joint lobbying enhances the legitimacy of an issue and requires government responsiveness to the issue. Secondly, collectively lobbying allows individual MNC to share the cost, manpower, and resources with other members in the action.

### *Seven Strategies Used by MNCs*

Seven strategies were identified by the participants for managing issues, resolving problems and conflicts, and developing and cultivating relationships with the Chinese government. The strategies were: 1) lobbying, 2) political accommodation, 3) social accommodation, 4) personal relationships, 5) organizational credibility, 6) personal services, and 7) cooperation.

The MNCs used different types of *lobbying* to influence the behavior of the Chinese government, including proactive lobbying, reactive lobbying, independent

lobbying, coalition lobbying, and third-party lobbying. *Political accommodation* was reflected in an MNC's responsiveness and contribution to political concerns of a host country. Identified political accommodation behaviors of MNCs included introducing laws or regulations used in other countries, holding seminars or conferences, and reporting research results. *Social accommodation* referred to an MNC's contribution to social needs in a host country. *Personal relationships* were interpersonal relationships or *guanxi* connections of MNC government affairs practitioners with government officials. Government affairs practitioners could use their good personal relationships with government officials to seek favors or to influence the officials' decisions in the interest of their MNCs. *Organizational credibility* was determined by an MNC's competitive position in the industry, reputation, adherence to regulation, and social responsibilities. *Personal services* referred to services by multinational corporate leaders in official government positions or trade associations. MNC-Chinese government *cooperation* included business projects, construction of infrastructure (e.g., pipelines and railroads), policy and regulation formulation, training and seminars, social responsibility programs, philanthropy projects, community-related activities, R&D centers and school establishment, public diplomacy, and foreign liaisons.

#### *Strategies for Dealing With Administrative Issues and Operational Problems*

Administrative issues often concerned the inefficiency of bureaucracy. Common administrative issues identified by the participants were complicated paperwork and time-consuming application processes for licenses. Operational problems affecting the MNCs' businesses in China were mostly infrastructure-related problems. To sustain its rapid economic growth, China has strived to improve its infrastructures (e.g., power,

telecommunication, public transportations, and public facilities) to provide a good business environment for companies. However, this improvement is taking time. As a result, the MNCs have encountered infrastructure problems that have required MNC government affairs practitioners to work with the Chinese government in order to find a solution.

The power shortage problem has been the infrastructure problem most cited by the participants as affecting their operations. With China's rapid industrial and population growth, this problem has grown worse each year. To solve the problem of supply and demand, the Chinese government has approved the construction of power plants. However, these plants will not become operational until 2006. To deal with the current power shortage, the government—especially in peak summer months—has to place restrictions on companies' power usage by shutting down their operations for certain days a week. These restrictions can cause immense losses for MNCs. MNC government affairs practitioners, therefore, try to get their companies exempted from these restrictions.

Evidence suggested that the MNCs tended to avoid direct confrontation with the Chinese government officials. Instead, they relied on education and personal relationships to address administrative issues and operational problems. Government affairs practitioners avoided direct conflicts with government officials because government officials were risk-adverse, bureaucratic and wielded immense power over an MNC's operation. The public affairs director of the chemical MNC described the situation in the following manner: "You [an MNC] don't want to make their [government

officials] lives difficult because if you make their lives difficult, they make yours even more difficult.”

Education and personal influence were shown to be more effective than other strategies when managing administrative and operational issues with government officials. Education was frequently used because with only a period of re-opening its economy to foreign companies, MNCs and the Chinese government have much to adjust each other. The participants mentioned that they educated government officials on what their products are and new methods of public administration before issues occurred. For example, several participants noted that they had to frequently educate government officials on what were the appropriate import or export taxes for their products. China is rife with new products that many customs officers are unfamiliar with. In many cases, language and time constraints mean that officers cannot even correctly identify a product. Therefore, government affairs practitioners found themselves having to educate the officers about what products are and how to tax them properly

When administrative or operational issues emerged, the MNCs used their personal influence, obtained from good relationships with government officials, to ask for favorable government treatment. For example, many government affairs practitioners used their good personal relationships with government officials to ask the officials to expedite the process of license issuance or project approval. In the case of the silicon-chemistry MNC, the company was able to use its good relationships to obtain an exemption from the government’s policy of mandatory operational shut-down for power conservation. The government affairs manager in this MNC explained that it was exempted from the temporary shut-down list for two reasons. First, its manufacturing

process required a non-stop operation and stoppage would result in heavy losses. Second, the company had a good relationship with the provincial government and state-owned electrical company “because of its good record of complying with regulations and its personal visits, gift-giving and hosting lunch and dinner to the department.”

### *Strategies for Influencing the Policy-Making*

Participants practiced proactive and reactive lobbying with the Chinese government. In proactive lobbying, an MNC tried to fend off potential threats to its business operations or its industry as a whole by working to influence how the government makes policy. In reactive lobbying, an MNC worked to modify an existing policy that posed negative impacts on its business operations or its industry. The results showed that proactive lobbying was more effective than reactive lobbying: MNCs that attempted to influence a policy while it was being formulated had more success than those that attempted to influence existing policies. The president of the motor-oil MNC stated that he believed the government is reluctant to revise its policies because revision requires thorough study and considerable effort. The external manager of the express-shipping MNC agreed with the above assertion. She also noted that her company made every effort to comment on policy drafts during the policy-formulation process, a period during which government officials are more receptive to suggestions.

There were several reasons for this. The first reason was that, rooted in an authoritarian political system and a culture that emphasizes hierarchy, “it is very difficult for the Chinese government to change what has been said or done,” said the president of the motor-oil MNC. He added: “Doing so means that the government admits that it

makes a mistake. It hurts the government's authority and makes the government lose face.”

Second, when an MNC engages in reactive lobbying it often leads to conflicts between the MNC and the government. Conflicts bring undesirable changes to MNC-government relationships and further diminish the MNC's legitimacy in the society.

The third reason was China's accession to the WTO, which meant that MNCs in China have gained opportunities to express their voice in governmental policy-making. This is because in order to meet the requirements of the WTO, the Chinese government is formulating a wide range of policies and regulations for the industries that will be gradually deregulated and open to foreign companies. This process is challenging to government authorities who have never carried out such a task before. To ensure the policy or regulations are appropriate, the government has to involve MNCs for their knowledge and experience in other markets. MNCs are being invited to give their input and feedback at hearings or other discussions. This had given MNCs a chance to greatly influence policies that govern their industries.

The proactive and reactive modes of lobbying have different principles in practice because they take place in different stages of the policy making and regulation formulation. In addition, some lobbying strategies are evidently more effective in one mode than the other. The following section examines proactive and reactive lobbying practiced by the MNCs.

#### *Proactive Lobbying*

The MNCs in China practiced proactive lobbying for two purposes: to make a policy or regulation needed for the industry or to influence the ongoing formulation of a

policy or regulation in their interests. With the incomplete legal framework in China's emerging market, the MNCs often identified a void of policies or regulations needed for their industry. To address this void, MNCs urged the government to formulate policies or regulations and assisted the government by working closely with it. Since proactive lobbying was usually more likely to produce desired outcomes than reactive lobbying, most leading MNCs used their know-how and experience in other markets to proactively lobby the government on incomplete policies, regulations, and laws. For instance, the aerospace MNC had worked with the government to formulate most of the Chinese aviation regulations; the energy MNC had assisted the government in completing its safety and environmental regulations in the energy industry.

The public affairs manager with the energy MNC explained the company's involvement in the formulation of safety and environmental regulations for the first Chinese hygienic bus project and the first Chinese liquefied natural gas terminal project. In addition to providing infrastructure of the hygiene filling stations and liquefied natural gas terminal, the MNC assisted the Chinese government in setting up the whole set of safety and environmental regulations needed for these projects because the Chinese government had no experience in these areas. For instance, when the MNC helped a Chinese oil company to build a liquefied natural gas terminal that produces leaking coal residue into the sea, the MNC realized the potential negative impact on marine life. To address this challenge, the manager of the MNC contacted the Chinese governmental authority and asked about existing regulations regarding coal leaks. Surprisingly, the government said it had "no idea!" about the problem. The MNC proceeded to sit down with the government and develop regulations on the issue.

Based on these two cases, the manager commented that this kind of proactive lobbying created a win-win situation between the MNC and the Chinese government because “clearly it’s not only in our interest to be part of the discussion [of regulation formulation]...to make sure we think the regulation is rational but also we have lots of experience and value we can bring to the Chinese government ’cause they’ve never done this before.” Most importantly, this proactive lobbying allowed MNCs to bring their special value—MNCs’ experience in markets worldwide—into the government-company interaction, which in turn, enhanced the quality of relationships.

In the second type of proactive lobbying, MNCs used direct and indirect means to influence the ongoing formulation of a policy or regulation. The direct means of lobbying was to officially participate in discussions on policy or regulations with the Chinese government by attending policy-related meetings organized by different levels of the government, serving on the policy and regulatory committees in the industry associations and chambers of commerce, joining the chamber of commerce and other organizations that play an influential role in the process, and communicating with contacts in government agencies. An MNC could lobby independently or collectively with other MNCs or organizations depending on the nature of the policy.

Indirect means of proactive lobbying included: 1) building coalitions with think tanks, universities, or non-governmental organizations that advocate the MNC’s position in the government; 2) organizing seminars and providing training on the issue for government officials; 3) circulating newsletters that contain certain messages from the companies; and 4) providing information relevant to the policy or regulation that supports the MNC’s perspective to government officials (e.g., policies or regulations of the same

subject matter used by other nations or international organizations, fact sheets, analysis papers, case studies, and research reports).

Agenda-setting theory provides justification for the effectiveness of indirect lobbying through organizing seminars, providing training, circulating newsletters, and providing relevant information. The theory states that although media cannot successfully change the attitude of an audience (what to think), it is effective to use extensive media exposure to create and structure topics discussed by an audience (what to think about) (Cohen, 1963; McCombs & Shaw, 1972). In addition, McQuail and Windahl's (1993) conceptual model of agenda setting suggests that information from the media agenda creates a public agenda, which sets up the agenda of public policy. In the context of MNCs in China, a government affairs specialist can influence the outcome of policy making or regulation formulation by creating government officials' awareness and concern on the salient issues he or she wants the officials to focus on. This can be achieved by filtering and shaping the information presented to the officials. The external affairs vice president of the consumer product MNC explained how this agenda setting worked when he discussed his firm's lobbying campaign for food safety standards:

We know China is going to formulate its food safety regulation sooner or later.

So, we have to influence the process at the early stage by making the government officials aware of how food safety is regulated in other countries. Because we have been under the supervision of the European Union, we understand its food safety standards very well. Thus, we introduce the standards to the officials and persuade them to adopt them as China's standards. That is, when regulating the

rules of the game, “It has to be my rules of the game.” They can’t be the rules I am not familiar with.

In a similar vein, the government affairs specialists of the information technology MNC and the networking-solution MNC, both which are U.S. based, attempted to persuade the Chinese government to adapt U.S. laws over European ones when developing Chinese privacy laws for electronic activities. China has been more familiar with European laws. U.S. laws are different from European laws in terms of their principles. The two MNCs tried to achieve their goals by introducing the advantages of U.S. laws and good practices of the U.S. Privacy Law (e.g., TRUSTe) to the government officials.

Although proactive lobbying can prevent policy or regulatory crises and is often more effective than reactive lobbying, MNCs cannot proactively lobby the government on all issues. A critical step of proactive lobbying among the MNCs I studied was to identify how important an issue was to the organization and to the agendas or priorities of government authorities. The consumer product MNC, for example, chose to proactively lobby on issues that are likely to occur and that have serious impact on the MNC. The multi-industry MNC prioritized issues for proactive lobbying based on two criteria: the government’s agenda regarding the issue and the difficulty of the issues. This MNC focuses its proactive lobbying efforts on issues that were on the government’s agenda and that were not difficult to lobby.

#### *Reactive Lobbying*

MNCs in the study practiced reactive lobbying when they encountered a problem that negatively affected their businesses. When the MNCs faced a problem because of an

existing policy or regulation, the MNCs lobbied the Chinese government to either modify the existing policy or regulation or obtain an exception to the policy or regulation to reduce the negative impact. The findings suggested that the MNCs had similar patterns that contained five levels of communication channels, three mechanisms of lobbying, and seven strategies.

The MNCs usually practiced issues management in reactive lobbying. That is, government affairs practitioners first analyzed the given issue in terms of its type, impact, and government's agenda on the issue. Second, the practitioners selected appropriate lobbying mechanisms and communication channels, as well as developed strategies and action plans based on the issue and the MNCs' resources. The practitioners would then implement action plans and evaluate their effectiveness.

An issue's impact and an MNC's resources helped participants determine the most effective lobbying mechanism to use. The issue's impact (i.e., whether the issue affects a single company, a group of companies, or an industry) determined the appropriate levels of communication channels. The general principle of communication-channel selection was that if the issue could not be effectively managed at the lower level, the MNCs would escalate it to the next-higher level until it was resolved. The strategy for direct reactive lobbying was to communicate with the government to make it modify an existing policy or regulation through independent lobbying, third-party lobbying, and coalition lobbying.

The strategies for indirect reactive lobbying, as in proactive lobbying, included 1) organizing seminars and providing training on the issue for government officials, 2) circulating newsletters that contain certain messages from the companies, and 3)

providing information relevant to the policy or regulation that supports the MNC's perspective to government officials, including relevant research results and the policy and regulation used in other countries. Good personal relationships, social accommodation, personal service, and organizational credibility facilitated a positive outcome from reactive lobbying. I will next discuss third-party lobbying and coalition lobbying to better understand reactive lobbying of the MNCs.

*Third-party lobbying.* Third-party lobbying was frequently used by the MNCs to deal with China's political environment. In an authoritarian political system like China's, the power that influences government's decision-making often comes from inside of the government (i.e., government officials) rather than outside (i.e., interest groups, media, and Chinese citizens). As a result, the MNCs in China never practiced advocacy advertising or grassroots lobbying in China. Instead, they frequently carried out third-party lobbying to influence policy-making. Multiple departments influenced the formulation of policies and regulations that affect foreign business operations in China. Different government departments usually have different agenda on a policy. When applying third-party lobbying, the MNCs found an influential government official (or a government department) who was willing to advocate the interest of the MNC.

An example of third-party lobbying can be seen in how MNCs deal with the National Development and Reform Commission (NDRC). This crucial government authority has significant say on investment projects by foreign companies in China. As explained in RQ3, the NDRC is responsible for developing national economic strategies that promote China's macro-economy. The NDRC strives to promote foreign investment while at the same time ensuring that local companies are not left behind. Consequently,

the NDRC does not approve every investment project proposed by foreign companies. When the NDRC appeared reluctant to approve an MNC investment plans, participants noted that they practiced third-party lobbying to influence the NDRC's decision.

MNCs often turned to the vice premiers of the State Council or other top-ranking government officials in the Ministry of Commerce (MOFCOM). The MNCs sought the help of these individuals because their high-rank position in the hierarchy and their interest in promoting foreign investment meant they would and could influence NDRC. The MOFCOM usually spoke for the interests of the MNCs because its top priority was to attract foreign investment in China.

*Coalition lobbying.* When facing an issue that affects an industry as a whole, the MNCs often brought the issue to the attention of the relevant industry association, chamber of commerce, and embassies. The industry association and chamber of commerce would then organize a coalition in which MNCs would participate to lobby the Chinese government. The information technology MNC explained how its industry association implemented a coalition-lobbying action. When its member companies identified an issue of common concern, the association would organize a coalition-lobbying action on the issue. Company representatives would then develop the position paper and action plans.

The external affairs manager with the express-shipping MNC described the process of coalition lobbying organized by the U.S. chamber of commerce (AmCham). Its member companies usually brought an issue to the AmCham's Government Relations Committee. After the issue was identified by the Committee, the AmCham would assign tasks (e.g., data collection, issue analysis, and position and strategy development) to

different member companies according to their specialties. The AmCham would then represent its members to lobby the Chinese government. During the lobbying process, the AmCham would keep its members updated and its members would provide support, assistance, and resources to the AmCham.

### *Strategies for Conflict Resolution*

When dealing with a problem or conflict with government authorities, the most effective strategy was to use the MNCs' governmental partners as a third party to mediate the conflict. Governmental partners of an MNC were the stakeholders of the MNC's business operation, including the Chinese state-owned companies, government departments, or administrators of specific economic zones. The MNCs benefited from using their governmental partners to solve conflicts with other government authorities. The president of the motor oil MNC explained the benefits it got from using its free-tax zone administration to manage the conflict with the government:

The administration of the free tax zone always helps us solve problems with other government authorities because we are its customer. They want us to stay in the zone....There is a department in the administration, somewhat like a PR department, that figures out which government officials we need to see to solve the problem and introduces us to them. You know, as a company, sometimes we can't get to meet some officials. So, their introduction has been very useful to problem solving.

In addition to using their partners in the government, most participants reported managing conflicts with the government in a symmetrical way as integrative negotiation proposed by Plowman (1995). For example, the vice president of government affairs in

the multi-industry MNC provided a three-step conflict resolution strategy. The first step is to thoroughly examine an existing conflict. The second step is to find various perspectives to understand the conflict. When communicating about the conflict, government affairs specialists frame the conflict with different themes and perspectives to reach a solution with the government. This step is similar to Fisher and Ury's (1991) "principled negotiation" or Plowman's (1995) "integrative negotiation." Often, the conflict can be resolved by this step. Sometimes, however, a conflict is so complicated it requires a further step to be managed. The third step is to resolve the conflict through the supervising department of the government department that an MNC has the conflict with. The same vice president gave an example:

If there is a tax policy applied by the Customs that negatively affects the company's business, I will go to our governmental partner in the Ministry of Commerce. I will lay out the policy's negative impacts on MNCs and the negative consequences on its attracting prospective MNCs. Then, I will ask him to take care of this with the Customs.

*Strategies for Relationship Development and Cultivation*

As discussed in RQ1, government affairs and government relations were inseparable. MNC-government relationships are the foundation of government affairs. When government affairs practitioners interact with government officials, they might do so for a specific purpose (e.g., to lobby the government on a certain policy). However, the practitioners might also cultivate their organizations' relationships with the government officials through the interaction. As a result, this research found that many relationship-cultivation strategies were similar to those for problem-solving or lobbying.

Participants used communication, cooperation with the government, political accommodation, social accommodation, personal relationships, and organizational credibility to cultivate their firms' relationships with the Chinese government. The following quotes offer evidence of these strategies.

#### *Communication and Interaction*

Regular communication and interaction contributed to quality relationships with government officials because communication enhances mutual understanding and maintains relationships. Regular communication was one form of interaction between government affairs practitioners and government officials that allowed the two groups to better know each other and also created a forum for exchanging opinions on important issues. Through regular communication, government affairs practitioners could build mutual trust with government officers and enhance personal credibility and organizational credibility among the officers. Therefore, when a government affairs practitioner failed to maintain regular communication with officials but only contacted them when issues occurred, it became difficult for the practitioner to get his or her organization's message heard by officials. Worse, some officials would interpret this behavior as opportunistic. Other forms of business-government interaction included executive visits to different levels of government officials, delegation tours of government officials to visit MNCs' factories or headquarters abroad, inviting government officials to important corporate events, participation in governmental activities, gift-giving on important Chinese holidays (i.e., the Chinese New Year, the Dragon Boat Festival, and the Mid-Autumn Festival), and other social activities (e.g., dining, drinking, golfing, bowling, fishing, and karaoke-singing).

Regular communication is a must to cultivate relationships with the officialdom. However, communication should be practiced with caution. Two important principles are: 1) no over-communicating and 2) being respectful to all officials when communicating. Over-communication could damage the relationships. In the current period of rapid economic growth, Chinese bureaucrats have to interact with numerous MNCs daily. Therefore, over-communication often led to a negative impact on quality of relationships with government officials. The public affairs head of the chemical MNC stressed the importance of avoiding over-communication. He suggested that government affairs practitioners have “something to put on the table” before initiating conversations with officials at the ministerial level or above. He suggested that government affairs practitioners communicate with mid-level government officials irregularly by “getting into their calendars once a while...to show their [practitioners’] faces.”

In addition to over-communication, several participants stressed the importance of being respectful when communicating with government officials regardless of their department and rank. Failing to follow this principle often negatively impacted the quality of relationships with officials. The government affairs manager in the high-tech innovation MNC put in the following way: “No matter how low a government officer’s rank is, he [or she] *is* an officer.” Therefore, this manager required his staff to be respectful to all government officials.

When communicating with officials, the chemistry and safety solutions MNC followed a similar principle to avoid conflict. The public affairs manager in the MNC gave the example of a crisis to illustrate the importance of respect. He noted that the MNC was embroiled in a crisis that involved multiple government departments including

the State Environmental Protection Administration (SEPA), the Ministry of Science and Technology, and the Ministry of Health. He noted that the presence of different departmental perspectives on the issue and overlapping jurisdictions meant that, “we [the company] can’t focus on one department and ignore others when communicating with them about the crisis even though we have a better relationship with the SEPA.” To avoid mistakes, the company stressed two principles in its communication with officials. First, the company gave the same information and materials to all government departments. Second, the company sent staff members with the same rank to talk with officers in the different departments.

### *Cooperation*

Cooperation with government officials directly cultivated the MNCs’ relationships with government officials. The participants reported that successful MNC-government cooperation let government officials better understand the competence of the MNCs. This enhanced their trust of the MNCs, which in turn let them form quality relationships with the MNCs. The government affairs manager in the information technology MNC stated that it enjoys a very good relationship with government officials because it closely cooperates with them. According to the government affairs manager, cooperation allowed government officials to have a good understanding of the MNC and what the MNC can do for them. Frequent cooperation also let government officials be attentive to the MNC’s communication with them because “based on our working experience, they know enough to trust us.”

As noted in the earlier discussion of proactive lobbying, some MNCs assisted the Chinese government in developing regulations. For example, the oil MNC frequently

worked with the government to set up regulations for energy use or environmental protection and the aerospace MNC helped the government set up aviation regulations. This cooperation allowed the government to turn to the companies for expertise, which, in turn, increased MNC influence on the policy and regulations of their industries.

The MNCs' seminars for government officials are another example of business-government cooperation as a common relationship cultivation strategy. The public affairs manager of the chemistry and safety solution MNC noted that holding seminars or forums for government departments helped improve his company's relationship with the government departments because "they greatly appreciated information and knowledge they need." This manager stressed that although these cooperative project often did not have immediate, short-term results, they were important for his MNC's long-term development in China.

#### *Political Accommodation*

Political accommodation was the most frequently used strategy for MNC-government relationship cultivation. Political accommodation was practiced by actively providing needed services or resources to different levels of the Chinese government. The MNCs carried out political accommodation by supporting government policy and directives; assisting government officials in achieving their goals; sponsoring governmental activities; and providing information, services, and consultation. The following quote from the vice president of external affairs of the consumer product MNC well describes this practice:

We always want to make government officials' jobs easy... We always pay attention to the needs of our government authorities and support their operations.

When they formulated new regulations, we provided them research reports of relevant regulations and rules worldwide, invited international experts to China to talk to them, and held delegation tours for them to learn abroad. When they wanted to build R&D centers with MNCs, we told them how we did with governments in other countries. When they needed to bid for international events, we taught them how to do it effectively.

In a similar manner, the external affairs manager of the express-shipping MNC commented that sharing information and management knowledge with government officials was the most effective cultivation strategy because “government affairs practitioners and government officials need each other.” She further explained that the MNC’s sharing with government officials improves mutual understanding with the MNC and the government, which, in turn, cultivates their relationship.

#### *Social Accommodation*

All interviewed MNCs emphasized social accommodation as a means to maintain good relationships with the government. An MNC provides social accommodation when it does things for the interest of the Chinese society as a whole. The MNCs typically carried out social accommodation by fulfilling their social responsibilities, such as philanthropy, building schools, local community construction, and establishment for underdeveloped and poor areas in western China.

For example, the consumer product MNC that emphasizes localization and social responsibility in China earned an even stronger relationship with the Chinese government with its social accommodations during the SARS period, including its donation of soaps and detergents for the clean up of a city, its official commitment to stay in China and

work with the society to get through the crisis, and its cooperation with the government to keep foreign MNCs to stay in China. Another example is that the networking-solution MNC participated in the government's West Region Development Project that aimed to develop the economy in Western China by encouraging foreign companies to invest there. This company established its call center in the region because by doing so, the MNC could not only support the government policy but also help to improve the level of poverty in the area. This behavior enhanced the MNC's relationships with the central government and the local government in the region.

An interesting finding on social accommodation was that some MNCs did public diplomacy on behalf of China in their home countries or in the international arena. The president of the direct-selling MNC said in the United States, his company lobbied for the establishment of permanent normal trade relations with China and for China's entry into the WTO. A journalist who served as an informant in this research provided another example. In 2004, Shanghai and Paris were two of the contenders for the bid for the 2010 World Expo. Carrefour, a French-based company, openly supported Shanghai's bid instead of Paris. Carrefour carried out a public relations campaign to improve China's image among the members voting on the bid. Shanghai won the bid. According to the journalist, the Chinese government and Shanghai's residents continue to praise Carrefour's contribution to the win.

I argue that when MNCs provided social accommodation, it showed that the MNCs had a commitment to the society by taking its interest into consideration. As a result, social accommodation would strengthen a communal relationship an MNC forms with the government.

### *Personal Relationships*

The participants commented that the personal relationships they have with government authorities were the foundation for the inter-organizational relationships between their firms and the government. All participants considered their personal relationships with government officials as the intangible asset they brought to the firms. They all made efforts to constantly cultivate and expand their personal networks. In particular, the participants noted two ways personal relationships could contribute to MGRs. First, personal relationships provided links between the MNC and the government, linkages that formed MNC-government relationships. The participant from the consumer product MNC explained how important personal relationships were to MNC-government relationships:

In China, personal relationships are emphasized because of our culture. It's not saying that you need to bribe someone or something. It's just saying that when no one in a government agency knows your company, you need to find some personal connection for you to get access to the agency and start your interaction. Only after that, you can talk about the institutional relationship between your firm and the government.

Second, many participants mentioned the effect personal relationships have on the government's overall impression of a firm. Individual relationships between government affairs professionals and their government counterparts could either strengthen or damage the firm's relationship with the government. The government affairs director in the high-tech innovation MNC explained it as follows:

Government affairs is long-term work. What distinguishes a successful government affairs professional is his or her ability to maintain a long-term, close communication with the government that gradually increases the levels of mutual understanding and trust. Therefore, it is crucial for the firm to hire people who are knowledgeable, trustworthy, honest, sincere, and respectful to people to be our government affairs personnel... Our overall relationship with the government depends on our individual government affairs staff.

### *Organizational Credibility*

Many participants stated that the Chinese government trusted their MNCs because of their company's expertise and reputation as the leading company in the industry in China and worldwide. Some of them mentioned that high tax revenue created by their MNCs allowed them to enjoy a good relationship with the government. The participant from the energy MNC said that she heightened governmental awareness of her firm and its credibility by sending out newsletters, reports, or materials introducing her firm's important achievements to strategic government authorities. The external affairs manager of the express-shipping MNC pointed out that holding a delegation tour to let government officials visit the MNC's headquarters in the United States was the most effective way to show the MNC's business scale and professionalism that directly contribute to organizational credibility. The increased organizational credibility strengthened the MNC's relationship with the government and "government officials would be willing to consider the MNC's position on an issue," the manager said.

*Summary of Research Question 7*

The MNCs showed several consistent patterns of practicing government affairs in China. The MNCs could interact with the government through five levels of communication channels, three lobbying mechanisms, and seven strategies. The communication channels, from top to bottom, were nation-to-nation negotiation, government official-to-government official negotiation, worldwide CEO to government official negotiation, country CEO to government official negotiation, and SBU president to government official negotiation. The MNCs could lobby the government independently; collectively with other affected companies or industry associations; or with the help from their embassies; chambers of commerce; and other home-government bodies. The seven political strategies were 1) lobbying, 2) political accommodation, 3) social accommodation, 4) personal relationships, 5) organizational credibility, 6) personal services, and 7) cooperation.

When dealing with administrative issues and operational problems, the MNCs often avoided direct confrontation with government officials. Instead, they used education and personal relationships to solve problems. The MNCs practiced proactive and reactive lobbying to influence policy-making in China. The MNCs practiced proactive lobbying (actively influencing how the government makes policy) to fend off potential threats to their business operations. The MNCs practiced reactive lobbying to modify an existing policy that posed negative impacts on its business operations. MNCs used independent lobbying, coalition lobbying, and third-party lobbying to proactively or reactively influence policy-making. They negotiated with the government to directly lobby its policy-making. The strategies of indirect lobbying included: 1) building

coalitions with think tanks, universities, or non-governmental organizations that advocates the MNC's position in the government; 2) organizing seminars and providing training on the issue for government officials; 3) circulating newsletters that contain certain messages from the companies; and 4) providing information relevant to the policy or regulation that supports the MNC's perspective to government officials (e.g., policies or regulations of the same subject matter used by other nations or international organizations, fact sheets, analysis papers, case studies, and research reports).

Agenda-setting theory well explained the effectiveness of indirect lobbying strategies. Within an authoritarian political system, the population has limited influence on policy-making. As a result, the MNCs I studied never used advocacy advertising and grassroots lobbying.

The MNCs used their partners in the government (i.e., state-owned companies, government departments, and administrators in the specific economic zones or free-tax zones) to mediate conflicts. When handling conflicts with government officials by themselves, the MNCs usually practiced integrative negotiation to seek a win-win situation. The MNCs used regular communication and interaction, cooperation, political and social accommodation, personal relationships, and organizational credibility to build and cultivate relationships with the government.

#### Research Question 8: Factors Affecting the Political Strategy Selection of MNCs in China

After identifying the political strategies used by the MNCs, this dissertation develops a conceptual model of effective corporate political strategies by identifying the

conditions under which a particular strategy can or cannot be effective. Therefore, I posed the following research question:

Research Question 8: What are the factors that influence the selection of political strategies of MNCs in China?

The propositions regarding this research question suggest an effective corporate political strategy must be ethical and consistent with the overall strategy of the organization. It also must embody a contingent view reflecting a given situation. In addition, the selection of an effective corporate political strategy is affected by the characteristics of the issue at hand, the targets of the issue, the MNC's relationship with the target in bargaining, the present agency problems, and organizational and industrial factors of the MNC (Getz, 1993).

#### *Factors Affecting the Selection of Political Strategies*

Participants noted that the following factors affected the selection of their political strategies: nature of the issue; China's policies, regulations, and laws; an MNC's overall business plan and business focus; organizational resources; agenda of the government authorities; political implication; and organizational value. However, the participants were not able to comment on this question in great detail. When answering this question, participants often said that they develop their strategy based on the issue or case by case. They did not apply a systematic framework in selecting a political strategy. Consequently, the participants could only tell me the factors they consider when developing their political strategies but did not give me many examples to elaborate on the factors.

### *Nature of the Issue*

All participants emphasized that strategies should be case-specific. The nature of an issue (i.e., what the issue is) primarily dictated what an effective strategy should be. When analyzing the nature of an issue, the MNCs focused on the issue's type, level of severity, opportunities and risks associated with it, and the stakeholders of an MNC affected by the issue.

### *China's Policies, Regulations, and Laws*

The external affairs manager of the express-shipping MNC pointed out that when developing a government affairs strategy, the MNC's first consideration was that the strategy must not violate any laws or regulations in China. The auto MNC, the consumer product MNC, and the chemical and safety solution MNC also emphasized adherence to laws and regulations as a factor when developing their political strategies. This seemed to be a bottom-line factor.

### *An MNC's Overall Business Plan and Stakeholders*

Several MNCs stressed that a chosen strategy must in sync with the overall strategy of the company. As discussed in the section on definition and parts of the government affairs function, government affairs should facilitate an MNC's business development by taking advantage of the opportunities in China's political environment. As a result, the chosen political strategy should in sync with the MNC's business goals and plans.

The government affairs manager of the pharmaceutical MNC pointed out two factors this MNC looked at when developing a government affairs strategy: the potential negative consequences of the strategy on the company's stakeholders and the estimated

outcome of a strategy in terms of possible loss of sales for the MNC. This manager explained that the pharmaceutical MNC strives to protect the interests of its stakeholders. As a result, this MNC chose political strategies that had the least-negative consequences on its stakeholders. In addition, the organization's bottom-line was a priority for this MNC's government affairs function. Therefore, it chose political strategies that would have the least-negative impact on the MNC's product sales.

#### *Organizational Resources*

Two MNCs noted that their government affairs departments' budget was an important factor when choosing a strategy because strategies need to be financially feasible. Organizational resources that were taken into consideration when choosing strategy include tangible assets (e.g., budget and manpower) and intangible assets (e.g., lobbying expertise and *guanxi* network) of an MNC.

#### *Agenda of the Government Authorities*

The vice-president of external affairs in the consumer product MNC and the vice president of government affairs in the multi-industry MNC argued that a political strategy should be congruent with the agenda of government authorities involved. After all, government officials were the target of MNCs' political strategies. Therefore, strategies should take government officials' agendas and interests into consideration. For example, if an MNC finds that its target government department needs to formulate a policy for employee pensions for the very first time, the MNC would apply a strategy that provides government officials information they need, such as holding a seminar or a speech given by an expert in the area. If an MNC's target government department sets its priority as

getting the bid for an international event, a strategy that improves the department's competitiveness in the bidding process (e.g., public diplomacy) could be effective.

#### *Political Implication*

Two participants noted that political implication was another factor affecting their MNCs' strategy selection. The government affairs manager in the information technology MNC cited an example of the 2004 visit of Singapore President Lee Kwan Yew to Taiwan. This meeting increased tension between China and Singapore. Faced with this turn of events, the MNC cancelled a planned visit of Chinese government officials to its offices in Singapore. Another example of this factor occurred when the Communist Party of China sought to establish a party branch within the electronics MNC. This MNC, which is Taiwan-based, agreed to having the branch established. This move, however, drew criticism from those who saw the MNC as accepting China's controversial stance that Taiwan is part of China and not an independent state.

#### *Organizational Value*

One participant pointed out that the MNC's values also played a role in determining the political strategies used by the MNC. The public affairs manager in the energy MNC stated that in addition to the nature of the issue and its business strategy, the chosen strategy should be "in line with organizational value... no harm to the environment, being transparent, and bringing profits to our stockholders."

#### *MNC-Government Relationships as a Factor to Eliminate Possible Strategies*

Interestingly, the relationship between an MNC and its target government officials was never identified as a factor that affects the selection of political strategies by an MNC. However, several participants did mention that they would not choose a

strategy that would damage the existing relationships between their MNCs and the Chinese government unless it was the last resort. This was because of the asymmetrical nature of relationship development between MNCs and government officials. Participants noted that it is very difficult to re-establish a good relationship with the government once the relationship is damaged. However, when an MNC had to use a strategy that was likely to have a negative impact on the MNC-government relationship, the strategy was often combined with other strategies meant to reduce damage. For example, when the networking-solution MNC decided to file a patent infringement lawsuit against a well-known Chinese corporation, the MNC made sure it informed the government before filing and kept officials updated throughout the lawsuit.

#### *Summary of Research Question 8*

Participants identified these factors that affect the selection of the MNC's political strategies: nature of the issue; China's policies, regulations, and laws; business plan and focus; stakeholders that have influence on the company; organizational resources; agenda of the government authorities; political implication; and organizational value. All people I interviewed selected a strategy to use based on their analyses of the issue at hand. Two findings are inconsistent with what the literature suggested. First, an MNC's relationship with its target government officials was never identified as a factor affecting the selection of its political strategies. Instead, the MNC's relationship with its target officials served as an eliminating factor for applied strategy. The MNCs, therefore, would not choose a strategy that might damage the existing relationships with the Chinese government unless it was the last resort. Second, none of the participants mentioned ethics as a factor for strategy selection. However, several MNCs made sure that their strategies were legal.

This finding suggests that the MNCs took a bottom-line approach when choosing a political strategy. They did not pay close attention to the ethical implications of their practices.

#### Research Question 9a: Criteria for Effectiveness of Government Affairs Strategy

One of this research's purposes is to propose a model of government affairs management applicable to MNCs in China. Considering the uniqueness of China's economic and socio-political environments, it is important to first understand what measures are in place and why they are chosen by individual MNCs in order to suggest effective measurements for MNCs in China.

Public affairs, like public relations, has been recognized as a difficult area to evaluate because it has an indirect impact on the bottom line, it is often associated with business failures rather than success, it primarily contributes to intangible assets of an organization, and its effects are often seen in the long term rather immediate. As a result, evaluation and measurements for public affairs are often lacking. Even if they are in place, they usually receive no more than two to three per cent of the public affairs budget (Fleisher, 2003).

Regardless, it is evident that evaluation is an essential part for all managerial functions (Wade & Recardo, 2001, Pearce & Robinson, 2003). Fleisher (1993a) argued that comprehensive evaluation and measurement systems for public affairs lead to an increased emphasis on planning, analytical processes, and systems of public affairs. These, in turn, advance public affairs management and also reward the function with larger budgets, more staff members (Fleisher, 1993b), more senior executive face time

(Fleisher, 2003), and an increased influence on other functions in an organization (Fleisher, 1993b). Therefore, I asked the following research question:

Research Question 9a: What are the factors the corporate public affairs professional in an MNC takes into consideration when judging the effectiveness of a chosen political strategy in a given situation?

*The MNC's Criteria for the Effectiveness of a Government Affairs Strategy*

J. Grunig and L. Grunig (2001) advocated that a sufficient evaluation of public affairs should be conducted at four different levels: the societal, organizational, functional, and program. In each level, the evaluation system and measures should differ because of different objectives. This research question examines MNCs' measures for their political strategy, parallel to the program level. The next research question will discuss the measures for the public affairs function as a whole. When developing measurements for individual public affairs programs, practitioners need to consider the following dimensions of objectives associated with the programs: 1) quantitative versus qualitative measurements, 2) direct versus indirect measurements, 3) measuring process versus product, 4) short- versus long-term perspectives, 5) single versus multiple measurements, and 6) measurements for tactical versus strategic public affairs (Fleisher, 2003, pp. 178-179).

Evaluation of individual political strategies was done through informal self review. All participants assessed objective achievement to measure the effectiveness of chosen strategies. Objective achievement is a criterion assessing the summative impact of a strategy. Cutlip, Center, and Broom (2000) defined summative impact as the success or

failure in reaching the objective. In addition to this criterion, several participants also looked at other possible outcomes.

Achievement of objectives was a measure used by all the MNCs because, as the public affairs head with the chemical MNC believed, "The result will speak for itself." Consequently, evaluation criteria for effectiveness were developed according to a strategy's objective. As the public affairs manager from the energy MNC said: "Measurement is difficult in the abstract. You have to be quite sure what you want to do." In the pharmaceutical and chemical MNCs, government affairs managers were required to specify measurable objectives of their programs during the proposal stage. They evaluated a strategy for individual programs by assessing whether the strategy led to the achievement of the objectives.

The multi-industry MNC assessed strategy effectiveness based on whether a strategy achieves its business objective. The top manager of government affairs in this MNC always set up strategy objectives in terms of tangible outcomes. Because this MNC viewed government affairs as a function to enhance its business growth, outcomes directly associated with the firm's financial performance were superior to indirect outcomes. Specifically, tangible outcomes included the number of projects approved by the government, the costs saved or benefits gained by successful lobbying, and the number of large governmental contacts gained through superior positioning of the MNC's proposals.

The oil and gas MNC and the information technology MNC determined effectiveness by outcomes other than objective achievement. This MNC acknowledged that some government affairs programs require long-term, constant work and several

trials to achieve their objectives. MNCs in highly regulated industries, such as the energy and oil industry, usually have this type of government affairs program. As a result, the oil and gas MNC considered a political program effective when it produced any positive outcome even if the program fails to achieve its objective. For example, the MNC implemented a government affairs program to promote a new business project with the Chinese government but eventually, the project was not gone through. In this case, the MNC would consider the program effective because it helped Chinese officials understand the project and the company itself better than before.

The information technology MNC evaluated the effectiveness of a strategy for lobbying by assessing whether the strategy affected shaping the policy dynamics favorable to the company (i.e., an outcome), rather than the success or failure of lobbying (i.e., goal attainment). The MNC implemented “service evaluations” to measure strategies’ impacts. The participant explained the service evaluations as follows:

We do service evaluations from an issues-management perspective... In the policy-making process, various groups with competing interests lobby the government to shape how the policy will be made. [In service evaluation,] we compare the policy dynamics of an issue before and after our government affairs efforts. Our goal is to make sure that after our efforts, the overall policy dynamics is in favor to our position on the issue at hand. Only when it is the case, we can credit our efforts.

#### *Additional Criteria at the Strategy Level*

To better understand how participants viewed the evaluation of strategy effectiveness, I asked a follow-up question regarding additional criteria they would use to

evaluate the effectiveness of chosen strategies. Several participants mentioned two other criteria of strategy effectiveness: quality of MNC-government relationships and the reputation of an organization. The president of the building material manufacturing MNC stated that he would consider a strategy effective when it cultivates the quality of the relationship his MNC has with the government after its implementation (even if the strategy failed to achieve the desired objective). The government affairs manager of the power engine MNC mentioned that she would look at whether a strategy improves the reputation of her firm.

#### *Summary of Research Question 9a*

The lack of formal evaluation of political strategies, as reported by the participants, might be because of top management mindsets. In the MNCs that implemented formal evaluation of government affairs, their evaluation systems focused on the outcomes of government affairs. This approach showed that the top management in those MNCs viewed outcomes as superior to processes. Therefore, government affairs managers were used to judging their effectiveness based on the outcomes of their projects or programs. In this context, strategies were merely the tools to the outcomes. Government affairs managers only exercised self-evaluation of the strategy's effectiveness to modify the strategy, if necessary, to achieve the objective.

#### *Research Question 9b: Criteria for Effectiveness of the Government Affairs Function*

Even if individual public affairs strategies effectively cause desired outcomes that lead to achievement of program objectives, the overall public affairs function is not necessarily effective. The stakeholder approach of strategic management assumes that successful programs contribute to an organization's effectiveness only when they do not

work against the expectations of the organization's strategic stakeholders. Therefore, J. Grunig and L. Grunig (2001) argued that the public affairs function will be effective only when it is integrated into the overall management process in which the public affairs manager chooses appropriate publics and objectives for individual programs. The function as a whole can be evaluated by benchmarking its structure and process with either similar departments in other organizations or theoretical principles derived from scholarship. These audits can be conducted through self evaluation or peer review. In summary, evaluation of the government affairs function as a whole along with program evaluation is needed to better manage the function. In addition, evaluation at the functional level should be more than the assessment of success or failure of individual programs. The following research question was posed to explore the criteria, if any, used by the MNCs for assessing the effectiveness of the government affairs function:

Research Question 9b: How do MNCs in China evaluate the effectiveness of their overall public affairs function?

Most participants stated they did not evaluate the effectiveness of their overall government affairs function. When asked why, they answered that they could not find a sufficient measure to employ, did not know how to do it, or were not asked by the management to do so. However, all participants, regardless of whether they had government affairs measures in place or not, emphasized the difficulty of evaluating the effectiveness of government affairs as a function. Therefore, it made this question most interesting to the participants throughout the interview and they were very keen to learn any useful measures that I could offer.

*Formal Evaluation of Effectiveness of the Function*

Only five out of the 25 MNCs had ever conducted formal evaluation on the effectiveness of government affairs, including perceptual audit, performance assessment, reputation survey, and relationship quality assessment. The information technology MNC conducted performance reviews on individual staff in the department every six months. In addition, the department produced an annual government program achievement report to inform the top management and other functions in the company on what the department had contributed to other functions and the company as a whole.

The networking-solution MNC once conducted a perceptual audit among its strategic government officials to assess its government affairs effectiveness. The perceptual audit was designed to assess the stakeholders' knowledge and perception of the company. The MNC's reasoning for the perceptual audit was that the more knowledge and the more positive perception the stakeholders have of the company, the more effective its overall government affairs function is. Aside from this one-time perceptual audit, the MNC did not evaluate the function.

The energy MNC employed a combination of performance assessment and reputation survey to evaluate the effectiveness of its external communication team that is responsible for the management of the MNC's interactions with the government. The company also reviewed deliverables of individual members of the team. It conducted a reputation survey to measure some specific aspects of the overall performance of the team.

The chemical MNC evaluated the effectiveness of the overall function of public affairs where government affairs is housed. This MNC conducted service evaluations

through peer review by the department's major internal clients. The public affairs director of the MNC described this evaluation process as follows:

In the beginning of the year, my staff and I will talk to our major [internal] clients to ask them what are the three to five must-do things in their jobs and what can PA do to help them. So, we get requests from clients and we prioritize the requests. And we go back to our clients to let them know that we are set to help them. At the end of the year, we will go back to ask them if they are satisfied with our services based on a scorecard<sup>26</sup>...During the course of the year, we should have communication with clients from time to time. And we modify our services based on their comments. So toward the end of the year, we present the clients our self-evaluated scorecards to discuss with them. The idea is there should be no discrepancies between the evaluations [from us and the clients]. After all, my mission is to support the business.

This public affairs head said that no single measurement or index is adequate enough to evaluate the effectiveness of government affairs. The best the department can do is to set up measurable objectives of individual projects or programs. As a result, the service evaluation was designed to demonstrate the effectiveness of the department based on the aggregate of individual programs' achievement and service satisfaction. This participant was aware that the service evaluation might not be objective because it was done from an inward-looking perspective. However, he also noted the difficulty of doing

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<sup>26</sup> A scorecard is an evaluation tool derived from the balanced scorecard approach of strategic management developed by Kaplan and Norton (1996). A scorecard retains financial and non-financial metrics from various perspectives for evaluation. Data on the scorecard provide evidence of output and outcome assessments of an organization.

an outward evaluation: "... the challenge we face is that 'yes, we want to have an outward looking [evaluation], but how?'"

The multi-industry MNC also used performance assessment to evaluate its government affairs function. At the beginning of each year, the head of government affairs would propose a list of tasks to the CEO in China that the department wanted to achieve. After the CEO approved the proposed list, the performance of the department would be assessed based on the extent to which the department had accomplished the tasks.

#### *Informal Evaluation of Effectiveness of the Function*

Among the MNCs evaluating the effectiveness of the government affairs function, most relied on the self-evaluation of the head of government affairs. Most of the government affairs heads assessed the department's achievement of the programs to evaluate the effectiveness of the function. Two MNCs used other criteria for their evaluation. The government affairs manager in the high-tech innovation MNC said that the support of the sales department was the best indicator of the effectiveness of his department. He worked closely with the sales department to contribute to the MNC's business development in China. Therefore, the manager considered the support of his colleagues to him and his department as the evidence of the value of the department in the company.

For the direct-selling MNC, the quality of the relationships the MNC has with its strategic government departments and officials reflected the effectiveness of the government affairs function. The president of the MNC believed that evaluation criteria for government affairs are essential; however, he also argued that the criteria are tricky

because of the intangible nature of relationships. This was the reason this president gave for why his MNC did not implement systematic evaluation of government affairs. Nevertheless, the president used three criteria of relationship quality for his self evaluation of the government affairs function. The first criterion was the media's opinions on the MNC's projects in China. Major news media in China are state-owned and represent the government's opinion. In his perspective, if one project receives wide and positive media coverage, this has two implications. One is that the government has a pretty good understanding of the project. The other is that the government actually encourages the project.

The second criterion was the interaction between the company and the city, provincial, and central governments. This interaction includes regular communication, meetings, invitations to government events, and nominations to governmental posts. For example, the president of the direct-selling MNC was appointed the vice president of the local Foreign Investment Commission (FIC) by the city government. The commission president is a senior government official who heads the city's Foreign Economic Relations and Trade Commission. Since the MNC is located in one of the most developed cities in China, this appointment, according to the MNC president, shows that the city government views the MNC as "a competitive company that the government trusts enough to choose as a partner." Therefore, in his view, this served as a crucial indicator of the quality relationship the MNC has with the government.

The last criterion was the number of senior government officials the MNC has direct access to. When the top managers of the direct-selling MNC visited the city, they were able to conduct meetings with the city mayor or vice mayor. The president saw this

level of access as evidence of the government's good understanding and positive recognition of the MNC's performance in China. This further indicated the positive relationship between the MNC and the government.

Interestingly, two participants did not see the need for evaluating the government affairs function. Their argument was that government affairs is essential to their companies. Therefore, the function should not need to justify its worthiness by showing how much it contributes to the company. If the function is asked to show its effectiveness and contribution to the company, it means that the company sees the function as a supporting rather than core function. To these two participants, companies only require evaluation of a supporting function because they need to know the return on investment of the function to determine whether the function is worth keeping.

#### *Problems of Government Affairs Evaluation*

Although the majority of participants did not evaluate their government affairs function, this does not mean participants have never thought about doing evaluations. All participants said government affairs is difficult, if not impossible, to evaluate. Some of the participants pointed out the specific difficulties of doing so. First, some of the impacts of government affairs practice are intangible and sometimes take a long time to appear. Second, outcomes of government affairs cannot always be quantified. The participants relied on quantitative measurement because the top management often emphasized numbers more than words as Fleisher (2003) argued. Also, historically, their organizations had used quantitative rather than qualitative measures.

*Additional Criteria at the Functional Level*

I also probed my participants for the criteria they would use to evaluate their government affairs functions. The participants revealed a few additional criteria : 1) the MNC having at least one contact in each government agency and department, 2) getting the information from the government in a timely manner, 3) strategic government officials having a good understanding of the MNC, 4) the MNC having established a good reputation or corporate image among its strategic government officials, 5) having autonomy in its business development as long as it follows the laws and regulations in China, and 6) MNC's government affairs specialists being ethical and sincere.

*Summary of Research Question 9b*

Few participating MNCs evaluated the effectiveness of the government affairs function as a whole. Outcomes of individual programs conducted by the government affairs function were the most frequently used criterion for assessing the effectiveness of the function. Other criteria, based on their commonness, were: 1) performance or services provided by the function, 2) the quality of MNC-government relationships, 3) government officers' perception of the MNCs (organizational reputation), 4) number of access to senior government officials, 6) frequency of MNC-government interaction, and 7) support from other functions in the company. In contrast to what the literature has suggested, the function's integration with the overall management in the MNC was never a criterion even though many MNCs did incorporate government affairs into their overall strategic management. This gap between practice and theoretical principle might be because of two reasons.

First, most government affairs managers in MNCs in China were local Chinese who did not have academic training in government affairs. They often had background in different levels of Chinese government or public relations. Therefore, evaluation is relatively a new arena for government affairs managers. Consequently, they would only think of using the outcomes of government affairs programs, the most obvious and understandable results, to show their effectiveness to the top management.

Second, government affairs tended to be a staff function that works with line functions in the MNC. Thus, government affairs managers worked closely with organizational peers who commonly deal with numbers in their work, such as marketing, sales, business development, and SBUs. Affected by this environment, it is understandable that government affairs managers demonstrated their effectiveness based on their contribution to organizational goals rather than their participation in strategic management.

Even though some MNCs evaluated government affairs function by their outcomes, this does not mean the participants are satisfied with this common measurement. They mentioned that their evaluation is the way it is because they cannot think of a better one. It was evident that the participants were concerned about the appropriateness of the outcome-oriented evaluation they primarily used. They had several secondary criteria to assess the effectiveness of government affairs. These criteria included an MNC's contact in each government department, access to information from the government, government officials' understanding of an MNC, an MNC's reputation or image among government officials, the extent of an MNC's autonomy in its business development, and the ethics and sincerity of an MNC's

government affairs staff. In addition, they considered assessing the function through external review as a way to improve their evaluation but they did not have adequate knowledge to perform an external review on government affairs. The participants actively sought information about measurement and evaluation.

## CHAPTER VI

### CONCLUSION AND IMPLICATION

The purposes of the research are to ascertain how multinational corporations in China interact with the Chinese government to attempt to influence its industry policies and regulations and to develop a normative theory of strategic management of government affairs. This chapter will establish the research's success in fulfilling both purposes. Three results of this study most significant to public relations should be highlighted. First, with a socialist market economy and an authoritarian political system, multinational corporations (MNCs) in China interacted with the Chinese government to strategically manage opportunities and threats in their task environments. Second, government affairs contributed to the achievement of organizational goals by 1) participating in the MNCs' strategic management processes through four roles (i.e., business developer, expert prescriber, senior adviser, and internal consultant), 2) managing issues affecting the MNCs, and 3) cultivating the MNCs' relationships with key stakeholders through communication and corporate behaviors. Third, there were consistent patterns of political activities of the MNCs in China. However, the economics of individual MNCs let them more frequently use some patterns than others.

Chapter 5 gives detailed accounts of my results on the research questions I posed. This chapter provides the interpretative discussion of the findings and their implications that lead to the refined models of government affairs management later in the chapter. I begin by recapping main findings, discussing the unexpected findings and propositions, and posing my revised models. I then discuss the study's implications for scholarship

and practice, limitations, and evaluation. I conclude the chapter with suggestions for future research.

### Overview of Major Results

#### *The Government Affairs Function in China*

Table 11 provides a summary of main findings. The interviewed MNCs constantly interacted with different levels of government to manage opportunities and threats in their task environments. Participants used “government affairs” to represent the management of business-government interaction. The government affairs function in the participating MNCs contains the following parts: communication management, issues management, business development, problem solving, conflict resolution, crisis management, event and activity organization, and relationship management. The MNCs put different emphasis on the parts regarding their business plans (e.g., government procurement) and business investment phases (i.e., the entry, country development, and global integration phases) in China. For example, the dominant coalitions of those MNCs targeting the government as their customer expected government affairs to contribute to the firms’ bottom line (e.g., business development) by assisting their firms in securing government procurement.

Also, as K. Lieberthal and G. Lieberthal (2003) argued, MNCs’ China operations evolve through three distinct periods. Each phase has different goal and based on that, the role of the MNC’s China office and the profile of its ideal China manager vary. In the entry phase, the main goal of an MNC is to establish a presence in China through the right business model, one which would emphasize its competitive values. Its China managers should have creativity and experience to start a new business in a foreign

market and its China office should provide support to its business units entering the market and make an effort to establish the corporate brand with local and national government. In the country-development phase, an MNC strives to expand its operation in China to several initiatives and localities. As a result, its China office contributes to organizational effectiveness by 1) building brand awareness with strategic publics, especially customers, 2) coordinating lobbying and negotiation with Chinese government across business units, 3) articulating a “one face to China” strategy, and 4) managing awareness of operations in China at corporate headquarters. A strong tie to leadership at corporate headquarters and the ability to communicate across a corporate matrix are the qualifications for senior China managers. In the phase of global integration, an MNC aims to fully integrate its China operations into regional and global efforts. The role of the China office is to implement further regional and global strategy for its operations and, thus, the senior China manager must be able to work with several business divisions across nations. Therefore, those MNCs in the entry phase of their China operations expect their government affairs to assist the firm in solving problems in the license-application process whereas the government affairs of MNCs in their country-development phase focuses on issues management, relationship management, and business development with coordinating business units and government authorities (K. Lieberthal & G. Lieberthal, 2003).

Table 11

*Summary of Main Findings*

Item	Findings
Definition of government affairs	<ul style="list-style-type: none"> <li>● The management of business-government interaction</li> <li>● Contains communication management, issues management, business development, problem solving, conflict resolution, crisis management, event and activity organization, and relationship management</li> </ul>
The organizational structure of government affairs	<ul style="list-style-type: none"> <li>● A single, specialized department separate from other functions</li> <li>● Housed in other departments, such as external affairs, public affairs, public relations, communications, finance and accounting, and the office of the general manager</li> <li>● Performed by the top-executives (presidents or CEOs)</li> <li>● Two levels: corporate and local</li> <li>● Uses outside services for assistance in guanxi establishment, research and counsel, lobbying, and resolving problems encountered in the license-application process</li> </ul>

(continued)

Table 11

*Summary of Main Findings (continued)*

Item	Findings
Government affairs in a firm's overall strategic management	<ul style="list-style-type: none"> <li>● Plays four roles in the process: business developer, expert prescriber, senior adviser, and internal consultant</li> <li>● Participation determined by excellence in government affairs, organizational mechanisms of management, organizational expectation and culture, and the nature of the MNC's industry</li> </ul>
Issues management in government affairs	<ul style="list-style-type: none"> <li>● An essential part of government affairs in MNCs because of China's developing regulatory structure and entry to the WTO</li> <li>● Issues management contains five steps: environmental scanning, issues identification, issue monitoring or strategy formulation, action-plan implementation, and evaluation</li> <li>● Some MNCs have a standardized process of issues management that is applied globally</li> <li>● Two structures of the issues-management team: the core team and the issue-based team</li> </ul>

(continued)

Table 11

*Summary of Main Findings (continued)*

Item	Findings
Relationship management in government affairs	<ul style="list-style-type: none"> <li data-bbox="638 499 1410 678">● A guanxi-based society increases the importance of quality relationships on government affairs' effectiveness</li> <li data-bbox="638 712 1410 891">● Quality relationships with government officials render access to the government and favorable treatment from the government</li> <li data-bbox="638 925 1410 1317">● Eight stakeholders in China's political environment to build relationships with: government officials, Chinese business partners, embassies, associations for industries and foreign-funded enterprises, commercial organizations, think tanks and universities, media, and non-government organizations</li> <li data-bbox="638 1350 1410 1664">● MNC-Chinese government relationships can be described by five sets of variables: 1) competitive and cooperative, 2) exchange and communal, 3) asymmetrical and symmetrical, 4) interpersonal and organizational, and 5) ethical and unethical</li> </ul>

(continued)

Table 11

*Summary of Main Findings (continued)*

Item	Findings
Government affairs management	<ul style="list-style-type: none"> <li>● Issue-driven, short-term focused, and little research-based</li> <li>● MNCs have more advantages than local Chinese firms in government affairs, such as their global knowledge, global network, advanced technology, and brand names</li> <li>● Nationalism and protectionism are the disadvantages for MNCs trying to practice government affairs</li> </ul>
MNCs' political strategies	<ul style="list-style-type: none"> <li>● Three consistent patterns of MNCs' government affairs practices in China, five levels of communication channels, three lobbying mechanisms, and seven political strategies</li> <li>● For administrative and operational problems, the MNCs avoid direct conflicts and use education and personal relationships to solve the problems</li> <li>● Proactive and reactive lobbying are practiced to influence policy-making in China</li> <li>● Third-party mediation and integrative negotiation to manage conflicts</li> </ul>

(continued)

Table 11

*Summary of Main Findings (continued)*

Item	Findings
MNCs' political strategies	<ul style="list-style-type: none"> <li>● Regular communication and interaction, cooperation, political and social accommodation, personal relationships, and organizational credibility to build and cultivate relationships with the government</li> </ul>
Factors affecting the selection of political strategies	<ul style="list-style-type: none"> <li>● Nature of the issue; China's policies, regulations, and laws; business plan and focus; organizational resources; agenda of the government authorities; political implication; and organizational value</li> </ul>
Evaluation of government affairs effectiveness	<ul style="list-style-type: none"> <li>● A political strategy's effectiveness is evaluated by the realization of goals via self-evaluation</li> <li>● In addition to this criterion, quality of MNC-government relationships and the reputation of an organization are used to assess effectiveness</li> <li>● At the functional level, all MNCs evaluate government affairs effectiveness by the accumulation of individual programs' goal attainment</li> <li>● Some MNCs use secondary criteria to overcome the weakness of the goal-achievement approach</li> </ul>

### *Government Affairs Management*

#### *Organizational Structure of Government Affairs in MNCs*

Government affairs in the studied MNCs either has its own separate department (with names such as government programs, government relations, and the like) or is housed in various departments (i.e., public affairs, public relations, communications, and finance and accounting) and in the general manager's office. The participating MNCs in China have two levels of government affairs—the corporate and local—mainly because of China's massive size and its complicated government structure. The corporate level focuses on the company's overall management of the interaction with the central government. The local function concentrates on the relationship with local governments that supervise the MNCs' local operations.

#### *Government Affairs in Strategic Management of MNCs*

The Excellence theory suggests that public relations has its greatest value to an organization when it participates in the strategic management of the organization by bridging organizational goals and the expectations of its strategic publics. The findings of this research indicate that many senior government affairs managers participated in their firms' strategic management to modify their organizations' behaviors based on the government's agenda or decisions. They contributed to companies' strategic management through four roles: business developer, expert prescriber, senior adviser, and internal consultant. Similar to the environmental influence on the roles of public relations practitioners argued by Cutlip et al. (2000), a government affairs manager's dominant role reflects the needs of an organization derived from its external environment. Business developers dominate in MNCs in a highly regulated industry with rapidly

changing environments. MNCs in highly regulated industries with relatively stable environments tend to have their government affairs managers as expert prescribers. In a loosely regulated industry with much turbulence, MNCs expect their government affairs managers to be business developers, expert prescribers, or senior advisors depending on the extent to which an MNC's competitive value is subject to changes of policy or regulation. Internal consultants and senior advisors appear in MNCs in loosely regulated industries with little change. One thing should be noted: Environmental influence is a factor that establishes the tendency of a particular role enactment according to systems theory. The actual role enactment should be determined by environmental, personal, and organizational factors.

Consistent with the conclusions of the Excellent study, the demand of the dominant coalition to include government affairs in the strategic management process is a result of a combination of factors: the government affairs manager's professional knowledge, organizational management style, the management's view on government affairs, and organizational culture. In addition to the factors above, the nature of an MNC's industry (i.e., industry regulation) serves as a mediating factor that determines government affairs' participation in strategic management. That is, when an MNC operates in a highly regulated industry, the government's influence on the MNC's business is more salient than on those in a loosely regulated industry. As a result, the MNC must form a professional government affairs function that is tightly integrated into its overall strategic management to improve organizational effectiveness. Government affairs is most likely to contribute to organizational effectiveness when it manages an

organization's interdependence by building long-term, quality relationships with strategic publics in the government that bring mutual benefits.

#### *Management of Government Affairs Programs*

As for the strategic management of the government affairs function, the data showed that the studied MNCs manage their government affairs programs to a varying extent. That is, the MNCs detect problems (i.e., opportunities, threats, or concerns) through environmental scanning, set up goals and objectives of programs for the identified problems, develop strategies and related communication and action tactics, implement programs, and evaluate program effectiveness. Among the eight identified functions of government affairs, most MNCs make use of systematic processes to strategically manage their issues.

Nevertheless, there are weaknesses associated with the MNCs' management of government affairs programs. First, government affairs programs are mainly developed for emerging issues and focused on short-term objectives. This leads to a loss of a long-term focus of the function that emphasizes the value of government affairs to organizational effectiveness. Second, and more importantly, the evaluations of government affairs in the MNCs are still underdeveloped. No programs can be strategically managed until they are adequately evaluated. Many MNCs said that they have not systematically evaluated their government affairs programs. Others expressed their constraints on adequately evaluating the effectiveness of government affairs programs, such as little knowledge of measurement, limited research abilities, and low motivation for doing evaluation.

### *Issues Management*

Issues management is one of the core parts of government affairs, especially in China. The transition from a planned economy to a socialist market economy is not an easy task that can be done overnight. It requires relevant economic and regulatory reforms to facilitate its success. These reforms result in numerous changes of policies or regulations and structural transformation of industries that create opportunities or obstacles for organizations. As a result, being successful in China's market means keeping up with and adjusting to the latest changes. Government affairs professionals practice issues management to detect and manage issues (usually policy or regulatory issues) that create opportunities or pose threats to an organization. This knowledge allows them to provide consultancy to the dominant coalition.

Most MNCs in this study practiced issues management on a daily basis. Some even formalized a procedure that is adopted by every country office of the MNCs. In addition, MNCs have businesses in different parts of the world. Issues happening in one country may affect publics in another. As a result, the MNCs' local issues-management teams not only manage local issues but also report such issues to their global or Asia-Pacific headquarters. Also, some studied MNCs form a global network of issues management to better manage issues affecting multiple markets. The global network allows information and resource sharing among government affairs managers in different countries.

I believe that the ever-changing environment in China creates the demand for excellent issues management in government affairs from the dominant coalition. MNCs' accumulative knowledge on issues management from other markets and hiring Chinese

locals who have background in public service allow government affairs practitioners in the MNCs to fulfill the dominant coalition's demand. This demand-delivery loop, as Dozier, J. Grunig, & L. Grunig (1995) argued, facilitates the advancement of issues management in MNCs and the participation of government affairs managers in strategic management of organizations. My data confirm Dozier's assertion. In the interviews, most participants were familiar with the term "issues management" and their descriptions of how their MNCs manage issues reflect a textbook example of how to conduct issues management. In addition, most government affairs managers participate in the MNCs' strategic management process through different roles.

#### *Relationship Management*

Relationship management is a part of strategic government affairs that connects it to the organizational effectiveness of MNCs. The relationships that an organization has with its strategic publics are asserts of the organization, especially in a *guanxi*-based society such as China. Business-government relationships provide the MNCs venues for communicating with their target government officials. Communication then elicits information on changes (both potential and actual ones) in an organization's external, especially political environment. Accurate and timely information is a necessity for the success of issues management and proactive lobbying.

The stakeholders existing in the political environment of the MNCs in this study include government officials, Chinese business partners, embassies, associations for industries and foreign-funded enterprises, commercial organizations, think tanks, universities, media, and non-government organizations. Government affairs is the most strategic Chinese public for all studied MNCs because China's authoritarian political

system and socialist market economy allow the government power to interfere with business operations when it perceives the need to do so. Relationships between the MNC and the government can be understood through five pairs of continuous variables: complete and cooperative, exchange and communal, symmetrical and asymmetrical, interpersonal and organizational, and ethical and unethical.

The MNCs cultivated relationships between their organizations and identified stakeholders through a combination of strategies, such as maintaining regular communication and interaction, providing political and social accommodations, improving personal relationships, and increasing organizational credibility. The specific tactics and examples of these strategies are discussed in the answers to RQ7d. The following is a discussion of the relationship outcomes cultivated by each of the identified strategies.

#### *Communication and Interaction*

Organizational relationships with government affairs provide access for regular communication and interaction between an organization and its strategic government officials. Communication and other interactions improve mutual understanding between business and government. Mutual understanding, in turn, may lead to satisfaction.

#### *Cooperation*

Good cooperation that creates mutual benefits to the MNC and the government enhances the communal dimension of MNC-government relationships. It also cultivates satisfaction, trust, commitment, and control mutuality. Successful cooperation directly improves the satisfaction both parties have with their relationship. Successful cooperation also establishes the MNC competence among government officials and, thus,

it cultivates the government's trust of the MNC. For example, several MNCs in this study worked with the government to formulate regulations regarding aviation safety, energy use, and environment protection. This collaboration helped government officials get to know the MNCs better and become more satisfied with them for their assistance. The collaboration also enhanced the government's trust of the MNCs because of their expertise and knowledge of relevant regulations in various countries. Relational satisfaction and dependence on the MNCs for regulation formulation cultivate the government's commitment to its relationships with the MNCs. A high level of government trust in MNCs increases the MNCs' influence on policy formation, that is, control mutuality.

#### *Political Accommodation*

Political accommodation refers to the responsiveness or contribution to a nation's political concerns. As a participant said, this strategy is to make the government official's job easy. Political accommodation should significantly contribute to three relational outcomes: satisfaction, trust, and control mutuality. When MNCs make Chinese bureaucrats' jobs easy by providing them with information, knowledge, and expertise necessary for policy formulation or public administration, the bureaucrats surely become more satisfied with the MNCs.

#### *Social Accommodation*

When practicing social accommodation, an organization cultivates its relationship with the government by solving its nation's social issues. Social accommodation is often seen as an organizational behavior of fulfilling its social responsibility. Therefore, I argue that social accommodation directly increases an

organization's commitment to its host nation, as perceived by government officials.

Increased commitment to the nation, in turn, increases the government's satisfaction with the organization. Even though I discussed political and social accommodation as two separate relationship cultivation strategies, it should be noted that they could be the same strategy because in some cases, social and political problems merge.

### *Personal Relationships*

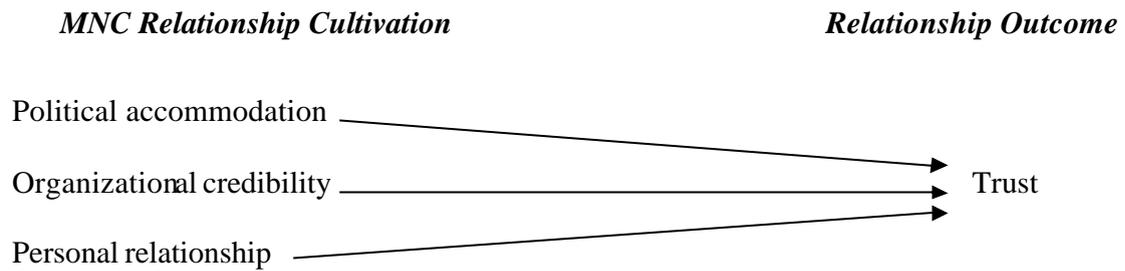
Personal relationships are crucial in cultivating organization-government relationships by enhancing satisfaction. No matter whether in Washington, DC, or Beijing, effective lobbying usually involves who you know, not what you know. Even though public relations focuses on building organization-public relationships by shaping organizational behaviors that fulfill the expectations of strategic publics, in most cases these organization-public relationships are cultivated by, if not started with, personal relationships. Publics are groups of people who recognize a similar problem. Therefore, they usually have representatives to effectively interact with an organization, such as the board of investors, union representatives, community leaders, and contact persons in the media and the government. Consumers spread out in the marketplace. They do not form a group or have representatives until they become active for an issue. Public relations managers communicate with these individuals to exchange information. Quality personal relationships between public relations practitioners and publics' representatives promote the willingness for mutual understanding, increase the quantity and quality of information exchanged, and contribute to communication effectiveness. For example, media relations and government relations are built from interpersonal relationships between corporate staff members and their contacts in the media or government. In addition, my results

show that good interpersonal interactions between an organization's employees and its publics improve the organization's relationships with publics. For example, the consumer-product MNC ensures that its public affairs practitioners establish a good relationship with a contact in each government authority that is strategic to its business. The vice president of external affairs believes the interpersonal relationships can help the organization build organization-public relationships with the authorities. This conclusion echoes Rhee's (2004) finding that good relationships an organization's employees build with individual community residents greatly enhance the relationship between the organization and the community at large.

#### *Organizational Credibility*

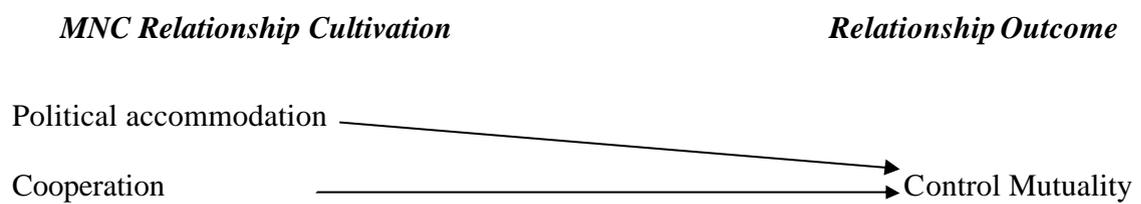
Sources of organizational credibility include good products or services, adherence to laws and regulations, fulfillment of social responsibilities, experience in partnering with state-owned companies or in collaborating with government departments, and corporate reputation. Organizational credibility often increases the government's perceived trust toward, satisfaction with, and commitment to the MNC-government relationship.

Figures 6, 7, 8, and 9 summarize the strategies for cultivating trust, control mutuality, commitment, and satisfaction in MNC-Chinese government relationships respectively.



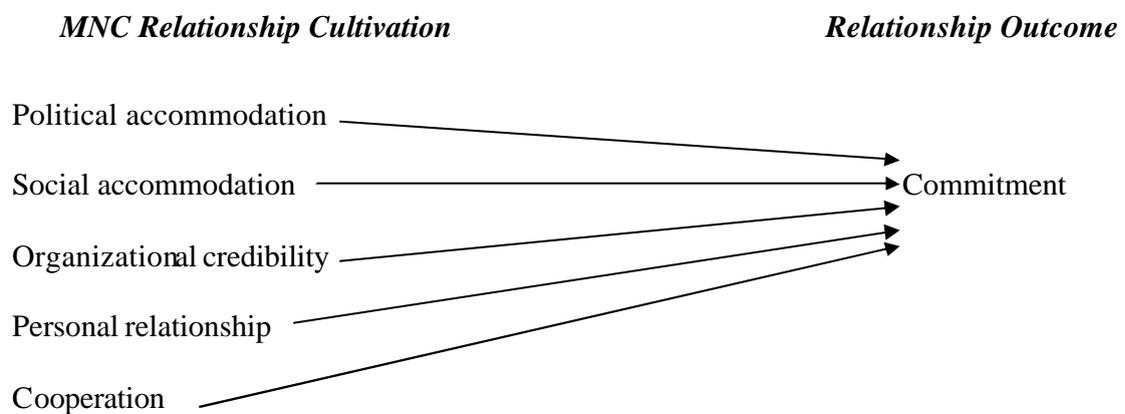
*Figure 6.* MNC Strategies for Cultivating Trust in MNC-Chinese Government

Relationships.



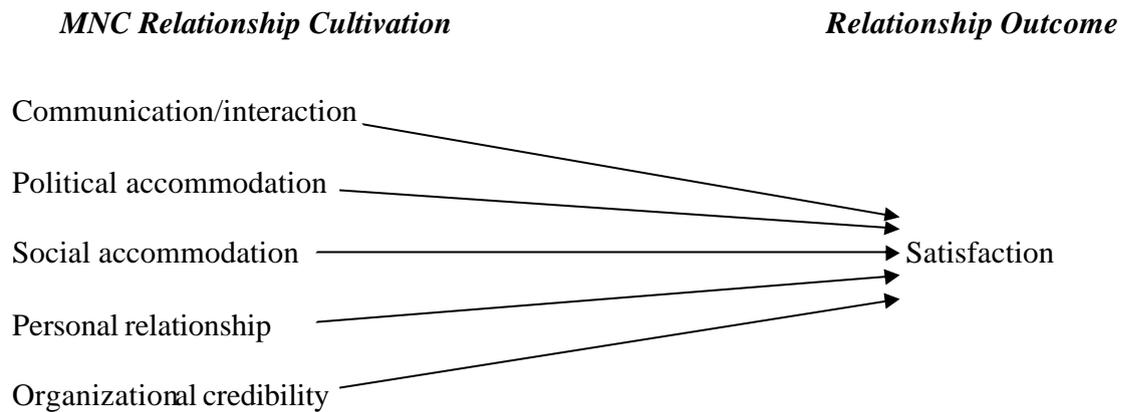
*Figure 7.* MNC Strategies for Cultivating Control Mutuality in MNC-Chinese

Government Relationships.



*Figure 8.* MNC Strategies for Cultivating Commitment in MNC-Chinese Government

Relationships.



*Figure 9.* MNC Strategies for Cultivating Satisfaction in MNC-Chinese Government Relationships.

#### *Government Affairs Strategies*

The MNCs showed several consistent patterns of practicing government affairs in China. The MNCs could interact with the government through five levels of communication channels, three lobbying mechanisms, and seven strategies. The communication channels, from top to bottom, were nation-to-nation negotiation, government official-to-government official negotiation, worldwide CEO to government official negotiation, country CEO to government official negotiation, and SBU president to government official negotiation. The MNCs could lobby the government independently; collectively with other affected companies or industry associations; or with the help from their embassies, chambers of commerce, and other home-government bodies. The seven political strategies were 1) lobbying, 2) political accommodation, 3) social accommodation, 4) personal relationships, 5) organizational credibility, 6) personal services, and 7) cooperation. When dealing with administrative issues and operational problems, the participating MNCs often avoided direct confrontation with government officials and used education and personal relationships to solve problems. The MNCs

used their partners in the government (i.e., state-owned companies, government departments, and administrators in the specific economic zones or free-tax zones) to mediate conflicts. When handling conflicts with government officials by themselves, the MNCs usually practiced integrative negotiation to seek a win-win situation.

Except for the five levels of communication channels for government affairs, the other corporate political strategies applied by the participating MNCs in China are consistent with what the Western literature of corporate political actions and public affairs suggests. The different communication levels, I believe, are unique to the context between an MNC and its host country's government. This pattern, so salient in the government affairs of MNCs in China, may result from the emphasis on hierarchy in Chinese culture, especially in the culture of Chinese government officials (*guan chang wen hua*, 官場文化). I cannot conclude whether these levels of communication channel are also applicable to MNCs' communication with governments elsewhere because I have not seen any parallels in my review of relevant literature.

One obvious difference between the corporate political action in the West and in China is the use of advocacy advertising and grassroots lobbying. This difference undoubtedly results from the difference between democratic and authoritarian political systems. With an authoritarian political system, the MNCs I studied in China never used advocacy advertising and grassroots lobbying because the general population has little influence on policy-making. Also because of this fundamental difference in political systems, the MNCs' publics in their socio-political environment (e.g., government officials, embassies, chambers of commerce, and universities) are different from those of MNCs in democratic countries (e.g., legislators, the media, and the interest groups).

Two unexpected political strategies found by this study are public diplomacy and foreign liaisons. Public diplomacy occurs when MNCs actively promote the national image of a host government on its interest in their home countries or in the international arena. Foreign liaisons are events the MNCs initiate or are involved in to improve interaction between China and another country. These two strategies are effective in China because China is aggressively integrating itself into the global community and local companies cannot provide these services to the government. Public diplomacy contributes to China's global integration by improving people's perception of China in an international setting. In addition, Chinese culture emphasizes "face." Improving China's image in other countries is a behavior to "restore its positive face." As a result, the Chinese government and the Chinese locals would perceive public diplomacy as a "public favor" from an MNC and feel favorably towards the MNC. Foreign liaisons could contribute to attracting foreign direct investment in China, which is the priority of local, regional, and central governments in China.

Political strategies are chosen based on several factors: nature of the issue; China's policies, regulations, and laws; business plan and focus; organizational resources; agenda of the government authorities; political implication; and organizational value. Political implication should be noted among the factors. Political implication considers the tension and changes of international relations between China and other countries. To accurately judge the possible political implication of a strategy, a government affairs practitioner needs to be sensitive to the histories and current situations between China and other countries. Taiwanese and Japanese MNCs should pay especially close

attention to possible political implications associated with a strategy during the strategy selection.

#### *Evaluation of Government Affairs*

Not surprisingly, the studied MNCs in China do not emphasize evaluation of government affairs because they could not find a sufficient measure to employ, did not know how to do it, or were not asked by the management to do so. These reasons are the same as what Fleisher (2003) found. One unexpected reason for lack of evaluation raised by two participants is that only secondary functions of an organization need to conduct evaluation to prove their return on investment. They believed because government affairs is a core function of an organization, it is not necessary for government affairs to conduct evaluation.

MNCs evaluate the effectiveness of a political strategy based on the realization of goals by self-assessment. The effectiveness of government affairs, at the functional level, is determined by the accumulation of achievement of individual programs' goals. Most MNCs use only quantitative measures for goal achievement. The participants are concerned about the appropriateness of the outcome-oriented evaluation with only the quantitative measures they primarily use. Therefore, the participants actively seek information about measurement and evaluation methods by asking me to provide them relevant information.

A Review of the Propositions and Their Implications for  
Public Relations Theory and Practice

*Discussion of Proposition 1*

Proposition 1: The strategic management of public affairs in this research takes a stakeholder approach. Public affairs contributes to organizational success when it helps balance the demands of stakeholders and organizational goals with trends and events occurring in the organization's environments. Public affairs makes this contribution through managing issues that influence the organization's future operation and building quality, long-term relationships with strategic publics through communication.

As discussed in Chapter 2, the stakeholder approach centers on the interdependence, influence, and relationships between an organization and its constituencies that might have divergent and sometimes conflicting stakes in the organization. Because of interdependence, stakeholders are perceived as not only groups that anticipate divergent benefits from an organization's activities but also as important organizational resources that foster its growth (Post et al., 2002). Furthermore, the interdependence forms the organization-public relationships (Hung, 2002) and public relations helps manage the relationships to contribute to organizational effectiveness (L. Grunig et al., 2002).

My results suggest that stakeholders affect the MNCs' political activities in four main ways. First, stakeholders in a firm's political environment decide policy salience, which in turn, decides the firm's need for government affairs. Evidence shows that the Chinese government at different levels is the most influential actor in the MNCs' political

environments. In addition to a weak civil society (Kennedy, 2005), China's authoritarian political system and socialist market system allow the government to exert influence on businesses through policies and regulations. Consequently, the more salient a public policy in an MNC's task environment, the more the MNC becomes politically involved to influence the policy. Evidence shows that the MNCs in highly regulated industries give more importance to their government affairs than those in the loosely regulated industries. The participating MNCs in highly regulated industries usually have a separate government affairs department and a government affairs manager who has advanced knowledge or expertise of the function and who participates in the overall strategic management process. Also, the MNCs that must form joint ventures with the Chinese state-owned companies to enter China's market and pursue government purchases of corporate products pay close attention to their government affairs practices.

Second, the results indicate that government affairs of the participating MNCs in China contributes to organizational effectiveness by balancing the demands of the Chinese government and organizational goals. Most interviewed government affairs managers participate in the overall strategic management of their MNCs to ensure their business strategy is consistent with policy trends or government priorities. In a socialist market such as that in China, government influence often creates opportunities or risks to an organization's business operation. Furthermore, with the characteristics of China's emerging market—a rapid growth accompanied by uncertainties—the opportunities or risks may significantly affect an organization's competitive advantage in the market. As a result, aligning corporate business strategy with policy changes and government priorities is crucial to the success of MNCs in China.

In addition, the MNCs manage issues and develop their political strategies with consideration of the government departments' interests. For instance, the MNCs often deal with MNC-government conflicts by using an integrated negotiation. The MNCs take the agendas of government departments into account when prioritizing their government affairs objectives and developing relevant political strategies. The participants explained that focusing on items placed on the agenda of the government at all levels elicits collaboration from the government and, therefore, contributes to the success of government affairs programs. This is consistent with Kronick's (2005) assertion. He argued that foreign companies have difficulties working with the Chinese government because of factors such as competing interests at and between each level of the government, the premium the government places on face-saving, a historically rooted suspicion of influence and opposition of foreign companies, the government's fear of loss of political control, and their differences of philosophy. Therefore, foreign companies should align their priorities with the government agenda to carefully construct a safe and effective program.

As discussed previously, the Chinese government is the only stakeholder in the political environment that affects the decisions of the MNCs in China. However, my results indicate the conflicting interests among three government authorities, such as the Ministry of Commerce, the National Development and Reform Commission, and the Tax Department. Therefore, MNCs need to shape their political reactions to best manage these conflicting demands or preferences of various government authorities. This phenomenon suggests that government affairs managers in MNCs in China use the stakeholder view in an unconventional way. "Stakeholders" here does not refer to

internal and external linkages of an organization (e.g., employees, consumers, communities, media, and governments), what “stakeholders” usually means in the public relations literature. Strategic stakeholders in an MNC’s political environment in China are government authorities that govern the MNC.

Of course, MNCs cannot align with the interest of each government department. Normatively, stakeholder management asserts that expectations of all government authorities involved in an issue require an organization’s consideration and the organization should explain its decision that conflicts with some stakeholders’ interests (Post et al., 2002). However, I found that the MNCs in my study sometimes cooperate with government departments that have comparable interest with the MNCs to resolve their disagreement with other departments with incomparable interest. Even though this strategy seems to be an effective one, I argue that it will result in a negative impact on an organization. If an organization always makes a decision based on the support of government departments that share the same interest without explaining its decision to those whose interest is divergent to the organization, the organization not only alienates the departments with divergent interest, but also runs a risk to losing trust from all government departments.

Third, a corporation’s stakeholders are valuable assets that contribute to the effectiveness of its government affairs activities. The findings suggest that an MNC is most likely to seek support and favorable treatment from government departments that it has good relationships with. In addition, the MNC could ask the departments to serve as a third-party to lobby the target government authority for the interest of the MNC or mediate the MNC’s conflict with other government authorities. Most importantly, the

MNC would be more influential on the industry policy formulated by government departments that have quality relationships with it. Quality relationships an MNC has with officialdom in China are built on the government's trust toward the MNC, the MNC's commitment to the government or society at large, and the government's satisfaction with the MNC. Trust, commitment, and satisfaction let government authority view the MNC as a *partner* rather than a political actor that wants to influence policy. As a result, the government seriously considers the MNC's suggestions, which, in turn, increases the MNC's influence on the resulting policy. MNCs in China often cultivate their relationships with the government by maintaining regular communication and interactions, increasing organizational credibility, providing political and social accommodations, and improving personal relationships between government affairs practitioners and their counterpart government officials.

In summary, a firm's stakeholders affect its political activities because they determine the magnitude of policy salience, shape the firm's political activities, and contribute to the effectiveness of the activities. It should be noted that the studied MNCs did interact with different stakeholders that could influence the policy formulation or enforcement when practicing government affairs. However, the stakeholders identified here were government authorities that govern the MNCs.

#### *Discussion of Proposition 2*

Proposition 2: Public affairs needs to be integrated into the overall strategic management of the organization and strategically managed for it to have maximum effects.

This proposition tests one of the focal ideas of the Excellence theory. Evidence from the study supports this proposition. At the organizational level, 16 out of 25 participating MNCs integrated their government affairs with the firms' overall strategic management. The heads of government affairs were empowered in these organizations by taking on four roles in the strategic-management process, based on how MNCs need them to manage their political environments. The business developer is a member in the dominant coalition and has formal power in shaping the MNC's overall business planning in China. The expert prescriber serves as the MNC's acknowledged expert on all matters related to MNC-government interaction. The senior adviser is an expert who provides knowledge and makes recommendations on government affairs to the top management but was constrained in making final decisions. The internal consultant primarily provides knowledge and fact-checking on policies, regulations, the Chinese government, and the political environment in China for the decision-making of the dominant coalition.

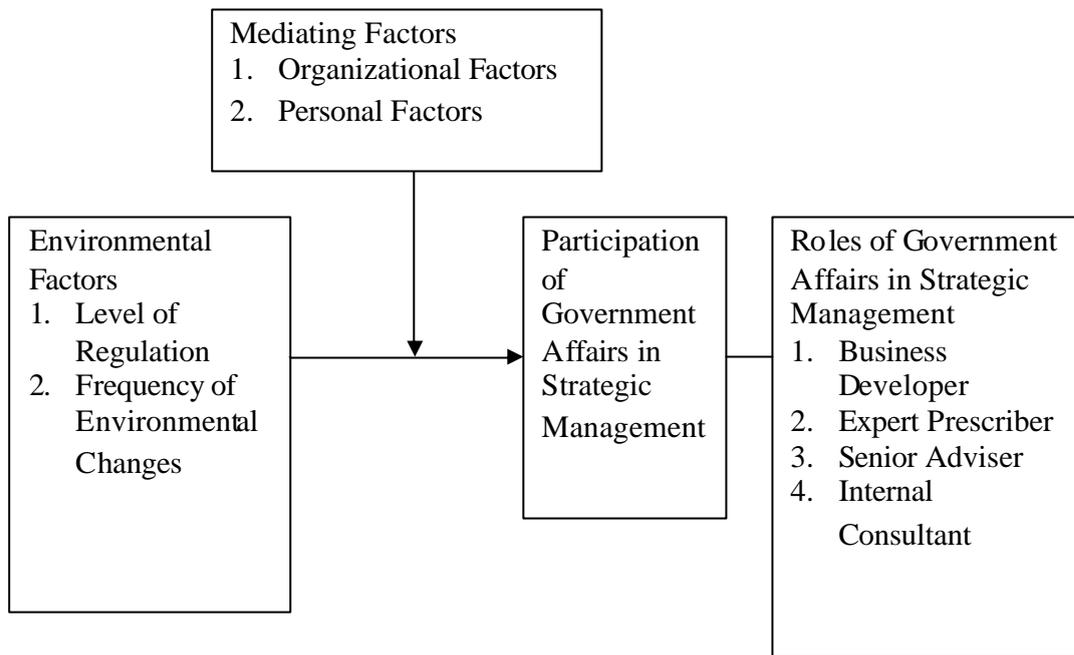
At the program level, most MNCs strategically plan and manage their programs to achieve their goals by matching their internal resources with external opportunities or threats. However, the evaluation of program effectiveness is insufficient. Strategic government affairs programs are most evident in the issues-management function of government affairs. Issues management programs of most MNCs have well-developed, systematic procedures from environmental scanning to evaluation. In general, government affairs practitioners primarily conduct informal formative research of environmental scanning and policy analysis to gain information about organizational constituencies. Few formal formative research studies are conducted, including those to prioritize government authorities conducted by the consumer-product and the multi-

industry MNCs and the consumer-product MNC's network analysis that estimates the total time required for getting a license approval from different levels of Chinese government. Nevertheless, evaluative research is scarce.

The majority of the studied MNCs integrate their government affairs and the overall strategic management and strategically manage their government affairs programs as suggested by the Excellence theory (L. Grunig et al., 2002). The extent of strategic government affairs is greater than that found in the Excellence study for three reasons. First, under China's authoritarian political system and socialist economic system, the Chinese government has a greater impact on business in the local market than do the governments of the United States, Canada, and United Kingdom. The direct government influence increases the contribution of government affairs to organizational financial performance. This leads to the empowerment of government affairs in strategic management. Second, as argued by Repper and the Excellence team (L. Grunig et al., 2002), government relations programs are often dominated by lawyers and CEOs directly in the three countries of the Excellence study and, thus, these programs operate orthogonally to communication departments. Government affairs programs of the MNCs in China, on the other hand, are dominated by public relations practitioners or communicators with public-servant experience. This is because China has a weak legal system and China is a *guanxi*-oriented society. As a result, the programs are strategically managed. Third, the MNCs in this research are leading or well-known companies in their industries, except for the housing-material manufacturing and semiconductor MNCs. One characteristics of a successful company, especially an MNC that operates businesses across national borders, is its advanced knowledge of strategic management (Luo, 2002).

Many of the studied MNCs are 2002's *Fortune 500* companies. This characteristic of the sample might lead to the high level of participation of government affairs in overall strategic management.

The answers relevant to RQ 3 suggest that environmental, organizational, and personal factors affect the empowerment of government affairs in strategic management and the organizational roles government affairs heads enact in that process (see Figure 10). An organizational function is empowered by the dominant coalition when it proves its value to the organization or it is emphasized by the culture of the organization. The value is often created by what the function can do for the organization in its task environment to contribute to its financial bottom-line or effectiveness. The interdependence between an organization and its external environment, as argued by systems theory, explains the effect of an organization's external environment on the role of government affairs in the organization. As a result, the task environment determines roles the organization wants its government affairs managers to enact. Participants mentioned the level of regulation of their industries and frequency of environmental changes (e.g., policy or regulation changes) as the two environmental factors that most determine the need to integrate government affairs into strategic management. The greater the government's influence on an MNC's financial return through strict regulations or constant change of regulations, the more likely the MNC is to empower its government affairs in strategic management.



*Figure 10.* Factors Affecting Empowerment of Government Affairs in Strategic Management and Its Roles in the Process.

However, it is the dominant coalition, not an organization itself, which interprets how its external environment affects its operation. As the behavioral theory of the firm establishes, the managers in organizations profoundly influence how organizations actually act on cues in the external environment (Cyert & March, 1963; Moe, 1980). Evidence from this study shows that organizational factors—management mechanism, organizational expectation, and organizational culture—serve as one type of the filtering factor that mediates the participation of government affairs in strategic management of the firm. For example, the multi-industry MNC highly values its government affairs because some of its businesses aim to service the government as a consumer. However, the government affairs head does not participate in strategic management because the MNC employs a decentralized management mechanism. Each business unit does its own

strategic management and the government affairs head will be informed on the strategic plan but will not participate in the development of the plan.

In addition to the organizational factors, the Excellence study concluded that public relations practitioners' professional expertise and knowledge of strategic management determine the empowerment of public relations in strategic management (L. Grunig et al., 2002). I argue that these personal factors are the other type of filtering factor that affects government affairs' participation in strategic management and the government affairs roles in the process. Without professional expertise and managerial knowledge, government affairs practitioners will not be able to practice strategic management even if their organizations' task environments require them to do so.

Another point worth discussing is the strategic management of government affairs at the functional level. Participants mentioned that they manage government affairs programs strategically; however, most of their programs are issue-driven and short-term. In other words, the programs are reactive to identified issues or problems. I argue that strategically managing programs with the government in response to the issues or problems is not sufficient to the strategic management of government affairs at the functional level. J. Grunig and Repper's (1992) model of strategic management of public relations states that strategic public relations at the functional levels involves developing communication programs for stakeholders or publics identified at the organizational level. They further argued that communication programs are most effective to build and cultivate relationships with strategic stakeholders of an organization in the stakeholder stage, where no issues have yet been raised. This assertion suggests that an effective government affairs department starts to develop communication programs for strategic

stakeholders before they become publics because of an issue or problem. For example, the government affairs department can develop proactive communication programs for the government that strengthen MNC-government relationships or enhance organizational reputation. In addition, to be strategic at the functional level, the government affairs department should develop a set of communication programs for the government with different goals as its organization evolves in the Chinese market. To do so, the government affairs manager must take a long-term view of strategic management.

### *Discussion of Proposition 3*

Proposition 3: The strategic management of public affairs at program, functional, and organizational levels considers factors in the macro, operating, and functional environment of the organization and its process contains five phases: environmental analysis, goal formulation, strategic planning and strategy formulation, strategy implementation, and evaluation and control.

This proposition extends the discussion of strategic management of government affairs by examining what strategic public affairs is and how it should be done in organizations. The proposition argues that strategic management of public affairs has the function of better fitting the macro, operating, and functional environments within which a corporation operates to organizational goals through a five-step process. The literature of strategic management, public relations, and corporate political activity suggests that the macro environment of public affairs for a multinational corporation can be analyzed by six variables of a host country: the political system, economic system, media system, culture, level of development, and context and nature of activism. The operating environment of public affairs refers to the bargaining relationship between a

multinational corporation and the levels of a host government it has to interact with. The functional environment of strategic public affairs refers to the structure of public affairs in a multinational corporation.

The answers to RQ8 identify several factors on which participants plan their government affairs practices. These factors can be divided into the macro, operating, and functional environments of the MNCs as the proposition suggests. Factors derived from the macro environment include China's economic and political systems; those from the functional environment are the government's relationship with the MNCs and influence on their industries; and those from the functional environment are organizational characteristics. The MNCs strategically manage their government affairs by identifying these factors as antecedents of the function and plan their effective government affairs programs accordingly.

The five-step process of strategic management describes the standardized process of strategic management of government affairs in the studied MNCs. As discussed in the previous proposition, participants conduct research (most informal ones) and go through the five steps to strategically plan and manage their political activities. However, participants pointed out that they do not go through all five steps for every program. For example, some issues require immediate organizational responses. As a result, government affairs practitioners do not have enough time to conduct environmental analysis to develop goals and objectives based on the analytical results. They, in this situation, have to consult with their organizations' past reactions to the same or similar issues and rely on their own expertise and experience.

In addition, for administrative (e.g., license applications) and operation issues (e.g., power shortage), participants lean heavily on experience and interpersonal relations and, thus, do not go through the five steps when dealing with government officials. The participants argued that research ability and experience are both important to an effective government affairs action.

As discussed in the previous proposition, issues management was the most strategically managed function of government affairs by almost every interviewed MNC. Even though each MNC have its own procedure of issues management, it practices the function through the following steps: environmental scanning, issues identification, issues monitoring or strategy formulation, action plan implementation, and evaluation.

Drawing from the discussion of propositions 2 and 3, I conclude that strategic management of government affairs is twofold. First, it decides what government affairs should do for an organization and how it should function in the organization by considering relevant factors in the organization's macro, operating, and functional environments. It then helps to identify the organization's stakeholders, publics, and issues that arise in the organization-government interaction and strategically plans, manages, and evaluates government affairs programs.

#### *Discussion of Proposition 4*

Proposition 4: Under the strategic management of a stakeholder approach, public affairs effectiveness should be evaluated through the satisfaction of each identified situational constituency with organizational performance and the quality of the organization's relationships with them.

Stakeholder theorists believe that, in addition to resources and knowledge, the long-term value of an organization primarily rests on its loyal stakeholder relationships (J. Grunig & Hung, 2002; Post et al., 2002; Svendsen, 1998; Wheeler & Silanpää, 1997). Stakeholders in quality, loyal relationships with an organization add value to the organization by increasing revenue or reducing cost or risk (or both). From this perspective, being effective means to cultivate quality, long-term stakeholder relationships that assist an organization in balancing its decisions with the interests and concerns of its strategic stakeholders. Therefore, stakeholder satisfaction with an organization's political activity and the quality of organization-stakeholder relationships serve as two criteria of public affairs effectiveness. The strength of this approach is it embraces multiple criteria for effectiveness because each stakeholder has a different effectiveness criterion (Fleisher, 1993a; Zammuto, 1982).

This proposition does not at all reflect how the MNCs I studied evaluated government affairs. My data indicate that most of the 25 MNCs do not regularly evaluate the effectiveness of government affairs. This finding corresponds to Fleisher's (1993a) assertion that evaluation research often ignores the relationships between stakeholders and public affairs effectiveness. The managers who do evaluate use the goal-achievement approach, even though they realize that groups influence their government affairs practices and their organizations' relationships with the groups are the organizations' asset to achieve goals. There are several reasons for the rejection of this proposition.

First, the literature suggests that goal attainment is the most practical approach to public affairs that focuses on the extent to which an organization achieves its public

affairs goals (Fleisher, 2003). Second, achievement of goals is an effectiveness criterion that can be easily understood by the dominant coalition and heads of other organizational functions that government affairs usually cooperates with (Fleisher, 2003). Third, achievement of goal, in most cases, is easy to evaluate by straightforward, quantitative measures. Fourth, achievement of organizational goals represents the outcome of government affairs programs, whereas satisfaction of organizational stakeholders or quality organizational relationships is concerned with the process of government affairs that contributes to the goal achievement. Therefore, it is more convincing to conclude the effectiveness of government affairs based on the extent to which the goal is achieved. As a participant argued, good relationships with government officials mean nothing if the relationships cannot help the organization achieve its goals, such as getting government procurement or amending industry policy.

Fleisher (2003) argued that the interest in public affairs evaluation started to grow rapidly in North America a decade ago. At its early stage of development, along with the reasons discussed above, it is understandable that the studied MNCs in China evaluate effectiveness by focusing on the outcome. However, most participants admitted that their goal-attainment evaluation is usually informal and unsystematic. They are also concerned about the insufficient, if not unfair, information derived from a single criterion. Nevertheless, many participants said they are incapable of developing a useful government affairs measurement that is comprehensive in assessing tangible and intangible contributions, economic to implement, easy to use and interpret, and suitable for the Chinese context.

Participants' concern for government affairs evaluation highlights one of the weaknesses of using the goal approach, as described by Fleisher (1993a). This kind of evaluation provides limited information. Achieving organizational goals or government affairs objectives is important; however, how the goal (or objective) is achieved or whether the goal (or objective) is appropriate is also crucial to organizational effectiveness. The literature review of measurements and metrics of public relations or public affairs effectiveness reveals that measurements and metrics usually contain a number of criteria at multiple levels (e.g., program, functional, organizational, and societal). Furthermore, there is no one measurement that is best for all organizations. Each organization should develop its evaluation system according to its characteristics (e.g., decision makers' perspectives, management approach, and research technology). Another weakness of the goal approach is that it is not applicable to the public affairs function that pursues multiple goals or outcomes (Fleisher, 1993a; Pfeffer, 1978). In addition, it cannot provide comparative information across government affairs functions in different organizations or even in the same organization across programs because desired program outcomes or goals differ (Cameron, 1984; Fleisher, 1993a).

Another drawback of the goal approach for measuring government affairs effectiveness is that many participants evaluate their effectiveness based on the achievement of the goals that their government affairs functions do not have control over, such as change of an industrial policy. Fleisher (1993a) explained that an adequate evaluation should be based on the goals public affairs is responsible for and has some degree of control over.

The stakeholder approach to evaluation does overcome some weaknesses of the goal approach. It embraces multiple criteria at different levels (i.e., input, output, and outcome of the process) from each stakeholder's perspective. For example, scholars and practitioners have put increasing emphasis on intangible (nonfinancial) indicators for organizational, public relations, and public affairs effectiveness (Fleisher, 2003; Jackson, 2000, as cited in L. Grunig et al., 2002; Johnsson & Kihlstedt, 2002). From the stakeholder approach, support from an organization's strategic stakeholders profoundly contributes to the organization's achievement of goals. The support is garnered when stakeholders are satisfied with organizational decisions and form long-term, loyal relationships with the organization

However, the stakeholder approach to evaluation is difficult to use. It requires the government affairs function to conduct evaluation regularly with all strategic stakeholders of an organization. It also requires government affairs expertise for practitioners to interpret results if stakeholders have conflicting assessments of the function's performance.

It is evident that every evaluation approach or measurement has its own strengths and weaknesses. As a result, the trend of evaluation research on organizational effectiveness suggests a combined approach that uses tangible and intangible criteria (e.g., Daft & Steer, 1986; Fleisher, 1993a). Fleisher's (1993a) conceptual model for evaluating public affairs is an integrated measurement that utilizes multiple approaches and criteria.

Drawing on my data and the literature, I conclude that evaluation measurement for government affairs should be tailored to the need, characteristics, and research capability of each organization. No matter which measurement is used, the consensus

suggested by the literature is that the measurement should contain multiple criteria. In addition, the goal and stakeholder approaches are most practical and comprehensive, respectively. Therefore, I revise Proposition 4 as follows: In organizations that employ strategic management of a stakeholder approach, public affairs effectiveness should be evaluated by at least three criteria: achievement of goals, the satisfaction of each identified situational constituency with organizational performance, and the quality of the organization's relationships with them.

*Discussion of Proposition 5 and Proposition 6*

Proposition 5: An effective corporate political strategy must be ethical, consistent with the overall strategy of the organization, and with a contingent view reflecting a given situation.

Proposition 6: The selection of effective corporate political strategy is affected by the characteristics of the issue at hand, the targets of the issue, the multinational corporation's relationship with the target in bargaining, the present agency problems, and organizational and industrial factors of the multinational corporation.

In this section, I discuss propositions 5 and 6 together because they are related in examining the effective nature of a corporate political strategy. The two propositions posit an ethical and contingent nature of an effective political strategy. Specifically, they suggest that the shaping of an effective strategy should be affected by three factors: 1) the issue, 2) the MNC, and 3) the interaction between the MNC and the government.

Evidence shows that ethics is not a crucial component of an effective political strategy among the participants I talked with. Compared with being ethical, the MNCs I

studied emphasize more on abiding with the laws and regulations—being legal—when selecting their political strategies. People in only two MNCs mentioned ethics as a factor affecting their strategy selection. Interestingly, I found that the government affairs function in these two MNCs works closely with the public affairs function. The cooperation might produce a positive effect on emphasizing ethics in practice. I found no MNC that uses ethics as an evaluation criterion for strategy effectiveness.

My data supported a contingent nature of an effective political strategy. The findings indicate a set of commonly practiced government affairs strategies. However, there was no single best political strategy for every participating MNC in all situations and MNCs developed their political strategies by taking various factors into account.

Worth noticing is that the factors identified by participants are somewhat different from those of the propositions (see Table 12). The issue (including the agency problem), the issue's target (the agenda of the targeted government agencies), the overall strategy of the MNC (its business plan and focus), and the organizational characteristics of the MNC (organizational resources and value) influence its political strategy. However, the MNC's bargaining relationship with the target is not a factor in shaping its political strategy.

I generated three post hoc explanations for this unexpected finding. First, the MNCs emphasize a “cooperation rather than competition” view of business-government relationships when interacting with the Chinese government. Bargaining relationships resulting from power and resources are a focus of the corporate political activity research that emphasizes adversarial relationships between business and government (Luo, 2001). However, MNCs tend to be highly cooperative with the Chinese government because

China's emerging market and structural transition from a planned economy to a socialist market economy produce MNC-government cooperation opportunities (Luo, 2000a, 2002). As a result, government affairs practitioners value business-government relationships as an organization's intangible asset that contributes to its goal achievement and facilitates its long-term development in China. Given this perspective, even though some MNCs have strong leverage in bargaining with the Chinese government because they hold the resources desired by the government, they are reluctant to use it.

Table 12

*The Comparison of Factors Identified by Propositions and Data*

Factors Proposed by Proposition 5 & 6	Factors Identified by Participants
1. Nature of the issue	1. Nature of the issue (the present agency problems)
2. The present agency problems	
3. The target of the issue	2. The target of the issue
4. The MNC's relationship with the target in bargaining	3. Agenda of the government authorities
5. Overall strategy of the multinational corporation	4. China's policies, regulations, and laws
6. The organizational and industrial factors of the MNC	5. Business plan and focus
	6. The MNC's stakeholders
	7. Organizational resources
	8. Political implication
	9. Organizational value

Second, quality business-government relationships contribute to the effectiveness of government affairs; however, quality relationships alone are not sufficient to achieve

effectiveness (K. Lieberthal & G. Lieberthal, 2003; Luo, 2000b; Wang, 2001). In a similar vein, MNC-government relationships do not directly shape the selection of political strategy. Rather, MNC-government relationships provide a channel for the MNC and the government to improve their mutual understanding, which, in turn, assists the MNC in identifying the most effective strategy.

Third, there is a negative connotation of emphasizing one's relationship with the Chinese government when interacting with it in Chinese society, such as *gao guanxi* (搞關係), *tzou hou man* (走後門), and *you hou tai* (有後台). For this reason, participants might downplay the influence of business-government relationships on choosing their political strategies.

In addition to the rejection of MNC-government bargaining relationships as an influence on the development of an effective political strategy, the data indicate two additional determinants: Chinese laws and regulations and political implications. As discussed earlier, being legal is the necessary criterion for a political strategy used by MNCs. In addition, laws and regulations often suggest available options and pros and cons of each option for an MNC in a given situation.

The influence of political implications on the selection of corporate political strategy highlights the political aspect of the interaction with the Chinese government. Political implications pinpoint one component of the savvy government affairs practitioners should have. For sure, the motivation of corporations to be politically involved is not to manipulate a nation's politics but to increase their economic gain or avoid economic loss. However, as I argue throughout the dissertation, politics and economics influence each other. This is especially obvious with regard to MNCs.

The most significant impact of politics on economics is that the relationship between the Chinese government and the home country of an MNC directly affects the MNC's business operation in the Chinese market, such as the China-Taiwan relations and China-Japan relations. For example, the Japanese government's decision to change the description of Japan's invasion of other countries during the World War II in its high-school history textbook triggered anger within the Chinese public, which, in turn, led to violent protests and boycotts of Japanese products in several cities in China. As for the dynamic relations between China and Taiwan, the political influence on economic operations is more salient. On the one hand, the Chinese government provides many incentives to the Taiwanese companies in hopes of garnering their support for reunification. On the other hand, Taiwanese companies that show their position as pro-independence sometimes face more red tape in their operations in China.

Another noteworthy finding is that participants have to consider more factors when shaping effective government affairs for their organizations than they do in developing an effective political strategy. Along with the factors discussed, organizational culture, management mechanism, and level of regulation of the industry where an MNC belongs also affect the design of an effective government affairs function. The impact of these factors on the development of effective government affairs will be discussed in detail in the section on the effective government affairs model.

Three Normative Models of Government Affairs Management: Model of Strategic Management of Government Affairs, the Situational Theory for Governments, and Model of Effective Government Affairs

The conclusions of this research contribute to the development of three normative models focusing on government affairs: the model of strategic management of government affairs, the situational theory for government institutions, and the model of effective government affairs. The models show government affairs practitioners how to apply general public relations theories to their context. The model of strategic management of government affairs identifies government affairs' participation in an organization's strategic management and the strategic nature of government affairs programs. The situational theory for government affairs allows professionals to separate active publics (supporters and protectors) from stakeholders. The model of effective government affairs provides a detailed method to strategically manage government affairs programs. This model also reflects the long-term strategic management of government affairs. The three theories construct the essence of government affairs management.

*A Normative Model of Strategic Management of Government Affairs*

The findings of my data collection at 25 MNCs in China allowed me to make refinements to the model of strategic management of public affairs based on J. Grunig and Repper's (1992) model. This normative model was revised from the one proposed in Chapter 2 to reflect the government affairs role in the overall strategic management process and the strategic nature of the function (see Figure 11).

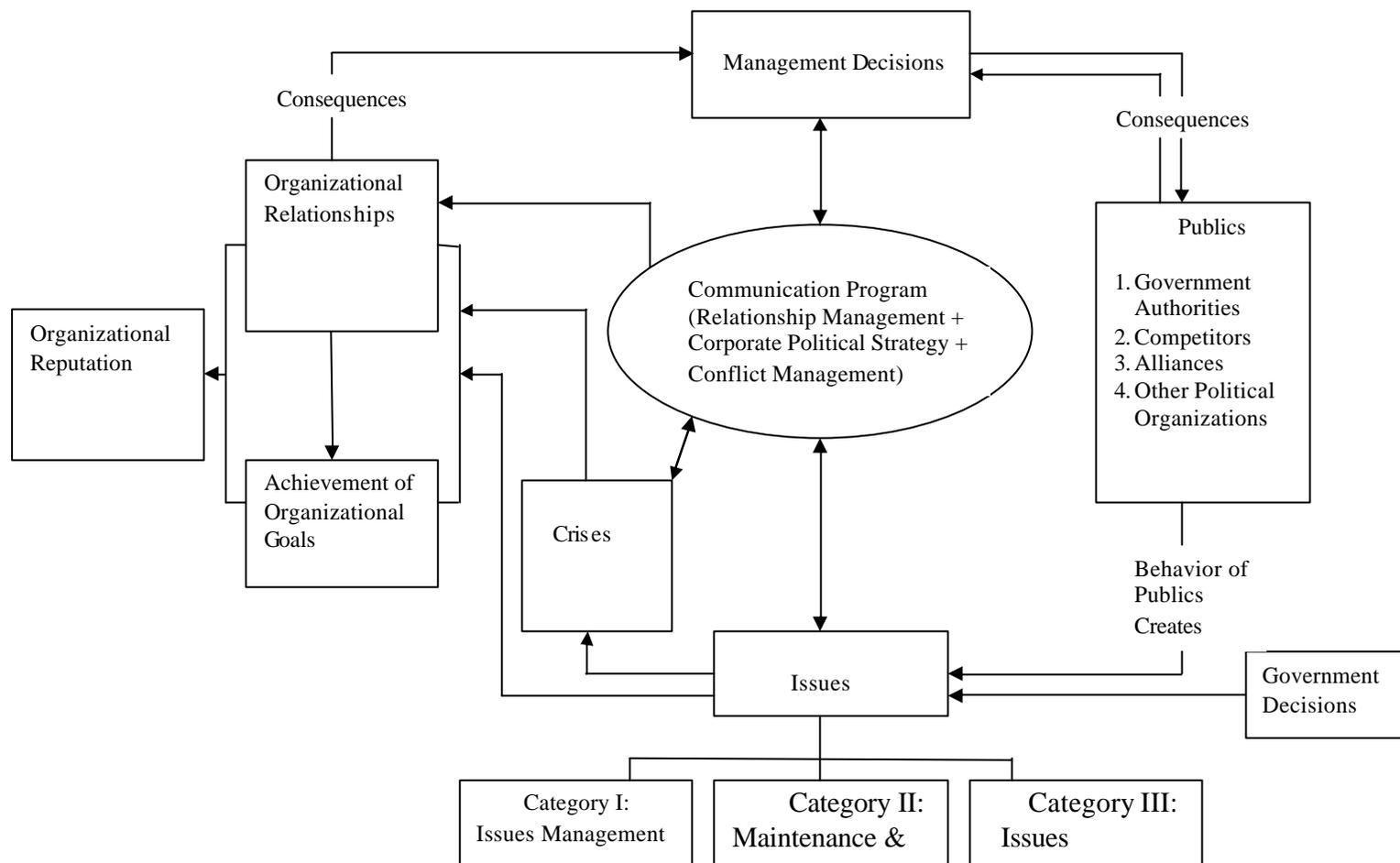


Figure 11. The Normative Model of Strategic Management of Government Affairs.

This model shows that government affairs participates in overall strategic management of an organization in three stages: public, issue, and crisis. In the public stage, government affairs must communicate with publics to properly manage the interdependence between an organization and the government of the country where it operates. On the one hand, government affairs must communicate an organization's strategic decision to the host government when the decision concerns the government to improve the government's understanding of the decision. Government affairs also communicates with the government when the organization seeks supportive relationships from the government in order to effectively implement the decisions. On the other hand, government affairs must communicate with the government because the government, especially in an authoritarian country, is an active public that seeks consequences from an organization—such as when the Chinese government asked every chip-making company to incorporate the China's own wireless standards (WAPI) into its chips.

When an organization does not modify its decisions that harm publics or make the consequences benefit publics, the publics will take further action to make issues out of the consequences. A government often formulates policies or regulations to secure consequences it seeks from organizations. Issues might turn into crises when they are not properly managed. Crises might be a new regulation that negatively affects a company's competitive values, litigation filed by the government, or a mandatory shut-down of the business by the government.

How issues or crises are handled affects the relationship between an organization and the government. When an organization uses integrative strategies that create mutual benefits to negotiate issues with the government, the organization's relationship with the

government will be improved (L. Grunig et al., 2002). Crises tend to have a negative impact on organization-public relationships. However, cases have shown that when an organization manages crises with openness, accountability, symmetrical communication, and close attention to its relations with publics, the crises eventually improves organization-public relationships. Quality organization-public relationships, as discussed in Chapter 2, contribute to the achievement of goals and produce a positive reputation of an organization. Government affairs' tasks in the issue and crisis stage are as follows: 1) to collect information in the socio-political environment; 2) to provide accurate analyses of the positions of involved publics, especially the government, on the issue or crisis; and 3) to develop integrative strategies for issues that produce beneficial outcomes to all parties involved or crisis management strategies that emphasize openness, accountability, symmetry, and relationships with publics.

The model is similar to the one developed by J. Grunig and Repper (1992) and improved by L. Grunig et al. (2002). This is most probably because government affairs is a subset of public relations that deals with all strategic constituencies of an organization.

However, three major differences between public relations and government affairs in strategic management should be emphasized. First, the creation of publics is different in public relations and government affairs. The model of strategic public relations emphasizes that management decisions create consequences on an organization's stakeholders, which, in turn, may help create active publics. Therefore, the senior public relations manager reconciles organizational goals with the publics' expectations in the overall strategic management process. In government affairs, it is usually not the consequences of the management decision, but of the government decision, on an

organization that makes the government an important public to the organization. As a result, the findings show that the senior government affairs manager assists the MNC in responding to government decisions (e.g., policy or regulation changes).

Second, in addition to the negative consequences of management decisions, trends and events in a political environment also trigger government behaviors that create issues for organizations. For example, the Chinese government's ban on direct selling is a result of the growing pyramid schemes and inventory-loading scams. The schemes and scams were not the practices of several legal direct-selling MNCs but the companies were forced to cease business in the market. Many other cases exemplify that policy or regulation changes do not result from organizations' behaviors but from the needs of or events in a nation.

Third, the model of government affairs in strategic management suggests that good management decisions create a "consequences" path to an organization's relationship outcomes with the government. As Mintzberg (1983) argued, the government is the ultimate external public because it has legal power to directly influence an organization's behavior. When management decisions break the law or violate a regulation, the government becomes an active public to interfere with the organization's behavior. Therefore, management decisions indeed have positive effects on business-government relationship outcomes. In the same manner, good management decisions can also create a positive organizational reputation among government officials.

#### *The Situational Theory for Governments*

When practicing public relations, it is important to separate publics from stakeholders. Publics are more likely to assist or hinder an organizations' achievement of

goals than are stakeholders. In government affairs, identifying publics from stakeholders is critical for two reasons. First, governments monitor companies to ensure their operations are compliant with legal standards. Governments, unlike other stakeholders that often focus on a company when issues arise, are constantly monitoring an organization's behaviors. In addition, governments, especially in growing economies like China, also make sure business operations are favorable to nationwide economic development. Furthermore, unlike other stakeholders, governments have ultimate power to interfere with an organization's operation through policy making. Also, organizations cannot have regulatory authority so they must work with government officials to ensure policies do not negatively affect business operations.

The discussion on RQ8 in the results chapter identified the stakeholder categories within the political environment where the MNCs are operating. Based on the data collected, I modified the situational theory developed by J. Grunig (1984) to apply it to the public segment in governments. Figure 12 represents the revised theory, which I label the "Situational Theory for Governments."

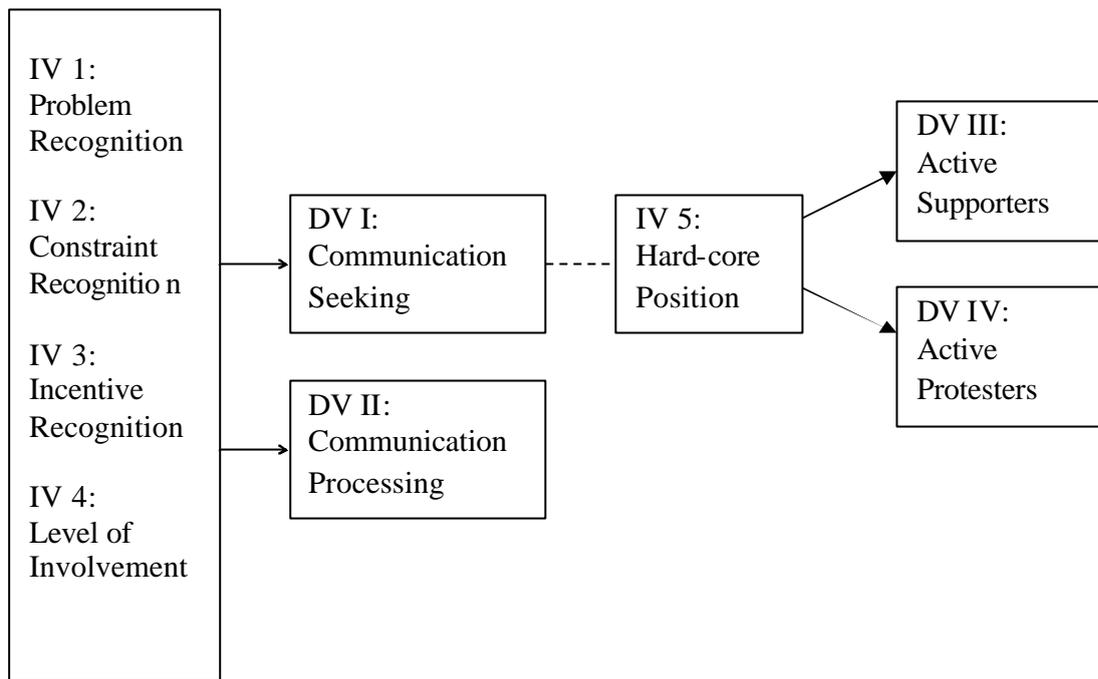


Figure 12. The Situational Theory for Governments.

On the left of the model are the four independent variables in the theory: problem recognition, constraint recognition, incentive recognition, and level of involvement. Based on an analysis of the four variables, one can separate those who are parts of publics from government stakeholders. Like J. Grunig's (1984) situational theory, problem recognition, the first independent variable, refers to a perceived problem. According to Dewey (1927), people will not stop to think about a situation unless they detect a problem that requires something to be done. Problem recognition, therefore, produces one's motive to act, which, in turn, increases the likelihood of information seeking.

The second independent variable in the situational theory for governments is constraint recognition. Constraint recognition refers to the extent to which one feels there are constraints on his or her planned behavior. This definition is the same as the variable

definition in J. Grunig's (1984) theory. Evidence shows that government bodies consider two types of constraints which I label "jurisdictional legitimacy" and "political hierarchy." *Jurisdictional legitimacy* is established when an issue is the responsibility of a particular government department's jurisdiction. Government officials cannot get involved in a matter that does not fall in their jurisdiction because they cannot legitimately do anything to influence it. This rule results in two common phenomena in dealing with Chinese bureaucrats. First, one has to "knock on the right door" to get things done with the government. Second, many government officials are risk-averse to avoid turf wars. I define *Political hierarchy* as the hierarchical order a government department has to follow in the decision-making process. Government authority at a low level cannot override the decisions made by those with a higher rank. Therefore, government departments face constraints when trying to change policies made by a higher level.

Incentive recognition is a new independent variable I have proposed for the situational theory for governments. Incentive recognition refers to the perceived incentive associated with one's action related to the problem. In political situations, economic or monetary incentives are usually involved because a nation's economics and politics reinforce each other (e.g., Gilpin, 2001; Strange, 1991). Economic incentives create the motive for a government department to promote or reject an organization's interest in the political process. An earlier discussion (in Chapter 5) on how a multi-industry MNC resolved an import tax issue exemplifies the relationship between incentive recognition and active publics. The multi-industry MNC convinced China's Ministry of Commerce (MOFCOM) to allow it to receive a tax break on imports. The

MNC stressed to the MOFCOM that its large investment in China was the incentive for the bureau, which is concerned with increasing investment in China, to allow the tax break.

The third independent variable is level of involvement. This variable, similar to the one proposed by J. Grunig, deals with the extent to which people connect themselves with the situation. People with a strong level of involvement in an issue are more likely to engage in an active behavior than those who are less involved. In government affairs, the level of involvement of a government agency depends on its responsibility and agenda. When the problem matter falls into a government agency's responsibility or its agenda, the agency will believe it is involved in the problem and be likely to take action on the problem.

Each of the first four independent variables explains the first two dependent variables: when government officials will actively seek information (DV I) or passively process information (DV II). As J. Grunig (1984) explained, members of publics seek information to understand the issue for the planning of their behaviors when they actively communicate. When members of publics passively communicate, they only process information that comes to them randomly.

The situational theory for governments has a fifth independent variable: hard-core position on the issue. This explains when members of publics support or oppose to an organization (DV III and DV IV). A hard-core position represents the fundamental position of a public on an issue that is difficult to change. Dissonance theory posits that people pay attention to information consistent to their behaviors or attitudes while ignoring information contradictory with the said behaviors or attitudes (Festinger, 1957).

Therefore, when a member of a public actively seeks information, it reinforces his or her fundamental position on an issue. When a public member's hard-core position is consistent with an organization's, he or she is most likely to become an active supporter of the organization. Active supporters are the most strategic publics to an organization in government affairs. Organizations should choose their political agents from these active supporters who advocate the interests of the organizations in policy formulation. However, if the public member's hard-core position is against one of the organization's, he or she would turn into an active protestor to prevent the organization from achieving its goals. Identifying active protestors is crucial because they are the organization's competitors in the political process or main obstacles in goal achievement. For example, the goal of the MOFCOM in China is to promote and maintain economic growth by attracting foreign investment. Therefore, it often advocates corporate interest to make the market more favorable to companies, as opposed to the National Development and Reform Commission (NDRC), which aims to bring business into line with China's macro-economic development. As a result, this government agency tends to be the active protestor against some organizations when their goals are not favorable to the overall economic development.

In conclusion, segmentation of active supporters and protestors is the most significant implication of the situational theory for governments. Governments can legally set up an organization's agenda via public policies. In authoritarian countries such as China, government officials are usually the most salient public that can advocate corporate interest in policy formulation. As a result, identifying and effectively communicating with active supporters and protestors is the value of government affairs.

This situational theory for governments allows government affairs practitioners to separate publics from stakeholders in a government, predict their communication behaviors, and further identify active members of publics who are corporate advocates in policy making or major obstacles in achieving organizational goals.

*A Normative Model of Effective Government Affairs*

The conclusions drawing on the data suggest a significant revision of the model of effective government affairs strategy proposed in Chapter 2. The original model focuses on factors that shape an effective government affairs strategy. This revised model represents a normative theory that builds on political economy theory, agency theory, and the excellence theory to identify the antecedents, strategies, and outcomes of government affairs (See Figure 13). Based on the three theories and the data collection, I have identified six antecedents of government affairs performed by MNCs in China: organizational economics, structural factors of a host country, corporation-government relationships, contextual features of an issue, characteristics of the government agencies involved, and organizational characteristics. These factors affect the development of an MNC's government affairs in China. It should be noted, however, that no one antecedent can determine an MNC's government affairs practice by itself. That is, when shaping strategic government affairs practice, MNCs always take the combination of the six antecedents (if applicable) into consideration.



### *Organizational Economics*

Business-government relations is the best example of political economy theory that demonstrates how economics and politics reinforce each other. Therefore, economics is the first identified antecedent of corporate government affairs. Evidence indicates that even though I studied MNCs that operate in a common political system of China, the economic circumstances of the MNCs shaped their individual needs and ways to interact with the Chinese government, as well as their relative levels of influence on public policy. This conclusion echoes Kennedy's (2005) assertion on corporate lobbying in China. A firm's economic circumstances contain its organization-specific and industrial economic characteristics. Findings of the same study suggested that organization-specific economic characteristics include: 1) wholly owned or joint-venture ownership, 2) organizational importance, 3) business scope, and 4) phase of business development. Industrial economics consist of level of regulation and governmental priority of the industry.

*Organization-specific economics: Ownership types.* The ownership of an organization affects its interaction with the government, which in turn often determines the mechanism (e.g., internal government affairs function or contracting it out) of government affairs in an MNC in China. State-owned organizations have government support, whereas private companies have to make efforts to form allies in the government. As a result, MNCs entering China with joint ventures (with Chinese state-owned companies) often have governmental support just like state-owned companies or, at least, they can use their Chinese partners to seek government favors or access to government officials. MNCs with only wholly foreign-owned subsidiaries in China have to seek

support from the government by themselves through making a substantial effort in government affairs.

*Organization-specific economics: Organizational importance.* Organizational importance is determined by a corporation's influence in the industry or its investment in a host market. According to resource dependence theory and political economy theory, the more important a firm is to a host government, the more influence it has on the government's decision-making. My results indicate that industry-leading MNCs have significant access to top-level government officials in the central government. Furthermore, their positions as industry leaders produce organizational credibility that enhances government officials' trust in them. Government officials seek information or resources from those MNCs. Consequently, dependence and frequent cooperation develop. Dependence and cooperation, in turn, render advantages to the MNCs in government affairs.

In contemporary China, where economic growth is highly valued by different levels of the Chinese government, attracting foreign direct investment into its district is one of the top priorities of the provincial and local government. As a result, MNCs with a massive investment in China receive support from government officials.

*Organization-specific economics: Business scope.* My data indicate that MNCs in pursuit of government procurement (e.g., aerospace MNCs) evidently pay closer attention to government affairs than those that do not target the government as a customer. Government's purchases of corporate output increase the government's impact on business, which, in turn, spurs corporate political activities with the Chinese government. This finding is consistent with the conclusion of studies conducted in the United States,

where industries whose inputs have to be purchased by governments put many resources on their political action committees (PACs) (e.g., Boies, 1989; Master & Baysinger, 1985; Zardkoohi, 1985). Again, resource dependence theory explains the motivation of MNCs in pursuit of government purchases or national projects to emphasize government affairs.

*Organization-specific economics: Phase of business development.* As discussed previously, an MNC's China operations evolve through three distinct periods: the entry, country development, and global integration (K. Lieberthal & G. Lieberthal, 2003). Each phase has a different goal. Based on that, the role of the MNC's China office and government affairs head vary. In the entry phase, the main goal of an MNC is to establish a presence in China. Therefore, the MNC's China office should provide support to its business units. The focus of government affairs should be to establish the corporate brand with local and national government. In the country development phase, an MNC strives to expand its operations in China to several initiatives and localities. As a result, its government affairs contributes to organizational effectiveness by building brand awareness with government officials, coordinating lobbying and negotiation with the Chinese government across business units, seeking government support through the "one face to China" strategy, and managing awareness of its China operation (especially the awareness of governmental intervention with the macro-economy) at corporate headquarters. In the phase of global integration, an MNC aims to fully integrate its China operations into regional and global efforts. The role of the China office then is to implement further regional and global strategies for its operations and, thus, the senior China manager must be able to work with several business divisions across nations.

Results of this study show that MNCs in the entry phase of their China operations expect their government affairs to assist the firms, solving problems in the license-application process, whereas government affairs of those in their country development phase primarily focuses on issues management; relationship management; and business development with coordinating business units and government authorities. This finding suggests that corporations should design and alter their government affairs practices according to the goal of their business stages.

*Industrial economics: Level of regulation.* Highly regulated industries require companies to practice government affairs in an attempt to influence industrial policy-formulation processes because the government has a great impact on business operations in these industries. In addition, effective MNCs in highly regulated industries are keen to new policy changes and strategically adjust their business plans in line with revised policies to earn benefits (or reduce costs) from the changes and remain competitive in the industries. In the United States, empirical work has found firms in highly regulated industries were more likely to form a PAC (Andres, 1985; Boies, 1989; Masters & Baysinger, 1985). In China, highly regulated industries (e.g., automobile, aerospace, banking, insurance, and express-shipping) allow limited foreign investment mainly for political, economic, or national security reasons. With China's accession to the WTO, the country has to gradually relax some restrictions on foreign ownership and establishment of business in highly regulated industries. Therefore, MNCs in these industries actively engage in relevant policy-formulation processes by various means. MNCs in loosely regulated industries, on the other hand, have low motivation to be politically active in China. Evidence also shows that the level of industry regulation

affects the role enactment of the government affairs head in MNCs' strategic management.

*Industrial economics: Governmental priority of the industry.* In business-government interdependence, governments depend on resources held by corporations, such as capital and technology. Resource dependence theory posits that when an organization holds resources desired by a government, the organization has great bargaining power in relation to the government. The great bargaining power, as suggested by political economy theory, shapes the organization's relationship with the government and affects policy formulation. As a result, the government's priority of industry development affects a firm's government affairs. MNCs in the industries encouraged by the Chinese government receive incentives for investment from the government, including basic infrastructure service and significant reductions in taxes and fees. In addition to the incentives, government officials tend to be accommodating of the needs of MNCs to maintain their investment. Consequently, these MNCs have advantages in interacting with the government officials that are not available to MNCs in the industries with low governmental priority or local companies in China.

#### *Structural Factors of a Host Country*

In addition to a company's economic circumstances, the structural factors of a host country affect business-government interactions. Public affairs scholars agree that a corporation's external environment influences the calculation of benefits and costs of its political involvement. However, what constructs an organization's external environment might vary in different situations (Schuler & Rehbein, 1997). Taking China as an example, two structural factors significantly shape government affairs practice by MNCs:

China's authoritarian political system and socialist market economy. The influence of the political system on government affairs is self-explanatory. A nation's political system shapes its political process and indicates influential actors in the process. China has an authoritarian political system ruled by the Communist Party of China (CPC). Influential actors in Chinese politics are the elite party members and middle- and top-level government officials.

Unlike in democratic countries where policymakers, government officials, and interest groups are politically involved, China's lesser diversity of political actors has positive and negative effects on the practice of corporate government affairs. The positive effect is that corporations only need to lobby two parties, which often have the same position on a policy, to influence the outcome of a policy. The negative effect is the difficulty of identifying party members and government officials who are politically influential in individual policy-making.

China is an emerging market under a socialist market economy. To implement a free market economy in a socialist setting, China has adopted a socialist market economy that allows business enterprises to be subject to market mechanisms (i.e., supply and demand) under governmental guidance of macro-central planning (Suliman, 1998). Emerging markets provide multinational enterprises lucrative opportunities for medium to long-term investments. But there are more uncertainties to the enterprises in emerging markets than in mature markets (Luo, 2002). This unique economic system has profound influence on business-government relations.

A socialist market economy increases government control of market developments and intervention in business operations and, thus, increases the importance

of government affairs. Luo (2002) found that MNCs and host governments are highly cooperative in emerging markets because of recent shifts in policies of emerging-market governments, deregulation and liberalization of national economics, and intense competitive pressure for attracting foreign direct investment. In addition, weak legal infrastructures, a common characteristic of emerging markets, lead to “unique commercial practice and business culture that are people-oriented and socially-embedded” (Luo, 2002, pp. 5-6). This feature explains the emphasis MNCs place on government relations to foster their operations in China where the interpretation and enforcement of laws are heavily subject to responsible government officials. In summary, China’s political and economic systems explain not only the importance of government affairs to corporations, but also how government affairs is practiced in China.

#### *Business-Government Relationships*

Business-government relationships are another antecedent of effective government affairs. My data show that good MNC-government relationships can benefit MNCs by easing access to information and enhancing government support that fosters the long-term development of an MNC. Therefore, the MNCs view MNC-government relationship management as a core government affairs function that identifies strategic government authorities for the firm and establishes and cultivates relationships with them. Government affairs managers should be aware of the competitive-cooperation dimension of business-government relationships resulting from resource dependence and how the competition, as defined by Luo (2002), affects the dynamics between corporations and governments.

The traditional conflict-based paradigm, which argues that MNCs and host governments form adversarial relationships where each seeks the maximum gain of self-interest from the bargain, does not contribute to the long-term development of organizations in China. The MNCs in this study actively seek cooperation with the Chinese government because cooperation creates mutual gains that generate government support for their business and improve the quality of their relationships with the government. Cooperation between MNCs and the Chinese government promotes positive exchanges of resources between the two. Thus, government affairs managers should emphasize and cultivate the cooperative component between business-government relationships. Even if competition with the government is inevitable, the MNCs make efforts to minimize the negative impact on their relationships with the government.

Most MNCs I talked with pursue a win-win situation with the government when it is feasible. They acknowledge that a win-win approach not only help ensure cooperation but also sustain a long-term, quality relationship between the MNC and the government that contributes to their businesses. As the public relations manager of the networking-solution MNC remarked: “We cannot always make the government to have our way. After all, we are doing business in China and thus, we need to understand their way.” This result reflects another perspective of business-government relationships highlighted by public relations—interdependence. That is, even though corporations and governments do not compete or collaborate with each other for resources, they must be interdependent of each other to survive in the environment (i.e., corporations seek legitimacy of operations from government and the governments needs taxes paid by corporations to maintain administrative operations). Therefore, public relations adds

another dimension of business-government relationships: asymmetry versus symmetry.

Asymmetrical business-government relationships often lead to emphasis on the competition and respective power and resources held by each party involved when practicing government affairs. To practice effective government affairs, MNCs should cultivate symmetrical business-government relationships that value mutual understanding through two-way, continuous communication (discussions).

#### *Contextual Features of the Issue*

Effective government affairs must be contingent on a given issue (Jaatinen, 1999). The MNCs point out several aspects of an issue that should be considered in government affairs strategy selection: types, levels, and stages. The MNCs in this study frequently face three types of issues concerning the Chinese government: administrative or operational, policy or regulatory, and business. Administrative or operational issues include issues that involve government administration or affect a corporation's normal operation and require the use of education and personal relationships to solve problems. License applications, governmental inspections, and power shortages are issues of this type. Policy or regulatory issues are those resulting from existing policies or regulations. Business issues include issues that affect a corporation's business development in China, such as government procurement. The MNCs often practice proactive or reactive lobbying to deal with issues of these types.

Levels of the issue refer to the magnitude of an issue in terms of its impact. An issue's level can be a local, provincial, or national. It can also be company-specific or industrial. An issue's level determines not only the appropriate level of communication channel between a corporation and government officials but also the mechanism of

lobbying. The results show that the MNCs need to communicate with central government officials for national issues. It is effective for the MNCs to lobby collectively for industrial issues. On the other hand, it is appropriate to lobby independently for company-specific issues. Government affairs managers should also determine the stage of an issue. The emergence stage of the issue life cycle covers the period of time from when business firms, the government, or active interest groups begin to create certain social expectations to the point when the expectations become political issues. The goal of organizational political action, in this stage, is to mold the government opinion positive to the organization's position on the issue through communication strategies. The formulation stage involves the development of means for dealing with the political issues, such as laws, regulations, or public policies (Getz, 1993). In this stage, government affairs managers should use participation strategies to influence the formulation of policy. The implementation stage occurs when the political decision made is put into effect. In this stage, government affairs should analyze the impact of the policy on an organization to determine whether the organization should comply with the policies through organizational readjustments or lobby to amend the policies.

#### *Characteristics of the Government Agencies*

The results suggest that effective government affairs should also be contingent on its target audience: the government agencies involved in a given issue. In public relations, effective programs require public relations practitioners to frame messages understandable and attractive to the target audience (Cutlip, Center, & Broom, 2000). In government affairs, the business-government interdependence in resource and knowledge sharing produces various degrees of cooperation and competition at the same time. As a

result, the exchange of interest and power always shapes business-government interactions. Along with the communication capability of government officials, government affairs managers need to take officials' political interest, and policy agendas, and levels at the hierarchy (i.e., the central, provincial, and local) into account to make government affairs effective.

Government affairs managers should understand the complex governance on foreign operation in China. This complex governance allows government officials at each level of government, whom multinational corporations have to deal with, to have their administrative and jurisdictional power. It also results in different interests of government officials at different levels. After implementing economic reforms, the economic development of each region shapes the distribution of political power and resources of provincial and local authorities in China. From a political economy perspective, it is natural that each level of the government forms its economic priority. Different economic priorities indicate different needs of the government from corporations, which affect the corporations' government affairs strategies. I found that provincial authorities often assist MNCs in overcoming policy restrictions regulated by the central government to secure their own stakes in the operation of foreign enterprises. For example, a silicon-chemistry MNC planned to enter China by building a wholly owned subsidiary in an Export Processing Zone of the Shanghai area. The Chinese central government rejected the MNC's application and proposed the MNC build a joint venture. The zone administrative officials actively worked with the MNC's manager to lobby the central government on the application. Eventually, the MNC was able to establish a factory in the zone as its wholly owned subsidiary.

Corporations can build allies with provincial or local governments with compatible interests when lobbying with the central government. They can also use the central government's power to solve their disagreements with provincial or local governments. Unlike the relationship between state and federal governments in the United States, Chinese central government has the highest administrative power and can override the decisions of provincial and local governments if it wishes. Similarly, provincial governments have power over local governments. The multi-industry MNC's government affairs professionals sometimes escalate its conflicts with a government department (e.g. the customer) to the department's supervising authority (e.g., Ministry of Commerce) for a solution.

#### *Organizational Characteristics*

The behavioral theory of the firm asserts that organizational characteristics determine an organization's ability and willingness to be engaged in political activities and practice of certain strategies. Therefore, I include organizational characteristics in the conceptual model of government affairs and follow Schuler and Rehbein's (1997) rationale to treat these factors as "a filter of the environmental influences" (p. 120). That is, external factors (i.e., organizational economics, a host government's structural factors, business-government relationships, a given issue, and characteristics of government agencies) initially indicate quantity of political involvement and possible political actions of a firm. However, the firm's characteristics (e.g., structure, resources, routines, policies, philosophy, and history) affect how it interprets external conditions and interacts with the government (Cyert & March, 1963; Schuler & Rehbein, 1997).

In studying 25 MNCs in China, I conclude that a corporation's management mechanism, expectation of government affairs, and culture determine the integration of government affairs into the strategic management of the corporation. I found two management mechanisms as defined by Marx (1990) in MNCs: centralized and decentralized strategic management. Centralized strategic management allows top management to develop the strategic management for all products of the firm. Decentralized strategic management places the responsibility for business management on special business units throughout the firm to develop individual business plans for each product line or group of products that are strategically interrelated. MNCs with products in different industries are more likely to use the decentralized mechanism than those with products in a single industry. The government affairs function is less likely to participate in the overall strategic management of firms with the decentralized management mechanism than those with the centralized mechanism do.

The Excellence study (Dozier et al., 1995; L. Grunig et al., 2002) also identified organizational expectation and culture as factors affecting the participation of public relations in an organization's overall strategic-management process. Organizational expectation refers to the top management's expectation of government affairs to give input into strategic management. To form this expectation, government affairs must first demonstrate its managerial expertise and advanced government affairs experience in China to get it a seat at the decision-making table. Organizational culture profoundly affects an organization's behavior, including political involvement. The findings of this research show that the organizational culture, which emphasizes the interests of the

organization's publics, promotes the participation of government affairs in a firm's strategic management.

### *Strategies of Government Affairs*

Government affairs practices consist of four aspects: organizational structures and mechanisms of government affairs, communication channels to political publics, and political strategies of government affairs. My data indicate that for organizational structure of government affairs, China's complicated government structure has resulted in the MNCs having two levels of government affairs within their corporations, the corporate and the local. The corporate level focuses on the company's overall management of the interaction with the central government. The local function concentrates on the relationship with local governments that influence the MNCs' local operations. At the corporate level, a department, a team, or a single staff member coordinates the government affairs practices for the companies. An interesting result is that government affairs is housed in the department of finance and accounting in the electronics MNC and in the office of the general manager in the auto MNC. At the local level, the government affairs practice is managed by the chief representatives or managers in the different departments (or both) in the local branches or special business units.

The data indicate the MNCs could interact with the government through three lobbying mechanisms, five levels of communication channels, and seven strategies. The MNCs could lobby the government independently; collectively with other affected companies or industry associations; or with the help from their embassies, chambers of commerce, and other home-government bodies. The communication channels, from top

to bottom, were nation-to-nation negotiation, government official-to-government official negotiation, worldwide CEO to government-official negotiation, country CEO to government-official negotiation, and special-business-unit president to government-official negotiation.

The Western literature suggests several corporate political strategies: 1) constituency building, 2) advocacy advertising, 3) lobbying, 4) coalition building, 5) reporting research results or public poll results, and 6) personal services (Keim & Zeithaml, 1986; Getz, 1993). I identify seven political strategies used by MNCs in China: 1) lobbying (including coalition building), 2) political accommodation, 3) social accommodation, 4) personal relationships, 5) organizational credibility, 6) personal services, and 7) cooperation. These two lists differ in two ways. First, advocacy advertising and constituency building are not effective in China. Second, MNCs in China often practice political accommodation, social accommodation, organizational credibility, personal relationships, and cooperation in government affairs.

Political accommodation refers to the extent to which an MNC has been responsive and contributive to governmental concerns of a host country, whereas social accommodation represents an MNC's contributions to social needs of a host country (Luo, 2002). MNCs in China often show their political accommodation by providing services or solutions to the problems facing host governments. Social accommodation is demonstrated by corporate donations or philanthropy projects. Political and social accommodation signifies the MNC's commitment to the long-term development of a host country. I found that MNCs in China use personal relationships between their employees

and respective governmental counterparts to facilitate a positive outcome of business-government conflicts.

The difference between commonly practiced political strategies in the Western countries and those I found in China exemplifies how a nation's political system, economic system, level of development, and culture affect government affairs practices. With an authoritarian political system in China, advocacy advertising and grassroots lobbying are not applicable because the Chinese population has little influence on policy-making. This fundamental difference in political systems also makes MNCs' strategic publics in government affairs in China (e.g., government officials, embassies, chambers of commerce, and universities) different from those in democratic countries (e.g., legislators, the media, and the interest groups). China's level of development and economic system make political and social accommodation effective in achieving organizational goals. As a developing country, China has been facing numerous political and social problems. Contributions to the resolution of these problems are perceived as a substantial "public favor" by Chinese officials (Peng & Luo, 2000; Y. Chen, 2004, 2005).

The public favor often cultivates business-government relationships and spurs government support. Government support, in turn, directly contributes to a foreign corporation's financial performance because of China's socialist market (Y. Chen, 2004). Chinese culture, specifically *guanxi*, makes personal relationships more significant in the Chinese context of business-government interaction than in the U.S. context. For example, in a *guanxi*-oriented society of China, individuals emphasize their relationships with others that serve as access to build control mutuality, trust, and commitment through interactions among the parties involved. Therefore, quality personal relationships

(between government affairs practitioners and their counterparts in the government) are directly translated into positive business-government relationships, but they are not the only cultivation for business-government relationships.

#### *Outcomes of Government Affairs*

Figure 13 shows that when an MNC practices effective government affairs to manage issues with the Chinese government, the results are improved MNC-government relationships and achievement of the firm's goals. Quality relationships with the Chinese government have a crucial role in achieving organizational goals. Quality business-government relationships produce a favored status and support from Chinese authorities, access to the policy-making process, and stability and predictability in operations in spite of political and economic turbulence (N. Chen, 1996; Y. Chen, 2005; Hung, 2002; Luo, 2000b; Post et al., 2002). In addition, Luo (2001) found that MNCs' cooperative relationships with Chinese regional and national government officials significantly improve the MNCs' financial and sale-based performance. Current relational outcomes become an antecedent to shaping government affairs programs for the next issue.

Quality relationships and achievement of goals build on an organization's reputation, which in turn establishes the legitimacy of the organization (Luo, 2002; Pfeffer & Salancik, 1978; Suchman, 1995). This aspect is especially important for foreign companies to develop their businesses in a host nation, such as China, in the long run. The Chinese government has historically opposed foreign companies and it has been cautious not to depend much on foreign corporations (Kronick, 2005). My data show that quality relationships between foreign companies and the Chinese government cultivated by showing political and social accommodation can not only neutralize this opposition

but also form a positive corporate reputation that legitimize the companies.

Organizational credibility, resulting from achievement of goals, also improves an organization's reputation and legitimacy among the Chinese government officials.

Therefore, government affairs managers should assist organizations to achieve their goals in a legal and socially responsible way to produce economic gains for the Chinese society.

This approach can establish organizational legitimacy of a firm among government officials who set economic growth as a priority and the Chinese people who benefit from the nation's economic development.

### Theoretical Implications

This research has theoretical implications for public relations theory and corporate political activity theory. The implications are discussed in following two sections.

#### *Implications for Public Relations Theory*

This research extends the body of knowledge of public relations to a specific context—government affairs in a country with an authoritarian political system and an emerging socialist market economy. Public relations theories are frameworks applicable to publics, such as investors, consumers, employees, communities, media, and governments. Even though it remains debatable whether there is a need for public relations theory targeting individual publics, each public is unique in terms of its interest in and interaction with an organization. Therefore, public relations studies on various stakeholders should be conducted to elucidate how organizations effectively apply public relations theory to them. I believe this research adds to the knowledge of government affairs and application of public relations theory to this specialty in the following ways.

This study introduces the extensive body of knowledge of corporate political activity and, thus, broadens the theoretical scope of public relations with government or public sectors. The data suggest that resource dependence theory, political economy theory, and the behavioral theory of the firm are influential for analysis of interaction between organizations and governments. Thus, these theories should be applied by public relations scholars and practitioners to build on their theoretical framework for or expertise in government affairs.

This research tested the Excellence theory in China. It found that in the studied MNCs in China, where government affairs was dominated by public relations practitioners or communicators, government affairs was strategically managed. In addition, it confirmed a positive relationship between communication excellence and outcomes of government affairs by MNCs in China. The findings also suggest that the Excellence team's explanations for the unexpected results on government relations programs are correct and that the Excellence theory is applicable to public relations programs with government.

This study proposes three models for organizational interaction with government: the strategic management model of government affairs, the situational theory for government institutions, and the model of effective government affairs. The first two models apply general public relations theories to government affairs. The strategic management model of government affairs is built on J. Grunig and Repper's (1992) model of strategic management. The strategic model of government affairs is similar to J. Grunig and Repper's. I explicitly point out their differences resulting from the interdependence between organizations and governments. In the situational theory for

governments, I have revised J. Grunig's (1984) situational theory to add two independent variables: incentive recognition and hard-core position. I added the variable of incentive recognition because a political actor's calculations of the benefits and costs dictate his or her actions. This factor is especially salient to the different levels of Chinese government that value economic development in their districts. Hard-core position represents a political actor's fundamental position that is hard to be challenged or changed even with benefits. The model of effective government affairs, drawing on theoretical frameworks of public relations and corporate political activity and the empirical data, suggests how to develop effective government affairs for individual organizations by identifying the antecedents, strategies, and outcomes of government affairs programs of foreign subsidiaries in China.

This research further answers L. Grunig et al.'s (2002) call for a normative theory of excellent global public relations. The model clearly demonstrates how a nation's conditions (e.g., political system, economic system, culture, and level of development) affect government relations practice there by pinpointing the antecedents and their influence on shaping an MNC's government affairs practice.

#### *Implications for Corporate Political Activity Theory*

This research has two theoretical implications for corporate political activity. First, as mentioned in Chapter 1, contemporary corporate political activity theory is built on studies in Western countries that are developed, democratic, and capitalistic. This study extends the body of knowledge of corporate political activity by testing its theories in China, a developing country with an authoritarian political system and a socialist market economy. Second, this research adds to the public relations components of

communication and relationship management and to the corporate political activity theory.

### Implications for Practice

This dissertation suggests government affairs as a niche of public relations in organizations, especially MNCs in China. Public relations scholars and practitioners have tried to distinguish public relations from other functions in organizations, such as marketing and advertising. Many of them agree that the management of communication and relationships between an organization and its strategic publics are the substance and unique value of public relations. This definition is useful but somewhat abstract to top managers, especially to those who work for companies in Asia. For example, managers usually do not appreciate the importance of good organizational relationships with non-financial publics (e.g., governments or communities) that do not directly affect their organizations' financial performance until the publics have taken actions to affect the organizations' behaviors. As a result, many managers view public relations' communication and relationship management with publics as only a supporting function that can also be practiced by other departments; such as marketing to customers, finance to investors, and human resources to employees.

This dissertation demonstrates that government affairs, a subset of public relations, not only highlights the importance for an organization to manage its non-financial publics, but also represents a unique part of public relations that cannot be replaced by other functions in a corporation. This contention is especially true in China. Government affairs contributes to an organization's effectiveness by managing the organization's opportunities and threats from its political environment. For instance, this research

shows that government affairs monitors and analyzes regulatory changes. It then assists MNCs revising their investment strategies accordingly or adjusting to the changes by asking favorable treatment (e.g., tax relief or grace period of regulation enforcement) from the government based on their organizations' good relationships with the government.

Marketing practitioners cannot fully carry out this task because they only interact with government officials when the officials are their customers. In addition, marketing people tend to build relations with officialdom that are short-term and exchange in nature.

Legal staff in China cannot effectively manage the political environment for two reasons. First, China's regulatory framework is developing and legal enforcement is relatively weak. Second, unlike most Western cultures that highly value the law, Chinese culture emphasizes affection(情) and reason(理) over law(法). The findings show that no studied MNCs house their government affairs function in the marketing or legal department. However, government affairs specialists do cooperate or consult with their marketing and legal colleagues when needed. In conclusion, government affairs—the management of interaction between an organization and the government where the organization operates—is a specialty of public relations that cannot be effectively done by other functions in an organization.

This research along with other studies on public affairs focused on how organizations manage their social and political environments. An increasing number of studies on this topic suggest an emerging need for organizations to effectively manage this function. Drawing on the evidence presented earlier, I propose three models to answer the practitioner's fundamental question: What is effective government affairs?

The model of strategic management of government affairs shows government affairs practitioners their contributions to organizational effectiveness in three stages: public, issue, and crisis. This model also alerts the practitioner to the different emphasis of government affairs and public relations at each of the stages. From the public relations perspective, a problem often comes from the negative consequences of management's decision that create publics. Therefore, public relations emphasizes the public stage. If public relations practitioners effectively communicate with the publics, the publics should not make an issue out of the problem. Most government affairs problems come from a government's decision—a policy or a regulation formulation. As a result, government affairs often contributes to organizational effectiveness from the issue stage. This also explains why issues management is a core part of government affairs.

The situational theory for governments guides the practitioners to segment active publics (i.e., active supporters and protestors) from stakeholders. The situational theory for governments can serve as an important tool for government affairs practitioners, especially in China. China has an expanded government and numerous government departments at three levels—the central, provincial, and local. With limited budget and resources, separating active publics is crucial to government affairs effectiveness. Furthermore, in an authoritarian nation, the government has the most legal power in policy making and enforcement. Organizations must collaborate with their active supporters in the government to influence policy making. Active protestors in the government can interfere in organizations' operations. Therefore, active publics in the government directly affect the achievement of organizational goals and must be identified by government affairs practitioners. Compared to the methods used by the consumer-

product MNC and the multi-industry MNC to prioritize the importance of their stakeholders, the situational theory for governments is more complete and allows the practitioners to segment active publics to their organizations.

The model of effective government affairs suggests a contingent view. That is, the practice of effective government affairs is shaped by several antecedents. Some antecedents are affected by the outcomes of an organization's previous government affairs practice. In other words, antecedents are dynamic. A more important implication of this model to the practice, I assert, is that it provides the answer to the question raised by several participants—What is effective government affairs from a long-term perspective? This model suggests that effective government affairs for the long term constantly modifies its practice based on the identified antecedents in order to contribute to organizational goals and organizational legitimacy in a host country.

#### Implications for Research

There are two major difficulties of examining corporate political activity in China. First, China's authoritarian political system makes political activity a taboo for discussion. As mentioned in Chapter 3, I had a very difficult time recruiting participants. Even though I was aware of the sensitivity of the topic and scheduled three months for data collection in the field, the participant recruitment was more difficult and time-consuming than I expected. Several informants who helped recruit participants told me that if I could change to another topic, one that is not politics-related, they could find me many companies to participate.

In addition to the sensitive focus of the study, it is more difficult than before to gain cooperation from organizations, especially *Fortune 500* companies, for research in

general. Because of its economic boom and drastic development, China has become a research context for numerous scholars and analysts. For example, in 2003, *Harvard Business Review* dedicated an issue to doing business in China. From May to July, 2005, *Time* wrote 15 feature stories on China's economy and the *Wall Street Journal*, nine articles. As companies have received many inquiries, they have become reluctant to participate in research.

To overcome the difficulty of recruiting participants because of topic sensitivity and participant reluctance, I propose the following:

1. In addition to writing a good solicitation letter, researchers should provide useful research documents (e.g., executive summary or statistics) related to government affairs to elicit the participation of companies.
2. Researchers should have an idea of the schedule and availability of their potential participants and plan data collection accordingly. I originally scheduled my data collection in China from April to July based on my own schedule. However, this period was not ideal and resulted in the delayed progress of my data collection. In April, almost every company was busy preparing for the Chinese Export Commodities Fair (CECF), the so-called Canton Fair. CECF is China's largest trade fair, held twice every year in spring and autumn (usually in April and October). In May, the Labor Day holiday is one of the most important holidays in China and usually takes a week. In June and July, companies became busy again with big promotions or campaigns targeting students out of school for summer break. For example, the 2004 International Automotive Exhibition was held in June in Beijing. Consequently, I was able to recruit only one auto MNC for the study. In addition,

many managers or expatriates take annual leaves in July and August to have vacations with their families abroad. Therefore, I had to schedule some interviews in late August after participants got back from vacation.

3. Researchers should apply multiple recruitment methods, especially referrals by participants and government affairs scholars and practitioners. I found participant referrals most effective among all means of participant recruitment. A researcher's expertise on the subject and good interview skills lead to willingness of his or her participants to provide referrals.

The second, and more important, difficulty of conducting government affairs research is that corporate political activity is a calculation of multiple variables at different levels. As discussed in Chapter 3, a case study with participant observation was ideal for examining corporate political activity; however, I could not obtain access to companies and, thus, conducted long interviews with people in 25 MNCs as an alternative. The weaknesses of interview data are 1) few participants can clearly and systematically point out all factors that form the complexity of corporate political activity and 2) the data are self-report.

Because of the weaknesses of interview data, I argue that participant observation is a crucial method of examining corporate political activity. To deal with limited access to companies, I propose to conduct participant observation in government affairs, public affairs, or public relations agencies in future. Agencies usually welcome interns to help their business and, thus, agencies are likely to agree to a researcher's volunteer work as an intern in exchange for conducting participant observation. In addition, government affairs programs that are contracted out to agencies are less confidential than those

conducted by the government affairs function or unit in companies. Therefore, agency clients should be likely to agree participant observation in their agencies when the researcher protects their confidentiality.

If participant observation is not feasible and a researcher can only conduct interviews for data collection, I suggest the researcher ask interview questions based on specific situations. For example, to discover the factors that affect the selection of a firm's political strategy, instead of asking, "Which factors affect the selection of your company's political strategy?" a researcher can ask, "Which factors affect the selection of your company's political strategy when dealing with issue X?" or "Which factors affect the selection of your company's political strategy in situation X?" ("X" refers to a current issue or hypothetical scenario that concerns the Chinese government's influence on the business operation of the participant's company.)

#### Limitations

Two limitations of this research come from the sample. This research aims to develop a normative theory of government affairs that suggests effective government affairs practice. To reach that end, perspectives of government officials are valuable. I failed to recruit government officials because of the sensitivity of the research topic. Although data gathered from the 25 MNCs were rich, input from government officials would have yielded a more accurate understanding of effective government affairs by examining the matter in a co-orientational manner. Interviews with government officials may identify different evaluations of what effective government affairs is from the perspectives of MNCs and government officials and what contributes to the different evaluations.

In addition, 20 of the 25 interviewed MNCs were recruited by convenience sampling (recruited by referrals by acquaintance and volunteer participants) and snowball sampling (referrals by participants). As a result, self-selection or volunteer bias is possible. It is likely that those MNCs agreed to participate because they felt positive about their interaction with the government. Those who decided not to participate in the research might have seldom interacted with the government or were reluctant to reveal their interaction with the government to outsiders. Although this limitation might be an important one, organizations are reluctant to allow researchers to scrutinize their interaction with the government, especially in the authoritarian political system of China where anything relevant to politics is closed. Therefore, I consider this research a worthwhile undertaking even with this limitation. In addition, this research is a qualitative study with 25 MNCs aiming to explore government affairs practices of the MNCs, rather than being generalizable to MNCs in China.

Another limitation is that the research only used long interviews and informal content analysis. Interviews yield self-report data. With the sensitive topic of this research on business-government interaction, it is possible that participants tended to provide positive answers and avoid negative cases. Furthermore, because of the sensitivity of the topic, only top-ranking managers could participate in my study. As a result, I had to adapt my research design from interviewing two government affairs practitioners (i.e., the top government affairs manager and his or her subordinate) in every MNC to only interviewing one practitioner. Therefore, I had no reference to validate the level of representation of the participants' answers to their actual practice of

government affairs. Documents available for my analysis were external and gathered from different media or given by the participants.

Another limitation is that some participants could reveal little information about their government affairs practice because of a confidentiality contract with their companies. For instance, one participant told me that he could not reveal certain specifics of his company's government affairs practice because they were confidential and directly tied to the company's business strategy. Therefore, when my questions touched on confidential issues, he usually answered by providing me with examples of what other firms in the industry did in those situations. Another participant told me that he could only participate in an unofficial way. For him to officially participate as a representative of his company, he needed to get approvals from his direct superior and the head of the legal department. He also advised me that it was unlikely to get the approvals because of the interrelated nature of business development and government affairs. As a result, we agreed that he unofficially participated in the interview without signing a consent form. He shared with me government affairs specifics of his firm under his discretion. He also agreed to let me use his answers in the research but I have to keep the confidentiality of his firm.

I tried to guard against the negative impact of this limitation on my understanding of government affairs in these two participants' companies by probing the participants in different ways, such as asking hypothetical questions or asking participants to provide examples. As mentioned previously, getting data on anything relative to politics in China is notoriously difficult. This is a limitation almost every researcher encounters if he or she embarks on a study such as this dissertation.

One limitation relates to the credibility of the research. I asked several participants to review my results but they declined because of busy schedules. However, although these participants' reviews are not available, I believe the credibility of this research is established through other methods that I discuss in the section that follows.

One final limitation is that some information of a confidential nature was excluded from this report because of my promise to keep that information "off-the-record." I am aware of Bowen's (2000) concern about the influence of excluded data on one's analysis. Confidential information given by participants was interesting and enlightening. Thus, it is possible that those data have affected my report of conclusions and implications even though I tried to prevent the impact.

#### Evaluation of the Soundness of the Research

This research is exploratory, aiming to discover the MNC-host government interaction in China. It employed a qualitative framework with the interviewing method that allowed government affairs managers to express business-government relations and relevant activities in their own words. The rationale for this research design is thoroughly discussed in Chapter 3. With the research's limitations in mind, this section evaluates the trustworthiness of this qualitative research.

Trustworthiness is defined by Lincoln and Guba (1985) as the "true value" of the research (p. 290). Establishing trustworthiness of qualitative research is the researcher's effort to show the legitimacy of the conclusions drawn. Traditionally, "validity" and "reliability" are criteria for evaluating quantitative research. However, these criteria are not useful to qualitative research with a constructivist paradigm and thus, qualitative researchers have offered a number of alternative criteria. I use the four criteria proposed

by Lincoln and Guba (1985) and reflexivity to evaluate the trustworthiness of my research.

I chose the four criteria from Lincoln and Guba (1985) because after comparing and contrasting alternative criteria offered by several qualitative researchers, I found that the criteria are somewhat in line with the ones proposed by Lincoln and Guba.

Reflexivity is used as an additional criterion because the researcher is the instrument of qualitative research (Miles & Huberman, 1994). Only when the researcher actively acknowledges his or her potential biases, can he or she prevent the biases from leading to misrepresentation of results.

### *Credibility*

According to Lincoln and Guba (1985), credibility refers to the accuracy of identification or description of a social phenomenon. In a qualitative inquiry, reality is created by multiple constructors; therefore, the accuracy of identifying the subject matter is obtained by showing that the inquiry is “credible to the constructors of the original multiple realities” (p. 296). Lincoln and Guba proposed ruling out rival hypotheses as a means to test credibility. I established the credibility of my research through three methods. First, during the interviews, I sought explanations of unclear comments of participants. In addition, I asked participants whether they agree with my brief summaries and preliminary interpretations of what they said. For example, I asked a participant to explain his answers that I found contradictory to each other. Second, I constantly compared and contrasted my data in the processes of data collection, analysis, and conclusion drawing to rule out rival hypotheses. Third, Miles and Huberman (1994) argued that credibility can be reached when the findings make sense to the readers. I

emphasize the data themselves by providing thick descriptions and quotes of participants in Chapter 5 to enable readers to judge the credibility of conclusions.

### *Transferability*

Since the past decade or two, qualitative researchers have increasingly desired to have their work be broadly useful (Schofield, 2002). This stimulates the concerns of generalizability or external validity of research. External validity, which refers to producing universal laws in a quantitative tradition, is not a useful goal to qualitative researchers. Therefore, many qualitative researchers have re-conceptualized this criterion for qualitative research. For example, Lincoln and Guba (1985) proposed transferability as an alternative strategy for judging external validity in a qualitative inquiry. It concerns the ability to transfer one set of findings to similar contexts with a similar setting of the research, similar research questions, or questions of practice. Goetz and LeCompte's (1984) "comparability and translatability" and Stake's (1978) "naturalistic generalization" emphasize the same idea.

Qualitative researchers agree that detailed descriptions provide necessary information to make judgments about the extent and degree of transferability (e.g., Goetz & LeCompte, 1984; Lincoln & Guba, 1985; Stake, 1978). Detailed descriptions should include the information about the entity studied and its context.

In this dissertation, I secure the degree of potential transferability of my findings to similar settings by using the approaches discussed. I have provided detailed descriptions of my theoretical stance, research techniques, the participating MNCs, and the setting of the participants. To study the typical, I selected the participants that cover a variety of industries and all three entry modes used by foreign companies in China.

Finally, I interviewed the participating MNCs in multiple cities in greater China, including Shanghai, Beijing, Tianjin, and Hong Kong.

### *Dependability*

Lincoln and Guba (1985) proposed dependability as the third criterion to substitute the conventional demand of “replication” inapplicable to qualitative settings. The underlying issues related to evaluating replication are whether the procedure of study is consistent and with “quality control” (Smith & Robbins, 1984; Miles & Huberman, 1994). Dependability in this research is established because the interview protocol (both English and Chinese versions) and description of the process of data collection are clearly stated and carefully carried out. In addition, after each interview, I always thought through the entire interview process to find what I did wrong or could improve. As a result, I believe that my interviewing skills improved each time I conducted an interview. For example, after each interview, I learned new ways to explain theoretical concepts in practical terms. Therefore, I maintained the quality of my data collection through a standardized interview process, a clear interview protocol, and by constantly improving interviewing skills. In addition, even in earlier interviews when my skills were being refined, the quality of data was secured by my close adherence to the interview protocol and careful probing of the participants.

### *Confirmability*

Confirmability is the fourth criterion Lincoln and Guba (1985) posed. This criterion asks whether the findings generated from a set of data would be confirmed by other researchers while analyzing the same set of data. By doing so, this evaluation focuses on the objectivity of the data rather than on the inherent characteristics of the

researcher. To establish confirmability, I clearly followed the steps of data analysis as described in Chapter 3. I also stored all materials (i.e., raw and coded data, field notes, and analytic notes) used in the research process as Guba (1981) and Huberman and Miles (1994) suggested. More importantly, I showed several parts of my transcripts to another public relations scholar and we reached similar conclusions as a confirmability audit suggested by Lincoln and Guba (1985).

### *Reflexivity*

Because of the interpretive, constructive, and subjective nature of qualitative studies, the necessity of the researcher's reflexivity is widely recognized to enhance the quality of qualitative research. Reflexivity, according to Altheide and Johnson (1994), is that the observer "is a part or parcel of the setting, context, and culture he or she is trying to understand and represent" (p. 486). Bolam, Gleeson, and Murphy (2003) defined reflexivity as the active process of reflection that the qualitative researcher engages in to document how the research process in general, and themselves in particular, constructs the object and reaches the results of research. Seale (1999) advised that reflexive work includes: a story of the research project; fieldwork experiences; keeping a research diary or detailed field notes; documenting how the researcher approached the study both theoretically and practically; and the researchers' personal predilections and biography.

I was aware of the issue of reflexivity throughout the research, especially in the phase of data collection. My interview notes record my thoughts or feelings with each interview. Chapter 3 discussed my field experiences that might influence me in hopes of assisting readers to understand the relationship between what was observed and how it was gathered, analyzed, and interpreted from the my perspective. After carefully

examining the issues of credibility and reflexivity, I can conclude that the descriptions of the studied phenomenon are credible and supported by the data. My personal references, and, more importantly, the field experiences provide some directions for my interpretations.

#### Future Research Directions

This study is exploratory. To visualize a complete picture of multinational corporations' practice of government affairs in China, I made great effort to examine the topic comprehensively. This research successfully discovers many facets of government affairs in China. It also integrates the findings into a normative theory. Future research should focus on particular aspects discussed in this study in order to elaborate on them. Furthermore, the relationship among these aspects should be verified. For example, the model of effective government affairs suggests a company's economic circumstances and its relationships with officialdom shape how the company and the Chinese government interact, which, in turn, determines the effective political strategies for the company. The model also suggests that there is no interaction between a company's economic circumstances and its relationships with officialdom. I would like to conduct further research to test these assumptions of the model.

This study examined government affairs practice from the MNC's perspective and did not include data from the viewpoint of government officials. Subsequent research that co-orient the perspectives of both MNCs and the Chinese government is needed to enhance the trustworthiness of this research. Furthermore, research of this type can contribute to a complete understanding of public relations practice of an organization with its international publics (such as the Chinese government in this case).

Another aspect for more research is the four roles of government affairs managers in the MNCs' overall strategic management processes. I would like to test the usefulness of the typology to determine whether it describes all distinct roles of government affairs managers in an organization's strategic management. Furthermore, studies should examine 1) the extent to which government affairs managers play each role in the overall strategic management process; 2) factors, in addition to organizational environment, that affect the role-taking of government affairs managers; and 3) the relationship among government affairs managers' roles in the strategic management and the excellence of government affairs.

I would like to explore the relationship between the nature of MNC-government relationships and relationship cultivation strategies because management of organization-public relationships is a responsibility of public relations. First, additional studies should be conducted to examine the possibility of other relationship dimensions and cultivation strategies. Second, research should discover which relationship dimension(s) and indicator(s) each identified cultivation strategy would contribute to in order to better understand how MNC-government relationships can be effectively cultivated. Last, I would like to explore the relationship between the nature of business-government relationships and a company's effectiveness. Studies could be conducted to assess what type (or which dimension) of the business-government relationship would lead to a company's influence on policy making, government favors to the company, or a positive outcome of conflict between the company and the government.

In examining effective political strategies used by MNCs in China, the data of this study only rendered a limited range of scenarios in which a particular strategy was

effective or would not be effective. Additional studies are needed to systematically define under which context a particular political strategy can or cannot produce effects to answer Preston's (1986) call. This information will be valuable to the development of a contingent model of effective government affairs strategies.

This qualitative research serves as an initial attempt to gain insight into MNC-government relations in China. A logical direction for further exploration of the phenomenon is to conduct quantitative research to refine the proposed theories. For example, quantitative research could help determine the effect of each identified factor on shaping an effective government affairs strategy. Further quantitative studies could identify the relationship among the factors. A quantitative study could also yield information about the generalizability of the models to other for-profit organizations in China or organizations in other types of markets.

This dissertation stimulates new questions in government affairs. I encountered unexpected findings that require further examination. For instance, the organizational structure of government affairs housed in the finance and accounting department in the electronic MNC and in the office of the general manager in the auto MNC is a surprising one. More in-depth studies should be conducted on the relationship between the organizational structure of government affairs and the function's excellence.

Public diplomacy is another unexpected finding of relationship cultivation strategies. I would like to explore what makes public diplomacy effective in cultivating business-government relationships. What, if any, is the consideration of using public diplomacy to cultivate relationships with officialdom? Is public diplomacy a symmetrical or asymmetrical strategy of relationship cultivation?

Culture plays a significant role in government affairs practice. As one participant said, “Government affairs is an application of culture.” Culture is a more complicated issue in government affairs practice of MNCs than of Chinese firms. Government affairs practitioners with MNCs have to face multiple cultures during practice: the culture of government officials (*guan chang wen hua*, 官場文化), Chinese culture, and organizational culture. How to effectively integrate these cultures into the practice is a challenge for government affairs practitioners and a critical research direction of public relations.

Evaluation of government affairs is another important direction suggested by the participants. As the evidence shows, many participants seldom, if ever, conduct evaluation for government affairs programs or the effectiveness of the function at large. Participants who evaluated their government affairs programs predominantly used quantitative outcome measures (i.e. the extent to which the organization achieves its goal). More importantly, the participants did sense a possible insufficiency of government affairs evaluation with only quantitative measures. However, they were not able to develop qualitative measurement that is adequate, feasible, and easy to use. Further studies should aim to develop a measurement combining quantitative and qualitative measures. In addition, two participants had a belief that doing evaluation of government affairs would downgrade the importance of the function in their organizations. I would like to explore what organizational culture or factors foster this attitude toward evaluation.

## APPENDIX A

## BACKGROUND INFORMATION OF THE PARTICIPATING MNCs

No.	MNC (Industry)	Participant's Position	Interview Locations
1	US aerospace	Public relations manager	Beijing
2	UK energy	Public affairs manager	Telephone interview
3	US networking solution	Corporate communication manager	Beijing
4	US oil and gas	Government relations representative	Beijing
5	US silicon chemistry	Operations manager, logistic manager	Shanghai
6	US power engine	Government relations & sales manager	Tianjin
7	Taiwanese agribusiness and food	Vice president in feed business	Beijing
8	US chemical	Public affairs director	Hong Kong
9	US financial news	Corporate communication manager	Beijing
10	US chemical and safety	Public affairs manager	Shanghai
11	US express-shipping	External affairs manager	Beijing
12	Taiwanese electronics	Finance manager	Telephone interview
13	US information technology	Government programs manager	Beijing
14	US multi-industry	Vice president in government affairs	Beijing
15	Taiwanese bicycle manufacturing	President	Shanghai
16	US high-tech innovation	Government & public affairs manager	Beijing

(continued)

## APPENDIX A

## BACKGROUND INFORMATION OF THE PARTICIPATING MNCS (continued)

No.	MNC (Industry)	Participant's Position	Interview Locations
17	Swiss pharmaceutical	Government affairs senior manager	Beijing
18	US direct-selling	President	Shanghai
19	US motor oil	President	Shanghai
20	Italian power cable	CEO, general manager	Shanghai, Tianjin
21	German auto	Public relations manager	Shanghai
22	UK consumer product	Vice president in external affairs	Shanghai
23	Taiwanese food manufacturing	President	Shanghai
24	US semiconductors	Senior supervisor of human resources	Tianjin
25	Italian housing-material manufacturing	General manager	Tianjin

## APPENDIX B

## SOLICITATION LETTER : ENGLISH LANGUAGE



2100 Lee Building  
College Park, Maryland 20742-5121  
301.405.4212 TEL. 301.314.1475 FAX

[Date]

Dear \_\_\_\_\_:

As a doctoral student of public relations in the Department of Communication at the University of Maryland, I have spent a significant amount of time in Asia and the U.S., studying public relations and public affairs practices in an international setting. I am currently conducting my dissertation project of how MNCs in China practice public affairs and government relations.

I am hoping you would be willing to participate in the study by allowing me to interview you and another general public affairs/public relations manager involved in corporate interaction with Chinese government officials. There are no foreseeable risks to participants in this research. Individual responses and identities (as well as the firm's name) will remain confidential for report and presentation as legally enforced by the consent form approved by the Institutional Review Board of the University of Maryland. All collected information will be used for only the purpose of research.

You will find your participation in this study beneficial to you and your company for two reasons. First, this study is the most comprehensive, up-to-date source of data on how MNCs plan, budget, conduct, and evaluate public affairs and government relations in China. Second, this study proposes a strategic management model of public affairs and provides recommendations by linking the research findings to the most cutting-edge theories in Public Affairs and Chinese Business. In return for your assistance, I will be happy to provide you with a written report of the study. The report, I believe, will suggest useful insights on how to work with the Chinese government and further contribute to the effective public affairs practice of your company.

Please give careful consideration to your participation in my research. Your reply to this email will be appreciated and I look forward to talking with you more regarding the research.

Thank you very much for your consideration and valuable assistance.

Sincerely,

Yi-Ru Regina Chen  
Ph.D. Student  
Department of Communication  
University of Maryland, College Park MD  
Tel: 1-301-405-0872  
E-mail: [yrchenumd@yahoo.com](mailto:yrchenumd@yahoo.com); [yrchen@wam.umd.edu](mailto:yrchen@wam.umd.edu)

## APPENDIX C

## SOLICITATION LETTER : CHINESE LANGUAGE



UNIVERSITY OF  
MARYLAND  
INSTITUTIONAL REVIEW BOARD

2100 Lee Building  
College Park, Maryland 20742-512  
301.405.4212 TEL 301.314.1475 FAX

敬启者：

您好！本人是美国马里兰大学传播学的博士候选人及广州中山大学的访问学者陈怡如，目前正在进行一项有关公共事务的论文研究。本研究的目的是为了了解中国大陆内的跨国企业如何与中国官方进行沟通。

贵公司的参与是本研究能否成功的关键。本研究须采访贵公司的公共事务/政府关系负责人，采访时约一个小时。访谈内容包括贵公司对公共事务的定义、公共事务活动的规划与评估、及中国文化对公司公共事务运作的影响。希望贵公司能协助本研究取得宝贵的信息，以完成此次调查。您的参与将相当有助于中国公共关系专业的增进及全球公共关系理论的建立。

本研究已经由美国马里兰大学制度审查委员会（Institutional Review Board Office, University of Maryland）审查通过，认定参与此研究对受访者带来的潜在危险性微乎其微，且保障访谈之所有内容、受访者的基本资料及参与公司的名称将予以绝对保密。本研究之调查结果仅供学术参考。

为了感谢贵公司的协助，于研究完成后，将寄给您一份研究结果摘要。本人相信此份结果摘要除能提供相关中国大陆内跨国企业从事公共事务的第一手调查资料外，亦能提供结合理论为基础的分析与具体建议，以有益于提升贵公司的公共事务成效。如贵公司对本研究有任何问题，请电邮至 [yrchenumd@yahoo.com](mailto:yrchenumd@yahoo.com) 与本人联系。您亦可以直接与本人的论文指导教授 Dr. Larissa Grunig 联络：E-mail: [lgrunig@umd.edu](mailto:lgrunig@umd.edu)，或电 1-301-405-6532。

非常感谢贵公司对本研究的协助与参与！本人将于近日内与您联系以询问贵公司参与本研究之意愿。

敬祝

商祺

美国马里兰大学

陈怡如 敬上  
二零零四年五月

## APPENDIX D

## INTERVIEW PROTOCOL: ENGLISH LANGUAGE

*Section 1: The Grand-Tour Questions*

1. What is company's business in China?
2. Please tell me about your job title.
3. How long have you worked for the firm?
4. What are your responsibilities in public affairs?

*Section 2: Public Affairs Function and Structure in MNCs*

5. How does your firm define corporate public affairs, corporate political involvement, government relations, and lobbying? [Corporate Expectation of PA]
6. Which organizational unit(s) of your firm is (are) in charge of the interaction with the Chinese government? [PA Structure]
7. What are the responsibilities of the unit(s) mentioned in the previous question?  
(What are the functions of the unit(s) to your company?) [PA Functions]

*Section 3: Corporate Public Affairs and Strategic Management*

8. Does the public affairs unit (public relations/external affairs/government relations/government affairs unit) in your firm participate in the overall strategic management of your firm? If yes, how? Do you have any examples? If no, why not?  
[PA in the Overall Strategic Management]
9. What are the factors that determine the participation of the public affairs unit (public relations/external affairs/government relations/government affairs unit) in the process

- of your firm's strategic management? [Determinant of PA in the Overall Strategic Management]
10. Does the public affairs unit (public relations/external affairs/government relations/government affairs unit) in your firm practice issues management?
- a) If yes, how? Do you have any examples? In addition, does issues management influence the development of public affairs programs?
  - b) If no, why not? [Issues Management]
11. Does the public affairs unit (public relations/external affairs/government relations/government affairs unit) in your firm develop programs to establish or cultivate relationships with the Chinese government? If yes, how? Do you have any examples? If no, why not? [Relationship Management]
12. Does the public affairs unit (public relations/external affairs/government relations/government affairs unit) in your firm manage its programs? (For example, does it conduct research to identify trends in environment, develop objectives, and evaluate outcomes of programs?) If yes, how? Do you have any examples? If no, why not? [Strategic Management of PA Unit]

*Section 4: Public Affairs Strategies*

13. When does the public affairs unit (public relations/external affairs/government relations/government affairs unit) in your firm deal with the Chinese government? [Agency Problems]
14. How does the public affairs unit (public relations/external affairs/government relations/government affairs unit) in your firm negotiate a regulation or rule that

- affects your business with the Chinese government? (Do you have any examples?) If it never occurs, why not? [Strategies of Influencing Policy-making]
15. How does the public affairs unit (public relations/external affairs/government relations/government affairs unit) in your firm build relationships with the government officials? [Strategies of Building and Cultivating Relationships]
16. How does your firm develop a public affairs strategy to use in a given situation? Do you have any examples? [Strategy Formulation]
17. What are the factors that influence the selection of political strategies in your firm? Do you have any examples? [Strategy Selection]

*Section 5: Public Affairs Evaluation*

18. What are the criteria you use to judge the effectiveness of a chosen political strategy for a given situation? [Evaluation at the Strategy Level]
19. How do you assess the effectiveness of your public affairs programs? [Evaluation at the Program Level]
20. How do you measure the effectiveness of your public affairs unit (public relations/external affairs/government relations/government affairs unit)? [Evaluation at the Departmental Level]

## APPENDIX E

## INTERVIEW PROTOCOL: CHINESE LANGUAGE

**第一部分：基本資料**

1. 貴公司在中國主要有哪些生意項目？
2. 請告訴我您的職位。
3. 請問您在此公司任職多久？
4. 請問您的工作內容與企業公共事務相關的有哪些？

**第二部分：公共事務在中國大陸的跨國企業中的功能與組織架構**

5. 請問您的公司如何界定「企業公共事務」？
6. 請問您的公司如何界定「企業政治性參與」？
7. 請問您的公司如何界定「政府關係」？
8. 請問您的公司如何界定「遊說」？
9. 請問您公司中的哪一各部門負責主導貴公司與中國各級政府機關間的互動？
10. 上述部門的工作內容為何（上述部門為貴公司起到什麼作用）？

**第三部分：企業公共事務與策略管理**

11. 請問您公司的公共事務 公共關係 / 對外事務 / 政府關係 / 政府事務 部門是否參與公司整體策略管理的規劃？如是，請您舉幾個例子。如否，為什麼？
12. 承上題，請問哪些因素決定您公司公共事務 公共關係 / 對外事務 / 政府關係 / 政府事務 部門的參與與否？
13. 請問您公司的公共事務 公共關係 / 對外事務 / 政府關係 / 政府事務 部門是否從事「議題管理」？
  - a) 如是，請您舉幾個例子。此外，議題管理的實施是否會影響公共事務的方案規劃？
  - b) 如否，為什麼？
14. 請問您公司的公共事務 公共關係 / 對外事務 / 政府關係 / 政府事務 部門是否會設計方案或活動來建立與維持和中國各級政府機關間的關係？如是，

請您舉幾個例子。如否，為什麼？

15. 請問您公司的公共事務 公共關係 / 對外事務 / 政府關係 / 政府事務 部門是否能管理部門負責方案或活動的規劃，如研究調查政府決策的方向、根據研究結果制定相關的計畫目標、並於執行計劃後做成果評估研究。如是，請您舉幾個例子。如否，為什麼？

#### 第四部分：企業公共事務的策略

16. 請問您公司的公共事務 公共關係 / 對外事務 / 政府關係 / 政府事務 部門何時需要與中國政府機關互動？
17. 請問您公司的公共事務 公共關係 / 對外事務 / 政府關係 / 政府事務 部門如何和中國政府機關磋商問題？如果您的公司從沒有和政府機關磋商問題的經驗，原因為何？
18. 請問您公司的公共事務 公共關係 / 對外事務 / 政府關係 / 政府事務 部門如何建立與維持和中國各級政府機關間的關係？
19. 請問您公司的公共事務 公共關係 / 對外事務 / 政府關係 / 政府事務 部門如何設計出一有效的公共事務策略來處理問題？
20. 請問哪些因素決定您公司公共事務 公共關係 / 對外事務 / 政府關係 / 政府事務 部門在策略上的選取？

#### 第五部分：企業公共事務的評估

21. 請問您公司的公共事務 公共關係 / 對外事務 / 政府關係 / 政府事務 部門如何評估其所採用的策略的效用？
22. 請問您公司的公共事務 公共關係 / 對外事務 / 政府關係 / 政府事務 部門如何評估其執行的方案的成果？
23. 請問您的公司如何評鑑公共事務 公共關係 / 對外事務 / 政府關係 / 政府事務 部門整體的工作成效？

APPENDIX F  
 CONSENT FORM: ENGLISH LANGUAGE

**INFORMED CONSENT FORM**

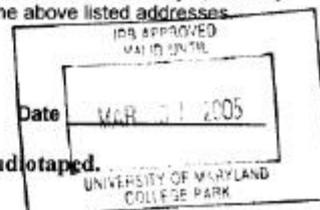
Identification of Project/Title	Excellent Public Affairs in an Era of Marketization: Issues Management, Business Lobbying, and the Management of Government Relations in China												
Statement of Age of Participant	I state that I am 18 years of age or older, in good physical health, and wish to participate in a program of research being conducted by Yi-Ru Regina Chen in the Department of Communication at the University of Maryland College Park, Maryland 20742-7635.												
Purpose	The purpose of the research is to investigate how public relations professionals in multinational corporations in China practice public affairs activities at different levels of Chinese government.												
Procedures	The procedure involves responding to interview questions. The questions ask job description (e.g., the participant's position and years of working experience in the firm), definition and structure of public affairs (e.g., How does your firm define corporate public affairs?), public affairs and strategic management (e.g., Does your public affairs unit participate in the overall strategic management of your firm?), public affairs strategies and evaluation (e.g., How does your firm develop a public affairs strategy to use in a given situation? What are the criteria your firm uses to judge the effectiveness of a chosen public affairs strategy for a given situation?). I understand my participation will require approximately 1 to 1.5 hours.												
Confidentiality	All information collected in the study is confidential, and my and my company's names will not be identified at any time. The data I provide will not be linked to my name or my organization. The interview will be audiotaped with my permission only for accuracy purposes. Only the Principal and Student Investigators have access to my interview audiotapes. I understand that, if applicable, the audiotape of the interview will be kept for up to five years before it will be destroyed.												
Risks	I understand that there are minimal personal risks associated with my participation and my interview being audiotaped.												
Benefits	I understand that the interview is not designed to help me personally but to learn more about the public affairs practices of multinational corporations with the Chinese government and provide guidelines for creating a working environment that benefits multinational corporations, the Chinese government, and the Chinese society.												
Freedom to Withdraw, & Ability to Ask Questions	I understand that I am free to ask questions and/or to withdraw from participation at any time without penalty and/or decline to answer certain questions.												
Contact Information of Investigator(s)	<table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">Dr. Larissa A. Grunig, <i>Principal Investigator</i></td> <td style="width: 50%;">Yi-Ru Regina Chen, <i>Student Investigator</i></td> </tr> <tr> <td>Department of Communication</td> <td>Department of Communication</td> </tr> <tr> <td>2130 Skinner Building</td> <td>2130 Skinner Building</td> </tr> <tr> <td>University of Maryland</td> <td>University of Maryland</td> </tr> <tr> <td>College Park, MD 20742-7635</td> <td>College Park, MD 20742-7635</td> </tr> <tr> <td>Phone: 301-405-6532 ; E-mail : <a href="mailto:lg32@umail.umd.edu">lg32@umail.umd.edu</a></td> <td>301-405-0872, <a href="mailto:yrchen@umd.edu">yrchen@umd.edu</a></td> </tr> </table>	Dr. Larissa A. Grunig, <i>Principal Investigator</i>	Yi-Ru Regina Chen, <i>Student Investigator</i>	Department of Communication	Department of Communication	2130 Skinner Building	2130 Skinner Building	University of Maryland	University of Maryland	College Park, MD 20742-7635	College Park, MD 20742-7635	Phone: 301-405-6532 ; E-mail : <a href="mailto:lg32@umail.umd.edu">lg32@umail.umd.edu</a>	301-405-0872, <a href="mailto:yrchen@umd.edu">yrchen@umd.edu</a>
Dr. Larissa A. Grunig, <i>Principal Investigator</i>	Yi-Ru Regina Chen, <i>Student Investigator</i>												
Department of Communication	Department of Communication												
2130 Skinner Building	2130 Skinner Building												
University of Maryland	University of Maryland												
College Park, MD 20742-7635	College Park, MD 20742-7635												
Phone: 301-405-6532 ; E-mail : <a href="mailto:lg32@umail.umd.edu">lg32@umail.umd.edu</a>	301-405-0872, <a href="mailto:yrchen@umd.edu">yrchen@umd.edu</a>												
Contact Information of Institutional Review Board (IRB)	If you have questions about your rights as a research subject or wish to report a research-related injury, please contact: <b>Institutional Review Board Office, University of Maryland, College Park, Maryland, 20742; (e-mail) <a href="mailto:irb@deans.umd.edu">irb@deans.umd.edu</a>; (telephone) 301-405-4212</b>												
Obtaining a copy of the research results	I understand that I may obtain a copy of the results of this research after January 1, 2005 by contacting Dr. Larissa A. Grunig or Yi-Ru Regina Chen at the above listed addresses.												

Printed Name of Participant \_\_\_\_\_

Signature of Participant \_\_\_\_\_



Initial here if you agree to have the interview audiotaped.



APPENDIX G  
CONSENT FORM: CHINESE LANGUAGE

受訪同意書

研究名稱	市場經濟化對企業公共事務的影響：跨國企業在中國大陸的議題管理、商業政策規劃、及政府關係管理。	
受訪者年齡與健康狀況	受訪者須為年滿 18 歲、身體狀況良好且自願同意參與此研究之個人。本研究由美國馬里蘭大學傳播學系羅麗莎·格魯尼格博士與其指導研究生陳怡如主持。	
研究目的	本研究之目的為探討跨國企業的公共事務人員如何有效地參與中國各級政府影響企業的相關活動。	
研究過程	本研究過程為參與時約一至一個半小時的實性訪談。訪談內容包括公共事務在跨國企業內定義及結構（如：您的公司如何界定「企業公共事務」？）·企業公共事務與策略管理企業（如：您公司的公共事務部門是否參與公司整體策略管理的規劃？）·公共事務的策略與評估（如：請問您公司如何設計出一有效的公共事務策略？您公司的公共事務部門如何評估其採用策略的效用？）·及受訪者基本資料（如：請告訴我您的職位及工作年資）。	
研究保密性	我瞭解所有訪談內容、我的姓名與我的公司名稱將予以保密。我回答的內容和提供的資料亦不會與我的名字或公司名稱連結在一起。在我的同意下整個訪談的過程與內容會以錄音之方式記錄。只有本研究之指導教授及研究生陳怡如能接觸到訪談錄音帶及其相關資料。我瞭解訪談的錄音帶及其它相關資料將由研究生陳怡如保存五年後銷毀。本研究收集到的訪談內容及其它相關資料僅做為本研究使用。	
研究危險性	我瞭解參與此研究對其帶來的潛在危險性微乎其微。	
研究重要性與權利	我瞭解此研究雖不是針對自己私人的利益所設計，但參與此研究可幫助研究者深入瞭解跨國企業如何在中國大陸規劃與實行公共事務活動，並進一步提出企業公共事務的原則與實施要點以創造一個讓跨國企業、中國各級政府、及中國人民皆受益的環境。	
自由退出研究及發問的權利	我瞭解自己在研究期間有權隨時詢問任何與研究相關的議題。我亦瞭解自己可以在研究期間隨時退出研究而不受到任何處罰。	
研究者聯絡方式	羅麗莎·格魯尼格 博士 Department of Communication 2130 Skinner Building, University of Maryland College Park, MD 20742 電子郵件: <a href="mailto:lq32@umail.umd.edu">lq32@umail.umd.edu</a> ; 電話: 301-405-6532	研究生 陳怡如 Department of Communication 2130 Skinner Building University of Maryland College Park, MD 20742 <a href="mailto:yrchen@waml.umd.edu">yrchen@waml.umd.edu</a> ; 301-405-0872
制度審查委員會聯絡方式	如您對您受訪者的權利有任何疑問或欲申訴此研究對您造成的損害，請聯絡美國馬里蘭大學制度審查委員: <b>Institutional Review Board Office, University of Maryland, College Park, Maryland 20742</b> ; (電子郵件) <a href="mailto:irb@deans.umd.edu">irb@deans.umd.edu</a> ; (電話) 301-405-4212	
研究結果的取得	我瞭解於西元 2005 年一月一號後可向羅麗莎·格魯尼格博士或陳怡如索取研究報告，聯絡方式如上。	

受訪者姓名 \_\_\_\_\_

受訪者簽名 \_\_\_\_\_

受訪日期 \_\_\_\_\_



如同意訪談內容予以錄音，請在空格內簽上您的姓氏。



## APPENDIX H

## OFFICIAL DOCUMENT OF MY SPONSORSHIP FROM THE UNIVERSITY



中山大学政治与公共事务管理学院

SCHOOL OF GOVERNMENT, SUN YAT-SEN UNIVERSITY

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July 4, 2003

Mr. Regina Chen  
2102 Skinner Building,  
Department of Communication,  
University of Maryland  
College Park, MD, 20783

Dear Mr. Chen,

It is my pleasure to invite you as an assistant lecturer and investigator for the Department of Public Communication in the School of Government, Sun Yat-Sen University, from Mar 1, 2004 to August 30, 2004. In accordance with the agreement to join our academic projects that you may interested in, while to give the lectures to the senior undergraduates and do the research on the topics related to the public affair and behavior of international enterprises in China. You will have the privilege in using facilities and gathering information during your visit to Sun Yat-Sen University.

Yours sincerely,

Liao Weijian, professor,  
Vice-Director of Department of Public Communication

School of Government,  
Sun Yat-Sen University  
Guangzhou, 510275  
CHINA

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